Commission of Inquiry into the CFMEU and Misconduct in the Construction Industry

Report References

Witness Bundle – Professor Federico Varese

18 JUNE 2026

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Andrew Meagher SC and Jack Donnelly

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ORGANIZED CRIME IN THE UNITED KINGDOM

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ORGANIZED CRIME IN THE UNITED KINGDOM: ILLEGAL GOVERNANCE OF MARKETS AND COMMUNITIES

Paolo Campana* and Federico Varese

This article focuses on governance-type organized crime (OC). First, it explores two cases of illegal governance in Salford (Greater Manchester) and Derbyshire by relying on a wide range of qualitative data. Next, it presents a novel instrument measuring the strength of governance-type OC, the 'Illegal Governance (i-Gov) Index'. This instrument is then included in a survey we conducted with Derbyshire Constabulary. This is the first systematic attempt to measure such crime in the United Kingdom. The article shows that the governance dimension of OC is present in the United Kingdom, although with varying degrees of sophistication and development. While comparatively rare, this form of OC is pernicious and highly destructive of communities. This article therefore calls for a systematic evaluation of such phenomenon across the United Kingdom, based on the i-Gov Index.

Key Words: illegal governance, communities, organized crime, Salford, Derbyshire

Introduction

Over the years, the concept of organized crime (OC) has been increasingly broadened to the extent that it now covers any criminal conspiracy that is active for an unspecified period of time.[1] The UN defines OC as:

> A group of three or more persons, existing for a period of time, acting in concert with the aim of committing at least one crime punishable by at least four years' incarceration in order to obtain, directly or indirectly, a financial or other material benefit (UN 2004: art. 2).

The definition used by the British National Crime Agency is equally broad: 'OC can be defined as serious crime planned, coordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain'.[2]

On the basis of these definitions, one would understand OC as 'crime that is planned', yet we would be none the wiser on the kinds of activities undertaken or how long the organization should last. Consequently, some authors have concluded that it is not possible to define OC cogently, and have opted for other concepts (van Duyne 1996: 53; Levi 1998: 335; von Lampe 2001: 113). While the broadening of the concept has the operational merit of allowing law enforcement to choose its targets freely, scholars and analysts intent on salvaging the concept need to develop some analytical sub-categories to differentiate between different forms of OC. Such forms in turn will require different sets of policies and strategies to fight different phenomena.

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[1]On the chequered history of the concept of OC, see Levi (1998); von Lampe (2001; 2016: 15–35); Paoli (2002); Varese (2010); Kleemans (2014).

[2]See http://www.nationalcrimeagency.gov.uk/crime-threats/organised-crime-groups (accessed on 8 June 2017).

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A view that gained traction in the 1960s in the United States was that the essence of OC is to provide illegal goods and services. For instance, the report of the Task Force on Organized Crime of the 1967 President's Commission asserted on its first page that, 'the core of organized crime activity is the supplying of illegal goods and services—gambling, loan sharking, narcotics, and other forms of vice—to countless numbers of citizen customers' (Task Force Report 1967: 1). Even a critic of the Task Force such as D. C. Smith (1975) concurred that OC should refer to 'illicit enterprises'. While it might be controversial to exclude 'organized theft' and 'organized fraud' from the definition of OC, this perspective allows us to think of OC as a productive activity of sorts, involving the manufacture and trade of goods and services. Such a perspective remains fruitful today. Columns 1 and 2 of Table 1 list a number of activities traditionally associated with OC that can be considered forms of production and trade of illicit goods.

The production of illegal commodities includes coca production and transformation in Latin America (Zaitch 2002; Thoumi 2003) and heroin production in Afghanistan and Burma (Paoli *et al.* 2009; Chin and Zhang 2015). Such activities do not occur only in developing economies; the United Kingdom, for instance, has seen the emergence of a local production of cannabis, which now accounts for between 50 and 65 per cent of domestic consumption (Silverstone and Savage 2010; Decorte *et al.* 2011; Kirby and Peal 2015: 3).

Besides production, OC groups are involved in a separate set of activities related to the exchange of illegal commodities. Illegal trades include human trafficking (Campana 2016; Campana and Varese 2016), human smuggling (Zhang and Chin 2002; Soudijn and Kleemans 2009; Campana forthcoming 2018), drug trafficking (Ruggiero and Khan 2006; Paoli and Reuter 2008; Chin and Zhang 2015), trafficking in animal parts (Wong 2015) and stolen data (Lusthaus 2012). Commodities are traded in marketplaces that can be either physical or virtual. As licit Internet-based transactions are gaining increasing prominence in our everyday lives, illicit virtual trade has also appeared. A virtual marketplace populated by illegal traders was the now defunct Silk Road, a website on which sellers and buyers could meet remotely and trade a host of illegal commodities, including drugs (Barratt 2012). Specialized forums on which offenders can trade information have also been established; a commodity that is often traded on these forums is stolen credit card details (Lusthaus 2012).

Some scholars have focused their attention on a third aspect of OC, namely governance (see Column 3 of Table 1). The concept of 'governance' has been used widely in business studies, economics, politics, sociology and criminology since the 1980s. As

Table 1 *Production, trade and governance: some illustrative examples*

Production	Trade	Governance
Cocaine	Drug trafficking	Dispute settlement
Cannabis	Human trafficking	Restriction of competition
Methamphetamine	Human smuggling	Protection against thieves
Counterfeit goods	Cigarette smuggling	Labour racketeering
	Trafficking in stolen antiquities	Intimidation of lawful right-holders
	Animal parts trafficking	Debt recovery
	Buying and selling on cybercrime forums	Enforcement of cartel agreements

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with any other concept, it has been deployed to refer to a variety of objects. One analytical way to understand governance is to refer to the rules and norms that regulate production and exchange (Williamson 2005: 1; see also Dixit 2008). Ordering of exchange may be achieved in a number of ways: it can emerge spontaneously, through market-based repeated interactions, or it can be supplied by a variety of sources such as informal institutions, formal private organizations or the state (Varese 2010; Skarbek 2011). Scholars have noted a change in how legal governance has been supplied since the 1970s, with the increasing prominence of private actors and civil society (van Waarden 2012). The emergence of pluri-centric forms of governance, for example in the shape of multi-organizational partnerships, has also been observed—particularly in the Anglo-Saxon world (see, e.g., Goodwin and Painter 1995; Jessop 1995; Lowndes and Skelcher 1998). However, there is no consensus on the extent to which the centrality of the state has been eroded (cf. Majone 1997 and Rhodes 2012).

Criminologists have mostly been interested in how governance is provided in relation to crime control (Crawford 1997; 2006). However, as with other social arrangements, there is a dark side to governance. Property rights can be protected for some at the expense of others, and resources can be mobilized to secure benefits for a select few, even at the expense of overall long-term economic efficiency. Thus, the study of governance should also include less-than-good arrangements. Furthermore, governance can be supplied not only by actors from the state, market and civil society (van Waarden 2012: 355) but also by actors operating outside the scope of the law. The latter are of particular relevance to criminologists, and the study of the governance supplied by these illegal actors is the focus of this article.

A focus on governance allows scholars to retain the crucial distinction between producers of goods and services on the one hand, and suppliers of forms of regulation on the other. In this view, OC attempts to regulate and control the production and distribution of a given commodity or service unlawfully. In other words, it seeks to *govern* the underworld (Schelling 1971). Such an aspiration requires investments in a special set of resources, which are not necessarily available to illegal producers and traders. The most crucial resource is violence. A governance-type OC group is bound to clash with others who also wish to regulate the sale and distribution of a given illegal commodity (or of a legal commodity illegally). Thus, such a group must be stronger than the individuals who operate in its area of influence. Only those who possess force can guarantee that their decisions will be respected and their punishments executed. In turn, a reputation for violence will enable the group to economize on the actual use of threats (Gambetta 1993; Campana and Varese 2013). In practice, authority is exercised through the threat of violence, rather than its actual use. Indeed, a reputation for the ability to deliver credible threats and a variety of other forms of coercion—economic and symbolic—are part of a mafia group's armour. Information is also a crucial resource, as the group needs to know who deals in what in a given market, to prevent them from doing so. The above characterization does not imply any particular organizational structure or duration. However, for governance-type OC to be effective, one would expect the presence of a rudimentary structure, a system for issuing orders, and someone who benefits from such governance—all features that have been mentioned over the past century as being part of OC. In addition, one would expect that such groups are not ephemeral, yet their length of existence would differ. Empirically, we can take gang wars and truces, and market sharing arrangements, to suggest the presence of a governance-form of OC.

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In this article, we focus on illegal governance in the United Kingdom. The first goal of the article is to explore the existence of governance-type OC in the United Kingdom. To this end, we have investigated two cases of illegal governance in Salford, Greater Manchester, and Derbyshire. After having established the existence of the forms of governance-type OC in the United Kingdom, we conducted a survey in Derbyshire to identify which groups exhibit these characteristics. On the basis of the survey, we developed an instrument that aims to identify and capture the strength of governance-type OC: the i-Gov Index (the Illegal Governance Index). While police officers and analysts might be aware that such forms of OC exist in their jurisdiction, they still lack the tools to incorporate this knowledge in their operational definition of OC. This article offers a solution to this problem.

The article proceeds as follows: Section 1 outlines the basic forms of governance-type OC; Section 2 discusses the methods of data collection; Sections 3 and 4 present two UK case studies, while Section 5 introduces the Illegal Governance Index and discusses the results of the survey. Section 6 offers a conclusion.

Illegal Governance of Markets and Communities

The illegal governance of communities is a phenomenon traditionally associated with regions of the world with a high density of Mafia presence, such as Western Sicily. For instance, at the turn of the nineteenth century, a small village named Villalba saw the rise of an alternative source of protection—amid distrust towards a central authority regarded as ineffective and lacking legitimacy (Sabetti 1984: ch. 6). At the centre of this newly established (illegal) protective agency was Calogero Vizzini, who would go on to become one of the most powerful bosses in the Sicilian Mafia. According to Sabetti (1984: 103), Vizzini started his group to provide protection against banditry to peasants by taking their wheat to a mill in a nearby village. At first, he had only two armed guards. Soon, the venture proved to be so successful that 'villagers began to go to [Vizzini] with other problems' (Sabetti 1984: 104). The mafia in Villalba was originally 'an expression of local self-government' based on some degree of consent among the population (Sabetti 1984: 104).

Illegal governance includes protection against competition, enforcement of cartel agreements, settlement of disputes, labour racketeering, intimidation of workers and trade unionists for the benefit of employers, intimidation of lawful right-holders, protection against theft and police harassment, protection in relation to informally obtained credit and debt recovery, and protection against extortionists (for a review, see Varese 2014). Illegal governance has been extensively documented in relation to the traditional Mafia organizations, such as the Sicilian Mafia (Sabetti 1984; Gambetta 1993; Santino 1994; Paoli 2003); the Italian-American Mafia (Reuter 1983); the Russian Mafia (Varese 2001); the Hong Kong Triads (Chu 2000); the Japanese Yakuza (Hill 2003); the Calabrian 'Ndrangheta (Paoli 2003; Varese 2011) and the Neapolitan Camorra (Campana 2011). More recently, several studies have been devoted to documenting this form of OC in Latin America (Brophy 2008; Locks 2014).

Yet the governance dimension of OC is not just a feature of mafias and Latin American 'cartels'; it is also undertaken by criminal groups in territories outside the conventional settings. Skinnari *et al.* (2012), for example, detail the workings of protection rackets

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in areas of Stockholm, Sweden. Instances of governance-related activities have also been identified among some of the gangs operating in London. Levi's (1981) landmark study of long firm fraud documents how the Kray and the Richardson gangs in London aspired to 'gain a monopoly on extortion and on criminal activities generally' (Levi 2008: 62). According to Densley (2013: 265), some of these groups 'protect community residents from violence and exploitation, provide them with financial sustenance, organize recreational activities and otherwise "serve" the community, much like certain larger US gangs'. In his work on Chinese OC in the United Kingdom, Dees (2012) cites evidence from the Metropolitan Police Chinese Unit indicating the presence of protection rackets among the Fujianese communities in Britain (for the case of Northern Ireland, see Clarke 1989; Maguire 1993; Hamill 2010; Cfr Fraser and Hobbs 2017: 600). This article aims to add to this small body of literature and to offer a way to map governance-type OC in the United Kingdom. Before exploring in depth two cases of criminal governance in the United Kingdom, we shall briefly describe our methods of data collection.

Data and Methods

For the study of illegal governance in Salford, Greater Manchester, and Derbyshire, we collected a wide range of qualitative data. In relation to Salford, we conducted semi-structured, in-depth interviews with individuals who have extensive knowledge of the case, as well as a systematic search in the online archives of local and national newspapers (*The Guardian*, *Manchester Evening News*) using as keywords the names of the key individuals involved. For the second case study, we were granted full access to the police files prepared for the case against the Lowther brothers. Although we read and analysed a variety of different documents produced during the investigation, we have only included in this article the evidence presented in court. In addition, we conducted interviews with police officers with considerable knowledge of the case and OC in the area, as well as having searched the online archives of the local newspapers (*Derby Telegraph*, *Nottingham Post*) using as keywords the names of the key individuals involved. We also travelled to Salford and Derbyshire to conduct interviews and become familiar with the local situation (details of the interviews are presented in the References).

To assess the extent of illegal governance in UK communities, we have devised a new survey instrument. A discussion of the survey items is included in Section 5. Thanks to the crucial assistance of Derbyshire Constabulary, we were able to circulate the survey among all the police officers tasked with monitoring and coordinating operations against all OC groups active in the area. All officers replied to the survey ($N = 13$; 100% response rate). Before circulating it among the respondents, the questionnaire was validated by police analysts with knowledge of OC. The choice of Derbyshire Constabulary for this study was driven by the opportunity to gain access to documents and police officers that the Force granted to us. Derbyshire Constabulary is one of the 43 territorial police forces operating in England and Wales with jurisdiction over a population of just above a million.[3] The main city in the area is Derby, with a population of 248,700 (2011 census). As for the OC presence, Derbyshire Constabulary ranks

[3]Data from the Office of National Statistics: https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/datasets/policeforceareadatatables.

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ninth (of 43 forces) when measured on the number of OC groups identified per million people (as of July 2016; HMIC 2017: 98). According to this metric, the presence of OC (broadly conceived) is just above the overall average for England and Wales. Derbyshire Constabulary was ranked as 'outstanding' by Her Majesty's Inspectorate of Constabulary in its latest assessment of the Force's effectiveness in measuring and tackling OC (HMIC 2017: 127).

Illegal Governance in Practice: The Case of Salford

In 2016, in the town of Salford, Greater Manchester, a man was attacked with a machete, and another had a grenade thrown at his house. Furthermore, a nine-year-old boy was shot as he opened the front door of his house: the killer was looking for his father. In this town, which has a population of 234,000, the police have recorded 25 OC groups, and the number of shootings in 2015 was 19. 'Police don't control the street', a gang member told the BBC in 2016 (BBC Panorama 2016).

Salford is not only the site of serious violence; it also offers a prime example of the illegal governance function of OC. The town, which is adjacent to the city of Manchester, is home to the Salford 'Firm'. Predominantly white, it is composed of different kin-based crime Families, occasionally in conflict with each other. In the 1970s and early 1980s, these Families were involved in armed robberies (Int-1 and Int-2), a crime that requires the use of effective violence and courage; thus, these Families grew in criminal reputation. When the banks improved their security and reduced the amount of cash held in local branches, the number of armed robberies declined (Int-1 and Int-2). At that very time, the consumption of drugs exploded, and the Salford Families started to establish the market for heroin, cocaine and ecstasy. As most drugs were sold in dance clubs, gangs found a way to control the doors, often through legitimate security companies (Int-1 and Int-2; for a general study of the night economy, see Hobbs *et al.* 2003). The Haçienda, arguably the most important club in Europe in the 1980s, hired one Salford Family, the Noonans, to guard the doors in 1991 (Hook 2010: 214–5). Damien Noonan was in charge of the bouncers. One of his brothers had been charged and acquitted of murder, while another had more than 40 convictions for armed robbery and assaulting the police. The Noonans were so menacing that, when they were pulled over, the police would let them go, no matter what they had done (Hook 2010: 214–5). Damien introduced a degree of order at the Haçienda. Gangs were allowed in, but each sat in its own corner to avoid bloody fights. They received their drinks at cost, so they would not steal them outright and harass the staff along the way. Peter Hook, a founding member of Joy Division and co-owner of the Haçienda, recalls that hiring gangsters offered additional benefits: some of the staff took interest-free loans rather than going through banks. Moreover, an association with a strong gang carried prestige: 'Our bouncers were so powerful and so bloody violent that anywhere we went we had the cachet of being associated with them' (Hook 2010: 257).

Another prominent Salford gangster, initially involved in armed robbery and then drugs distribution, was Paul 'Mr Big' Massey.[4] In the 1980s, he started to exercise

[4]Massey was named as 'Salford's Mr Big' by councillor Joe Burrows during a 1992 council meeting discussing the Salford Riots (Williams 2015).

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his influence in the legal economy, creating a company officially named Personal Management Security, PMS for short, while another notorious local family also involved in armed robberies, the Pollard Family, created Marpol (Int-2). Over time, the Salford gangsters began to impose their services of protection upon construction sites, shops and malls and even obtained a contract (later rescinded) to provide security to Metrolink (Int-1 and Int-2). As one of our interviewees stated, 'these security firms are in effect protection rackets' (Int-1). Reputation played a key role. According to one interviewee, 'everybody knew that PMS stood for Paul Massey Security. That name, PMS, was a form of deterrence; people knew who was behind the company and would not rob sites protected by them' (Int-2). According to a second interviewee, the company had people listed as employees on its books who were serving jail sentences. Allegedly, this was a way for the group to pay associates who were in prison (Int-1).[5] In an exposé of the Mancunian underworld, journalist Peter Walsh noted that shopkeepers and tenants in the area were asked to pay protection money to avoid being robbed or burgled (Walsh 2006: 132).

The 'Salford Firm' ran a parallel justice system. In their ethnographic study of Ordsall—a ward of some 6,500 inhabitants within Salford—Walklate and Evans (1999: 95) found evidence of 'a locally well-known criminal gang' influencing community life and acting as 'a quasi-political network'. A local police officer they interviewed maintained that the neighbourhood 'has always been a self-policing community' (Walklate and Evans 1999: 86; also Evans *et al.* 1996). In one instance, the gang even set the amount of monetary damages that a joy-rider had to pay to a 13-year-old girl who had been knocked down during a public display of handbrake turns (Walklate and Evans 1999: 86).

Reporting crime to the legitimate authorities was punished. Members of this crime group would 'put themselves forward as alternative authority figures, meting out their own summary justice to transgressors and spraying the names of alleged "grasses" on the estate in prominent positions' (Walsh 2006: 130). Direct intimidation or a public 'naming and shaming' in the main shopping area of the estate was also reported by Walklate and Evans (1999: 90–2), who further observed that 'whilst people living in this area were intimidated by the presence of the criminal gang and its activities, they also believed that the same presence afforded them a level of protection from criminal victimization not provided by official agencies' (Walklate and Evans 1999: 95. Indeed, the Salford Riots of 1992 were a week-long attack on the police and the fire services: see Newburn 2015). This code of silence is still in existence. In 2012, a man was shot in front of 30 people in a local pub. After the murder, the killer pointed his gun at the witnesses and warned them not to talk. As in other similar incidents, the CCTV footage went missing. No one was prepared to give evidence. The former Chief Crown Prosecutor for Greater Manchester concluded in 2016 that, 'the impression will be that people are

[5]The creation of security companies as a way to facilitate the collection of protection money has been also identified in Belfast, Northern Ireland where, according to Clarke (1989: 33–35), building sites and taxi companies have been subject to protection rackets. Maguire (1993: 280) maintains that all the extra-legal organizations in both Loyalist and Republican communities 'collected protection money on their own estates', particularly from shopkeepers. These groups set up security companies as a way to facilitate collection. Companies run by racketeers could save on the actual provision of the service as they 'did not have to provide patrols to ensure that their customers were not harmed. They simply had to make their desires known in the community as to what the punishment would be for any freelance criminal' (Maguire 1993: 283).

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above the law…some individuals will feel that they can get away with murder'. He further admitted that 'there is a trust deficit in the police' (BBC Panorama 2016).

The next step is when the gangster himself becomes a community leader. In 2015, Paul Massey brokered a truce between four Manchester gangs that were waging a deadly war. *The Guardian* reported that Massey had been asked by police to intervene as mediator following violent incidents in the town, including a grenade and machete attack (Pidd 2015). He also acted as a mediator in several gang conflicts across the United Kingdom (Walsh 2006: 172–5; Pidd 2015; BBC Panorama 2016).

As in other contexts, entrenched OC is able to intimidate politicians. In May 1990, the Liberal Democrats decided not to contest the local ward due to safety concerns, and the Conservatives were unable to find anyone willing to run for that seat (Walsh 2006: 131). In 2010, Paul 'Mr Big' Massey unsuccessfully ran for mayor of Salford. Yet he managed to collect 1,995 votes (4.5 per cent of the total votes), just below the Liberal Democrats (2,148) and more than the Greens (1,273).[6]

In July 2015, Paul Massey was shot dead by a masked gunman. Apparently, he did not quite manage to convince a faction of a new, up-and-coming gang known as the A-Team to dispose of their weapons (Int-1; Int-2; Britton 2016). His funeral was a grand affair, and a mass was held in the Church of St Paul the Apostle. Hundreds turned up to pay their respects on the day of his funeral (Allison *et al.* 2015; Pidd 2015). Unsurprisingly, armed police were on standby to ensure that no further violence took place on such a solemn occasion. As we visited the Church in 2016, we struck up a conversation with a church volunteer. She told us that the church takes in no fewer than 19 homeless people every night and, as we spoke to her, a jumble sale was being organized: 'We have our problems, but people are very nice, they help me if I need something'. The area is also undergoing significant gentrification. She was, however, scathing about the effects of such developments: 'They are pushing local people out, towards the dead-end part of the town. They are building new flats, but not social housing' (Int-3). Quickly, the conversation turned to crime: 'There is crime in this area. During the day it is fine, but I would be careful of walking here during the night' (Int-3). She continued:

> We also have our own mafia. They murdered one of our own. There are two sides to each person. He [Paul Massey] has done some bad things, but also some good things for the community. He had helped people (Int-3).

Myth-making is not far off. Racketeers are portrayed as benevolent figures and their actions are romanticized. A story from the 1990s was related to us in Salford. The story goes that an old lady from the community had her house broken into, and her pension money stolen. Paul Massey managed to track down the person responsible for the burglary and made sure that the money was returned to the lady (Int-2). Massey, according to our interviewees, also claimed that he was responsible for stopping the introduction of heroin in Salford (Int-1 and Int-2).

The case of Salford shows that protection rackets and illegal governance can emerge in countries that possess an overall high level of trust and legitimacy in the police and other institutions of authority. A high level of trust and legitimacy at the macro level may not be evenly reflected among all communities. Indeed, British police forces and

[6]Data on the 2010 local elections are at https://www.salford.gov.uk/elections-2012.htm.

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other institutions of authority show a relatively high level of trust and legitimacy at the macro level (Jackson *et al.* 2012). However, in 2014, the Chief Inspector of Constabulary, Tom Winsor, maintained that some communities in Britain rarely, if ever, call the police to report a serious crime and stated that residents 'administer their own form of justice…It could be anything from low-level crime right up to murder…' (Sylvester and Thomson 2014; Guardian 2014). When certain communities have a low level of trust in the police and the institutions of authority, they may turn to local stakeholders to settle disputes, including minor conflicts. This equilibrium is conducive to the rise of figures that might have less-than-civic intentions.

Illegal Governance in Practice: The Case of Derby

Forms of illegal governance are not only a long-standing feature of some large urban centres, such as Greater Manchester. Under certain circumstances, they may emerge even in rural areas, yet effective early police intervention can stop the phenomenon from reaching the proportion of that in Salford. This is the case of the three Lowther brothers, based in the rural Amber Valley of Derbyshire, who teamed up with at least eight people to harass and extort legitimate business in the area, mainly operating in the transport and recycle sectors. Over time, they were able to offer some genuine services of protection to their business associates, by recovering debts and reducing competition for the benefit of some operators. Both activities are typical of mafias, as outlined above. The group operated between 2009 and 2017; the Derbyshire police investigation eventually led to successful convictions in 2017 for conspiracy to blackmail, to conceal criminal cash and to pervert justice as well as the intimidation of witnesses (EMSOU 2016).

David Lowther, who received a nine-year prison term, appears to have played the leading role in the gang. Formally employed as a car washer and a ground worker, living in a caravan and uneducated, he and his brothers are reported to have been involved in the production of marijuana. Over time, they began to engage in the petty extortion of local business people, stealing their trucks and then offering to return them for a fee. In some cases, they would continue to harass the victim, even if he had paid. Their demands ranged between £1,500 and £20,000. When asked by police if he had paid the ransom to get his truck back, one victim replied: 'I have, yeah. I've got no choice' (EMSOU 2016: 11; see also Malcolm 2017; Slater 2017). Their early foray into illegal governance was rudimentary and predatory.

Yet over time, they proved to be able, in some key instances, to offer a genuine service of protection. In one case, a businessperson turned to David and John Lowther asking them to recover a debt of £5,000 from a customer who had not paid for his cranes. It took one day for David Lowther to deliver the money in cash, although he kept £2,700 for payment (EMSOU 2016: 19). Finally, the Lowthers teamed up with the owner of a substantial transport and recycling business. They helped him to intimidate his competitors, a 'service' typical of the mafias in places such as Sicily, Russia and the United States. The Court heard how one of the victims had been harassed since early 2015. The victim worked for a grab lorry business in the Amber Valley area. The threats were made in the form of demands 'to stop working in the area where the Lowthers had money invested in a local company and competitor' (EMSOU 2016: 27). The victim

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recalls that, on 1 January 2015, he received a phone call from Luke Lowther. He was told: 'Listen here, you're not trading around here, I am going to burn your fucking lorry' (EMSOU 2016: 28). As the conversation continues, another brother makes clear that the businessman should not trade in the local area and should move to Yorkshire. Eventually, the victims agreed not to trade in the 'patch' in which the business protected by the gang operated (EMSOU 2016: 27–9 and 33–6. See also Slater 2017).

Quite early on in the history of the gang, the Lowther brothers developed a reputation for serious violence. When the owner of a lorry reported a theft of his vehicle to the police, he called back saying that he had retrieved it thanks to the gang, and he added: 'I can't say too much, cos of the circles they move in, you know what I mean' (EMSOU 2016: 11). The same victim later elaborated: 'the reason why I am so afraid of all the Lowthers is due to their *reputation for violence* and also their apparent disregard for the law' (EMSOU 2016: 18; emphasis added). Other victims were scared: 'they go around terrorizing everybody', said a businessperson forced to stop trading in the Lowther's 'patch' (EMSOU 2016: 29). The brothers got into fights at local pubs for futile motives. While it might have appeared as irrational behaviour, it actually served to strengthen their reputation. Although banned from the pub, they kept coming back, asserting their power of intimidation in a public place, where everybody could see for themselves what these people were capable of. Such displays helped them to be more credible when they asked for protection money or intimidated others.

The Derbyshire police took the decision to prioritize this particular group and assigned to it a dedicated team of officers. While the brothers accumulated considerable sums of money and a property portfolio (EMSOU 2016: 59–61), the police understood that the harm caused by this gang was only partially quantifiable in financial profits. Ultimately, the Lowthers were trying to set themselves up as figures of authority, controlling parts of the local economy through terror and violence. Some businesspeople understood the power of intimidation of the gang and decided either to yield to their demands or to team up with them to increase market shares. It is a testament of the police judgement that they decided to intervene early enough to prevent such control from escalating and becoming rooted in the community. Yet it is appropriate for police forces to develop standardized instruments to identify this form of OC and to prioritize it across the country.

Assessing the Scale of Illegal Governance: The i-Gov Index

The two case studies discussed above have shown that instances of illegal governance of markets and communities are present in Britain and are comparable with what has been documented in territories traditionally associated with mafia activities. But how prominent is illegal governance in the United Kingdom? The data collection strategy currently adopted by British law enforcement makes it extremely difficult to tease out instances of governance from the broader OC activities (remember that OC is defined by the British National Crime Agency in broad terms 'as serious crime planned, coordinated and conducted by people working together on a continuing basis').[7] Rather than

[7]See http://www.nationalcrimeagency.gov.uk/crime-threats/organised-crime-groups (accessed on 8 June 2017).

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relying on the official definition, in this section we pursue a different strategy based on using a survey to elicit information from officials with thorough knowledge of the workings of specific OC groups.

British police forces normally compile a list of OC groups that are active in their jurisdiction. Individual forces may adopt a slightly different definition of what constitutes an OC group, but ultimately this would be in line with the definition set by the National Crime Agency.[8] These criminal activities normally fall within the definition of 'serious crime', namely 'crime that involves the use of violence, results in substantial financial gain or is conducted by a large number of persons in pursuit of a common purpose, or crime for which a person aged 21 or over on first conviction could reasonably expect to be imprisoned for three or more years' (OCGM Manual 2010: 15). Crime types currently classified by the National Crime Agency as serious and organized crime include the production of counterfeit goods, trafficking in drugs, trafficking in human beings and modern slavery, fraud, identity crime, intellectual property crime, kidnapping, organized theft and child sexual exploitation (NCA 2014). This serves our purpose well as it provides a rather broad starting point for our attempt to quantify the extent of illegal governance.

In light of the evidence discussed above, we decided to operationalize illegal governance based on three (indirect) measures: (1) the ability of an OC group to generate fear in a community; (2) its ability to coerce legal businesses; and (3) its ability to influence official figures. Next, we asked the police officers in charge of coordinating the investigations into OC in Derbyshire Constabulary to place each of the groups they have been monitoring on a scale from zero to four—with zero indicating 'no fear/coercion/influence' and four indicating 'very strong fear/coercion/influence' (see Appendix for the full questionnaire). We have modelled our scales on those included in the British Crime Survey and subsequently the England and Wales Crime Survey to assess fear of crime (see Gray *et al.* 2008). We have decided to adopt a five-level scale to increase granularity in our measurement. The use of scales allows us to identify the presence of OC groups engaging in each of the three dimensions of illegal governance while at the same time assessing the strength of their (governance) activities. As illegal governance requires a different—more specialized—set of skills (see above), our expectation was that the number of groups that engage in such activities would be a fraction of the overall number of OC groups broadly identified. Figure 1 shows the number of groups engaging in each of the three dimensions of illegal governance, and the strength of their governance activities.

As expected, the number of OC groups involved in illegal governance is a fraction of the overall number of groups. Nonetheless, this fraction is far from negligible. Of the 55 OC groups identified by Derbyshire Constabulary, 22 groups generate some level of fear in the community with three groups generating a level of fear deemed 'strong' or 'very strong'. Thirteen groups have coerced legal businesses, with two groups able to exert 'strong' coercion on those businesses. Finally, 22 groups have exerted some influence on official figures, but none has been reported to exert 'strong' or 'very strong' influence (the level of influence is mostly 'very limited' or 'moderate').

[8]'Organised criminals working together for a particular criminal activity or activities are called an organised crime group': see http://www.nationalcrimeagency.gov.uk/crime-threats/organised-crime-groups (accessed on 8 June 2017).

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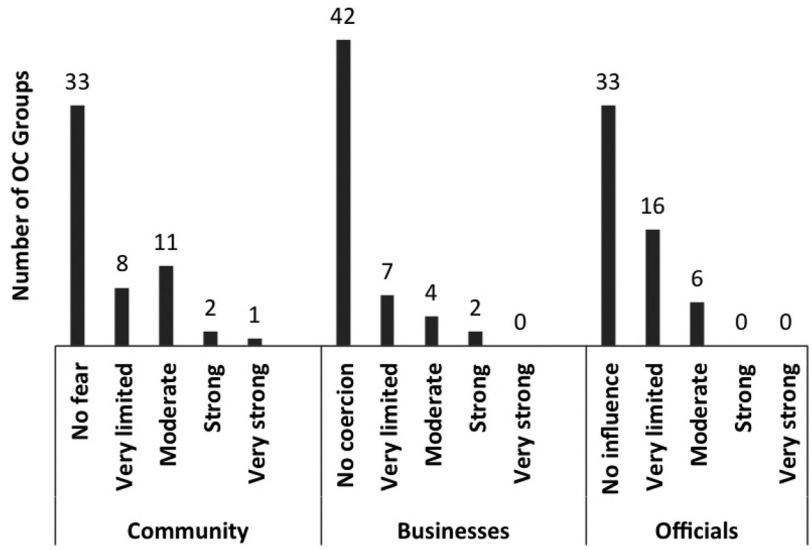

FIG. 1 Organized crime and its impact on communities, businesses and officials (Derbyshire Constabulary, $N = 55$).

Next, we combined the three dimensions of communities, businesses and officials to generate an index of illegal governance ('i-Gov Index').[9] By definition, the Index ranges from 0 to 12 (a group with a score of zero has not engaged in any of the three dimensions of illegal governance; a group with a score of twelve has a 'very strong' engagement in all three dimensions). Figure 2 shows the distribution of the i-Gov Index for Derbyshire Constabulary.

The evidence shows that gaining a multi-faceted governance of community and markets is a difficult task for OC groups; currently, there are no groups in Derbyshire that occupy the 'high' level in the i-Gov Index (i.e. a score between 9 and 12). Nevertheless, three groups have managed to reach the 'medium' level (one of them is the case study discussed above, Section 4). This constitutes roughly five per cent of the OC groups active in the area. Finally, 32 groups are currently in the 'low' bracket of the Index.[10]

The Index we developed captures a feature of OC that is currently underexplored in the United Kingdom, and it offers several advantages. The Index taps into the extensive knowledge of police officers tasked to investigate a particular group. The use of expert opinion is a standard method in the social sciences (see, e.g., Dorussen *et al.* 2005). A common validation technique is the use of the Delphi Method, which involves sending a questionnaire to a panel of experts several times. The responses are then aggregated

[9]We have explored more sophisticated ways to combine the three dimensions, including a principal component analysis (PCA). As the correlation between the additive index and the first component of the PCA was 0.973 ($p < 0.001$), we opted for the additive index (superior in terms of readability).

[10]The i-Gov positively correlates with two measures of risk assessment currently adopted by law enforcement in Derbyshire: Tier ($r = 0.426$, $p < 0.001$) and Score ($r = 0.368$, $p = 0.006$). This is an indication of the validity of our strategy; at the same time, our Index adds to the current measures of risk assessment (note that the correlations are both below 0.5). 'Score' is a measure calculated on the type of activities carried out by an OC group as well as the level of capabilities/resources possessed (OCGM Manual 2010: 27–31). 'Tier' is a measure reflecting the nature and complexity of the response required as assessed by the police (OCGM Manual 2010: 39–40).

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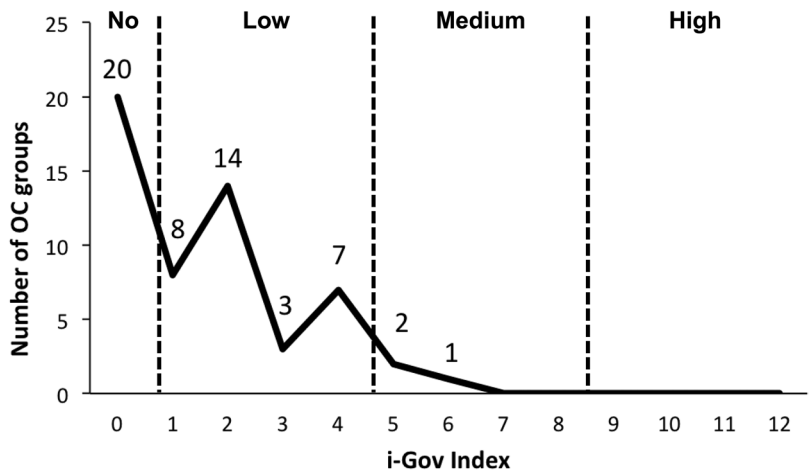

FIG. 2 i-Gov Index (Derbyshire Constabulary).

and shared with the group. Experts can adjust their answers until a 'correct' response is reached through consensus (Clayton 1997). At this stage, we opted against such a strategy, as there is a single expert on each group, and the involvement of superior officers (who are not experts on the group) might bias the overall results. The Index is based on extremely easy-to-collect information: it takes only a few minutes for an officer to answer the questions. In the context of limited resources and time constraints, it is unrealistic to expect that hundreds of analysts would spend hours compiling a long survey. The likelihood of low-response rates would therefore be high. The survey is easy to roll out to several forces and would produce a map of governance-type OC in the United Kingdom within a reasonably short time. The results from Derbyshire are encouraging; variation by place and case supports the conclusion that officers were not expressing some folk wisdom or common self-serving mythology.[11]

Yet issues related to the validity of the officers' assessments remain. As noted above, Derbyshire Constabulary has been ranked as 'outstanding' in the assessment of the Force's effectiveness in tackling OC (HMIC 2017: 127); hence, we can have a high degree of confidence in the analysts' opinions. Nonetheless, greater care must be taken when the Index is applied to areas in which the local Force is less effective. It should also be noted that this is a preliminary stage of mapping. On the basis of interviews with police analysts (Int-5 and Int-6), we have identified several recorded offences that should form the basis of an additional quantitative component. Such offences include 'Arson with Intent to Endanger Life', 'Arson Threat', 'Possessing Anything with Intent to Destroy or Damage Property', 'Perverting the Course Of Justice' and 'Intimidation of Witnesses'.[12] Scholars should then team up with local forces to further validate the Index with additional, qualitative studies of specific communities, using the kind of data employed in the first part of this article (field interviews and trips, systematic analysis of local newspapers, and police and court data).

[11]We are grateful to a Referee for pointing this out.
[12]For a description of these offences, see http://www.cps.gov.uk/legal/index.html.

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Conclusions

This article has focused on one particular aspect of OC, namely its ability to govern territories and communities. It has shown that the governance dimension of OC is present even in England, although with varying degrees of sophistication and development. In Salford, local gangs fight over shares of the drugs market, striking transient agreements and occasionally resorting to turf wars. Bosses such as Noonan, Pollard and Massey have also been able to enter the legal economy and impose their protection on legitimate businesses. A parallel justice system and what appears to be a degree of community consensus has emerged. Massey even stood for mayoral election and cultivated the image of a local leader, protecting people against petty theft and hard drugs. His funeral—which bore a striking resemblance to mafia funerals in Italy[13]—was held in the local church and attended by hundreds of mourners. The case of Salford displays a more advanced and entrenched governance-type of OC than that of the Amber Valley in Derbyshire. Yet even in this rural part of the country, the police were able to prove that the Lowther brothers terrorized the local community, extorted businesses, and were even able to engage in debt recovery and intimidation of competition for the benefit of their business associates. All these activities are typical of traditional mafias, such as Cosa Nostra in Sicily.

A key challenge for scholars and analysts alike is to map the extent of this type of OC in the United Kingdom. Thanks to the collaboration with Derbyshire Constabulary, we have begun this process. We asked officers in Derbyshire whether OC groups have the ability to generate fear in the community, coerce businesses and influence public officials. The results show that the majority of OC groups are not generating fear in the community (33 out of 55), coercing legal businesses (42) or influencing official figures (33). This highlights the importance of adopting a tool to re-classify the broader set of OC groups. Yet, instances of illegal governance do take place. Of the 55 groups being monitored by the police, 40 per cent of them are generating some level of fear in the community, 40 per cent exert some level of influence on official figures and 24 per cent are able to coerce illegal businesses. While the strength of these activities is 'very limited' or 'moderate' for the vast majority of the groups engaged in these three dimensions of illegal governance, three groups were nonetheless deemed to generate 'strong' or 'very strong' fear in the community and two groups exert a 'strong' level of coercion on legal businesses (influence of public figures was 'moderate' at the maximum).

On the basis of the survey results, we have created an index of governance, the i-Gov Index, by adding up the score that each group obtained in each dimension (community; businesses; officials). This procedure, which could easily be adopted by other police forces in the United Kingdom (and elsewhere), shows that there are no groups in Derbyshire that occupy the top level in the i-Gov Index ('high'). However, three groups have managed to reach the 'medium' level (one of them is the case study discussed in Section 4). This constitutes roughly five per cent of the OC groups active in the area. We believe that while governance-type OC is comparatively rare, it is pernicious and highly destructive of communities, and its existence cannot be measured solely

[13]Compare the video of the Casamonica boss's funeral in Rome (Tuscolano neighbourhood) (https://www.youtube.com/watch?v=L-Dzw4CJvH8) with Paul Massey's funeral in Salford (http://www.manchestereveningnews.co.uk/news/greater-manchester-news/police-raid-home-murdered-salford-12493435).

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through an analysis of crime profits. This article calls for a systematic evaluation of this form of OC across the United Kingdom.

This study has shown that there is a high degree of variation in the forms of OC and that the governance-type form is likely to be less widespread than the other two (production and trade). Within Derbyshire, we found that most OC activities are conducted in the absence of governance-type OC. How does the absence of this type of criminality shape illegal markets? Most generally, governance is less likely to emerge when it is harder to control the territory in which transactions take place: if there is only one spot in which the purchasing of a 'good', for example, can take place (such as at a port, or in a covered market), this type of control will emerge more easily. If, on the other hand, trading and production can move easily, customers can find suppliers through the internet and mobile phones, and the 'good' can be consumed in a variety of places. We would therefore expect governance to be more likely to emerge.

Illegal governance may well be limited, but it exists in the United Kingdom and it is likely to be clustered in less affluent, deprived areas and neighbourhoods with recent large migration. This phenomenon therefore goes well beyond simple crime; it is the result of social issues affecting a community, e.g. the lack of trust in legitimate institutions (as noted by Walklate and Evans 1999: 97 in relation to Salford). This calls for a response that goes beyond simple police intervention, requiring multi-organizational policy networks designed to bring together state and non-state actors, including the civil society (van Waarden 2012; see Crawford 1997: Chapters 2 and 4 and Walklate and Evans 1999: 112–3 for a discussion of community policing and inter-agency partnerships). Placing illegal governance within the broader governance framework helps devise more effective strategies aimed at eradicating it from communities. Where decisions are taken is indeed crucial, and striking the right balance between the local (community) level and the national level may not always be straightforward (Crawford 1997; Walklate and Evans 1999). For instance, as more decisions are devolved to a local level, the risk of corruptive practices increases, and the potential for inadequate oversight is higher. This is a vulnerability that should be considered—and addressed—when setting up mechanisms to devolve powers from central to local authorities.[14] We believe that recognizing the risks posed by illegal governance is a first step in the right direction. This article proposes a method to identify and measure the strength of this phenomenon and calls for a significant reorientation of thinking about OC in the United Kingdom. Future lines of enquiry include the study of the determinants of variation in governance-type OC across communities in the United Kingdom.

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[14]Transparency International issued a report warning of the 'mounting risks' of corruption in local government in the United Kingdom (Transparency International UK 2013).

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Appendix. Illegal Governance Index Questionnaire

In your opinion, how much fear does this OCG generate in the community?
(0) No fear
(1) Very limited fear
(2) Moderate fear
(3) Strong fear
(4) Very strong fear

To what extent has this OCG coerced legitimate businesses?
(0) No coercion
(1) Very limited coercion
(2) Moderate coercion
(3) Strong coercion
(4) Very strong coercion

To what extent has this OCG influenced official figures?
(0) No influence
(1) Very limited influence
(2) Moderate influence
(3) Strong influence
(4) Very strong influence

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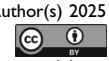
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Abstract

This study explores criminal governance among urban gangs operating in a large European city. It does so by introducing the Crim-Gov questionnaire, a novel survey tool purposely designed to systematically capture key governance-related dimensions of criminal groups' activities, and applying it to the case of London. It identifies instances of criminal governance among gangs operating in the city and shows that governance activities are only carried out by a subset of groups, thus suggesting that a more complex set of skills is required to provide criminal governance, particularly beyond illegal markets. Governance-type gangs are spatially clustered and impact 4.7% of all London communities. Next, the paper explores the neighbourhood structural conditions associated with governance and non-governance gang presence. It shows that, while socioeconomic disadvantage increases *all* types of gang presence, barriers to local services, including affordable housing, only increase the probability of governance-type gangs. Criminal governance is more likely to emerge when services provided by local and central authorities are of lesser quality. Results also indicate a negative association between residential mobility and criminal governance, suggesting that a certain degree of residential stability is needed for criminal governance to emerge. These findings point to the importance of separating different types of gang activities, lending support for a broader theory that situates (some) urban gangs within the spectrum of organised crime governance. It is also crucial for law enforcement and local stakeholders to

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identify governance-type gangs and treat them separately from non-governance ones. When developing interventions to tackle the emergence and persistence of governance-type gangs, particular emphasis should be placed on improving access to and quality of public services.

Keywords
Access to services, communities, gangs, governance, residential stability, socioeconomic disadvantage

Introduction

Criminal groups operating in illegal markets are often lumped together under broad labels such as 'organised crime' or 'gang'. And yet such groups engage in a variety of activities. Some *produce* illegal goods and services, such as cocaine in Colombia or cyber fraud online. Others specialise in *trading* goods from one place to another, such as drug traffickers. It is now well accepted that a third type of group goes beyond production and trade and attempts to *govern* communities by playing a role in their life, as well as extort/protect legal businesses and influence the decisions of politicians and public officials (Campana and Varese, 2018).

Criminal governance should be thought of as a continuum. Some groups have taken over state functions, such as imposing restrictions on people's behaviour, enforcing agreements, solving disputes, and enforcing a rough kind of justice. Others have made only limited inroads into these areas of social life, yet display signs that their activities go beyond ordinary crime (Varese, 2010). Starting with the pioneering work of Landesco (1929), notable studies have documented how traditional mafias, Latin American 'cartels' and insurgencies take over key state functions (Gambetta, 1993; Varese, 2001; Chu, 2000; Hill, 2003; Uribe et al., 2022; Arjona et al., 2015). At the other end of the governance spectrum, scholars have shown that gangs are able to influence communities in settings such as Medellin (Gordon, 2020), London and Nottingham (Densley, 2013: 61–62; Fellstrom, 2008), while they have not become an alternative government. Despite variations in degree, criminal groups across a wide geographical spectrum can go beyond illegal production and trade and involve themselves in imposing a degree of order on the communities where they nest.

The aim of this paper is twofold: first, to explore the extent to which urban gangs in a large European city are involved in more than just selling illegal products such as drugs; and second, to investigate the neighbourhood structural conditions associated with such gang presence. To do so, we first need to establish whether gangs engage in racketeering, influence business decisions, have a degree of control over local officials, and are involved in community activities. If the answer to such question is positive, we define such gangs as 'governance-type', while acknowledging that their behaviour is not quite on a par with traditional mafias. To identify such gangs, we introduce a novel instrument, the Crim-Gov questionnaire. We submit the instrument to police officers tasked with policing gangs in London.

We then leverage the data collected through the expert survey to explore the following questions: What are the structural conditions under which governance (and non-governance)

gangs are present in communities? And are there differences between governance and non-governance gangs?

Theoretically, this paper builds on two separate strands of research. First, it expands on authors who have examined the governance dimension of urban gangs in the United States and the Global South, especially in Latin America and the Caribbean. Such studies are rare in Europe, and they tend to be qualitative. While qualitative studies are most insightful in offering deep accounts of local dynamics, our approach in this paper is best suited to explain why governance-type gangs are present in some neighbourhoods and not in others. In short, this paper contends that it is imperative to distinguish governance from other gangs' activities. Second, it connects the study of governance-type gangs with the broader gang literature exploring the *structural* conditions that might lead to the emergence and persistence of gangs in local communities (see Decker et al., 2022: 36–66 for a review and a most useful taxonomy of theories; due to the nature of our data, in this work we leave aside any consideration on 'culture' and focus exclusively on elements of 'structure'). We expand on US-based works by offering novel insights from a large urban city in Europe. In addition, by integrating such insights with our criminal governance perspective, we will explore whether we can identify any difference in structural characteristics that lead to the presence of the two distinct types of gangs: governance and non-governance.

The text continues as follows. The second section discusses criminal governance, while the third section offers a theoretically informed discussion of the neighbourhood-level structural factors potentially conducive to the presence of (governance and non-governance) gangs in a local area. The fourth section then introduces the data and methods we use. The fifth section presents the results of our expert survey on the presence/absence of criminal governance in London based on the purposely developed Crim-Gov questionnaire. The sixth section tests the factors conducive to the presence of gangs in London neighbourhoods, separating those involved in criminal governance from non-criminal governance ones. The seventh section concludes.

Criminal governance

Criminal governance can impact both legal and illegal markets, as well as communities more broadly. In illegal markets, criminal governance often involves protection against competition, enforcement of cartel agreements, dispute resolution, labour racketeering, intimidation of lawful right-holders, protection against theft and police harassment, informal credit and debt recovery, and defence against extortionists (see Varese, 2014 for a review; Schelling, 1971 more generally on criminal governance). This form of governance has been documented in various traditional Mafia organisations, such as the Sicilian Mafia (Sabetti, 1984; Gambetta, 1993), the Italian-American Mafia (Reuter, 1983), the Russian Mafia (Varese, 2001), the Hong Kong Triads (Chu, 2000), the Japanese Yakuza (Hill, 2003), the Calabrian `Ndrangheta (Paoli, 2003; Varese, 2011), and the Neapolitan Camorra (Campana, 2011). Additionally, this phenomenon is increasingly observed in Latin America (Brophy, 2008; Locks, 2014; Lessing, 2021). Criminal governance of markets has also been identified in urban areas like Stockholm, Sweden (Skinnari et al., 2012), London, England (Levi, 1981), and Salford, England (Campana

and Varese, 2018). Levi (2008: 62) notes that the Kray and Richardson gangs in London sought to monopolise extortion and other criminal activities.

Criminal governance can go beyond the control over markets and extend to broader community governance. An example is a small Sicilian village studied by Sabetti (1984), where distrust of ineffective central authority led to the rise of a criminal group headed by Calogero Vizzini. Vizzini provided protection to peasants against banditry and soon became one of the most powerful bosses of the Sicilian Mafia in the twentieth century. His success led villagers to approach him with other issues, transforming the mafia into a form of local self-government based on some degree of consent (Sabetti, 1984: 104). This type of community involvement is not restricted to traditional mafia territories. Lessing (2022: 11) observes that in urban peripheries worldwide, local criminal organisations often govern as much as, if not more than, the state. When asked, 'Who is in charge here?' the answer often points to a local gang, mara, militia, faction, collective, or cartel. Residents, police, politicians, and researchers recognise this reality (Lessing, 2022: 11). The 2020 Latino barometer survey found that in Latin America, 14% of respondents reported governance by a criminal or armed group in their neighbourhood, affecting between 77 and 101 million citizens (Uribe et al., 2022). This phenomenon is also relevant in prisons (Skarbek, 2014) and in urban peripheries in the Global North.

In conclusion, mafias and gangs can control illegal markets such as drugs and sexual services, but their influence can also extend into legal markets and community life. This phenomenon should be viewed as a continuum: in some settings, mafias take over state functions while, in others, their control over the legal economy and community is limited. Studying both ends of this spectrum is important, as one can evolve into the other. The first goal of this paper is to identify elements of criminal governance among urban gangs operating in London using a novel instrument, and separate such gangs from the non-governance ones.

Explaining gang presence

The second goal of this paper is to explore which local area characteristics make a neighbourhood more vulnerable to governance (and non-governance) gang presence. The importance of structural conditions in understanding the emergence and persistence of gangs has a long history that can be traced back to the early works of Thrasher (1927) and Shaw and McKay (1942). Works in this tradition of gang studies have highlighted the role of a number of socio-economic factors that are associated with higher levels of gang presence: socio-economic disadvantage, immigrant concentration and residential mobility (Katz and Schnebly, 2011: 379; Pyrooz et al., 2010). While operationalisations vary across authors, this school of thought stemming from the Chicago School has interpreted such factors as indicators of social disorganisation within a community, with the idea that 'these forms of structural disadvantage erode the foundations of normative authority and hinder the development of social cohesion and mutual trust' (Katz and Schnebly, 2011: 379; see also Sampson and Groves, 1989; Bursik and Grasmick, 1993; Decker et al., 2022: 46–50 for a broader discussion). A competing theoretical explanation based on the idea of strain/anomie (Merton, 1938; Cloward and Ohlin,

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1960; see Pyrooz et al., 2010: 869–871 and Decker et al., 2022: 55–58 for a broader discussion) also emphasises the key role of economic disadvantage in explaining gang presence at the neighbourhood level. The hypothesised mechanism, however, differs from social disorganisation and rests on the idea that people in 'economically deprived areas experience more strains than those with high economic status' (Pyrooz et al., 2010: 870). In line with Pyrooz et al. (2010: 874), our goal in this paper is not to test which competing theoretical approach best explains the case of gangs in London, but to offer a theoretically informed examination of gang presence in London neighbourhoods. We thus retain from both approaches the emphasis on neighbourhood-level socio-economic disadvantage, which we operationalise in our work using four different measures: income deprivation, household income, educational disadvantage and health deprivation. Poverty, income deprivation, low or no educational qualification and health deprivation are all part of what Sampson and Bean (2006) called 'hard facts of life'. Empirical studies have indeed found a positive association between a community's socioeconomic disadvantage and gang presence (e.g., Curry and Spergel, 1988, focusing on gang homicides; Tita et al., 2005; Papachristos and Kirk, 2006; Katz and Schnebly, 2011; see also Decker et al., 2022: Ch. 2 for a broader discussion). Yet, none of these studies considered the differential impact that socioeconomic disadvantage might have on the *type* of gangs that are active in a community.

Social disorganisation theorists have also highlighted the role of migrants' concentration on gang formation, as high levels of migrants' concentration are considered to weaken social ties and hinder patterns of communication (Papachristos and Kirk, 2006; Sampson et al., 1997; Sampson and Groves, 1989; Shaw and McKay, 1942; see also Curry and Spergel, 1988). Additionally, migrant populations might feel marginalised and lack trust in official institutions, such as the police. In our work, we operationalise migrants' concentration based on the proportion of residents not born in the United Kingdom.

Social disorganisation theorists have also suggested that (high) residential mobility can weaken social ties and mechanisms of control, thus leading to greater gang presence (Thrasher, 1927; see also Sampson et al., 1997; Sampson and Groves, 1989; Shaw and McKay, 1942). The evidence on this point, however, is far from conclusive. Studies from the United States have found a negative relationship between residential mobility and gangs (Wells and Weisheit, 2001; Katz and Schnebly, 2011; cf. Curry and Spergel, 1988, showing that high levels of gang *violence* are associated with unstable communities). Katz and Schnebly (2011: 377) found that gang membership (and not activity) 'is less likely in social contexts characterized by either a residentially unstable population or rapidly changing structural conditions' (it should be noted that they link gang members to neighbourhoods based on the residential address of members and not the area in which the gang operates; the two might not perfectly overlap). A certain degree of neighbourhood stability may thus be required for gangs to successfully operate, for example, by allowing them to gather information on the community (on the importance of information, see Reuter, 1983; Gambetta, 1993). The transmission of gang culture might also be hindered in neighbourhoods characterised by a rapidly changing residential composition (Katz and Schnebly, 2011). Studies so far have looked at the impact of residential mobility on gang presence, regardless of whether

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they were involved in criminal governance. For instance, residential instability might facilitate the presence of purely predatory gangs due to weakened social ties, but governance-type gangs might require some degree of community stability to exert their criminal rule. In this work, we consider a measure capturing the 5-year residential mobility in London neighbourhoods.

Additional factors explored in the gang literature relate to population density and population age structure. A higher population density is postulated to be associated with increased anonymity among community members, therefore conducive to lower informal social control (Katz and Schnebly, 2011: 380). A larger proportion of youth residents is associated with higher gang presence through various mechanisms. Social control theorists argue that a higher proportion of young people means a lower proportion of the adult population capable of exerting effective social control (Tita et al., 2005: 277; Katz and Schnebly, 2011). At the same time, age-crime curve analyses show that young people are more prone to crime in general (Farrington, 1986), and they can also constitute a larger reservoir for recruitment (Decker et al., 2022). We include both factors – population density and population age structure – in our analysis.

A separate strand of the literature has looked at the factors that might account for the emergence of criminal governance. Generally speaking, criminal governance is thought to emerge in a setting characterised by a weak state presence (Sabetti, 1984; Gambetta, 1993; Varese, 2001). Varese (2011) has documented how the emergence of new, unregulated markets generates incentives among entrepreneurs to create cartels, even with the use of criminal groups. Looking at neighbourhoods in Medellín, Colombia, Blattman et al. (2021) show that gangs fill the vacuum of state order yet do not completely crowd out state presence. In his ethnographic work on a housing estate in a large American city, Venkatesh (1997) illustrates how a local street gang started to provide services to the community, filling in the gap left by formal institutions, including the housing authority. In sum, a key factor highlighted in the criminal governance literature is the role played by the efficiency and effectiveness of the state (and other local authorities) *beyond* law enforcement activity (Campana and Varese, 2018). Such efficiency and effectiveness can be conceptualised in multiple ways. At the local (neighbourhood) level in a large city in the Global North, we proxy the efficiency and effectiveness of states (and local institutions) based on the accessibility to local services in a given area.

In conclusion, an influential stream of literature stemming from the early works of sociologists from the Chicago School has emphasised the importance of neighbourhoods – and their structural characteristics – in understanding gang presence. Scholars have highlighted the role of socio-economic disadvantage, migrants' concentration and residential mobility. Yet, studies so far have mostly looked at the US context and they haven't separated different types of gangs based on their activities. A separate stream of literature has emphasised the importance of criminal governance and the need to consider criminal groups, including gangs, involved in governance activities separately from the others. Such literature has also suggested that an ineffective state presence might be linked to the emergence of criminal governance. This paper brings together these two strands by first identifying whether criminal governance-type gangs exist in the case of London, and then testing whether the factors highlighted in both gang and criminal

governance literature play a role in explaining the presence of both governance and non-governance gangs in London.

Data and methods

The Crim-Gov questionnaire

To identify instances of criminal governance at the group level, we employ a novel survey instrument purposely developed for this study: the Crim-Gov questionnaire (see Appendix 1 for the full questionnaire). It captures five dimensions of group activities: the ability (i) to generate fear in a community; (ii) to coerce legal businesses; (iii) to influence public officials; (iv) to control illegal market(s), but also (v) the group's involvement in community activities. The questionnaire has been widely discussed with practitioners across the United Kingdom and trialled in one police area before being rolled out in the entire jurisdiction of the London Metropolitan Police.

Each dimension of group activities is measured on a five-point scale, where 0 indicates that a group does not engage in that activity, and 4 indicates that a group is strongly involved in the activity.[1] Examples are given for each dimension to provide police officers and analysts with an operational definition of the activities and place them in the London context. The level of fear generated by a group is assessed by considering how much 'the group engages in disrespectful behaviour, threatens members of the public, resorts to violence, generates a "no grass" culture in the community' (quote from the questionnaire). The coercion of legal businesses is exemplified as the ability to 'threaten business owners, engage in extortion, influence business decisions'. The ability to influence public officials considers, for example, the extent to which 'the group influences probation officers and other officials involved in its case file, influences local officials' decisions, influences local councillors and politicians'. Illegal market(s)' control is exemplified as the extent to which 'the members sell illegal products, they decide who is allowed to sell illegal products, they successfully keep rival groups away from their territory'. Finally, a group's involvement in community activities considers to what extent the group 'offers assistance to neighbourhood residents' and 'settles disputes between community members'.

As this paper focuses on the criminal governance dimension of gangs operating in London, we have decided to ask police officers/analysts assigned to a local gang unit to fill out the Crim-Gov questionnaire (this is akin to the strategy that Miller devised for the first National Youth Gang Survey using police as experts: Miller, 1992 [1982]: 10–16). Officers were asked to score the gang(s) for which they have close knowledge. We have not supplied officers with any pre-set definition of gang, but left it to their professional knowledge to identify the list of relevant groups based on intelligence and other police records.[2]

In the case of London, we adopted a multistage approach leveraging the institutional architecture of the London Metropolitan Police. Greater London is divided into 12 basic command units, which represent our first stage. The questionnaire was then trickled down to 32 specialist gang officers, one for each London Borough. These specialist gang officers were then tasked with filling in a questionnaire for each gang operating in their area

in consultation with local specialist officers/analysts as well as available intelligence. Questionnaires were then gathered in an electronic format by our point of contact who cross-checked (unlikely) duplicate records, sanitised the data and then forwarded them in a fully anonymised form; neither gangs' names nor any other information besides the responses to our questionnaire was shared with us. The identity of respondents was also kept confidential. The survey was administered between April and November 2019.

While it is possible to collect information directly from gang members, we opted for an alternative method based on a specific type of expert survey. This method allows us to systematically build a comprehensive picture of the presence and *absence* of gangs across a very large urban area, that is, Greater London, in a cost-effective and limited time-consuming manner. It comes, however, with its own limitations. Police officers might not be the best placed to provide the most accurate picture when it comes to communities' attitudes, for example the level of fear generated by a gang; they might underestimate the impact of threats and coercion of legal business and community members, as these might be underreported due to the fear of reprisals; and they might be reluctant to report on the influence on public officials (some of whom might be fellow police officers; the fact that we only ask for a score and not further evidence might limit the impact of this bias but not eliminate it completely). Furthermore, there is always the possibility that a gang has not been identified by the police at the time of the survey. Additionally, our method is not able to elicit any evidence of cultural meanings associated with life in a gang or internal mechanisms. We acknowledge that specialised police officers are only one potential source of information on gangs (and criminal groups more generally) and that our instrument would provide a more comprehensive picture if the set of respondents is expanded in future works by adding other (non-police) officials and local stakeholders. In Table A1 in Appendix 2, we offer an external validity control of our survey instrument leveraging data from the Public Attitude Survey conducted by the Mayor of London, Office for Policing and Crime; survey data corroborate our instrument's ability to identify gang presence and also show that our instrument is not significantly correlated with residents' general fear of crime or their view of general crime and violence.

To explore the mechanisms underpinning the emergence of criminal governance in a large urban setting, we move the analysis from the gang level to the community level. For the purposes of this work, we define a community using the Middle layer Super Output Areas (MSOAs) created by the UK Office for National Statistics (ONS). Greater London can be subdivided into 982 MSOAs, and each of these census units includes an average of 8316 individuals. MSOAs have two desirable properties: (a) they have a geographical component, that is, they are designed taking into account geographical barriers, for example, a river, rail tracks or main roads; hence, they can approximate spatialised community-level social interactions; and (b) they show stability over time (contrary to, e.g., electoral wards). We asked the questionnaire respondents to place each gang within a spatially defined area based on the postcode of the 'centre of gravity' of a gang's activity and then linked each postcode to the corresponding MSOA (UK postcodes are perfectly nested within MSOAs). In this work, we use the terms community, neighbourhood and MSOA interchangeably.

We now turn to discuss the dependent variable and the set of independent and control variables included in our analysis.

Dependent variable

Our *dependent variable* is a categorical variable capturing the type of gang presence in a community (MSOA). Based on the responses to the Crim-Gov questionnaire, we identified three types of communities: (a) those with no gang presence; (b) those with gang presence but no criminal governance; and (c) those with criminal governance.[3]

As mentioned above, gangs can control illegal markets only, such as drugs, or be involved in legal markets and community activities too. In this paper, we are most interested in identifying gangs that are able to make their presence felt in legal markets and in the community at large. Such criminal groups pose the greatest threat to the legitimacy of authorities, hence deserve special attention. For this reason, we adopt a strict definition of criminal governance, including only those gangs able to exert some degree of governance beyond just illegal markets, that is, impacting legal businesses, public officials and broader community activities. Thus, we define gangs as involved in criminal governance activities if they engage in at least one of the following activities: coercion of legitimate businesses; influence of public officials; involvement in community activities. While such questions do not imply that gangs have total control over such spheres of life, they do indicate the gangs' ability to reach there. The next decision we took relates to scoring. Although the questionnaire includes five values (from 0 to 4) and thus allows us to capture the intensity of an activity, we decided to dichotomise the data for the models developed below due to statistical reasons; however, future studies might wish to go beyond such a limitation. The distribution of scores for each dimension is presented in Figure 1. In conclusion, we consider as 'governance-type' those gangs that have received a score of 1 or higher in at least one among questions 2 (coercion of legitimate businesses), 3 (influence of public officials) and 5 (involvement in community activities) of the Crim-Gov questionnaire.

Independent variables

To explore the emergence of governance, we consider several *independent variables*, measuring the social, demographic, and economic characteristics of 982 communities (MSOAs) across Greater London. The variables are drawn from a variety of ONS sources (see Table A2 in Appendix 3) and measured at the MSOA level. We consider values for the year closer to the Crim-Gov survey (2019). While most variables were measured in 2019 or the years shortly before (see Table A2 in Appendix 3), variables based on the UK census are the exception: as results from the 2021 census were not yet available at the time of data collection and analysis, we had to rely on data from the 2011 census. However, we believe that this has a limited impact on the analysis as such variables tend to refer to structural features of a community that are normally slow-changing, such as educational levels or age structure.

The independent variables included in our econometric model are socioeconomic disadvantage, accessibility to local services, residential mobility, and migrant concentration (Table 1 reports summary statistics for such variables). To measure *socioeconomic disadvantage* of a community, we consider four alternative measures: (1) an index of income deprivation based on the proportion of population in a given community

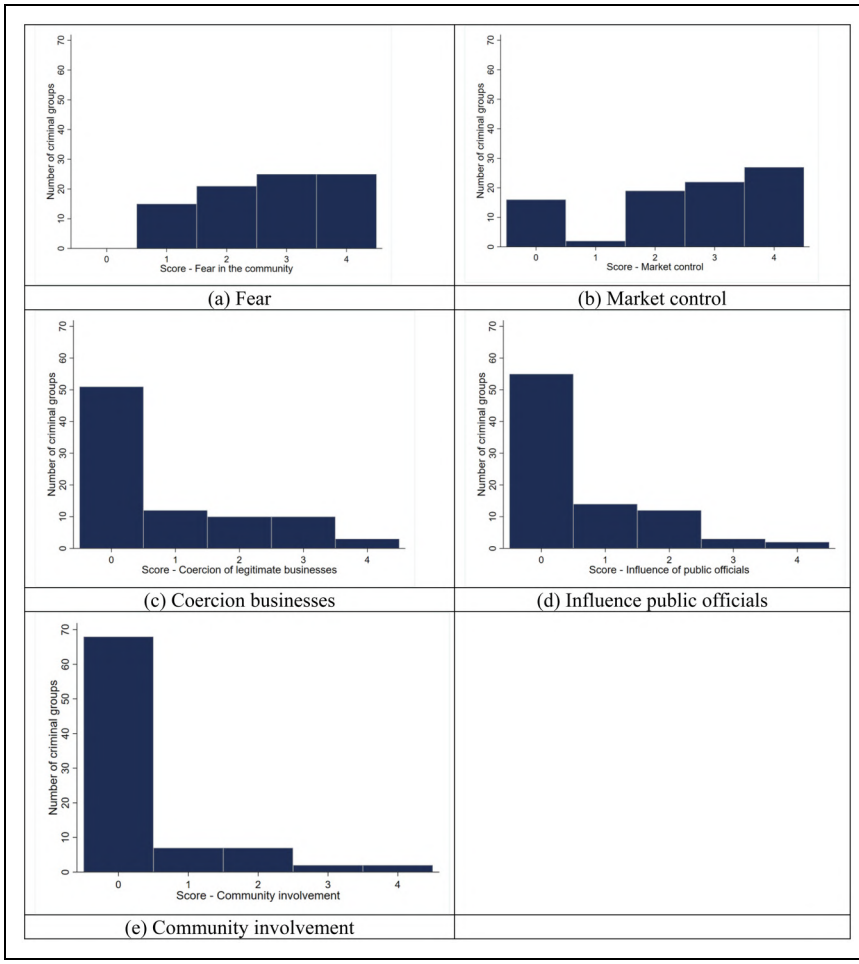

Figure 1. Crim-Gov questionnaire: distribution of gangs' scores by activity ($N = 86$).

experiencing deprivation due to low income as the result of either unemployment or low earnings; (2) household income, measuring the average annual income of households in a given community; (3) a variable measuring the proportion of residents aged 16 and over with no educational qualifications to account for disadvantage in the educational domain; (4) an index of health deprivation, which measures the risk of premature death and impairment to the quality of life due to poor physical and mental health. We consider these multiple measures of socioeconomic disadvantage in separate model specifications to avoid issues of multicollinearity.[4]

As a measure of *accessibility to local services*, we consider an index developed by the ONS and included in the 'Barriers to housing and services' domain of the Index of Multiple Deprivation. This index measures the physical and financial accessibility of

Table 1. Summary statistics of independent variables included in the MSOA econometric model.

Variable	Mean	Std. Dev.	Min	Max	N
Population density	83.48	47.99	2.90	247.20	982
Population aged 15–24 (%)	13.44	3.39	6.10	41.60	982
Income deprivation (%)	13.62	6.20	0.94	33.49	982
Household income (£; scaled/1000)	53.53	8.57	36.00	85.20	982
Lack of education qualifications (%)	17.79	6.36	3.60	37.70	982
Health deprivation (score)	26.62	5.99	0.00	40.04	982
Barriers to housing/services (score)	31.74	8.63	9.52	59.92	982
5-year residential mobility (%)	17.18	5.30	5.55	45.26	982
% born outside the United Kingdom	36.21	13.84	4.39	69.23	982

Note: MSOA: Middle layer Super Output Area; Std. Dev.: standard deviation; Min: minimum; Max: maximum.

local services and housing. It is computed by combining (with equal weights) indicators pertaining to two sub-domains: the 'geographical barriers' sub-domain, which relate to the physical proximity of local services, and the 'wider barriers' sub-domain, which includes issues relating to access to housing, including social housing (McLennan et al., 2019). The geographical barriers sub-domain includes indicators measuring the average geographical proximity of a range of local services (e.g., post office, primary school, general practitioner (GP) surgery). The indicators included in the wider barriers sub-domain measure household overcrowding, the homelessness rate, and housing affordability. We consider the barriers to services and housing as a proxy for the level (and to some extent effectiveness) of services provided by local and central authorities.

Residential mobility is calculated as the proportion of resident households that have changed within a specific time period (5 years in our analysis). *Migrants' concentration* is measured by the proportion of community residents not born in the United Kingdom. Finally, all model specifications include the *population density* and the *proportion of population aged 15–24*. The latter captures the (relative) size of the more crime-prone segment of the population.

Analytic strategy

We first present results on the distribution of gangs and criminal governance across London communities. We then rely on a multinomial logistic regression model to examine the factors underpinning the emergence of gang-related governance in a given community. This modelling approach is particularly suitable when predicting more than two outcomes given a set of independent variables and with unordered outcome categories (Britt and Weisburd, 2010; Tabachnick and Fidell, 2013). This model is an extension of a binary logistic regression model that simultaneously accounts for changes in the odds of multiple outcomes following changes in the value of the independent variables (Britt and Weisburd, 2010). The model estimated in this paper is defined as follows:

$$\log\left(\frac{\pi_m(\boldsymbol{x})}{\pi_M(\boldsymbol{x})}\right) = \alpha_m + \boldsymbol{\beta}'_m\boldsymbol{x}, \qquad m = 1, \ldots, M-1$$

where $\boldsymbol{x}$ is the set of independent variables included in the analysis and $\pi_m(\boldsymbol{x}) = P(Y = m|\boldsymbol{x})$. In our case, $M = 3$ since the dependent variable has three outcome categories: 'no gang presence', 'gang presence with no criminal governance', and 'gang presence with criminal governance'. We consider the absence of gangs as the reference category: the set of coefficients predicting each outcome can thus be interpreted as the log of the odds (odds ratio) comparing the likelihood of that specific outcome (e.g., gang presence with no criminal governance) relative to observing no gang presence in the community.

We run a set of models with different specifications aiming to understand how different measures of deprivation, accessibility to local services, migrants' concentration, 5-year residential mobility, population density and the share of the population aged 15–24 impact the presence of gangs, separating those involved in criminal governance from those not inolvolved in criminal governance.

When presenting and discussing our results, we are careful to avoid the use of causal language. In other words, we cannot completely exclude reverse causality for a number of variables we input as independent in the multinomial logistic regression (see Table 3). Yet it is hard to imagine that the presence of a gang would have a causal effect, for example, on barriers to housing and services or the percentage of individuals born outside the United Kingdom. Interestingly, Booth's (1889) London maps from 1889 contain information on income indicators: London areas' income strongly correlates with current data, although Booth's maps only cover Inner London (analysis available on request). However, as our econometric setup does not allow us to exclude that some of the variables we analyse are affected by a gang's presence, our results should be interpreted as showing the existence (or absence) of a relation between relevant factors and gangs.

Criminal governance in London communities

The Crim-Gov survey has identified 86 gangs operating across London. Their level of involvement in criminal governance-related activities varies, as shown in Figure 1(a–e).

Two findings are of particular interest. Firstly, while all gangs generate fear in the communities in which they operate – and 58% of them generate strong fear, that is, a score of 3 or 4 – not all are involved in the three key dimensions of governance: coercion of legal businesses, influence of public officials and involvement in community activities. In fact, only 51 gangs (60%) are involved in at least one of these three activities; this number goes down to 16 (19%) if we consider gangs that have a strong involvement in at least one of these activities. This suggests that moving from just being a fear-generating gang to a more complex organisation involved in criminal governance is not an easy task – and is a step that only a fraction of gangs is able to make.

Secondly, 81% of gangs are able to exert some degree of control over the criminal market in which they operate – most likely a drug market, although we have no first-hand evidence – and 57% are able to exert strong control. These are a much larger proportion than the gangs able to provide governance impacting legitimate businesses, public officials and the broader community. This suggests that providing criminal governance

beyond illegal markets requires a more complex set of resources and skills that fewer gangs actually possess.

When placing gangs within spatially defined communities, we observe gang presence in 79 communities (out of 982; i.e., 8.75% of all MSOAs): 33 communities are affected by non-governance gangs, while 46 experience some degree of criminal governance (4.7% of all MSOAs; Table 2). In 20 communities (around 25% of those with gang presence), gangs engage in minor to moderate attempts of coercion of illegal businesses (e.g., threats and extortion directed to business owners), while in 13 communities (roughly 16%) coercion is reported to be either strong or very strong. In 28 communities across London, gangs are able to exert some degree of influence on public officials, and in five communities, gangs' influence has been qualified by police officers as strong. Involvement of criminal groups in community activities – ranging from the offer of assistance to residents to dispute settlement – has been reported in 17 areas, and in four it is considered either strong or very strong.

There are four communities across London in which gangs are reported to engage in all three key criminal governance dimensions of coercion of legitimate businesses, influence of public officials, and involvement in community activities. In roughly half of communities with criminal governance (24 out of 46), gangs present two of these three sets of activities; in 18 communities, they are reported to engage in one set only.

Gangs providing forms of criminal governance in their community generate on average a higher level of fear in the same community and have a higher level of control of the markets they are involved in (both differences in means are statistically significant at .01 level; see Table 2). Overall, average scores for governance activities are smaller than those for fear and market control, thus pointing to a more complex criminal endeavour.

Figure 2 presents the geographic distribution of the three sets of communities identified in this analysis. Gang presence is recorded across the whole city, and in most boroughs, there is at least one gang operating. Criminal governance appears to be relatively more clustered, affecting particularly the North Eastern and North Western communities. The boroughs of Brent, Islington, Newham, and Waltham Forest are particularly impacted, with more than 10% of their MSOAs recording the presence of a

Table 2. Gang presence and criminal governance in London communities: mean component scores.

	No gang presence	Gang presence	Gang presence and criminal governance
Fear in the community	0	2.27 (1.10)	3.09 (0.86)
Market control	0	1.61 (1.46)	3.20 (0.93)
Coercion of legitimate businesses	0	0	1.54 (1.29)
Influence of public officials	0	0	1.09 (1.13)
Community involvement	0	0	0.72 (1.13)
N	903	33	46

Note: Standard deviations are reported in parenthesis.

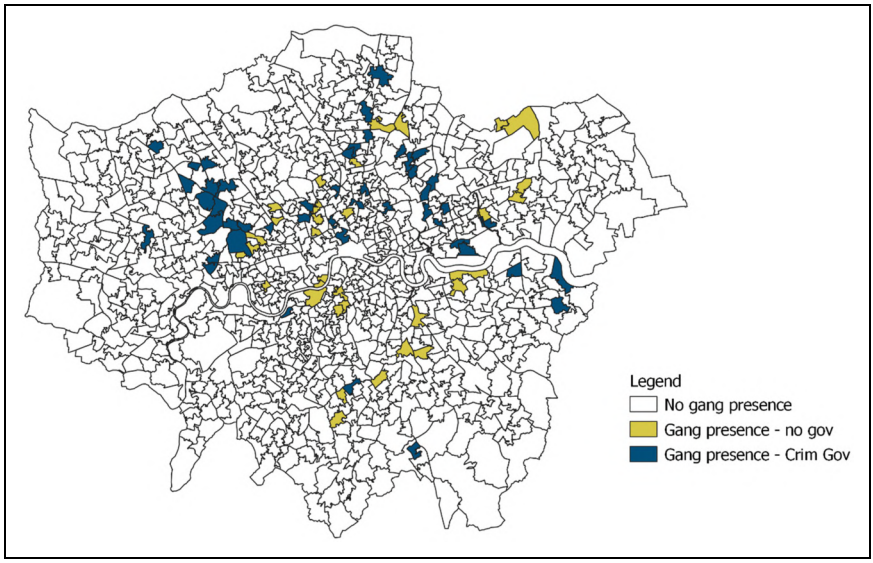

Figure 2. Spatial distribution of gangs and criminal governance.

gang providing some form of governance. Brent emerges as the borough most affected, with almost 30% of communities (10 out of 24 MSOAs) registering the presence of gang-related governance.

In sum, criminal governance appears to be highly concentrated in a few areas – and not all areas with a gang presence also experience criminal governance. What makes a community more vulnerable to criminal governance, then? We now turn to this question.

The emergence of criminal governance

To explore the factors underpinning criminal governance in communities, we test several multinomial logistic regression models. As a reminder, in this work we define a community as affected by criminal governance if the gang(s) operating in the area engage in at least one of the following three activities: coercion of legitimate businesses, influence of public officials or involvement in community activities. We separate these communities from those in which gangs are present but do not engage in criminal governance and from communities where no gang presence has been identified through our survey.

Table 3 presents the results of the first set of models exploring the impact of different measures of deprivation on the probability of criminal governance. In all models, an increase in the level of deprivation is related to an increase in the odds of gang presence; all other variables held constant – a result also found in other studies (e.g., Kirchmaier, Machin, Villa-Llera, 2020: 9–10). This finding is robust to different deprivation measures: income deprivation index, total household income, education deprivation, and health deprivation index. For example, an increase of one percentage point in the proportion of residents experiencing low-income deprivation is associated with an increase by a

Table 3. Community characteristics and criminal governance: multinomial logistic regressions (relative-risk ratios).

	Reference category: MSOAs with no gang presence							
	(1) Gang No gov	(1) Gang Crim-Gov	(2) Gang No gov	(2) Gang Crim-Gov	(3) Gang No gov	(3) Gang Crim-Gov	(4) Gang No gov	(4) Gang Crim-Gov
Population density	1.004	1.010*	1.008	1.012**	1.011*	1.014***	1.006	1.011**
	(0.005)	(0.004)	(0.005)	(0.004)	(0.005)	(0.004)	(0.005)	(0.004)
Population aged 15–24 (%)	0.961	0.999	0.912	0.950	0.973	0.989	0.940	0.968
	(0.065)	(0.060)	(0.061)	(0.059)	(0.066)	(0.066)	(0.064)	(0.062)
Income deprivation	1.217***	1.152***						
	(0.045)	(0.036)						
Household income			0.849***	0.884***				
			(0.032)	(0.031)				
Lack of education qualifications					1.116**	1.110**		
					(0.040)	(0.038)		
Health deprivation							1.309***	1.257***
							(0.075)	(0.064)
Barriers to housing/services	0.954	1.065*	0.947	1.056*	0.979	1.071**	0.961	1.068**
	(0.029)	(0.026)	(0.029)	(0.027)	(0.029)	(0.027)	(0.029)	(0.026)
5-year residential mobility	0.968	0.861**	1.036	0.892*	1.010	0.891*	0.877*	0.786***
	(0.048)	(0.041)	(0.054)	(0.043)	(0.049)	(0.042)	(0.049)	(0.043)
% born outside the United Kingdom	1.013	1.041*	1.011	1.034*	1.020	1.042*	1.049*	1.071***
	(0.021)	(0.019)	(0.020)	(0.018)	(0.021)	(0.019)	(0.024)	(0.022)
Constant	0.009***	0.001***	492.4*	4.423	0.001***	0.000***	0.000***	0.000***
	(0.011)	(0.001)	(1334.732)	(11.086)	(0.002)	(0.000)	(0.000)	(0.000)
Observations	982	982	982	982	982	982	982	982

Note: Standard errors are reported in parenthesis. Household income variable was scaled by dividing it by 1000 to ease interpretability. MSOAs: Middle layer Super Output Areas.

The symbols ***, **, and * indicate statistical significance at the .001, .01, and .05 levels, respectively.

factor of 1.22 in the relative risk of a community recording a non-governance gang compared to an increase of 1.15 for a governance gang. Similarly, an increase of £1000 in the average annual income of households residing in the community decreases the relative risk of non-governance gang by a factor of 0.85 and of 0.88 for a criminal governance gang. While the coefficients for deprivation are higher for non-governance gangs compared to criminal governance ones across all models, the difference in magnitude is not statistically significant in any of the models (results from a Wald test for the equality of coefficients).

The level of existing barriers to services and housing is positively associated with the odds of criminal governance (compared to no gang presence), while it is unrelated to the odds of gang presence with no governance. This is a key result which indicates that, controlling for all the other variables, communities where residents face greater difficulties in access to services see a higher probability of criminal governance in their territory. This variable can be interpreted as a proxy for the level (and to some extent the effectiveness) of services provided by local and central authorities; our result thus suggests that criminal governance is more likely to emerge where legal governance is of lesser quality. Crucially, this does not extend to gang presence in general, suggesting a profound difference in the nature of criminal governance vis-à-vis other gang activities.

Furthermore, an increase in the proportion of community residents born outside the United Kingdom is related to increased odds of criminal governance in the community (compared to no gang presence). Holding all the other variables constant, results show an increase by a factor of 1.03–1.07 in the relative risk of criminal governance for a one percentage point increase in the proportion of residents born outside the United Kingdom. This result is robust to the inclusion of different deprivation measures in the models. Conversely, the concentration of migrants tends not to be significantly associated with the odds of gang presence with no criminal governance (with the exception of model specification 4). The proportion of the population aged 15–24 is unrelated to both gang presence and criminal governance.

Finally, as for the residential mobility of an area, we find that the 5-year residential mobility is negatively associated with criminal governance. Holding the other variables constant, more stable communities, that is, those with a lower turnover of resident households over a 5-year time, face higher odds of gang-related criminal governance. Therefore, it is not the areas with the highest turnover of residents, and perhaps the weakest social fabric, that experience the most serious type of gang presence.

Discussion and conclusions

This study makes three significant contributions. The first is methodological in nature. We introduce a novel survey instrument – the Crim-Gov questionnaire – that allows us to identify key defining dimensions of a criminal group: its ability to generate fear in the community, coerce legitimate businesses, influence public officials, control markets and be involved in community activities. The questionnaire does not require a long time to complete; hence, it can be administered to busy officials and experts in a highly cost-effective manner. Rather than relying on non-systematic newspaper reports

and web stories (cf. Kirchmaier et al., 2020), we have used a systematic method of data collection.

The second contribution is descriptive. We have been able to identify instances of governance-related activities among the gangs operating in London. We show that providing criminal governance, particularly beyond illegal markets, is a complex task requiring a set of resources and skills that fewer gangs possess. When looking at communities, criminal governance appears to be highly concentrated in a few areas – and not all areas with a gang presence also experience criminal governance. We document that 46 communities (out of 79 with gang presence) experience some degree of criminal governance; in 17 communities, gangs are involved in community activities, while in four communities gangs engage in all three dimensions of governance (coercion of legitimate businesses/influence of public officials/community involvement).

Third, we test several models that explore the relationship between socioeconomic disadvantage, accessibility to local services, residential mobility, migrant concentration, and gangs. In line with results from large US cities (Curry and Spergel, 1988; Papachristos and Kirk, 2006; Pyrooz et al., 2010; Katz and Schnebly, 2011; see also Decker et al., 2022: Ch. 2), also in the case of London we find that the level of deprivation is related to an increase in the odds of gang presence. Furthermore, we find that this effect holds across *all* types of gang presence, governance and non-governance ones. On the other hand, we find a differential impact of access to services on governance and non-governance gangs. Crucially, greater difficulties in accessing local services and housing are *only* related to a higher probability of criminal governance (the same does not hold for non-governance gangs). We conclude that such a phenomenon is more likely to emerge where the legal provision of services is of lesser quality. We have pointed out above that criminal governance should be thought of as a continuum: in some settings, criminal groups can substitute key state functions, as documented in traditional mafia areas (see e.g., Sabetti, 1984; Gambetta, 1993; Varese, 2011). Our work shows that explanations invoked for such cases also apply to instances where criminal governance is less pervasive. These findings suggest the need for a unified theory of criminal governance that encompasses mafias and 'cartels' at one end and urban gangs at the other.

We further find that the 5-year residential mobility is negatively associated with criminal governance, suggesting that it is not the areas with the weakest social fabric that experience the most serious type of gang presence, but those with a more stable residential population. A certain degree of stability is needed for criminal governance to emerge, for example to allow gangs to collect and circulate information more efficiently within the community. These results contribute to previous findings on the negative association between residential mobility and gang presence (Wells and Weisheit, 2001; Katz and Schnebly, 2011) by pinpointing how this association might be driven by governance activities. Finally, an increase in the proportion of residents born outside the United Kingdom is consistently associated with higher odds of criminal governance in the community across all models (while the relationship with non-governance gangs is more ambiguous).

Quantitative work on gangs and organised crime is difficult and subject to limitations; our study is no exception. While we are reassured by the level of external validity shown by our survey instrument (see Appendix 2), limitations stemming from the nature of

police evidence remain, and future works might wish to apply our instrument to non-police officials and local stakeholders to get a more comprehensive view of the phenomenon. In addition, our work is based on one snapshot of the London gang landscape; however, such landscape is likely to change over time, and future works might benefit from including a longitudinal design.

Finally, our work suggests two main policy implications. Firstly, it is crucial for law enforcement – and local stakeholders – to not only collect data on gangs but also on the type of activity such groups are involved in. We strongly recommend that particular attention is devoted to identifying instances of criminal governance and to treating such gangs separately from the non-governance ones. While more concentrated in space and less prevalent in scale, criminal governance generates *systemic* harm to cities and countries, creating lasting damages to the institutional and social environments of places and communities alike. It is arguably more difficult to eradicate if left unchecked. Secondly, our work has shown that interventions targeting socio-economic factors might not be sufficient either. When tackling the emergence and presence of governance-type gangs, policy-makers should also improve access to and quality of public services. This is a mechanism that does not always receive the attention it deserves.

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Notes

1. The questionnaire expands on the three-item Crim-Gov questionnaire first presented in Campana and Varese (2018). This novel iteration of the instrument adds the two dimensions

of market control (question 4) and community involvement (question 5) besides a relabelling of the scales. Such changes enable us to capture dimensions suggested by Lessing (2021) who unpacks the phenomenon into five different categories: (1) policing, (2) judicial, (3) fiscal, (4) regulatory, and (5) political. The practices captured by Lessing (2021) include surveillance, enforcement of property rights, dispute resolution, the fulfilment of contractual agreements, tax collection, the provision of credits and involvement in community or electoral politics.

2. As a reference, the Metropolitan Police defines a gang as a 'relatively durable, predominantly street-based group of young people who (1) see themselves (and are seen by others) as a discernible group and (2) engage in a range of criminal activity and violence. They might also have any or all of the following features: identify with or lay claim over territory; have some form of identifying structure feature; are in conflict with other, similar gangs' (see: https://www.met.police.uk/police-forces/metropolitan-police/areas/about-us/about-the-met/gangs-violence-matrix/).
3. In most communities with gang presence, there is only one active gang. Only six MSOAs register more than one gang; in these cases, we assigned to the MSOA the highest score recorded among the gangs active in the area.
4. As expected, these measures show a relatively high level of correlation: minimum pairwise correlation $|r|=.52$, maximum $|r|=.81$.
5. This source of data has already been utilised by criminologists to explore crime and police-related attitudes. See Bradford et al. (2009).

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Appendix 1. Crim-Gov questionnaire

Q1: On a scale from 0 to 4, how much fear does this group generate in the community? (e.g., the group engages in disrespectful behaviour, threatens members of the public, resorts to violence, and generates a 'no grass' culture in the community)

○	○	○	○	○
0	1	2	3	4
No Fear				Very strong fear

Q2: On a scale from 0 to 4, to what extent does this group coerce legitimate businesses? (e.g., the group threatens business owners, engages in extortion, and influences business decisions)

○	○	○	○	○
0	1	2	3	4
No Coercion				Very strong coercion

Q3: On a scale from 0 to 4, to what extent does this group influence public officials? (e.g., the group influences probation officers and other officials involved in its case file, influences local officials' decisions, influences local councillors and politicians)

○	○	○	○	○
0	1	2	3	4
No Influence				Very strong influence

Q4: On a scale from 0 to 4, to what extent does this group control the market(s) it is involved in? (e.g., the members sell illegal products, they decide who is allowed to sell illegal products, they successfully keep rival groups away from their territory)

○	○	○	○	○
0	1	2	3	4
No Control				Very strong control

Q5: On a scale from 0 to 4, to what extent is the group involved in community activities? (e.g., the group offers assistance to neighbourhood residents and settles disputes between community members)

○	○	○	○	○
0	1	2	3	4
No Involvement				Very strong involvement

Q6: Please provide a full postcode for the best-estimated centre of the group's territory.

Appendix 2. External validity of Crim-Gov questionnaire

To assess the external validity of our survey instrument (Crim-Gov questionnaire), we leverage data from the 2016–17 MOPAC (Mayor of London – Office for Policing and Crime) Public Attitudes Survey (ORS, 2017). The survey was conducted between October 2016 and September 2017 on a total of 12,800 respondents and is based on a random sample stratified by BCU with a target of 400 individuals per borough (further information is included in ORS, 2017). Due to limited sample size and unavailability of personal information on the MSOA of respondents, the analysis could only be conducted at the electoral ward level, which is a slightly larger spatial unit than the MSOA (average population of 13,171 in Greater London).[5]

In Table A1, we compare residents' answers on gang presence ('gangs are a problem') with our results on the strength of gang presence (measured as the sum of the scores of all five survey dimensions) at the ward level. The two variables are positively and significantly correlated, thus corroborating our instrument's ability to identify gang presence. Crim-Gov then goes a step further in sorting gangs based on their ability to provide criminal governance. Moreover, our instrument is not significantly correlated with residents' general fear of crime or their view of general crime and violence as major issues in the community. This further points to the ability of our survey instrument to identify gang presence and not general crime.

Table A1. Attitudes to local crime problems and Crim-Gov survey variables: correlation table.

	1	2	3	4	5
1. Worried about crime	1				
2. General crime is a problem	0.60*	1			
3. Violence is a problem	0.44*	0.56*	1		
4. Gangs are a problem	0.45*	0.30*	0.45*	1	
5. Gang presence (total gang score from Crim-Gov survey)	0.04	−0.03	0.07	0.19*	1

Note: The symbol * indicates that the correlation is statistically significant (at 0.05 level).

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Appendix 3

Table A2. Independent variables included in the econometric analysis.

Variable label	Description	Source (year)
Population density	Number of resident population per hectare.	Census for England and Wales (2011)
Population aged 15–24 (%)	Proportion of the total population aged between 15 and 24.	Census for England and Wales (2011)
Income deprivation	Score of the 'Income deprivation' domain of the Index of Multiple Deprivation (higher score corresponds to higher deprivation); measures the proportion of the population experiencing deprivation related to low income.	Index of Multiple Deprivation, ONS (2019)
Household income (scaled /1000)	Average annual household income (£), financial year ending 2018. In the models, it has been scaled by dividing it by 1,000 to ease coefficient comparability.	ONS (2018)
Lack of education qualifications	Proportion of residents aged 16 and over with no education qualifications.	Census for England and Wales (2011)
Health deprivation	Score of the 'Health deprivation' domain of the Index of Multiple Deprivation (higher score corresponds to higher deprivation); measures the risk of premature death and the impairment of quality of life through poor physical or mental health.	Index of Multiple Deprivation, ONS (2019)
Barriers to housing/services	Score of the 'Barriers to housing and services' domain of the Index of Multiple Deprivation (higher score corresponds to higher deprivation); measures the physical and financial accessibility of housing and local services (physical proximity of local services and issues relating to access to housing such as affordability and homelessness).	Index of Multiple Deprivation, ONS (2019)
5-year residential mobility	Estimate of the 'churn' of the residential population: the proportion of households that have changed between the end of 2020 and five years prior.	CDRC Residential Mobility Index (2020)
% born outside the UK	Proportion of the resident population not born in the UK.	Census for England and Wales (2011)

Note: Variables collected from the 2019 Index of Multiple Deprivation were produced at the LSOA level and were aggregated to the MSOA level by summing the population-weighted scores of the corresponding LSOAs.

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Editors' Introduction

With the seminal contribution of Becker, and Dnes' and Pyle's elaborations based on it, we now have a good idea of the tools economists apply in explaining crime and assessing punishment. Economic ideas can also inform more discursively oriented efforts to understand the criminal world, efforts directed as much to understanding an alien culture as to practical application in, for example, law enforcement.

Such is the case in the influential work of Diego Gambetta and Peter Reuter on the mafia, work which draws variously on ethnography, the economic theory of the firm, social history, criminology, and the theory of state regulation. Sometimes, as a result of a new insight, the hitherto-unexplained suddenly assumes sense, so that afterwards one wonders how one can ever have thought things to be otherwise. From Gambetta and Reuter we come to understand that the primary beneficiaries of the mafia (and other syndicate-maintaining organisations) are the owners of the businesses being 'coerced'. Social scientists have developed the concept of 'latent functions' to account for the unanticipated effects of social processes and social institutions; Gambetta and Reuter show how economics can be a useful means to identify such functions (note that a precursor of the argument Gambetta and Reuter develop can be found in Becker's discussion of collusive business practice).

Gambetta and Reuter argue that the key protection racketeers supply to legitimate businesses is the enforcement of trade allocation agreements among independent firms, and rather than monopolistic restraint of trade, the interest of the mafia as cartel enforcer lies in maintaining a reasonable diversity of participating businesses. In terms of understanding the coexistence of the business world and the world of organised crime, Gambetta and Reuter's use of some fundamental theoretical tools of economics offers real analytic purchase.

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Conspiracy among the Many: the Mafia in Legitimate Industries*

Diego Gambetta and Peter Reuter

1 Introduction

This chapter considers the modes by which the mafia exercises its influence on a number of legitimate industries in both Sicily and the United States. In particular it discusses the kinds of service the mafia provides, the economic consequences of its influence, the conditions that induce the entry of the mafia in specific industries, and the conditions and policies that make it disappear. We share the view that mafia protection in legitimate industries, although occasionally rapacious and unreliable, is frequently neither bogus nor limited to intimidating new entrants. Under some (perhaps most) circumstances, the primary beneficiaries are the owners of the firms being coerced.

This view is based both on theoretical arguments and empirical evidence. The chapter relies on a series of case-studies which were autonomously developed by the authors and presented elsewhere (Reuter, 1987, 1993; Gambetta, 1993). The most important type of protection supplied by racketeers to legitimate industries, which is found in most industries we studied, is the enforcement of a variety of allocation agreements among independently owned firms, with racketeer income as payment for the service. This runs counter to two widespread conceptions of the involvement of the mafia in legitimate industries. One sees the racketeers' role as mere intimidation: the mafioso approach to 'regulated' competition would amount to thugs resorting to muscular persuasion at the expense of an innocent competitor on behalf of either a single monopolist or the mafia's own enterprise. The other sees racketeers as extortionists imposing their presence upon harmless dealers who would rather do without. Let us consider them in turn.

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When the mafia looks after the interests of a monopolist, it is clearly useless as a cartel enforcer and protection is limited to the intimidation of new entrants. This, however, is seldom the case: although protectors have an interest in not expanding the number of protected firms indefinitely, they are subject to an opposite drive to increase it. First, the larger the number of firms the higher is the mafia's autonomy from and bargaining power over any single one of them (Gambetta, 1993: 22–3, 85). Second, supporting a small number of firms is risky because it provides disappointed competitors with an incentive to seek protection from police or rival racketeers (Reuter, 1987: 6). Third, larger collusive agreements hold competition in check more effectively both because the cartel acts as a discouraging signal of determination and stability, thus reducing the need to threaten potential competitors, and because the option to exit the cartel becomes less attractive for the participants (Fiorentini, 1994).

Although in particular circumstances collusion is self-enforcing (Friedman, 1983: 65, 132 ff), whenever cartels rely on agreements, defection is a potential hazard and a genuine demand for protection may develop. Each partner must feel confident that all other partners will comply with the pact; otherwise the cartel collapses and competition creeps back in. Furthermore, even though anti-competitive outcomes can emerge without cooperation among firms – a large firm may independently decide to exclude new entrants even if rival firms share the advantages but not the cost – whenever restrictive practices require the contribution of all firms, an enforcing agency may be necessary to deter members from free-riding. There is therefore no theoretical reason to expect that the role of the mafia will be one of extortion rather than authentic protection. (Whether the price of protection is 'extortionate' is a separate question to which we return later in Section 8.)

Our argument is that the mafia solves a problem of potential cartels. It may be invited in by entrepreneurs themselves looking to organise some agreement or may initiate the activity itself; we have examples of both. Its comparative advantage is likely to be in organising cartel agreements for large-number industries, as well as making cartels more stable; success, however, requires a number of other conditions, that we spell out in the course of the chapter. Moreover, the mafia has a unique asset in this capacity, namely its reputation for effective execution of threats of violence; this creates a reputational barrier to entry.

We do not, however, claim that large-number cartel organising is the exclusive role of the mafia in legitimate industries. The garment trucking and waterfront industries in the United States (Reuter, 1987: Ch. 3)

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provide instances of other kinds of predation. However, cartel organisation is an important and distinctive activity of the mafia,[1] and not just in legitimate industries. Although illicit markets do not concern us here, there are signs that the mafia can act as cartel organiser, for instance, in bookmaking in the United States and in tobacco smuggling and purse snatching in southern Italy (Reuter, 1983: 42–4; Gambetta, 1993: 227–35).

2 The Form of Cartel Agreements

The central problem for cartels is to design agreements which can be maintained over time. Three aspects of agreements, which are relevant to human cooperation generally, are also relevant for establishing cartels: the rules to be followed by members, the means of detecting rule violators, and the sanctions to be imposed against violators. Weakness in any of the three is likely to lead to defections and breakdown of the cartel (Stigler, 1964).

2.1 The Rule

At least three dimensions of the rule itself affect cartel members' willingness to enter and remain in association. First, the rule must produce results that, over time, are perceived as equitable, so as to lower risk of defection and complaint. Second, the agreement must be compatible with continued entrepreneurial autonomy. Loss of autonomy – as might arise if the cartel decided that production facilities must be centralised to maximise joint profits – transforms the bargaining positions of members and those who lose production facilities become dependent on others' willingness to honour the original commitment. This may increase the demand on trust to breaking point. Third, because of illegality, there is likely to be a strong inclination to avoid rules which require 'side-payments' among members that could provide valuable evidence for a prosecutor. More generally, illegal agreements are likely to minimise the number of transactions necessary for their effective execution.

2.2 Detection

The second important issue is the speed and cost of detecting violation. The longer it takes to detect it, the greater the return to violation and the lower the expected lifetime of the cartel (Stigler, 1964). Similarly, the profitability of the cartel will be lowered by high costs of monitoring. More generally, the higher the cost of policing agreements the lower the likelihood that cooperation will emerge.

2.3 Sanctions

The final consideration is the nature of available sanctions. Members will doubt a cartel's potential stability if violations of its rules cannot be punished without ending the cartel. A classic difficulty of price-fixing agreements is that efforts to punish price cutters lead to price reductions for all customers. The possibility of selective and cheap sanctions will increase stability.[2]

A limited number of rules can sustain collusive agreements. These are price fixing, output quotas and market sharing. Market sharing seems generally easier to enforce than, and logically prior to, the other two alternatives. In the New York carting industry,[3] for instance, in which individual customers are allocated on the basis of who served them first, cartel members have complete price autonomy. Being fixed in location, customers have little choice if other carters accept the basic rule. By contrast, if price fixing is practised – assuming that the product is homogeneous – firms usually need further allocative measures. Price fixing creates an incentive to resort to covert inducements, such as advertising, gifts, special offers, guarantees, sponsorship, etc. in order to attain higher market shares. Thus, unless firms also have market-sharing rules, price fixing is likely to be unstable, even ignoring potential entry.

3 A Comparison of the Sicilian and New York Mafias

The differences between the mafia in Sicily and New York are several. For example, in Sicily there is a clear geographic division; individual families have specific areas in which they have sole operating authority. Members of other families can operate there only with permission. Within New York the nature of the division is harder to determine. It is certainly not territorial, perhaps reflecting the lack of effective small-area local government that would permit the use of corrupt government authority to establish monopolistic criminal enterprises. Above all, in a highly diversified and complex urban situation such as that of New York, a monopoly of protection on all transactions is hardly conceivable, even in a relatively small area. By contrast, in a village or district of Sicily, with few inhabitants, any one mafia family can still take care of its clients in most of their businesses; but as the number of exchanges multiplies it becomes increasingly laborious to supply territorially based protection, and protection itself tends to become functionally specialised. Historic roles certainly have an influence in determining where (functionally) a family operates in New York. The Lucchese and Gambino families are the only ones of the five New York families that have a presence in the carting

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industry, just as it is the Genovese that are most active on the docks in Manhattan. That seems to have been the case for over 40 years in the case of carting and nearly 70 years for the docks.

The capacity of the mafia to play a role in cartel organisation is probably affected by this general organisational characteristic. Sicilian industry agreements may have territorial limits because the families cannot operate outside those areas. Indeed, it appears that some sharing agreements are cumbersome to execute because of the territorial division of the mafia families; the queueing for contract bids, discussed below, is an instance where arrangements have to be worked out among different families. Also, in New York there is much more of an explicit market in property rights. Carters buy and sell customers at prices that seem to represent the capitalised value of the customer allocation agreement; it is unclear whether mafiosi levy a tax on these sales. In Sicily there is no evidence of markets in such rights. Another difference is one of scale of individual families. The mafia of Sicily are approximately 3000, in a total of nearly 100 families. In contrast there are an estimated 5000 mafia in New York, but grouped into only five families. Entry is more restricted in New York and the rewards of membership correspondingly greater. Few seem to enter American mafia families before their late thirties, while in Sicily members enter in their twenties.

A further important difference for our purposes is the role of the labour union. In the United States it has been the central instrument by which the mafia has acquired power in particular industries. The union provides an ideal means to dress up extortion or the suppression of competition as the expression of concern for the rights of individual workers. Interestingly, the union is critical for the initiation of a customer allocation agreement but appears not to be so central for its continuation; expectation and reputation may suffice at that point. In Sicily, on the other hand, the union is not a major institution. The mafia has much more direct ties to the political system and, as argued at length in Gambetta (1993), serves to provide quasi-governmental services that the elected government fails to deliver.

One final difference is worth mentioning. Illegal markets have traditionally been a more important source of income to the New York mafia than to the Sicilian mafia. In markets for horse-betting, certain kinds of lottery, loan-sharking and (in earlier eras) prostitution and bootlegging, the mafia has served both as a provider of the goods themselves and as guarantors of contracts and dispute settlers. In recent decades it is the latter role that has been most significant (Reuter, 1983). There are thus parallels between the mafia's current roles in legal and

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illegal markets. For the Sicilian mafia, although the role of protection has been salient for a long time, markets in illegal commodities have until recently played a less important role. The growth of the heroin market since 1970 has changed that, but the Sicilian mafia in this case has played a direct role in the provision of credit and part of the service too (Gambetta, 1993: 234–44).

4 Instances of Mafia Cartels

With only a modest number of case-studies available, even including those that have appeared in historical studies, we make modest claims as to the generality of the following summary of the prevalence of different kinds of mafia cartel rules.

We know of few settings in which the mafia has enforced *price-fixing* agreements over long periods of time. In the wholesale fruit and vegetable market in Palermo, for example, the dramatic increase in numbers of authorised market middlemen, known as *commissionari*, made it impossible to continue to fix prices. Until 1955 only 12 *commissionari* were operating and price fixing and quota control were feasible because easy to police. A 'man of respect', himself a *commissionario*, acted as guarantor of these arrangements and controlled the largest share of the transactions. Now that the *commissionari* are 77,[4] they say that it would no longer be profitable to pay someone who, like 'Don Peppe' in bygone days, enforced collusion. There are simply too many *commissionari* and, given the large number of customers that use the market every day, someone somewhere would always breach the deal. In Section 7 we provide an analysis of why the numbers grew so substantially and broke the cartel.

Output *quotas* are another important alternative. The little available evidence suggests that quota agreements require extensive and intrusive inspection for their maintenance, and these are not attractive for an illegal market. The only known case of regulating output quotas involving the mafia dates back to the nineteenth century. Franchetti, an early and insightful scholar of the phenomenon, reports the existence of two 'societies' based near Palermo: one of millers – la società Mulini – which we would call a cartel, and the other – la società della Posa – a union of cart-drivers and apprentice-millers. Both these societies are said by Franchetti to have been under the protection of 'powerful mafiosi'. Members paid a fee to the society and agreed not to compete. They kept the price of flour high by regulating output, taking turns to restrict production and receiving appropriate compensation. (Note that current EU agricultural policies are not too dissimilar.) The *capo*-mafia ensured

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that everybody paid their dues, that the miller whose turn it was to underproduce did not free-ride on his fellows by producing more than he was supposed to; and that the others did not free-ride on him, by failing either to pay the agreed compensation or to restrict production when their turn came (Franchetti, [1876] 1974: 6–7 and 96).

The remaining collusive rule, namely *market-sharing*, can follow any one of three cases: locations, customers or queues. Which of them is adopted depends on the general conditions of the market – physical and technological constraints, size of units of demand and supply, frequency of transactions – and on which proves more suitable to monitor defectors. In what follows we assume for simplicity of exposition that agents sharing the market are sellers, but the same arguments apply to buyers. For instance, in the wholesale fish market in Palermo, middlemen share suppliers, i.e. fishermen.

4.1 Location or Territory

A gets the north side, B the south side; A runs on route X and B on route Y. Trading within territorial boundaries is found in a variety of industries, such as bus companies, airlines, telephone line suppliers, estate agents and many more. When firms are few, and monitoring each other presents no great problem, firms can easily agree with no need of 'muscle'. The three top Italian producers of lead and amianthus pipes, for instance, are said to share territories – north, south and centre – when it comes to large orders. These firms do not seem to need any special agency to enforce their understanding. When it comes to small contracts, which are too arduous to police, they simply prefer to compete.

But other sectors – as diverse as construction, transport and street-hawkers – have been territorially controlled by mafiosi in Sicily. Enforcing the territorial allocation when markets are both visible and immobile (or at least well defined as bus routes are) is relatively simple. Territoriality has a logical basis that makes it the dominant alternative. In Naples and Palermo mafia enforcement has also helped prevent conflict among unofficial parking attendants, whereas in a similar market in Rome, that for cleaning windscreens at traffic lights, the mafia has not been available. In 1989 this business was lucrative: each man (mostly Polish immigrants) made between 100 000 and 300 000 lire per day ($80–250) and, according to the carabinieri, this led to violent fights over the allocation of the most profitable road junctions. The cleaners were unable to cooperate and thus attracted the attention of the authorities (*la Repubblica*, 2 July 1989).

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4.2 Customers

Not all markets are efficiently allocated by territory. For instance, dealers may congregate in one location, as in wholesale markets, or agents may be highly mobile and unpredictable, as, for example, taxi drivers and, as noted by Schelling, burglars, who are both mobile and, as a matter of trade, invisible (Gambetta, 1993: 220–35). Furthermore, geographical divisions are not always satisfactory because profits may be so unevenly and unpredictably distributed (e.g. because of differences in regional patterns of development) that some cartel members perceive the continuation of the agreement as inequitable. An alternative solution consists in sharing customers: cartel members, in other words, agree not to accept or seek business from customers who are currently served by another member of the cartel. Where feasible, customer allocation dominates the other rules. Violations are easily detected within a short period of time and almost automatically because if a cartel member provides service to the customer of another member, that member will be aware of the loss of business of that customer. Moreover, selective sanctions can be applied by aggressive solicitation of the violator's customers.

The rule is also equitable and simple to apply. It gives to each participant what he thinks of as his already, namely his existing customers. It does not require other forms of cooperation which leave paper trails for investigators. Members can charge different prices and provide different qualities of products, though there may be limits on the variation depending on the ease of comparison by customers. This type of sharing is particularly attractive if customers are 'fixed in location and the service or good is delivered to [them]' (Reuter, 1987: 7) for policing is simpler. More generally, it is successful if the conditions permit an easy way to identify customers and keep track of their movements. When customers are big, for instance, they are easily shared between suppliers: A works for the electric company, B for the water company and so on.

This applies to the wholesale fruit and vegetable market too in Palermo. In fact, although most daily transactions now take place competitively, there is an exception which still provides mafiosi with an opportunity to exert their influence. A group of six or seven *commissionari* – those said to be of 'greater respect' – collude over the contracts taken out by institutions, such as schools, hospitals, barracks and old people's homes. Each *commissionario* supplies specific institutions and the problem of competition is eliminated radically: by common agreement only one *commissionario* shows up at each tender. Relative to private customers, public institutions are fewer, take out longer-term contracts, buy fixed quantities, are generally slack about quality, careless about price and

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corruptible. In short, they are easy to share. The small number of participants, as well as the availability of sanctions – they share the same crowded market area and could easily make life difficult for each other – are such that this agreement could in principle do without outside assistance, although some evidence suggests that this is not the case (Gambetta, 1993: 206–14).

Under customer allocation agreements, customers effectively become part of the supplier's assets; they are internalised and are in some instances traded like any other form of property. Carters in the New York metropolitan area (Long Island, New York City and New Jersey) buy and sell customers both individually and in groups. The prices of those customers, roughly 40 times their monthly gross billings in the early 1980s, provide the basis for estimating the capitalised value of the allocation agreement (Reuter, 1987: 48–51).

4.3 Queues

Sharing customers, however, can prove arduous. There may simply be too many of them around, or they may be too occasional or too mobile. In short, they can be difficult to identify: how could, say, restaurants share tourists or petrol stations share motorway drivers? Until the mid-1950s, when *commissionari* were very few at the fruit and vegetable market in Palermo, some ordinary customer sharing went on. Since both customers and sources of supply have increased, however, these arrangements have been abandoned. One strategy for dealing with these problematic markets involves taking turns. Provided customers can be funnelled through particular locations, queueing can help. The obvious case is that of taxis who line up at stations and airports.

Sharing customers is also meaningless if there is only one buyer, or, more generally, if there are fewer buyers than sellers. If there is just one buyer, queueing can work if purchases are repeated: sellers can then enter a (metaphorical) line and share the market on this basis. One common method of collusion found among building contractors in Sicily runs as follows: firms A1, A2, A3, ... agree that, say, A2 should obtain the contract; the others bid artificially high prices so that A2's offer is certain to be the lowest. There are certain prerequisites for a deal of this kind to work: first, only firms in the cartel can participate while free-riders must be excluded. Next, A2 must be confident that none of the other firms will submit a competitive bid at the last minute. In turn, A1, A3 ... require guarantees that A2 will return the favour on a future occasion and entrepreneurs therefore keep careful records of who obtained which contract. Where a contract is publicly bid on a repeat basis, the cartel may

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instead allocate a contract to one firm, with others designated to provide 'courtesy' bids as camouflage for the arrangement. That behaviour has been observed among the carters in both New Jersey and Long Island. These rights can be permanent enough for the contracts to be sold from one carter to another.

5 Conditions of Emergence

The ideal strategy from the entrepreneurs' point of view is to collude without paying protection money to the mafia, but this works only so long as everybody follows the rules and everybody believes it. Sometimes, racketeers can be called in simply *ex post facto* to provide a one-time service: once, in the late 1970s, according to a Sicilian building contractor, two firms suddenly defected and went after a forbidden contract so that 'the man of respect was called in and persuaded them to withdraw'. But, generally, not much is known about the conditions that foster the *continued* presence of the mafia in legitimate industries. In the United States the phenomenon of racketeer-influenced industries, despite a substantial journalistic interest, has attracted little scholarly attention. As for Sicily, research on this topic is virtually non-existent.

There seems to be just one known case, the waterfront industry in New York, in which the presence of racketeers qualifies as 'pure extortion'; and even so, employers take advantage of their presence to control union members (Reuter, 1987: vii; Bell, 1960). But existing studies – e.g. Landesco (1929), Block (1982), Reuter, Rubinstein and Wynn (1982), Reuter (1987) and Gambetta (1993) – found evidence that competitors seeking a collusive solution to market problems provide racketeers with the opportunity to acquire a role in their industry. Racketeers can enter 'by invitation' rather than on their own initiative. Recent evidence from Sicily illustrates this case. Baldassare di Maggio, a mafioso who turned state witness in 1992, said that Angelo Siino, a building contractor, 'came to me and said that if ... we, that is Cosa Nostra, were capable of coordinating the bids we could get much bigger profits. ... In that first stage, Cosa Nostra's problem was that of making [Siino] credible in the eyes of other contractors' (*Panorama*, 11 April 1993). In order for collusion to succeed, the organisational force of the cartel must be credible: every participant must respect the agreement and in turn confidently expect that his moment to bid will come and that others will respect it. Cosa Nostra supplies these guarantees. A surveyor involved in the same enquiry said that the mafia intervenes as 'an organization which takes care of the

way in which the various jobs are equitably distributed among the interested firms' (*la Repubblica*, 28 October 1992). In the interrogation which originally started this enquiry in 1990, the former Mayor of Baucina, near Palermo, summing up the role of the mafia, said that the local mafiosi 'oversaw the fair distribution of contracts among firms participating in bids' (*la Repubblica*, 14 April 1990).

There is a parallel with New York: federal prosecutors in the case United States vs. Salerno in 1985 proved that 'the Cosa Nostra families established a club of concrete contractors who decided which contractor would submit the lowest bid on each project; other cartel members prepared their complementary bids accordingly. The "lowest bid" was far higher than the price that fair competition would have produced' (New York Organized Crime Task Force [OCTF], 1988: 11, fn. 17).

In general, racketeers offer the prospect that the conspiracy will work, simply because they provide credible enforcement. Large-number cartels appear generally to have short lives because there is always an incentive for a member to leave the agreement and take advantage of the restrictions imposed on the remaining members (Scherer, 1970: Ch. 6). Potential conspirators are aware of this and may be reluctant to enter into an arrangement that is probably short-lived as well as illegal. By promising to take illegal but effective actions against defectors, racketeers provide potential members with credible assurance that it is likely to be of lasting benefit.

But the racketeer involvement has another benefit, once it becomes known. It reduces the willingness of customers to protest the high prices charged under the agreement or to solicit competing bids from other dealers, tempting violation. Note that the customers in the commercial sector of the carting industry in New York include major corporations competent at understanding and exercising their rights. The unspoken threat, perhaps occasionally articulated in a vague way, that aggressive action may be punished by mafia interventions, smooths customer relations for the cartel members. Given the small share of total costs associated with garbage collection, and the fact that rivals are also believed to be extorted, risky resistance is unlikely to be an attractive option. The New Jersey State Commission of Investigation (1989) noted that one carter told a reporter that a story about racketeer involvement in the industry would only help his business.

Finally, racketeers provide a reputational barrier to entry. Entrants must be concerned that they will be the target of retaliation by racketeers. Their trucks and stores may be destroyed and their customers threatened or actually subject to violence. This was certainly the case when the

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Brooklyn District Attorney's Office started a carting firm in 1972, as part of an undercover investigation of the industry.

Collusion alone, however, is not in itself a sufficient cause. There is no evidence of mafia control among large corporations – steel, automobiles, chemicals, rubber (Bell, 1960: 176; Reuter, 1987: 7). Entrepreneurs of this calibre can probably count on political collusion and, more generally, grander means than the mafia (e.g. Friedman, 1988). Nor does it develop in hi-tech industries. For markets to be vulnerable to the mafia, collusion must be both highly desirable and difficult to bring about. The former condition depends on inelastic demand and little product differentiation, whereas the latter is due to impediments such as numerous firms and low barriers to entry (Reuter, 1987: 6).

Even when all the right conditions obtain, however, a triggering event often seems necessary to attract racketeers. Slumps in the economy, for instance, can provide the activating force: in the United States during the Depression, an extraordinarily deep and rapid decline in demand intensified the incentive for collusive action and related services. The need for cash becomes an important factor: Lucky Luciano, a leading mafioso during the Depression, claimed:

> [W]e gave the companies that worked with us the money to help them buyin' goods and all the stuff they needed to operate with. Then, if one of our manufacturers got into us for dough that he could not pay back, and the guy had what looked like a good business, then we would become his partner ... we actually kept a whole bunch of garment manufacturers alive, and we helped all them unions, the Ladies' Garment Workers and the Amalgamated, organize the place.
>
> (Gosch and Hammer, 1975: 77–8)

Racketeers' intervention can also be sparked off by the sudden greed of one of the cartel participants. Funeral homes in Naples, for instance, shared hospitals for many years without outside intervention: firm A was responsible for the deceased in hospital X, B for those in hospital Y, and so on. They managed to keep the number of firms surprisingly low: while in Turin there are 50 firms for 1 million residents and in Rome 70 for 2.8 million, in Naples a population of 1.2 million is supplied by only 13 firms. The cartel achieved these impressive results with the assistance of corrupt local politicians and administrators who rejected new applicants. But collusive arrangements remain exposed to the risk of foundering and hence to the temptation to call in the mafiosi. At the end of the 1970s one firm tried to increase its share by enlisting the protection of an aggressive

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Table 4.1 Conditions favouring the emergence of mafia-controlled cartels

Product differentiation	Low
Barriers to entry	Low
Technology	Low
Labour	Unskilled
Demand	Inelastic
Number of firms	Large
Size of firms	Small
Unionisation	Present

gang, La Nuova Camorra Organizzata. The other funeral homes attempted first to repel the move 'politically', then called in rival racketeers, who did not limit themselves to providing a one-time service but decided to continue levying a protection fee even after the triggering event had been sorted out. A similar case is found in the New Jersey garbage collection industry; there, however, the aggressive carter was not backed by outside racketeers and the other carters successfully opposed his attempts to expand by 'political' means alone.

According to one Sicilian contractor, mafioso intervention is much favoured by submissive expectations and can therefore be avoided; he himself had coordinated queues, ostensibly without being a mafioso. By yielding too quickly to the mafia – he claimed – one loses the respect which may otherwise be sufficient to control collusion: 'a lot of entrepreneurs end up in the arms of the mafia simply because they believe it is inevitable'. In New York the OCTF also found, in its investigation of the building industry, that 'sometimes contractors claim not to know exactly why they pay; experience tells them that payoffs are necessary to assure that "things run smoothly" ' (1988: 17). The stronger the rumour that mafia services are indispensable in a certain market or area, the higher seems the likelihood that they will be requested or accepted without question.[5] In addition, institutions looking for builders may themselves feel lost without an outsider to choose for them for no-one wants to take responsibility for the allocation: in at least one case the contracting agent in Sicily actively sought the intervention of an external fixer when the latter was slow in coming forward autonomously.

6 Consequences

Although it is difficult to establish *ex post facto* whether a given collusive arrangement could have emerged without the involvement of the mafiosi,

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the availability of mafia services generally makes collusion more likely, more elaborate and more enduring. Thus, not only do collusive arrangements sustain the mafia, but the availability of mafia protection also provides an incentive to seek collusive solutions.

Agreements supervised by mafiosi can embrace larger numbers of both dealers and customers: in the New York carting industry, for instance, in which racketeers played a continuing role in the operation of the allocation agreement, primarily through the constant need to mediate disputes, the cartel involved the allocation of over 100 000 customers to as many as 300 carters (Reuter, 1987: 11). The greater the number of firms the harder it becomes to ensure that they all keep their word. An Italian building contractor spoke of a 'queue' of as many as 160 firms. It took a great deal of patience and manoeuvring before he eventually succeeded, as he put it, in 'buying' a contract: 'it is obvious that to safeguard agreements of this size one needs the threat of violence'. This threat was not supplied by an entrepreneur belonging to the cartel; at most 'he owns a few caterpillars'. Without such a threat, as the OCTF in New York also found, 'bid-rigging conspiracies may founder because the conspirators are unable to police their cartels effectively' (1988: 38).

Irrespective of the method adopted, the general consequences of restrictive practices, as Reuter argued, are threefold: less efficient production, higher prices, and smaller firms.

> Less efficient production is engendered by the reduced incentive for lowering production costs; a firm cannot obtain an increase in market share by lowering costs, since all existing customers are allocated. ... The agreement also permits inefficient firms to stay in the market and prevents efficient firms from growing. The higher prices result directly from the imposition of restraints of trade. ... In each dimension, the effect is likely to be greater for a racket-run cartel than for other cartels.
>
> (Reuter, 1988: 7)

The first victims of collusion are consumers who end up purchasing lower-quality goods for higher prices. Potential competitors come next: successful collusion makes it almost impossible for outsiders even to contemplate entering an industry, and overt intimidation becomes redundant. This is why the enforcement of internal agreements is much more important than the brutal discouragement of rivals, even though the lack of entrepreneurial energy in the south of Italy makes the function less important there. Finally, since racketeers increase the confidence of participating entrepreneurs that the cartel will endure, incentives for

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efficient production are even more sharply reduced than they would be in a conventional cartel, where certainty about future success is always limited and the probability of imminent competition never vanishes.

The depressing effect on quality caused by mafia involvement can go further, especially in Sicily where inter-mafia conflicts have been more common than in the United States. The operation of the mafia is based on its reputation for effective contingent violence but that does not mean that actual violence is unknown. Both in New York and Sicily an occasional killing or act of violence has been required to discipline a cartel member. Though these acts are situation specific, they also serve to enhance the reputation of the mafia and augment the reputational barrier. However, when such acts of violence become 'too' frequent because of internecine wars – in Sicily during the 1980s several entrepreneurs died in the crossfire (Gambetta, 1993: 191–4) – the barrier becomes so strong that those very few who venture to take up entrepreneurial activities must be selected from risk-prone individuals who both have little chance of an alternative (and less dangerous) career and are already tightly connected with a mafia family. Even discounting for the lack of incentives for efficient production enjoyed by mafia-protected cartels, this group is most unlikely to contain characters versed in proper entrepreneurial tasks.

7 Conditions of Disappearance

Again we note that our set of case-studies is too small and diverse for the development of general propositions. The examples are interesting in themselves, however, as pointing to the variety of circumstances that can lead to the demise of mafia control. The fruit and vegetable market in Palermo is now largely competitive. Agents appear more concerned with quality than with establishing or violating collusive deals. The threat of violence seems as remote as in any normal business environment. Local authorities can take none of the credit for the market's evolution: 'The contacts which our group had with the present Mayor and the assessore all' 'Annona', concluded the Anti-Mafia Parliamentary Commission in 1969, 'gave us the impression, increasingly so, of lack of both interest and information, often coupled with open irritation towards those trying to unsettle a status quo which was not altogether disliked'.[6]

For years local authorities tolerated unfair dealing: for instance, an area of the market designated for use by producers selling without the intervention of middlemen was invaded by the most powerful *commissionari* who then cheekily levied a 10 per cent charge from farmers

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wanting to share it. In 1969 the Commission asked the Mayor why an area adjacent to the market was left unused instead of being developed into further stands. The Mayor replied that it was the site of a church that could not be demolished because of its artistic value. A letter of inquiry to the Soprintendenza delle Belle Arti of Palermo went unanswered. The members of the Commission went to see for themselves: they found a small chapel of no aesthetic merit being used as a garbage dump. In the same period, beautiful buildings, such as late nineteenth-century villas by Basile, were ruthlessly demolished in Palermo to make room for urban speculators (Chubb, 1982: Ch. 6).

It was thanks to the central authorities, the Prefects and the Anti-Mafia Commission, that the process of expansion, already to some extent 'naturally' under way, was accelerated. The present director of the market concedes that the Palermo Prefect's policy of increasing the availability of permits was crucial in alleviating the troubles of the market. Permits rose particularly during the 1970s until the last increment, in 1981, brought the number of licences to 77.

Yet, if the action of public authorities were the sole factor which brought about competition, why has the same process not occurred at the fish market? The answer lies in the diverse nature of the commodities involved. The supply of fresh fish is constrained both by limited natural resources – which are either unaffected or depleted by technological development – and by the fact that it is channelled through a limited number of clearly identified ports. Fishing firms, furthermore, are fewer and easier to control than farmers. In the fruit and vegetable trade the sources of supply are both many and widely scattered, and transport routes and delivery points outside the wholesale market can multiply unnoticed.

The rapid increase in agricultural productivity and conservation techniques after the war, as well as the improved efficiency of transport, accentuated these differences and made it virtually impossible to monopolise produce. The only example of collusion mentioned by the Commission involving *commissionari* and their emissaries concerns a case in which distribution is forced through a bottleneck: by controlling the boats linking the small island of Pantelleria to the main island, a group known as L'Associazione made sure that the local cooperative sold the zibibbo grape exclusively to them. But, in general, monopolies were already being eroded in the 1960s because, according to the Parliamentary Commission, 'wealthy wholesale and retail dealers collect directly from northern Italy and introduce ever-increasing quantities of good fruit for consumption'.

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A further bottleneck has also been broken. Before the rural Casse di Risparmio started to function properly, credit was in the hands of the 'man of respect'. Producers who wanted credit were obliged to sell their goods to him. As sources multiplied credit no longer had the same kind of strings attached. It is now granted sparingly to customers rather than producers and is a means of fostering competition rather than enforcing collusion. Creditors are less inclined to resort to violence against insolvent debtors lest other clients are diverted to more benign rivals.

There are also instances of the New York mafia losing its influence in industries. The trucking industry, in which the mafia notoriously had acquired influence throughout much of the nation through the instrumentality of the Teamsters Union (three of whose presidents have been convicted of corruption), now seems to be much less subject to that influence. Two factors may have been significant here; deregulation of the industry (which reduced the power of the union) and aggressive and imaginative prosecution of the Teamster leadership (which resulted in a reform leadership being installed at the beginning of the 1990s).

However, most targeted efforts to remove the mafia from specific industries in the United States have been generally unsuccessful. In response to concerns about the role of the mafia (and lack of competition) in the carting industry in New Jersey and New York City, the industry has been subject to regulation (since 1956 in New York City and since 1968 in New Jersey). A flow of cases shows that the regulation has been utterly ineffective in New York City; the evidence concerning New Jersey is less clear but anti-competitive agreements, perhaps with mafia involvement, have been alleged as late as 1988. The regulatory apparatus had indeed become one of the tools for the operation of the customer allocation agreement. The regulators allowed the sale of customers and, through inflexible price rules in New Jersey, provided the basis for contesting new entry.

8 Prices and Profits

The returns to participants in these cartels are difficult to determine. The available data are best for the carting industry, where customers are treated as assets and frequently bought and sold by the participants (Reuter, 1987).

The little we know of the charges by mafia members for their services suggests that, at least where the relationship with the industry is stable, those charges are surprisingly modest, indeed well below extortionate levels. In the Long Island carting industry in the mid-1980s it appeared

that the mafia took no more than $400 000 annually in tribute, though the estimated profits accruing to the carters was over $10 million. The mafia-run concrete cartel in New York City levied only 2 per cent of the contract price for its services in fixing prices. As for Sicily we have the following evidence: in 1993, Baldassare di Maggio, a *pentito* we encountered already, describing the mafia's role in organising bid-rigging in construction, reported that they kept 5 per cent; 3 per cent was for the mafioso organisation and 2 per cent was given to Siino to pay the politicians that were paid as part of the overall agreement.

The fact that customers of carters are sold at such high prices in inter-carter transactions provided evidence that the primary beneficiaries of the agreement in that industry were the carters themselves. If the mafia taxed away all the returns from the agreement, then customers would have no greater value than they would in a competitive industry; in fact they sold for a very substantial mark-up over the competitive price.

We can offer no convincing explanation for these observations. If the mafia were marketing its cartel-organising services, then these might be seen as prices intended to maximise their profits over the entire market for such services. However, the peculiar lack of mafia entrepreneurialism – no new industries have been identified as being subject to mafia control over the last decades – weakens this supposition. Nor does it seem that the mafia lacks information about the profits generated to other actors in this business. Access to accounts of member enterprises is certainly not a problem in the New York markets in which the organisation is active. Finally, we do not believe that these prices are set so as to minimise the risk of aggressive informing by other participants.

9 Conclusions

We make no claim to have identified all the relationships between the mafia and legitimate enterprises. The casino industry in Nevada, where the mafia interest was confined to tax fraud, debt collection from bettors, and some backruptcy scams involving capital from the Central States Teamsters pension fund, represents a very different situation. On the waterfront, in New York and Florida, the mafia seems to have used its power, again through the instrumentality of a union, to extort shippers, carriers and those providing services on the docks. In neither of these industries has it acted to suppress competition on a continuing basis. Yet, we believe that the phenomenon described in this chapter is one that has received too little attention. The suppression of competition is a near-universal dream of established entrepreneurs. The mafia is one of the few

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non-governmental institutions that can help accomplish this goal. Our impression, based on a limited set of examples, is that once the mafia has entered, its success in meeting the needs of its customers, as well as its unique reputational asset, makes the reintroduction of competition extremely difficult. The phenomenon observed here may be just a generalised form of the Stigler–Peltzman theory of state regulation (Stigler, 1971; Peltzman, 1976). The state is unable or unwilling to meet the demand of entrepreneurs for profit-enhancing and risk-reducing regulation; the mafia provides the service instead.

The phenomenon is perhaps of more analytical than policy interest, since there are signs that it is now receding, mainly because the mafia itself appears to be diminished in power in both countries. In the United States the results of a continued federal campaign have led to the conviction and long-term imprisonment of much of the leadership. In Sicily too the mafia never had it so bad and is now under unprecedented state pressure: virtually all mafiosi who sat in the mafia 'governing body', known as La Commissione, are now in jail. Mafioso assets worth 3500 billion lire were seized by customs police in 1992 alone. At the same time a new crop of mafiosi turning state witnesses has been growing and their revelations are leading to further arrests and repressive actions.[7] Mafia reputation may be, initially at least, little diminished by these imprisonments, but its ability to venture into new fields is probably limited by the inexperience of, and instability in, the new leadership. Furthermore, the current dramatic political changes in Italy are likely to decrease the opportunities for political corruption and bid-rigging which used to provide the major outlet for mafia-regulated cartels of building contractors. Finally, some of the market conditions that (jointly) facilitate mafia entry as a cartel organiser - such as low technology, unskilled labour and unionisation – occur less frequently now than when it acquired its influence over industries, mostly between 1920 and 1950.

The prospects for increasing our understanding of the phenomenon are being enhanced by the very forces that are diminishing the mafia's powers. Certainly the trials of the major families in both Sicily and various American cities (including Boston, Chicago, Kansas City and New York) have provided a wealth of detailed information on the relationship between the mafia and their legitimate clients which awaits analysis.

Notes

1 Here we prudently use the term mafia as referring to the Sicilian mafia, also known as Cosa Nostra, both in Italy and the United States. Whether other broad and enduring criminal organisations supply the same service is a matter for empirical analysis to establish.
2 A curious case of failure of cooperation due to difficulties of both policing and sanctioning is represented by radio taxis in Palermo (see Gambetta, 1993: 220–5).
3 Carting is the term used to describe the collection of solid waste, whether from households or commercial establishments. It does not include the collection of hazardous waste, where different possibilities exist for collusion and fraud.
4 'Up to perhaps six firms one has oligopoly, and with fifty or more firms of roughly similar size one has competition; however, for sizes in between it may be difficult to say.' This is the rule of thumb offered by James Friedman's textbook (1983: 8).
5 This is analogous to the argument which holds that widespread corruption is self-generating: the expectation suffices to produce more of the thing itself (Andvig and Moene, 1990).
6 The case of this market is illustrated in full in Gambetta (1993: 206–14).
7 For a full assessment of the mafia's prospects in Sicily see the new introduction to the second Italian edition of Gambetta's *The Sicilian Mafia*, published by Einaudi (Torino) in 1994.

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James B. Jacobs and Ellen Peters

Labor Racketeering: The Mafia and the Unions

ABSTRACT

The labor movement and its members have long suffered from extortion, thievery, and fraud. Corrupt labor officials have used union power to extort money from businesses. Labor racketeering has been a major source of the Cosa Nostra crime families' power and wealth since the 1930s. Nonetheless, combating labor racketeering did not become a federal law enforcement priority until Jimmy Hoffa's assassination in 1975. The U.S. Department of Justice, beginning in the early 1980s, brought or threatened civil racketeering lawsuits against numerous mobbed-up locals and four international unions. These lawsuits led to an unprecedented effort by court-appointed monitors and trustees to purge the corrupted unions of racketeers and racketeering and to reform the unions.

When John L. Lewis, former president of the United Mine Workers (1920–60), observed that "Labor, like Israel, has many sorrows" (*United States v. Local 560, IBT*, 581 F. Supp. 279 [1984], p. 279), he was referring to the long history (even then) of corruption and racketeering that has plagued the American labor movement. Likewise, the labor leader David Dubinsky called labor racketeering "a cancer that almost destroyed the American labor movement" (Dubinsky and Raskin 1977, p. 145). Robert F. Kennedy, who served as general counsel (1957–60) to the Senate Select Committee on Improper Activities in the Labor Management Field (McClellan Committee), warned that labor racketeering was a threat to society generally, and he made labor

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racketeering (especially Jimmy Hoffa) a top Justice Department priority when he became attorney general in 1961 (Kennedy 1960). No other country has a history of union-related criminality approaching what has been exposed in a century-long litany of scandals, articles by investigative journalists, governmental hearings, prosecutions, and lawsuits.[1]

"Labor corruption" refers to the misuse of union office and authority for unlawful personal gain. The immediate victim may be an employer or the union itself, but the ultimate victim is always the union rank and file. "Labor racketeering" refers to labor corruption committed by, in alliance with, or under the auspices of organized crime groups.[2] Labor racketeers include members or associates of organized crime groups, some of whom hold union offices, as well as union officials who work on behalf of organized crime. Common criminal offenses subsumed by the term "labor racketeering" include extortion of employers by threatening unlawful strikes, work stoppages, picketing, and workplace sabotage; soliciting and receiving bribes from employers in exchange for allowing the employer to ignore the terms of the collective bargaining agreement ("sweetheart deal") or for a guarantee just to be left alone ("labor peace"); thefts and embezzlements from the union and its pension and welfare funds; violence against rank-and-file "dissidents"; and the maintenance of illegal employer cartels by threatening to strike or sabotage businesses that are not cartel members (New York State Organized Crime Task Force 1990, pp. 131–43).

There has been sporadic recognition of labor racketeering as a crime problem and a social problem since the beginning of the twentieth century. Congressional hearings gave the matter unprecedented publicity in the late 1950s, but there was no concerted political or law enforcement commitment to attacking the problem until the late 1970s and well into the 1980s. By then, the Federal Bureau of Investigation (FBI) and the U.S. Department of Justice (DOJ) had come to see the

[1] It need hardly be added that focusing on labor racketeering as a crime problem is no more an indictment of the vast majority of union officials and members than focusing on corporate crime is an indictment of the vast majority of businessmen.

[2] In his classic *Organized Crime in Chicago* (1968), first published in 1929 (by the Illinois Association for Criminal Justice), John Landesco provided a great deal of information and commentary on labor racketeering. One of the earliest studies of labor racketeering is Harold Seidman's (1938) *Labor Czars: A History of Labor Racketeering*. Probably the most famous early study was Daniel Bell's classic, "The Racket-Ridden Longshoremen," originally published in *Fortune Magazine* (1951) and then reprinted in *The End of Ideology: On the Exhaustion of Political Ideas in the Fifties* (1962). See also Taft 1970; Hutchinson 1970.

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eradication of labor racketeering as the centerpiece of a comprehensive organized crime control strategy. The FBI devoted massive resources to investigating Cosa Nostra's control over a score of local unions and a number of major national/international unions.[3] The federal organized crime strike forces and the U.S. attorneys began bringing civil racketeering lawsuits against labor racketeers with the goal of having federal courts issue injunctions requiring wide-ranging union reforms, including the purge of racketeers and the restoration of union democracy (Goldberg 1989).

The most successful of these civil Racketeer Influenced and Corrupt Organizations Act (RICO) lawsuits have demonstrated the capacity of federal courts, when supported by courageous and creative former prosecutors serving as court-appointed trustees, to effectuate impressive institutional reform in thoroughly racketeer-dominated unions. Hundreds of criminals have been purged from union positions, fair election procedures have been instituted, and fundamental changes in union governance and operations have been adopted. But the path to reform has not been easy, and it has not been unidirectional. Many civil racketeering suits have failed to root out racketeering and to achieve fundamental union reform. Each lawsuit, and especially each trusteeship, has approached its challenge afresh. There has yet to emerge any systematic body of knowledge about what works and what does not work for trustees and monitors, operating under court auspices, charged with the task of rehabilitating unions that have been corrupted and devastated by decades of mob dominance. Thus, there is a crying need to document and analyze the efforts that have so far taken place in order to refine and improve anti-labor-racketeering and union reform strategies for the future.

This article has three goals. First, it seeks to make a case for taking labor racketeering seriously, indeed as an important form of systematic criminality that festers in one of society's key sociopolitical institutions. Second, this article begins to document and analyze the federal government's remedial efforts to purge organized crime from the four most corrupted international unions. Third, it attempts to find a theoretical place for labor racketeering in academic criminology.

[3] An international union has affiliated locals in Canada as well as the United States. National and international unions differ with respect to how centralized they are. Some unions permit their local affiliates wide-ranging independence while others seek to monitor and manage their locals. Most national and international unions are members of the AFL-CIO, a labor federation that lobbies on behalf of the labor movement.

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Section I of this essay sketches the history of labor racketeering up until the early 1980s, when the President's Commission on Organized Crime (PCOC) took stock of the problem. Sections II–V present PCOC's assessment of labor racketeering in the International Brotherhood of Teamsters (IBT), International Longshoremen's Association (ILA), Hotel Employees and Restaurant Employees International Union (HEREIU), and Laborers International Union of North America (LIUNA) as of the early 1980s and then, in each case, document the extraordinary steps taken by the U.S. Department of Justice's Organized Crime and Racketeering Section (OCRS) and the U.S. attorneys to purge those unions and their locals of organized crime racketeering. Section VI begins to sketch out a criminology of labor racketeering.

I. History of Labor Racketeering

In the labor wars from the 1860s through the 1930s, both employers and unions reached out to gangsters to counteract the violence directed at them (Landesco 1968, pp. 132–47). Gangsters also served as a counterweight to communists and leftist elements in the labor movement (Kimeldorf 1988); the gangsters were simply less threatening than communists to some government officials, businessmen, and union leaders. In some cases, once the gangsters gained a foothold, they consolidated their power through intimidation and patronage.[4] Control over a union was immensely valuable to the organized crime bosses, who could steal from the union coffers and extort money from employers. In addition, they could barter union support to politicians in exchange for immunity from investigation and prosecution. Some labor racketeers wielded influence with local political party machines. With ties to the underworld and influence in legitimate society, the labor racketeers became major power brokers at the local level and even at the state and national levels.

In the 1920s and 1930s Arnold Rothstein, Louis Buchalter (aka Louis Lepke), and Jacob "Gurrah" Shapiro were the most powerful labor racketeers in New York City, where they dominated crucial union locals in the garment industry. Through his control of the Tailors and Cutters Union, Lepke extracted millions of dollars from the garment industry. Thomas Dewey, New York City's special prosecutor

[4] The best study of how organized crime achieved a foothold in a union is Howard Kimeldorf's (1988) *Reds or Rackets? The Making of Radical and Conservative Unions on the Waterfront.* See also Philip S. Foner's (1950) *The Fur and Leather Workers Union.*

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for racketeering (and later Manhattan district attorney, New York governor, and twice Republican Party presidential candidate) referred to Lepke as "the foremost labor czar in the U.S." (Sifakis 1987, p. 186). Dewey concentrated a great deal of his prosecutorial attention on labor racketeering, especially in the restaurant sector where an organized-crime dominated union systematically extorted the restaurateurs (Hughes 1940; Dewey 1974; Stolberg 1995, chap. 8). A similar situation existed in Chicago, where Al Capone was the leading labor racketeer of the 1930s (Vaira and Roller 1978).

The repeal of national alcohol prohibition (1933) ended organized crime's monopoly over alcohol and thus made the labor unions more important as a source of revenue for organized crime groups. As early as 1933, the U.S. Senate (Copeland Committee) held hearings on "racketeering," including the role of mobsters within international and local labor organizations (United States Congress 1933). The committee heard testimony about workers who were forced to pay kickbacks to corrupt union officials. The attorney for the American Federation of Labor (AFL) Building Trade Unions Anti-Racketeering Committee explained that the committee had been formed two years earlier by union members concerned "that most of the unions in New York were saturated with rackets" (United States Congress 1933, p. 798). Employers recounted extortion by labor racketeers.

In January 1940, journalist Westbrook Pegler exposed the connection of organized crime figures, especially Dutch Schultz, to George Scalise, president of the Building Services Employees International Union (Witwer 2001). According to historian David Witwer, Scalise

> used his connections with Arthur Flegenheimer, better known as Dutch Schultz, to gain a charter for a Brooklyn branch of Teamsters Local 272, a union of parking garage workers. Unions of parking garage employees attracted gangsters, because organization could most quickly be achieved through selective acts of violence. Damage to cars parked in non-union garages—ice pick punctures to the tires or slashed upholstery—could quickly force an employer to sign his employees into the union. And union organization in turn provided a cover for corralling the businessmen into an employers' organization, whose dues could be tapped by organized crime. In spite of the use of force against employers in such an organizing campaign, this was not a case of out and out extortion; employers enjoyed real benefits. This kind of collusive arrangement between a union and an employers'

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> organization offered owners a way to manage competition. Employers' associations could set uniform rates and limit the entrance of new competitors. (Witwer 2001, p. 1)

Daniel Bell's article, "The Racket-Ridden Longshoremen" (first published in *Fortune Magazine* in 1951 and later as a chapter in *The End of Ideology*, 1962) provided a detailed picture and penetrating explanation of racketeering in the International Longshoremen's Association (ILA), where union bosses forced longshoremen to make payoffs in order to work, and shippers had to pay to have their cargo unloaded. This was brilliantly dramatized in Elia Kazan's classic 1954 film *On the Waterfront* (starring Marlon Brando, Eva Marie Saint, Karl Malden, Lee J. Cobb, and Rod Steiger), based on Budd Schulberg's screenplay and on Malcolm Johnson's 1949 Pulitzer Prize–winning *New York Sun* series, "Crime on the Labor Front" (Johnson 1950). In 1953, the AFL expelled the east coast ILA, citing organized crime domination, and formed a competing union, the International Brotherhood of Longshoremen. The effort failed. The AFL and the Congress of Industrial Organizations (CIO), which combined in 1955, admitted the ILA to membership in 1959. Also in 1953, Congress enacted an interstate compact that permitted New York and New Jersey to establish the Waterfront Commission of New York Harbor, which was authorized to regulate waterfront business activity and labor relations.[5] The Waterfront Commission replaced the infamous "shape up" (whereby the union bosses picked out who would work that day from the men assembled on the pier) with a hiring system that licensed longshoremen, assigned them to jobs, and guaranteed them an annual wage. It also ended the "public loading" racket, by which the ILA required truckers to make payoffs in order to have cargo loaded or unloaded from their vehicles at the piers, even if the service was not needed (Jensen 1974).

Since the 1940s, Italian-American Cosa Nostra organized crime families have dominated in labor racketeering and organized crime generally (Sifakis 1987; Fox 1989; Abadinsky 1990). Some Cosa Nostra labor racketeers achieved enormous local, regional, and even national prominence, including economic power and political clout—for example, Joseph "Socks" Lanza, Albert Anastasia, Anthony "Tony Pro"

[5] The Supreme Court upheld the constitutionality of the legislation creating the Waterfront Commission in De Veau v. Braisted, 363 U.S. 144 (1960).

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Provenzano, Johnny (Dio) Dioguardi, Al Pilotto, Anthony Scotto, Ralph Scopo, and Vincent DiNapoli. The close links between some of the nation's most powerful labor leaders and the organized crime families are by now well documented through the prosecutions of labor officials like IBT's Bernard Adelstein, Frank Fitzsimmons, Roy Williams, and Jackie Presser; by prosecutions of mob figures who also held positions in labor unions like Vincent DiNapoli (United Brotherhood of Carpenters and Joiners), Ralph Scopo (LIUNA), and Thomas "Teddy" Gleason (ILA); and by prosecutions of organized crime bosses like Tony Salerno, Mathew Ianniello, and Carmine Romano of New York; Tony Accardo, Joseph Lombardo, Joseph Aiuppa, and Paul Ricca in Chicago; Nick Civella in Kansas City; Raymond Patriarcha in Boston; and Nicodemo Scarfo in Philadelphia.

Labor racketeering received national political attention in the U.S. Senate's 1950–51 Kefauver hearings. These nationally televised hearings introduced the citizenry to Frank Costello, Albert Anastasia, and other top mafia bosses (Kefauver 1951). Senator John McClellan, chairman of the Senate Select Committee on Improper Activities in the Labor or Management Field, held comprehensive hearings from 1957 to 1959 (Kennedy 1960; United States Congress 1960; McClellan 1962). (The creation of the committee was at least partly a result of the journalist Victor Reisel having been blinded with acid after publishing articles exposing labor racketeering; authorities believed Johnny Dio was behind the attack.) While the committee was frustrated by inadequate resources and the refusal of many witnesses to answer questions on Fifth Amendment grounds, its hearings illuminated and dramatized extensive labor corruption and racketeering and led directly to passage of the Labor Management Reporting and Disclosure (Landrum-Griffin) Act in 1959.

Landrum-Griffin sought to protect unions from organized crime penetration by banning persons with criminal records from union office, making embezzlement from a union a federal crime, prohibiting unions from issuing loans to their officers or paying their fines, strengthening the democratic rights of rank-and-file members (including fair elections), imposing reporting and disclosure requirements on unions and criminal penalties for false reporting, and providing union members access to federal courts to enforce their rights (29 USCA sec. 401, et seq.; Summers, Raub, and Benson 1986). Unfortunately, the law failed to achieve its aims because of weaknesses in the enforcement mechanisms, the hostility of the mainstream labor movement, and the

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U.S. Department of Labor's (DOL) inability or unwillingness to enforce the law vigorously (Rauh 1971; Nelson 2000).

During the presidency of George Meany (1955–79), the AFL-CIO attempted to oppose racketeering in some of its affiliated unions. For example, the first AFL-CIO convention (1956) established a Committee for Ethical Practices to assist the executive council in keeping the federation free of corruption (Taft 1964, p. 696). The committee ultimately drafted six codes of ethical practices. The AFL-CIO was given the authority to investigate its affiliates' internal activities and to expel a union for failing to abide by the codes. In 1957, the federation expelled the Teamsters, and during the late 1950s it demanded reforms in several other unions, temporarily suspending their memberships until blatant corruption was addressed.[6] After the early 1960s, the ethical practices committee never met, and the AFL-CIO ceased playing any significant role in opposing corruption and racketeering in its affiliated unions.

When Robert F. Kennedy became U.S. attorney general in 1961, he made the prosecution of IBT president Jimmy Hoffa his number one priority (Kennedy 1960; Navasky 1971). He expanded the Department of Justice's Organized Crime and Racketeering Section and turned a spotlight on labor racketeering (Goldfarb 1995).

Hoffa was convicted of union pension fund fraud and jury tampering (1964) and was sent to prison in 1967, but he managed to obtain a pardon from President Richard Nixon in December 1971 (Brill 1978; Moldea 1978; Crowe 1993). Although the pardon banned him from union politics for fifteen years, Hoffa immediately began litigating and campaigning to reclaim the Teamsters' general presidency from his former protégé, Frank Fitzsimmons, whom Hoffa had selected as a caretaker. Cosa Nostra had become comfortable with Fitzsimmons and distrusted Hoffa, who now denounced Fitzsimmons as a mob puppet. On July 30, 1975, Hoffa disappeared. A mob "hit" was immediately presumed (and is now believed to have been orchestrated by Anthony Giacalone, a leader of the Detroit Cosa Nostra family, and Tony Provenzano, boss of the IBT Local 560 and a member of the Genovese crime family in New Jersey).

Hoffa's assassination mobilized government action against both organized crime and labor racketeering. Within three years, labor racke-

[6] The AFL-CIO took action against the Distillery Workers, United Textile Workers, Bakery and Confectionery Workers, the International Jewelry Workers, and the Laundry Workers International.

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teering became the centerpiece of the FBI's organized crime control strategy (Jacobs, Panarella, and Worthington 1994). The most significant FBI investigations were "PENDORF," which focused on Cosa Nostra control over the IBT Central States Pension Fund and resulted in the conviction of IBT president Roy Williams (who succeeded Fitzsimmons), Joe Lombardo (member of the Chicago Outfit), and Allen Dorfman (the financial associate of the Chicago Outfit) for attempting to bribe U.S. Senator Howard Canon to vote against trucking deregulation; "STRAWMAN," which focused on a conspiracy by four Cosa Nostra families to use the IBT's Central States Pension Fund to secure interests in Las Vegas casinos and to skim profits from those businesses—and resulted in convictions of Joey Aiuppa and Jackie Cerone (boss and underboss of the Chicago Outfit), Angelo La Pietra and Joe Lombardo (Outfit capos), Frank Balistrieri (boss of the Milwaukee family), and Thomas and Milton Rockman (associates of the Cleveland family); "LILREX," which targeted racketeering in New York City's construction industry; and "LIUNA," which focused on Cosa Nostra racketeering in the Laborers International Union of North America. These FBI investigations led to a steady stream of prosecutions of labor racketeers, both organized crime figures and labor officials (Lynch 1987*a*, 1987*b*). Nevertheless, at a Senate hearing in 1978, Assistant U.S. Attorney General Benjamin Civiletti testified that more than 300 union locals remained controlled or heavily influenced by organized crime (United States Congress 1978, p. 77).

The Teamsters' Central States Pension Fund had been the target of allegations of mismanagement and organized crime influence since its establishment in 1955. In 1956 Senator Paul Douglas issued "The Douglas Report," which disclosed the results of congressional investigations that found numerous conflict-of-interest situations in which "insiders" had charged exorbitant fees and profited at the expense of benefit plans and their beneficiaries. Payments from individual union members were routinely skimmed off by plan administrators, and union employees secured positions as employees of the benefit plans while doing little work for high fees. Union officials also received kickbacks from persons or institutions to whom high-risk loans had been granted. In 1958 Congress passed the Welfare and Pension Plan Disclosure Act (WPPDA) in response to the abuses it uncovered. The WPPDA attempted to curb abuses of benefit plans by requiring publication of financial information by benefit plans. Congress believed that disclosure of benefit plan financial information would curb abuses and

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that plan beneficiaries could police the plans themselves. But later investigations found that widespread abuses continued unabated. In 1962 Congress strengthened the WPPDA by adding criminal provisions to address kickbacks and conflicts of interest, and gave the Department of Labor investigatory powers (Coleman 1989).

The 1964 prosecution of Jimmy Hoffa partly involved his receipt of kickbacks in exchange for making benefit fund loans. Organized crime associate Allen Dorfman (an employee of and later a service provider to the fund) was convicted in 1972 of conspiring to receive a kickback for influencing a fund loan. In his 1972 book, *The Fall and Rise of Jimmy Hoffa*, former Kennedy assistant Walter Sheridan charged that "there has been no meaningful monitoring of the Pension Fund by the federal government since Hoffa's conviction in Chicago. . . . Neither the Department of Justice nor the Labor Department followed up in an effective way to determine whether the plundering of the Fund continued" (p. 110).

Organized crime's plundering of union benefit funds was one of the factors leading Congress to pass ERISA (Employee Retirement Income Security Act) in 1974; ERISA gave the Department of Labor authority to investigate pension and welfare funds. A joint Labor and Justice Department investigation of the IBT Central States Fund began in the fall of 1975. The fund, more than 70 percent invested in (mostly Las Vegas) real estate and casinos, was notorious for lending money to organized crime figures and their associates. The IRS sought to revoke the fund's tax-exempt status, leading to a settlement in which twelve of the fund's sixteen trustees resigned, and the fund agreed to hire an independent fiduciary (Equitable Life Insurance Society) to handle investments (United States Congress 1977). While this was an improvement, the corruption and racketeering did not end.

In 1978 Congress established a system of independent inspectors general in all major federal agencies. The inspector general's mission was to combat fraud, waste, and abuse. The Office of Inspector General in the Department of Labor was charged with investigating labor racketeering; this office would play a key role in many of the most important investigations in the next two decades.

In 1980, the Senate Permanent Subcommittee on Investigations, now under the leadership of Senator Sam Nunn, held hearings on the Teamsters (IBT), Longshoremen (ILA), Laborers (LIUNA), and the Hotel and Restaurant Workers (HEREIU) (Nunn 1986). These hearings revealed widespread looting of pension and welfare funds by

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labor racketeers connected to organized crime. The subcommittee criticized the Department of Labor for having failed to investigate vigorously and prosecute this wrongdoing. It also proposed "The Labor-Management Racketeering Act," which required that pension and welfare plan officials be removed immediately from office on conviction of certain felonies rather than remaining in office until the exhaustion of appeals; the bill, which finally passed in 1984, authorized DOL to investigate and refer evidence of criminal activity to DOJ.

Although investment decisions had been taken out of the hands of the trustees of the IBT Central States Pension Fund by the 1975 settlement agreement, the trustees were still permitted to purchase goods and services for the fund, to administer pension benefits, and to handle money from the time it was paid into the fund each month to the time (approximately thirty days later) it was deposited with the institutional fiduciary. In 1982, DOL filed a lawsuit against all current and former trustees of the IBT Central States Pension Fund, alleging violations of fiduciary obligations imposed by ERISA. This lawsuit resulted in a consent decree that provided for a court-appointed fiduciary to manage the IBT's Central States Pension Fund and the IBT's Health and Welfare Fund (*Donovan v. Fitzsimmons*, consent decree, 90 F.R.D. 583 [N.D. Ill. 1981]). The funds were prohibited from employing or doing business with any person who had been convicted of a felony or misdemeanor involving a breach of fiduciary responsibility. The consent decree also required the appointment of independent special counsel to monitor the fund's operations. The agreement provided that this oversight would sunset in ten years, but it was later amended, so that the oversight extended until September 22, 2002. Today (mid 2002), virtually every Teamster-related pension and welfare fund is managed by professional money managers.

The famous Racketeer Influenced and Corrupt Organizations Act (RICO) (18 U.S.C. sec. 1961 et seq.) was enacted in 1970 as part of the Organized Crime Control Act. Not only did RICO make it a serious federal offense to participate in the affairs of an enterprise (e.g., a labor union) through a pattern of racketeering activity (defined as at least two of a long list of federal and state criminal offenses), it also gave the Department of Justice authority to sue civilly to enjoin a person's or organization's future RICO violations. By the early 1980s, some federal prosecutors realized that they could use such civil suits to purge the racketeering influence from mobbed-up unions.

The groundbreaking case, *United States v. Local 560, IBT*, filed in

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March 1982, charged that the largest Teamsters local in New Jersey had been run by Tony Provenzano, a captain in the Gambino crime family, and his henchmen for more than a quarter century (Jacobs, Panarella, and Worthington 1994). Even while serving time for murder, "Tony Pro" ran the union through his brothers and other members of his clique for the benefit of organized crime. The government's suit asked for the removal of all union officers and the appointment of a trustee to run the union and purge it of organized crime influence so that it could be returned to the control of its rank and file. After a long trial, Judge Harold Ackerman granted the requested relief. The trusteeship would last for thirteen years (Goldberg 1989; Summers 1991; Jacobs and Santore 2001). Ackerman observed:

> This is not a pretty story. Beneath the relatively sterile language of a dry legal opinion is a harrowing tale of how evil men, sponsored by and part of organized criminal elements, infiltrated and ultimately captured Local 560 of the International Brotherhood of Teamsters, one of the largest local unions in the largest union in this country.
>
> This group of gangsters, aided and abetted by their relatives and sycophants, engaged in a multifaceted orgy of criminal activity. For those that enthusiastically followed these arrogant mobsters in their morally debased activity there were material rewards. For those who accepted the side benefits of this perverted interpretation of business unionism, there was presumably the rationalization of "I've got mine, why shouldn't he get his." For those who attempted to fight, the message was clear. Murder and other forms of intimidation would be utilized to insure silence. To get along, one had to go along, or else. (*United States v. Local 560, IBT*, p. 279)

In March 1983, Donald Wheeler, a Department of Labor investigator, told the Senate Permanent Subcommittee on Investigations that "it is estimated that within the jurisdiction of the Chicago Strike Force there are approximately eighty-five labor organizations affiliated with twenty separate international, national, or independent parent unions that are suspected of being associated with, influenced or controlled by organized crime and racketeering elements" (United States Congress 1983, p. 212). In July 1983, President Ronald Reagan (by Executive Orders 12435 and 12507) appointed a President's Commission on Or-

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ganized Crime (PCOC) and charged it with making "a full and complete national and region-by-region analysis of organized crime as well as emerging organized crime groups . . . and mak[ing] recommendations concerning appropriate administrative and legislative improvement and improvements in the administration of justice" (E.O. 12435, 1983). The commission produced a number of reports, including *The Edge: Organized Crime, Business and Labor Unions* (President's Commission on Organized Crime 1986), which reviewed a half century of labor racketeering, highlighted governmental failures and missed opportunities, and recommended more effective countermeasures. *The Edge* provides a point of departure for assessing change in the state of labor racketeering since the early 1980s.

Sections II–V use the PCOC findings as a basis for assessing the state of labor racketeering circa the early 1980s in the four most notoriously racketeer-influenced international unions. The commission's focus on the IBT, LIUNA, ILA, and HEREIU is not surprising. For decades, these unions have been the subject of congressional hearings, public scandals, and occasional prosecutions. The PCOC volume, *The Edge* (1986), brought together information and allegations that had been in the public domain for many years. Each of the next four sections summarizes the findings for each of these unions and then analyzes the government's subsequent remedial efforts.

II. The Teamsters

The PCOC charged that "corruption and the Teamsters [are] synonymous," and that since the 1950s the Teamsters had been "firmly under the influence of organized crime" (PCOC 1986, pp. 89–90). John "Johnny Dio" Dioguardi, a capo in the Lucchese crime family, and a power broker with influence in many unions, was one of Jimmy Hoffa's key supporters in his quest for the IBT presidency. Dioguardi gave Hoffa several New York City IBT "paper locals" (i.e., a local without rank-and-file members), which allowed Hoffa to control the important New York area IBT Joint Council and thereby secure the presidency of the international union.[7] According to the PCOC, "organized crime has continued to maintain a firm grip on the IBT long after Hoffa's reign" (PCOC 1986, p. 92). Organized crime used threats

[7] The McClellan Committee focused on Johnny Dio, especially on his role in establishing the IBT local that had jurisdiction over trucking cargo into and out of JFK airport.

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and occasional acts of violence "to quell all forms of dissent, criticism, and opposition" (PCOC 1986, p. 114).

According to the PCOC, the organized crime families converted their influence in the IBT into wealth, status, and power. Control over the IBT provided organized crime leverage over tens of thousands of businesses dependent upon truck deliveries; this leverage could be exercised through extortion, solicitation of bribes, and demands for no-show jobs (PCOC 1986, pp. 91–92). The mobsters enriched themselves by siphoning money directly from union coffers and by taking kickbacks for sweetheart service contracts and "loans" from IBT pension and benefit funds.

The PCOC traced organized crime's control over the Teamsters' international union to its control over key IBT locals. The commission found a documented relationship between Cosa Nostra families and thirty-six IBT locals, one joint council, and a conference (a regional association of joint councils) (PCOC 1986, p. 123).

According to the PCOC, general IBT presidents "[Jimmy] Hoffa and [Roy] Williams were indisputably direct instruments of organized crime," and [Frank] Fitzsimmons held his office by "establish[ing] a measure of détente whereby he was allowed to head the union, while organized crime stole the workers' benefit funds and used the union for numerous criminal ventures" (PCOC 1986, pp. 90–91). At the time of the commission's work, Williams was a federal cooperating witness, having been convicted of attempting to bribe Senator Howard Cannon. He testified that "every big [Teamster] local union . . . had some connection with organized crime" (PCOC 1986, p. 89). Williams admitted that he himself had been controlled by Kansas City Cosa Nostra boss Nick Civella who had quarterbacked Williams's campaign for the IBT presidency by obtaining necessary support from organized crime bosses around the country. The PCOC asserted that Jackie Presser (whose father, "Big Bill" Presser, was a major Cleveland organized crime figure and, until forced to resign in 1976, an IBT Central States Pension Fund Trustee), general president at the time of the PCOC report, depended upon organized crime support for his election to the IBT presidency (PCOC 1986, p. 90). This charge was later confirmed by government prosecutors (Neff 1989).

Mob-controlled locals elected mob-controlled officers, who chose mob-controlled convention delegates, who ratified the choice of mob-controlled international presidents, vice presidents, and general executive board (GEB) members. Because the rank and file did not vote di-

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rectly for international officers, PCOC judged it "unlikely . . . that a reform-minded Teamster president can be elected in the near future" (PCOC 1986, p. 104).

The PCOC reviewed organized crime's longtime influence over the Teamsters' huge Central States Pension Fund. Organized crime associates like Allen Dorfman and Bill Presser managed the fund's investments, loans, and operations. While a typical pension fund invested 5–10 percent of its assets in real estate, the Central States Pension Fund invested more than 70 percent in real estate, much of it mob-sponsored ventures (mostly casinos) in Las Vegas. Despite the 1976 agreement that put control over fund investments in the hands of an institutional fiduciary, organized crime continued to "plunder the Central States Pension Fund" (PCOC 1986, p. 99). Moreover, Dorfman continued to draw substantial fees for handling the fund's insurance business (PCOC 1986, p. 100). (Dorfman was murdered in 1983 while awaiting trial on charges arising out of the STRAWMAN investigation.)

The PCOC report concluded pessimistically that "no single remedy is likely to restore even a measure of true union democracy and independent leadership to the IBT" (PCOC 1986, p. 138). It urged the Department of Justice to make a commitment to purge corruption and racketeering from the IBT through criminal prosecutions, civil actions, administrative proceedings, and trusteeships. Even then, PCOC foresaw only a "modest hope of success" in wresting the IBT from the grip of organized crime (PCOC 1986, p. 120).

A. DOJ's Civil RICO Suit and the IBT Trusteeship

Almost immediately following the release of *The Edge* (PCOC 1986), rumors began to circulate that Rudy Giuliani, U.S. attorney for the Southern District of New York, was preparing a civil RICO complaint against the IBT general executive board. As a preemptive measure, IBT general president Jackie Presser launched an extensive lobbying and public relations campaign. More than two hundred senators and representatives were persuaded to petition the Justice Department not to file such a suit (Jacobs, Panarella, and Worthington 1994). Such an unprecedented intervention on behalf of a potential racketeering defendant illustrates the enormous political power of the nation's largest union, which provides politicians with endorsements, financial support, and even campaign manpower. Members of the U.S. House of Representatives have to face reelection every two years; few of them can af-

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ford to be indifferent to the support or opposition of a large Teamsters local in their district. Senatorial candidates, who seek to represent whole states, are less vulnerable to a particular union's opposition than House candidates. (It is not surprising that most congressional investigations into labor racketeering occurred in the Senate and that the chairmen of these investigating committees came from southern states where unions are not strong.)

On June 28, 1988, Giuliani filed a civil RICO complaint against the International Brotherhood of Teamsters, the Cosa Nostra "commission," twenty-six Cosa Nostra members and associates, the IBT's general executive board, and eighteen present and former members of IBT's general executive board (including president Jackie Presser and general secretary-treasurer Weldon Mathis) (*United States v. International Brotherhood of Teamsters*, complaint, 88 Civ. 4486 [S.D.N.Y. 1988]). The complaint charged that the organized crime defendants, aided and abetted by the union defendants, acquired and maintained control of the Teamsters through a pattern of racketeering activity; the defendants violated the members' rights to control over and information concerning the governance of their own union by creating a climate of intimidation and fear and by creating or tolerating pervasive corruption. Giuliani asked the court to remove the IBT general executive board members and to appoint a trustee to oversee the union's affairs and a monitor to supervise a fair election for international union officers (*United States v. International Brotherhood of Teamsters*, complaint, pp. 104–15).

On March 14, 1989, the IBT and the government settled the case with a consent decree (*United States v. International Brotherhood of Teamsters*, consent decree, 808 F. Supp. 279 [S.D.N.Y. 1988]). The union acknowledged "that there have been allegations, sworn testimony and judicial findings of past problems with La Cosa Nostra corruption of various elements of the IBT" and agreed that the IBT should be free of any criminal element and governed democratically "for the sole benefit of its membership without unlawful outside influence" (*United States v. International Brotherhood of Teamsters*, consent decree, p. 2; Lacey 1992, p. 1).

The consent decree provided for a permanent injunction barring the union defendants from any future involvement with the IBT, various changes to the IBT constitution, democratic elections for international officers, and, most important, the selection of three court-appointed officers—independent administrator, investigations officer,

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and elections officer—to oversee the union's reform. The independent administrator was given authority to remove or discipline any member or officer of the union and to impose trusteeships on locals. The consent decree empowered the independent administrator to veto any IBT decision that would further the interests of organized crime or labor racketeers.[8] The investigations officer was charged with investigating corruption at all levels of the Teamsters hierarchy and recommending disciplinary action to the independent administrator against individuals found to have violated the IBT constitution. The elections officer's role was to promote democracy in union locals and internationals, and to oversee direct rank-and-file secret-ballot elections for the union's top officers in 1991 and 1996. United States District Court (S.D.N.Y.) Judge David Edelstein appointed former federal judge Frederick Lacey as independent administrator, former Assistant United States Attorney Charles Carberry as investigations officer, and labor lawyer Michael Holland as elections officer.[9]

Initially, the consent decree was greeted by a great deal of IBT resistance. William McCarthy, who became general president following Jackie Presser's death in July 1988, encouraged IBT locals around the country to file lawsuits in order to paralyze the court-appointed officers (Lacey 1992, pp. 5–6). Judge Edelstein thwarted this strategy by combining all IBT/consent decree litigation in his court (*United States v. International Brotherhood of Teamsters*, 728 F. Supp. 1032, aff'd 907 F.2d 277 [2d Cir. 1990]).

The IBT refused, in violation of the consent decree, to reimburse many of the court-appointed officers' expenses. At its 1991 convention, the IBT refused to enact constitutional amendments to which it had committed itself by signing the consent decree. The IBT also resisted the court-appointed officers' efforts to inform the rank and file of the independent administrator's findings and sanctions against corrupt IBT officials. Ultimately, Judge Edelstein obtained compliance in all these matters.

Independent Administrator Lacey served as the trier of fact and sentencing authority on charges brought by the investigations officer

[8] Although the independent administrator had substantial authority over union management and discipline, he did not have the authority to make collective bargaining agreements—that power remained in the hands of the IBT general president and the general executive board.

[9] Over the following ten years, Judge Edelstein issued approximately 200 decisions and orders related to the remedial phase of the case.

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against Teamsters members and officials. Typical charges included association with and membership in Cosa Nostra (*Investigations Officer v. Senese, et al.*, Decision of the Independent Administrator [July 12, 1990], aff'd *United States v. IBT*, 745 F. Supp. 908 [S.D.N.Y. 1990], aff'd 941 F.2d 1292 [2d Cir. 1991], cert. denied, *Senese v. United States*, 112 S.Ct. 1161 [1992]), failure to investigate corruption and refusal to testify at a disciplinary hearing (*Investigations Officer v. Calagna, Sr., et al.*, Decision of the Independent Administrator [June 14, 1991], aff'd *United States v. IBT*, 1991 WL 161084 [S.D.N.Y. 1991]), embezzlement (*Investigations Officer v. Salvatore*, Decision of the Independent Administrator [October 2, 1990], aff'd *United States v. IBT*, 754 F. Supp. 333 [S.D.N.Y. 1990]), and assault (*Investigations Officer v. Wilson, et al.*, Decision of the Independent Administrator [December 23, 1991], aff'd *United States v. IBT*, 787 F. Supp. 345 [S.D.N.Y. 1992], aff'd in part, vacated in part, 978 F.2d 68 [2d Cir. 1992]). Sentences ranged from reprimand to expulsion from the union. Judge Edelstein consistently upheld Independent Administrator Lacey's decisions.

Investigations Officer Carberry exercised broad authority to investigate corruption and racketeering by union members and officers. Carberry and his staff audited locals and interviewed their officers and members. He reviewed old criminal cases against IBT members and officials for leads on current corruption and racketeering (*United States v. International Brotherhood of Teamsters*, 803 F. Supp. 767 [S.D.N.Y. 1992], aff'd in part, rev'd in part, 998 F.2d 1101 [2d Cir. 1993]). The FBI provided a constant flow of information. Carberry set up a toll-free telephone number for IBT members to report wrongdoing in their locals. When he found sufficient evidence, he filed disciplinary charges.

Elections Officer Holland created a three-step process for the election of the IBT general president, general secretary, and general executive board. First, the IBT locals would hold secret-ballot elections for delegates to the IBT convention. Second, the delegates would nominate candidates for office. Third, the rank and file would vote in a secret-ballot election supervised by independent monitors. The IBT opposed these election reforms, arguing that the consent decree gave Holland authority only to monitor the electoral process for fraud and not to create new election rules. Ultimately, the court supported Holland's interpretation (*United States v. International Brotherhood of Teamsters*, 803 F. Supp. 267 [1992], p. 770).

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The first direct election of international IBT officers took place in 1991. The election by mail-in ballots resulted in victory for Ron Carey who, as a candidate independent of the clique that had dominated the IBT for decades, enjoyed the support of the reformist group Teamsters for a Democratic Union (see La Botz 1990; Crowe 1993). Carey promised to eradicate all remnants of mob influence in the Teamsters. Upon assuming office, he eliminated many multiple salaries, trimmed the IBT budget, sold some of the union's more extravagant possessions, created an Ethical Practices Committee, and imposed trusteeships on a number of mob-controlled locals.

Pursuant to the 1989 consent decree, following the 1991 election, the independent administrator and investigations officer were replaced by a three-member Independent Review Board (IRB) that was responsible for continuing to investigate and purge corrupt influences. The U.S. attorney general appointed Lacey to the IRB, and the IBT appointed E. Harold Burke. When Lacey and Burke were unable to agree on the third member, the court appointed former FBI director William Webster. Between 1992 and 1998, the IRB recommended charges against 229 individuals. As of fall 2001, more than 120 individuals had been expelled from the union; a large number of others were suspended or retired. The IRB placed twenty-one corrupt locals and one joint council under trusteeship.

The 1996 election was vigorously contested. Carey, though benefited by his incumbency, was hampered by the rank and file's perception that the Teamsters' bargaining power was declining. Carey's opponent was James P. Hoffa, son of the hugely popular Jimmy R. Hoffa who was IBT president from 1957 to 1971. (Despite having been sent to prison in 1967 [pardoned in 1971] for jury tampering and corruption, the senior Hoffa's reputation only grew larger over the years, perhaps in part because of his spectacular disappearance in 1975.)

James P. Hoffa, a lawyer, had to contend with his own set of troubles. Lacey had ruled him ineligible to run for general president in 1991 because he was not a Teamster. To qualify for the 1996 election, Hoffa signed on as an assistant to an IBT local president.

The 1996 election was even closer than the 1991 election. Carey won a slim majority of votes, but the elections officer refused to certify the election because of campaign finance violations. Carey's campaign was found to have illegally funneled $885,000 to political action groups, which in turn arranged donations to the Carey campaign from wealthy individuals (*United States v. International Brotherhood of Team-*

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sters, 988 F. Supp. 759 [S.D.N.Y. 1997]). In November 1997, the IRB barred Carey from the rerun election; it later expelled him from the union. Carey was then prosecuted for corruption but acquitted (October 12, 2001). Without a significant challenger, Hoffa won the 1998 rerun election by a wide margin, and, in 2001, he and the Hoffa Unity slate of candidates for the general executive board overwhelmingly won a five-year term. Also in 2001, former U.S. attorney Joseph Di Genova replaced Harold Burke as the IBT's representative on the IRB, and former U.S. Attorney General Benjamin Civiletti replaced Judge Lacey as the government's representative; William Webster continued to serve.

B. Project RISE

Immediately following the election, Hoffa announced the formation of a new unit to cleanse the IBT of any remaining taint of corruption and to persuade the court that it was time to terminate the IRB. To head the initiative, named Project RISE (Respect, Integrity, Strength, Ethics), Hoffa appointed Ed Stier, the ex-prosecutor who served for thirteen years as the court-appointed trustee in the IBT Local 560 case (Goldberg 1989; Summers 1991; Jacobs and Santore 2001).[10]

Stier appointed a former justice of the New Mexico Supreme Court to lead an effort to draft an Ethical Practices Code. The code-drafting committee consisted of a diverse group of rank-and-file members and local officers from around the United States and Canada. The group met over a period of eighteen months and produced an impressive product that, if carried out, would be a model for the labor movement. The code includes rules and procedures, and establishes several new enforcement roles. It was endorsed at the 2001 IBT convention in Phoenix, Arizona, but its implementation depends upon the termination or at least modification of the IRB.

The second Project RISE component was an investigation of organized crime influence in the IBT. For this job, Stier chose Jim Kossler, the former organized crime coordinator in the New York City FBI office. Kossler, in turn, hired as consultants a number of former FBI colleagues from around the country. The Kossler team produced a comprehensive report on the current state of every IBT local that had ever been proved or alleged to have been organized crime infiltrated or in-

[10] Stier also appointed an advisory board to monitor Project RISE's progress and to make suggestions where appropriate. One of the authors of this article, Jacobs, served as a member of that board.

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fluenced. It found no indication of organized crime influence in the vast majority of these previously tainted locals. In several locals, where questionable influences still existed, investigations and disciplinary proceedings were already under way.

Project RISE also carried out a comprehensive history of corruption in the IBT. The principal writer was Howard Anderson, one of Ed Stier's law partners and a former congressional staffer. This history, released in October 2002, provides the most comprehensive study to date of labor racketeering in the IBT.[11] Since this document is an authorized self-study it may well force many Teamsters who never encountered racketeers to confront the truth of the government's allegations about the mob's role in the union's affairs.

C. Conclusions

For decades, the IBT, the nation's largest and most powerful union, was controlled by organized crime. Indeed, from the 1950s on, Cosa Nostra bosses chose the union's general president. Organized crime used its influence to loot the pension and welfare funds, extort employers, and place its own members and associates in high-paying jobs. Through their influence in the IBT, the organized crime families were able to exert political and economic influence at the local, state, and national levels. Whereas businessmen and politicians cannot justify meeting, working with, and befriending organized crime bosses, they can easily justify, indeed hardly refuse, meeting with the heads of international and local unions, even leaders reputedly connected to organized crime families. Likewise, positions as labor officials provide organized crime bosses with a legitimate public identity and a reason to function as political and economic power brokers.

In 1986, PCOC considered the situation nearly hopeless. But that prediction proved unduly pessimistic. The federal civil RICO suit against the IBT international and the court-imposed trusteeship that it produced, along with the government's relentless campaign against Cosa Nostra, has led to a major transformation of the IBT. None of the 1989 defendants are in positions of authority. The trusteeship and Independent Review Board have purged over 120 organized crime figures and associates from the union and produced three fair and com-

[11] See Stier, Anderson, and Malone (2002). Additional histories of Teamster corruption include Witwer (1994) and Crowe (1993).

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petitive elections at the international level.[12] Separate court-appointed trusteeships in some of the most mobbed-up locals have also led to impressive results. The James P. Hoffa administration seems committed to routing out any vestiges of organized crime in order to persuade the government and the court to dissolve the trusteeship and return the union to its officials and members. Where they were once vilified, former FBI agents and federal prosecutors now have easy access to IBT headquarters, president Hoffa, and his top staff.

III. Hotel Employees and Restaurant Employees International Union

At least since Prohibition (1920–33), according to the PCOC, the Hotel Employees and Restaurant Employees International Union had been plagued by criminal infiltration and exploitation. The murder of a union member at HEREIU's 1936 national convention precipitated an investigation by Thomas Dewey's Special Commission on Crime. The commission found "a flourishing restaurant racketeering business in New York City"; subsequent prosecutions resulted in the criminal conviction of three union officials, the suspension of a local union, and the expulsion of several union members on account of their ties to organized crime (PCOC 1986, p. 72). The McClellan Committee's hearings (1957–59) revealed pervasive organized crime influence in Chicago's restaurant industry through control of three HEREIU locals. The PCOC charged that HEREIU has "a documented relationship with the Chicago 'Outfit' of La Cosa Nostra at the international level and [is] subject to the influence of the Gambino, Colombo, and Philadelphia La Cosa Nostra families at the local level" (PCOC 1986, p. 71).

Shortly before PCOC's investigation, the Senate Permanent Subcommittee on Investigations held hearings (1981–84) on HEREIU. Its final report concluded that "many of the officers of HEREIU have consistently accorded a higher priority to their own personal and financial interests than to the interests of the rank and file membership" (United States Congress 1984*a*, p. 9).

The PCOC described HEREIU as corrupt to the core. It charged that Tony "Joe Batters" Accardo, boss of the Chicago Outfit, handpicked Edward Hanley as HEREIU's international president (PCOC

[12] There are some critics of the independent review board's continuing role (see Dean 2000).

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1986, p. 73). Control over Hanley assured Cosa Nostra control over union affairs because HEREIU's centralized governance empowered the international officers to dictate policy and personnel decisions to the locals. Under Hanley's regime, mob figures obtained union loans and jobs, and otherwise feasted on the union's assets. In short, "the union's assets have been used to enrich the top officers of HEREIU's hierarchy" through high salaries, expense accounts, allowances, and lifetime employment contracts (PCOC 1986, pp. 74–75). When asked by the Senate's Permanent Subcommittee on Investigations about HEREIU's ties to organized crime, Hanley asserted his Fifth Amendment right not to incriminate himself (PCOC 1986, p. 75).

The PCOC identified several HEREIU locals controlled or heavily influenced by the Chicago Outfit and other organized crime families. For example, since 1978, Local 54 (Atlantic City, New Jersey) had been dominated by different factions of Philadelphia's Bruno/Scarfo crime family.[13] Several of Local 54's officers had criminal records for murder, arson, extortion, drugs, bribes, kickbacks, and racketeering. The local's dental and welfare funds were controlled by organized crime (PCOC 1986, pp. 78–79). The local's corrupt influence infected both business and government in Atlantic City.[14] In 1982, the New Jersey Casino Control Commission prohibited Local 54 from collecting dues from casino employees because the influence of organized crime made the local unfit to represent the casino workers' interests (PCOC 1986, p. 80). Ultimately, this decision was upheld by the U.S. Supreme Court (*Brown v. HEREIU Local 54*, 468 U.S. 491 [1984]).

The PCOC found that HEREIU Locals 6 and 100 (New York City) had been chartered and governed in furtherance of the interests of the Colombo and Gambino families. What appeared to be a jurisdictional split between these two HEREIU locals in fact represented the division of New York's restaurant workers between the Colombo and Gambino crime families (PCOC 1986, p. 84). In an intercepted conversation, Paul Castellano, boss of the Gambino crime family, explained that the Chicago Outfit "own[ed] the international" and that

[13] The struggle for control of Local 54 led to a murder in 1980, when a leader of a rival union sought to take the bartenders away from Local 54 (PCOC 1986, pp. 76–77).

[14] The PCOC reported that Atlantic City mayor Michael Matthews solicited illegal campaign contributions from Local 54 officials. Matthews admitted that he approached Local 54 leaders in order to obtain money from Philadelphia's Bruno/Scarfo crime family. In return for the donation, Matthews agreed to assist the Scarfo family in its effort to obtain a piece of land owned by the city on which the Scarfo family wanted to build a casino.

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the Colombo crime family controlled the other local (PCOC 1986, p. 83). The PCOC reported that "legitimate trade unionists are aware of the mob ties to HEREIU and await government action to oust the mob from the union" (PCOC 1986, p. 85).

A. Civil RICO Suit against Local 54

In December 1990, the United States filed a civil RICO suit against HEREIU Local 54 (Atlantic City) alleging a twenty-year pattern of racketeering orchestrated by the Philadelphia (Scarfo) organized crime family (*United States v. Hanley*, complaint, Civ. No. 90-5017 [D.N.J. 1990]). The complaint charged that Ralph Natale and other members of the Philadelphia Cosa Nostra crime family had prevented democratic elections within Local 54 by threatening to kill union members who challenged mob-backed candidates. In April 1991, Local 54 agreed to a consent decree in which eight officers and employees of the local were removed from office because of ties to organized crime (*United States v. Hanley*, 1992 U.S. Dist. LEXIS 22192 [D.N.J. 1992]). The U.S. District Court for the District of New Jersey in Trenton appointed James F. Flanagan (former deputy director of the New Jersey Division of Gaming Enforcement) to monitor the affairs of the local, and postponed Local 54's election until Flanagan could establish democratic procedures for the nomination and election of non-organized-crime-influenced candidates (*United States v. Hanley*). Under Flanagan's monitorship, Local 54 began holding quarterly membership meetings, providing education and training to union members, and revitalizing its handling of members' grievances (Seal 1997).

Local 54's 1993 election demonstrated increasing democracy and a decreasing organized crime influence; eight candidates were disqualified on account of their organized crime ties. In the 1996 election, 33 percent of Local 54's membership voted. None of the ninety candidates investigated by the monitor was found to be associated with organized crime. The election produced wholly new leadership. In February 1997, the monitorship was dissolved (Seal 1997).

B. Civil RICO Suit against HEREIU International

On September 5, 1995, the Department of Justice filed a civil RICO complaint against the HEREIU international union, alleging that members of its executive board had conspired with organized crime figures since the 1970s to accept illegal payments from employers, embezzle union assets, and control the union membership through intim-

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idation. Along with the complaint, HEREIU and DOJ filed a consensual settlement decree (*United States v. HEREIU*, Civ. No. 95-4569 [D.N.J. 1995]) whose object was to make "HEREIU and all its locals be free from the direct or indirect influence of organized crime, now and in the future" (Muellenberg 1998, p. 2). Toward that end, the defendants agreed to be enjoined from committing any crimes listed in Title 18 U.S.C. 1961 (1) (RICO), associating with organized crime members and associates, permitting a barred person from exercising any control or influence in HEREIU affairs, and obstructing efforts to implement the consent decree.

Judge Garrett E. Brown appointed Kurt Muellenberg (former head of DOJ's Organized Crime and Racketeering Section) as monitor over HEREIU for a term of at least eighteen months. The monitorship was later extended until March 5, 1998. The consent decree gave Muellenberg authority to remove union officials at all levels for violating any provision of the settlement, committing any crime involving running a union or overseeing an employee benefit plan, or furthering the influence of any organized crime group. Muellenberg's authority also extended to disapproving collective bargaining agreements and to appointing or discharging union employees and candidates for union office. Additionally, the court ordered that at its 1996 convention HEREIU adopt an Ethical Practices Code that would define and prohibit conflicts of interest by union officers. Muellenberg appointed Daniel F. Sullivan as chief investigator and former New York City Police Department commissioner Howard E. O'Leary as investigations officer. Rank-and-file HEREIU members were encouraged to use a toll-free telephone number to report corruption and racketeering in the union (Muellenberg 1998, pp. 2–5).

Muellenberg found that many HEREIU locals with a history of organized crime infiltration did not obey their own bylaws; gave inadequate notice of membership meetings; failed to document expenses, bonuses, and raises to the membership for approval; failed to train officers, business agents, and organizers; and failed to promulgate or maintain standards for personnel, pay scales, job descriptions, and performance (Muellenberg 1998, pp. 5–6). According to Muellenberg, the international union "suffered from a management deficit and did not subscribe to generally accepted business practices" (Muellenberg 1998, p. 14). He described HEREIU's international union as an agglomeration of employees and officers without any clear rules or procedures. "There is no budget, no organizational chart, no job descriptions for

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employees, and no manual" (Muellenberg 1998, p. 15). General President Hanley hired friends and family members to union positions and consultancies, remunerated them generously, and ran the union as his personal fiefdom. There was a pattern of highly questionable union donations to charitable organizations and events.[15] Officials' business expenses were reimbursed without submission of receipts and explanations and without prior approval.[16]

Muellenberg lifted trusteeships that had been imposed on eleven locals for no good reason or, worse, to provide jobs to organized crime friends and relatives. He placed five locals under trusteeship because federal prosecutors had charged those locals' leaders with organized crime associations, embezzlement, and filing false reports to the Department of Labor.[17]

During the course of his monitorship, Muellenberg permanently barred twenty-three individuals from participating in union affairs because of organized crime associations or failure to cooperate with the monitor, barred two individuals from participation in union affairs for thirteen years, and barred two individuals from holding a position of trust in the union for three years.[18]

Muellenberg devoted much time to investigating Edward T. Hanley, who served as general president from 1973 to 1998. Muellenberg charged Hanley with using HEREIU automobiles and an airplane for personal purposes, receiving unearned salary and pension contributions, associating with organized crime members, and setting up a paper local near his Wisconsin vacation home so that the local's presi-

[15] The HEREIU donated $94,000 to the Catholic Church, $25,000 to the All-American Collegiate Golf Foundation, and $450,000 to the Irish American Sports Foundation. Each of these organizations, while having little if anything to do with the hotel and restaurant business, was valued by HEREIU's general president Edward Hanley (Muellenberg 1998, p. 31).

[16] In one particularly egregious example, a union official left an $80 tip for a meal costing $5.80. The same official commonly left tips in amounts substantially greater than the cost of the meal (Muellenberg 1998, p. 18).

[17] The five locals placed in trusteeship by Muellenberg were Local 122 in Milwaukee, Wisconsin; Local 69 in Secaucus, New Jersey; Local 4 in Buffalo, New York; Local 57 in Pittsburgh, Pennsylvania; and AFL-CIO Nursing Home Council in Buffalo, New York. Two (Local 122 and Local 69) held elections and were removed from trusteeship by the end of Muellenberg's term as monitor (Muellenberg 1998, pp. 52–53). These actions in tabular form can be found at http://www.ipsn.org/HEREIU_Table.htm.

[18] Daniel Rostenkowski, a consultant, and Robert L. Hickman, Sr., a consultant and business agent for Chicago Local 1, were barred for thirteen years. Nancy Ross (secretary-treasurer of Local 57 and international vice-president) and Vince Fera (executive board member) were prohibited from holding positions of trust for three years beginning April 23, 1998 (Muellenberg 1998, p. 58).

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dent could do favors for Hanley and his friends. On February 19, 1998, the Office of the Monitor and Hanley entered into an agreement. Hanley agreed to retire, pay HEREIU $13,944 relating to his purchase of HEREIU-leased automobiles, and assume payment of life insurance premiums on a policy purchased for him by the union (Muellenberg 1998, p. 59). In return, Muellenberg agreed to terminate his investigation of Hanley's actions during his tenure as HEREIU's general president; Hanley was permitted to retain a $350,000 a year salary for life (Hanley's son, Thomas W., agreed to resign for one year and to reimburse HEREIU $25,000 in order to end an investigation into his abuse of expense accounts) (Muellenberg 1998, p. 60).

Muellenberg released his final report on August 25, 1998. On September 1, 1998, HEREIU's general executive board voted to implement all of his many recommendations on structure, governance, and operations of the international and locals (United States Congress 1999).

When the monitorship expired, it was replaced by a public review board (PRB) responsible for overseeing implementation of the Ethical Practices Code. In addition, the PRB has authority to review member complaints and to conduct hearings to insure ethical standards in the union's operations. The PRB has power to suspend or expel members found to have violated the code. Muellenberg, Archbishop James P. Keleher of Kansas City, and former Illinois governor James R. Thompson were appointed to this board. Hanley was replaced as general president by John W. Wilhelm, a longtime union official (who graduated from and then represented workers at Yale University and who has never been alleged to be associated with or influenced by organized crime).

C. Conclusions

General President Edward Hanley ran HEREIU in dictatorial fashion and in cooperation with organized crime, especially the Chicago Outfit. Many union locals were also controlled by organized crime. The 1995 civil RICO suit and settlement established a monitorship that expelled some of the most notorious members from the union and finally managed to secure Hanley's resignation. While the deal with Ed Hanley might seem to some like letting a labor racketeer off too easily, it is well to remember that it is one thing to allege organizational criminality and another thing to prove it. Corruption by high-level officials is almost always difficult to prove because powerful officials have the

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resources and capacity to cover their tracks and give colorable legitimacy to their exploitative conduct. Furthermore, it might take the government years to prosecute successfully a corrupt labor official. Thus, on balance, prosecutors and court-appointed trustees have sometimes concluded that a settlement that allows union reform to proceed expeditiously justifies forgoing a possible prosecution. A further obstacle to punishing wrongdoing is posed by ERISA, which prevents pension forfeiture, even against an official who has stolen money from his union (see Jacobs, Friel, and O'Callaghan 1997).

The monitor's recommendations for improving the union's management were adopted by the new administration, untainted by the long history of organized crime influence in the union. The union adopted a progressive Ethical Practices Code to its constitution and a public review board to enforce it. Hanley's successor has not been tied to organized crime, but neither has he been a sharp Hanley critic. The extent and depth of HEREIU's commitment to reform remains to be seen.

Reform of an international union is a necessary, but not necessarily sufficient, condition for reform of its racketeer-influenced locals. The HEREIU monitor, whose office lasted only two-and-a-half years, expressed concern about locals operating without accountability. Some of these locals have had a long history of organized crime domination. In April 2002, for example, the New Jersey U.S. attorney's office brought a civil RICO suit against HEREIU Local 69 charging that associates of the Genovese crime family had used fear and extortion to control Local 69 for the previous fifteen years. The federal prosecutors alleged that the local, among other things, had made $524,000 in "severance payments" to a former official who had been removed on account of organized crime ties. The district court appointed Kurt Muellenberg to serve as monitor over the local.

IV. Laborer's International Union of North America

The PCOC found that "organized crime has a documented relationship with at least twenty-six Laborer's International Union of North America (LIUNA) locals, three district councils, as well as the International Union" (PCOC 1986, p. 146). The mob profited from this relationship by defrauding the union's benefits funds, extracting no-show jobs from LIUNA employers, drawing reimbursement for fictitious and padded business expenses, manipulating the construction industry, and obtaining access to powerful government officials (PCOC 1986,

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p. 153). The commission complained that the federal government had not seriously addressed this situation (PCOC 1986, p. 160).

According to the PCOC, "organized crime exerts its influence [in LIUNA] principally through top officers who are associates of organized crime" (PCOC 1986, p. 146). General President Angelo Fosco (whose father, Peter Fosco, was LIUNA general president from 1968 to 1975 and an associate of Al Capone) was closely associated with members of the Chicago Outfit. The PCOC charged that Fosco owed his presidency to his willingness to award jobs to organized crime members and associates, and to authorize whatever expenditures his organized crime associates requested (PCOC 1986, pp. 146–47). In 1982, he and Tony Accardo, boss of the Outfit, were tried (and acquitted) of labor racketeering charges.

The PCOC asserted that Vice President John Serpico was also controlled by organized crime. "Serpico admitted that he is a friend or personal acquaintance of virtually every important organized crime leader in Chicago" (PCOC 1986, p. 147). According to the PCOC, the Outfit used LIUNA's international officers to gain access to important political figures like Chicago Mayors Daley and Byrne and Illinois Governors Walker and Thompson (PCOC 1986, pp. 148–49). For example, Vice President John Serpico received successive gubernatorial appointments to serve as chairman of the Illinois International Port District.

Questioned about John Fecarotta's duties as a LIUNA business agent and organizer, Vice President Serpico could not specify a single contribution by Fecarotta to Local 8. For his part, Fecarotta could not remember having done anything for the union at any time, did not know any of the terms of the union's collective bargaining agreements or of its pension plans, did not know what information was on union membership cards he supposedly distributed, and did not know the names of management employees or union officers with whom he supposedly worked. The PCOC branded Fecarotta a ghost employee who used his union position as a legitimate cover for his criminal career (PCOC 1986, p. 148).

The PCOC charged that organized crime thoroughly controlled LIUNA's Chicago Locals 1, 5, and 8. Local 1's president, Vincent Solano, territorial boss for the Outfit's north side clique, used union headquarters as a "contact point for his criminal organization" (PCOC 1986, p. 150). Local 5's president was also an Outfit boss (PCOC 1986, p. 151). The PCOC called Local 8, Vice President John Serpico's

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home local, "ground zero for an organized crime-led LIUNA benefit plan scam" (PCOC 1986, pp. 153–55). Organized crime members and their associates siphoned money from LIUNA's Central States Joint Board Health and Welfare Trust Fund. The dental plan was egregiously corrupt; 68 percent of its budget went to "administrative costs" rather than to services (PCOC 1986, pp. 153–55).[19] The LIUNA's treasury paid lawyers' fees on behalf of officials charged with looting the union as well as fees to private investigators for monitoring the federal government's investigation of LIUNA (PCOC 1986, pp. 156–57).

According to the PCOC, LIUNA's organization and procedures reinforced its relationship with organized crime. It was nearly impossible for an opposition candidate to be elected to a union office because LIUNA's executive board members were elected as a unified at-large slate (PCOC 1986, p. 157). The executive board filled union vacancies (PCOC 1986, p. 158).

The PCOC found that organized crime used violence and intimidation to keep union members from running for office in opposition to the ruling clique. It charged General President Angelo Fosco with personally threatening to kill a potential challenger for his office (PCOC 1986, p. 158). In an intercepted conversation, LIUNA's International Secretary-Treasurer Arthur E. Coia told a colleague that LIUNA was controlled by the "Italians" (i.e., organized crime families) who would never relinquish their power (PCOC 1986, pp. 158–59). At the 1981 LIUNA convention, when a candidate opposing the incumbent regime tried to speak, he was beaten up on the spot (PCOC 1986, pp. 159–60). The PCOC pessimistically concluded that there was "little chance that the LIUNA membership will be able to eliminate organized crime's influence, or control over their union, if the current leadership or governance structure remains intact. The commission believes that federal law enforcement agencies should give high priority to investigations of LIUNA and its locals" (PCOC 1986, pp. 162–63).

The decade after the PCOC report provided little reason to be optimistic about reform in LIUNA. For example, in 1989, Arthur A. Coia, son of longtime mob-affiliated LIUNA General Secretary-Treasurer Arthur E. Coia (who retired in 1987), reportedly made pilgrimages to

[19] These grossly inflated service fees were shocking even to the Teamsters Central States Pension Fund officials, who were embarrassed to admit that their administrative costs had in the past gone as high as 8 percent. George Lehr, executive director of the Teamsters Central States Pension Fund, described the 68 percent rate as "outrageous" and "a ripoff on its face" (United States Congress 1985, p. 600).

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Chicago to request permission from the Chicago Outfit to run for LIUNA general secretary-treasurer (Mulligan and Starkman 1996). Having obtained the mob's approval, he served as secretary-treasurer until 1993, when Angelo Fosco died. With mob approval, Coia was elected general president. During this period, LIUNA made substantial political contributions to the Democratic Party and to President Clinton with whom Coia enjoyed a personal relationship. Critics charged that, on account of these political ties, the Clinton administration backed off in its investigation and reform efforts (Mulligan and Starkman 1996; United States Congress 1997; Isaac 1998; Mencimer 1998; Methvin 1998).

A. DOJ Takes Action against LIUNA

In late 1994, the DOJ presented LIUNA officials with a draft civil RICO complaint, alleging that organized crime dominated the international union and many locals.[20] The complaint named as defendants twenty-five individuals plus the individual members of the LIUNA general executive board, General President Arthur A. Coia, General Secretary-Treasurer Rollin P. "Bud" Vinall, all ten of the union's vice presidents, and the union's general counsel. The complaint alleged that the defendants violated the rights of union members through intimidation, violence, and economic coercion, and violated their fiduciary duty to the membership by corrupting the union and by refusing and failing to prevent or remedy the corruption.[21]

As a remedy, the government sought the expulsion of Coia and other union leaders. It requested the appointment of one or more court liaison officers to carry out the duties of the general president and general executive board and to prevent any GEB action that would violate union members' rights or perpetuate criminal influence. The draft complaint also demanded that the union's constitution be amended to reform discriminatory hiring-hall procedures and to pro-

[20] The draft complaint, although never filed, is available on-line at http://www.laborers.org/complaint.html.

[21] The 1990 New York State (NYS) Organized Crime Task Force's final report, "Corruption and Racketeering in the NYC Construction Industry," identified ten New York City LIUNA locals that were controlled or heavily influenced by organized crime. For example, the report charged that "Housewreckers Union Local 95 is controlled by Vincent 'Chin' Gigante, boss of the Genovese Crime Family" (New York State Organized Crime Task Force 1990, p. 81), and that Cement and Concrete Workers Local 6A "had for years been controlled by Ralph Scopo, a soldier in the Colombo Crime Family" (New York State Organized Crime Task Force 1990, p. 79).

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vide for direct rank-and-file election of officers. The court was also asked to appoint an elections officer.

After three months of negotiations, LIUNA and the DOJ announced a unique settlement. The DOJ agreed to forgo filing the civil RICO complaint if LIUNA established its own internal anticorruption program and signed a consent decree stipulating to the requested relief. The settlement provided that the consent decree could be filed at DOJ's option until February 1, 1998, if the DOJ found that LIUNA failed to clean up the union. The agreement was later extended to 2001 and then, with certain election reforms added, to 2006.

B. The LIUNA's Internal Reform Program

The LIUNA instituted radical changes in its governing structure and constitution and adopted an Ethical Practices Code. To enforce the provisions of the Ethical Practices Code, LIUNA adopted a set of Ethics and Disciplinary Procedures and established four new positions: GEB attorney, filled by Robert Luskin, formerly a member of DOJ's Organized Crime and Racketeering Section, to investigate and prosecute violations of the Ethical Practices Code; inspector general, filled by Douglas Gow, retired FBI agent, to investigate violations of the Ethical Practices Code; independent hearing officer, Peter Vaira, former chief of the Chicago Organized Crime Strike Force and former U.S. attorney in Philadelphia, to serve as judge and arbitrator in all disciplinary actions; and appellate officer, Neil Eggleston, former federal prosecutor, to hear appeals of disciplinary cases.

These newly appointed officers initiated an aggressive program of corruption control. They established a confidential toll-free telephone number and a confidential post office box to solicit complaints from the LIUNA membership. By mid-1996, the reform officers had begun over 345 investigations, removed twenty-five union officers and members for violations of the Ethical Practices Code, removed all of Buffalo Local 210's officers on account of corruption, placed Chicago Local 8 under emergency trusteeship, actively assisted the United States government with its efforts to clean up the New York City Mason Tenders by hiring the former chief of the organized crime unit in the Southern District of New York to investigate the Mason Tenders, and announced an investigation of Arthur A. Coia (United States Congress 1996).

The LIUNA's election procedures were also reformed. Direct rank-and-file secret-ballot election of general president and general secretary-treasurer was added to the constitution. Additionally, LIUNA expanded its general executive board from ten to thirteen members and

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required that nine of the thirteen be elected by nine regions, making the GEB less accountable to the general president and more accountable to the membership. The LIUNA modified its procedures for the selection of delegates to union conventions and merged several locals that appeared to exist only to provide convention votes to organized crime. The LIUNA also hired an independent elections officer and two deputy election officers—jointly selected by the government and union—to monitor union elections. The union adopted a uniform set of job referral rules to prevent discriminatory hiring-hall practices. An independent accounting firm was hired to audit LIUNA's finances (United States Congress 1996).

In November 1997, GEB attorney Robert Luskin filed disciplinary charges against Arthur A. Coia, alleging that Coia associated with organized crime, permitted organized crime to influence union affairs from 1986 to 1993, and accepted illegal payoffs from a LIUNA service provider. The hearing, which lasted from April 14, 1998, until June 23, 1998, included over 500 exhibits and testimony that filled thousands of transcript pages. Independent Hearing Officer Vaira found that GEB attorney Luskin failed to prove the allegations of organized crime association and influence but did prove that Coia had violated the Ethical Practices Code by accepting illegal benefits from a LIUNA service provider. Vaira fined Coia $100,000 but permitted him to retain his office (Office of the Independent Hearing Officer 1999).

In December 1999, Coia retired as general president, acceding to the position of general president emeritus for life at an annual salary of $335,516 (Mulligan 1999). The GEB appointed Terrence O'Sullivan, Coia's chief of staff, to succeed Coia. The union agreed to continue to support the internal reform program and, until the completion of its 2006 general election, not to make any material changes to its governing structure without the government's prior approval. The DOJ officially ended its oversight. In January 2000, Arthur A. Coia pled guilty to defrauding the State of Rhode Island and the Town of Barrington, Rhode Island, of approximately $100,000 in taxes. In addition to restitution and a $10,000 fine, he agreed to be barred from any future role in LIUNA or its subordinate entities.

C. Conclusions

Historically, LIUNA, at the international and local levels, especially in Chicago and New York City, has been closely tied to Cosa Nostra crime families. Tony Accardo, one of the leading organized crime figures of this half century, exercised a great deal of influence in the union

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for many years. Accardo, his henchmen, and their successors controlled LIUNA's general president and the officers of many locals.

In 1994 the DOJ prepared the first major attack on LIUNA labor racketeering at the national level. The looming RICO suit led to a creative settlement between the government and the union. The monitors whom LIUNA hired to enforce its new code of ethics, all former federal law enforcement figures, appear to have made headway in cleaning up the international union. Nevertheless, the extent of the international union's commitment to reform remains to be seen. Clearly, a great deal of labor racketeering remains in the locals. Indeed, a number of the most notorious locals have themselves been put under court-ordered trusteeship (United States Department of Justice 2000).

The international union suspended John Serpico, labor racketeer and political power broker, from his union positions in 1995. Serpico then became a consultant for another union, a local of the International Union of Allied Novelty and Production Workers. He also served as president emeritus of the Central States Joint Board, which provides administrative services to Chicago-area locals. In the summer of 2001, Serpico and two associates were convicted of fraud and taking kickbacks in connection with steering union business to certain companies.

V. The International Longshoremen's Association

Drawing on labor leaders' statements, FBI investigations, prosecutions, and legislative hearings, PCOC called the International Longshoremen's Association "virtually a synonym for organized crime in the labor movement" (PCOC 1986, p. 33).[22] Ships entering harbors, day or night, need to be unloaded and reloaded quickly. Delay is expensive, even ruinous. This gave the longshoremen enormous leverage over shippers who were extorted for labor peace payoffs. (Admittedly, the containerization of seaborne cargo since the late 1950s undermined this leverage.) Labor racketeers also corrupted port employees to facilitate cargo theft, solicited illegal labor payoffs, and extorted stevedores (companies that load and unload seaborne cargo) (PCOC 1986, p. 35). "Throughout its history, the international has done little, if anything, to disturb *La Cosa Nostra* influence in its locals" (PCOC 1986, p. 37).

According to the PCOC, Cosa Nostra became the primary power

[22] David Dubinsky, president of the International Ladies Garment Workers Union, and a well-respected labor leader and reformer, proclaimed that the ILA was "a nest for waterfront pirates—a racket, not a union" (Dubinsky and Raskin 1977, p. 164).

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on the New York Harbor waterfront in 1937, when Anthony "Tough Tony" Anastasio (aka Anastasia) took control of the six New York harbor locals. (His brother Albert Anastasia was head of the infamous Murder Incorporated and boss of the crime group that later came to be known as the Gambino crime family.) "Under Anastasio, organized pilferage, strike insurance, kickbacks, and loansharking on the piers reached unprecedented levels" (PCOC 1986, p. 36). Anastasio delegated control of these locals to various organized crime members.

In 1953, the New York State Crime Commission issued a blistering report on labor racketeering in New York harbor. By the 1960s, organized crime exerted power and influence in ports all along the eastern and gulf coasts (PCOC 1986, pp. 39–40). The PCOC charged that Cosa Nostra completely controlled Thomas (Teddy) Gleason, who had succeeded the infamous Joseph Ryan as ILA international president (PCOC 1986, p. 39). The Gambino crime family controlled the ILA international union.[23] The Gambinos mostly controlled the New York side and the Genovese the New Jersey side of the New York/New Jersey harbor. After Anastasio died in 1963, control of ILA Local 1814 passed to Anthony Scotto, a son-in-law, who (from 1963 to 1979) flourished in the union, in organized crime as a capo in the Gambino crime family, and in New York City political circles.

In 1972, a Florida investigator told the Senate Permanent Subcommittee on Government Operations that "our information established that virtually every commodity affecting the transportation industry on the Dodge Island Seaport was under the control and domination of a small group of highly sophisticated and organized criminals" (United States Congress 1984*b*). In 1975, the FBI launched UNIRAC, an investigation of ILA racketeering in the ports of New York City, Miami, Wilmington, Charleston, and Mobile. Using undercover agents, electronic intercepts, and consensual recordings, UNIRAC uncovered systematic criminality and labor racketeering in every port. Ultimately, UNIRAC led to the conviction of over 100 persons, including twenty ILA leaders, among them Michael Clemente and Anthony Scotto, who held positions in both the ILA and Cosa Nostra. In 1979, Scotto was convicted of taking more than $200,000 in cash payoffs from employers (*United States v. Clemente et al.*, 494 F. Supp. 1310 [1980 U.S. Dist.]). New York's governor Hugh Carey, and two former New York

[23] The PCOC report found that the Genovese crime family controlled the Manhattan locals and the union's international. This is likely a typographical error. The Gambino family was known to control these locals and the international.

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City mayors, John Lindsay and Robert Wagner, testified in his behalf at the sentencing hearing. (Scotto, a prominent Democratic Party fund-raiser, raised $1 million for Governor Hugh Carey's 1974 campaign and $50,000 for Mario Cuomo.)

The PCOC complained that, while UNIRAC was "a very successful operation demonstrating law enforcement skill and tenacity," there had been only sporadic subsequent investigations and prosecutions, leaving organized crime's influence intact all along the eastern seaboard (PCOC 1986, p. 43). In February 1981, the Senate Permanent Subcommittee on Investigations held hearings on waterfront corruption. The subcommittee's report summarized its findings:

> Witnesses testified that payoffs were a part of virtually every aspect of the commercial life of a port. Payoffs insured the award of work contracts and continued contracts already awarded. Payoffs were made to insure labor peace and allow management to avoid future strikes. Payoffs were made to control a racket in workmen's compensation claims. Payoffs were made to expand business activity into new ports and to enable companies to circumvent ILA work requirements.
>
> Organized crime was found to have great influence in the operation of the ILA and many shipping companies. Some shipping firms, because of fear or a willingness to participate in highly profitable schemes, have learned how to prosper in the corrupt waterfront environment. They treat payoffs as a cost of doing business.
>
> The free enterprise system has been thrown off balance. Contracts were not awarded on the basis of merit. The low bid did not beat the competition. Profitability was not based on efficiency and hard work but rather on bribery, extortion and questionable connections. The combination of these corrupt practices was a recipe for inflationary costs and economic decline.
>
> Much of the corruption on the waterfront stemmed from the control organized crime exercises over the ILA, a condition that has existed for at least 30 years. (United States Congress 1984*b*)

Quoting the 1984 Senate Permanent Subcommittee on Investigations' findings, PCOC concluded that, despite its successes, UNIRAC had not purged organized crime from the ports. "Corrupt practices . . . already have begun to return to the Atlantic and Gulf Coast docks. What is needed, then, is continued scrutiny of the maritime industry by government agencies" (PCOC 1986, p. 65). In 1987, Teddy Glea-

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son retired as general president of the international union and was succeeded by his vice president, John Bowers, who has held the presidency ever since (Gleason died in 1992).

A. Civil RICO Suit against Six ILA Locals

On February 14, 1990, the U.S. Department of Justice filed a civil RICO suit (*United States v. Local 1804-1 et al., International Longshoremen's Association,* complaint, No. 90 Civ. 0963 [LBS] [S.D.N.Y. 1990]) against six New York harbor ILA locals, their executive boards and officers, the Genovese and Gambino crime families, the Westies, an Irish organized crime group allied with the Gambino family, and five waterfront employers.[24] The 125-page complaint charged that the waterfront had "been the setting for corruption, violence, and abuse of waterfront labor and business by New York La Cosa Nostra Families" for more than fifty years (*United States v. Local 1804-1 et al.*, complaint, p. 4). It further alleged that Cosa Nostra controlled the waterfront labor unions, that is, that the Genovese and Gambino crime families had exploited the locals, the shipping industry, and the longshoremen (*United States v. Local 1804-1 et al.*, complaint, p. 38). According to the government, despite the UNIRAC investigation and convictions, the Genovese and Gambino crime families, by means of their control of the ILA, continued to dominate many ports (*United States v. Local 1804-1 et al.*, complaint, p. 44). The complaint quoted the Senate Permanent Subcommittee on Investigations' 1988 report: "Organized crime continues to exercise control over the International and New York-New Jersey ILA locals" (*United States v. Local 1804-1 et al.*, complaint, p. 45). The civil RICO complaint compiled allegations of embezzlement, solicitation of bribes, benefit fund fraud, extortion of employers, and violation of the rank and file's rights through force and violence.

The U.S. Department of Justice asked the court to enjoin the organized crime defendants from participating in ILA affairs, from having any dealings with union officers and employees (*United States v. Local 1804-1 et al.*, complaint, p. 118), and from committing any acts of racketeering; DOJ sought to enjoin the defendant labor officials from associating with Cosa Nostra members or associates (pp. 118–19). The complaint sought a court-appointed liaison officer for each of the ILA

[24] The complaint did not include the ILA's international organization. However, International President John Bowers was named individually, as president of three of the six locals.

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locals to "discharge those duties of the Executive Board[s]" and to "review the proposed actions of the Executive Board[s]" (*United States v. Local 1804-1 et al.*, complaint, p. 119), general elections to be run by a court-appointed trustee (*United States v. Local 1804-1 et al.*, complaint, p. 122), appointment of administrators to oversee the clean-up of the unions (*United States v. Local 1804-1 et al.*, complaint, p. 123), and the defendants' disgorgement of the proceeds of their labor racketeering (*United States v. Local 1804-1 et al.*, complaint, pp. 123–24). Rather than go to trial, the defendants entered into consent agreements.

B. Local 1804-1 (Bergen, N.J.)

On March 25, 1991, ILA Local 1804-1, and its executive board and officers entered into a consent judgment with the DOJ. Local 1804-1's current and future executive board and officers agreed to be enjoined from committing any acts of racketeering activity and from knowingly associating with members or associates of organized crime (*United States v. Local 1804-1 et al.*, consent judgment for Local 1804-1, p. 3). The consent judgment provided for the appointment of a monitor to oversee the local's operations until the 1997 election. The monitor would have blanket access to all union documents or information, authority to discipline union officers, agents, employees, and members, power to investigate corruption or abuse of union funds, and supervisory authority over the union's 1994 and 1997 elections (*United States v. Local 1804-1 et al.*, consent judgment for Local 1804-1, pp. 4–5). In addition, the monitor would have authority to review and veto union expenditures, union contracts, personnel decisions, and changes to the union's constitution and bylaws (*United States v. Local 1804-1 et al.*, consent judgment for Local 1804-1, pp. 5–6).

Local 1804-1 agreed to pay the monitor's salary and operating expenses, and not to oppose or interfere with the monitor's duties in any way (*United States v. Local 1804-1 et al.*, consent judgment for Local 1804-1, pp. 3–6). The consent judgment also provided for amendments of Local 1804-1's constitution, including salary limits for union officers, election of shop stewards, and discontinuation of union loans to union officers and members (*United States v. Local 1804-1 et al.*, consent judgment for Local 1804-1, pp. 7–8). The consent judgment permitted Local 1804-1's executive board to remain in office but required several board members to pay $100,000 to Local 1804-1's treasury (*United States v. Local 1804-1 et al.*, consent judgment for Local 1804-1, p. 11).

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James Gill was appointed as 1804-1's monitor. The union's strategy was to strike a deal: if it expelled certain people, the union would be permitted to reform itself. This appears to have been exactly what happened; ten years after the settlement, very little appears to have changed.

C. Local 824, Local 1809, and Local 1909 (West Side Locals)

On March 26, 1991, Locals 824, 1809, and 1909 (collectively known as the West Side Locals), and their executive boards and officers entered into a consent judgment. The defendant union officials, without admitting wrongdoing or violation of law, agreed that persons holding office in the West Side Locals would be enjoined from knowingly associating with any member or associate of organized crime (*United States v. Local 1804-1 et al.*, consent judgment for the West Side Locals, p. 8). The consent judgment provided for the resignation of executive board members John Potter and Thomas Ryan, and enjoined both men from holding ILA office in the future (*United States v. Local 1804-1 et al.*, consent judgment for the West Side Locals, p. 2). ILA international president John Bowers (also president of the three West Side Locals) and executive board member Robert Gleason agreed to resign their memberships in an employer association, the NYSA (New York Shipping Association)–ILA Contract Board (*United States v. Local 1804-1 et al.*, consent judgment for the West Side Locals, p. 4). The consent judgment stipulated Department of Labor supervision over the 1991 and 1994 elections in the three locals and gave the DOL full access to union records and information necessary to carry this out (*United States v. Local 1804-1 et al.*, consent judgment for the West Side Locals, pp. 3–4).

Local 1909 agreed to a court-appointed employment practices officer to develop and implement rules and procedures to assure fair hiring, to discontinue no-show jobs, and to discipline those who violate hiring or employment procedures (*United States v. Local 1804-1 et al.*, consent judgment for the West Side Locals, pp. 4–6). The employment practices officer was granted full access to union records necessary to fulfill his duties, was to report at least every six months to the court, was to be paid by the union, and was to continue in office until the certification of the 1994 union election (*United States v. Local 1804-1 et al.*, consent judgment for the West Side Locals, pp. 6–7). The West Side Locals agreed not to obstruct, oppose, or otherwise interfere with the work of the DOL or the employment practices offi-

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cer (*United States v. Local 1804-1 et al.*, consent judgment for the West Side Locals, p. 9). John Bowers and the ILA proclaimed the consent judgment a complete victory, saying it was just short of the judge throwing the case out, and claiming that nothing exceptional had been granted to the government in exchange for the settlement.

D. The Civil RICO Suit's Individual Defendants

The remaining defendants went to trial in spring 1991, but only four defendants persisted to judgment; the rest settled. On June 1, 1991, Anthony Scotto, one of the most powerful labor racketeers in U.S. history because of his high rank in both the Cosa Nostra and the union, settled with the government attorneys, agreeing to pay $50,000 and to be permanently banned from union office or any activity that would associate him with the union or any of the union's employers. On account of ERISA's antiforfeiture provision, Scotto would still receive his pension.

E. Local 1814 Consent Decree

On December 17, 1991, ILA Local 1814, its executive board and officers entered into a consent decree with the DOJ. The individual defendants and officers, without admitting wrongdoing, acknowledged past allegations, testimony, public findings, and criminal prosecutions. They agreed to be enjoined from knowingly associating with any member of organized crime (*United States v. Local 1804-1 et al.*, consent decree for Local 1814, pp. 2–3).

The consent decree provided for a court-appointed monitor with full access to the union's books, records, and other information, disciplinary authority, and supervisory authority over the 1993 and 1996 elections (*United States v. Local 1804-1 et al.*, consent decree for Local 1814, pp. 3–7). The monitor, who would be paid by the union, was authorized to review and veto union expenditures, contracts, appointments, and proposed amendments to the constitution and bylaws (*United States v. Local 1804-1 et al.*, consent decree for Local 1814, pp. 8–9). The monitor had authority to hire legal counsel, accountants, consultants, investigators, and any other personnel necessary to assist in his duties (*United States v. Local 1804-1 et al.*, consent decree for Local 1814, p. 10).

The consent decree included amendments to Local 1814's constitution providing for secret-ballot rank-and-file elections of shop stewards, and limitations on officers' compensation (*United States v. Local*

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1804-1 et al., consent decree for Local 1814, p. 14). Moreover, executive board members Anthony Pimpinella and Joseph Colozza had to resign from their Local 1814 positions and agree never to hold ILA employment again (*United States v. Local 1804-1 et al.*, consent decree for Local 1814, p. 16). Anthony Ciccone had to resign but was permitted to remain a union member and continued to receive union benefits (*United States v. Local 1804-1 et al.*, consent decree for Local 1814, p. 16). The other members of the executive board were permitted to keep their positions. Local 1814 is no longer the influential local it once was because there are few functioning docks left in Brooklyn, but the Gambino crime family's influence remains strong.

F. Local 1588 (Bayonne, N.J.)

On January 3, 1992, the last of the six locals named in the 1990 civil RICO suit, Local 1588 and its executive board, entered into a consent agreement with the government.[25] The consent agreement created the office of ombudsman, which would exist until the 1993 election, and extend beyond at the option of the union's executive board or membership (*United States v. Local 1804-1 et al.*, consent order for Local 1588, p. 7). This ombudsman's office was to be staffed by two individuals, one appointed by the court and one by the union (*United States v. Local 1804-1 et al.*, consent order for Local 1588, pp. 3–4). The ombudsman was charged with enforcing the union's constitution and bylaws (*United States v. Local 1804-1 et al.*, consent order for Local 1588, p. 3). The ombudsman's office had power to file disciplinary charges, but only after consulting with the union's executive board (*United States v. Local 1804-1 et al.*, consent order for Local 1588, p. 4). Rank-and-file union members were encouraged to file confidential complaints with the ombudsman's office.

The consent agreement provided for election of stewards and constitutional changes to disciplinary procedures (*United States v. Local 1804-1 et al.*, consent order for Local 1588, pp. 10–11), Department of Labor supervision of the local's 1993 election (p. 8), and an injunction

[25] Local 1588's secretary-treasurer, Donald Carson, was convicted in 1988 of RICO conspiracy and extortion involving Local 1588 (United States v. DiGilio, 86 Cr. 340 [D.N.J.][DRD], aff'd mem., 870 F.2d 652 [3d Cir. 1989], vacated and remanded, 110 S. Ct. 2162 [1990]). Following his conviction and incarceration, Local 1588's president and secretary-treasurer declined to run for office in 1990. The consent order acknowledged that "the new executive board already has taken steps to return Local 1588 to fiscal soundness and to remove the taint of organized crime corruption" (United States v. Local 1804-1 et al., consent order for Local 1588, p. 2).

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preventing George Weingartner and Robert Lake from serving as shop stewards or in any other ILA office or position (pp. 9–10). Robert Gaffey was appointed as Local 1588's ombudsman. (He had formerly served as an assistant U.S. attorney and as chief counsel to the investigations officer in the IBT International case.) During his time in office, Gaffey's main contribution to the cleanup of Local 1588 was to assist in the creation of a slate of reform candidates to oppose Donald Carson's Genovese-controlled slate. The leader of the "reform" slate was convicted of stealing union funds and was removed from office. Allegedly, the Genovese crime family continues to exercise substantial influence in Local 1588.

G. Conclusions

Recent legal developments demonstrate that the government's efforts to reform the ILA since the PCOC report have not fundamentally changed the structure and personnel of the ILA international union. In January 2002, the U.S. attorney's office (Brooklyn) announced an indictment against eight leaders and members of the Genovese crime family, alleging extortion from waterfront employers and businesses in the New York metropolitan area, northern New Jersey, and Miami (*United States v. Liborio "Barney" Bellomo et al.*, Cr. No. 01-416 (S-8) ILG [2002]). The indictment accuses the mob defendants of violating ILA members' Landrum-Griffin rights and of defrauding the ILA's pension and welfare fund.

In May 2002, a major investigation by the New York–New Jersey Waterfront Commission resulted in the indictment of eight persons connected to the Genovese crime family or ILA Local 1588, including the local's president, John Timpanaro. The indictment charges that through extortion and the withholding of premium job assignments, the defendants demanded kickbacks and cash payments from dozens of Local 1588 members. Some defendants were also charged with participating in a scheme to bill the marine terminal for truck chassis parts that were never delivered. On June 3, 2002, the U.S. attorney (E.D.N.Y.), the New York state attorney general, and the FBI announced the arrests and indictments of seventeen members and associates of the Gambino crime family or officials of ILA Local 1814 and Local 1 involved with waterfront racketeering. The defendants, including Local 1814 president and ILA vice president, Frank Scollo, are charged with extortion, wire fraud, loan sharking, operating illegal gambling businesses, money laundering, witness tampering, and other

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related crimes. Among other things, the indictment charges the defendants with placing mob members and associates in top union jobs, carrying out day-to-day extortion, loan sharking, and a scheme to defraud the ILA health fund. In late June 2002, the *New York Times* reported that the government is considering a RICO suit against the ILA international union.

VI. Perspectives on Labor Racketeering

Labor racketeering has been a major form of crime throughout the twentieth century. It has involved tens of thousands of individual crimes, some of which have been perpetrated by some of the nation's most powerful criminals and crime families. It has victimized tens of thousands of workers who have had their rights trampled on, their contracts sold out, and their pension funds looted. It has undermined the labor movement, one of the most powerful and important sociopolitical institutions in American society. While the problem has attracted enormous law enforcement, political, and media attention, especially in the last two decades, it has attracted practically no criminological attention.[26]

A. Criminology and Labor Racketeering

Labor racketeering could be studied as a form of organizational crime; from this perspective a comparative analysis of corporate crime and union crime would be especially fruitful. What kinds of criminal opportunities do both types of organizations generate? What potential and limits do corporate stakeholders and rank-and-file union members, respectively, have for preventing and remediating racketeering? Do other stakeholders in either type of organization play a role in preventing or facilitating corruption?

Labor racketeering could also be approached from the standpoint of the criminal offenses that it spawns: extortion, embezzlement, fraud, violence, hijacking, restraint of trade (enforcing cartels), and denial of intangible rights of union members to a democratically run union. Yet another option is to approach labor racketeering from the standpoint of the offender, either as a subcategory of white-collar crime or as a subcategory of organized crime. This essay approaches the topic from the latter perspective. Our thesis is that the twentieth-century history

[26] Likewise, it has attracted practically no interest among labor law scholars. But see Goldberg 1989; Summers 1991.

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of American organized (some say "syndicate") crime could not be properly written without paying a great deal of attention to the influence, power, and wealth that the Cosa Nostra crime families derived from their association with international and local unions.

The Italian-American organized crime families obtained their foothold in the unions in the 1920s and 1930s when management and labor both called on gangsters for protection and as a counterforce to communist and socialist elements. During this period, the crime groups were able to take advantage of an immigrant culture of which they were a part. With the repeal of national alcohol prohibition in 1933, labor racketeering became an even more important source of revenue and power for organized crime. After a brief effort in the mid-1950s to oppose organized crime infiltration, the AFL-CIO apparently concluded that the labor movement would suffer more from opposing organized crime than from accommodating it (Hutchinson 1970).[27]

Unions have proved highly vulnerable to corruption and racketeering. Once the dues checkoff privilege was recognized, unions became the recipients of a steady stream of money deducted from workers' paychecks. Corrupt union officers easily diverted funds into their own pockets, sometimes by theft but sometimes via extravagant salaries and perks. The emergence of huge union pension and welfare funds in the 1950s made unions even more attractive to organized crime. As Lipset, Trow, and Coleman (1956) recognized nearly a half century ago, most union members are apathetic. They have certainly not been able to successfully oppose organized crime groups.

The sociopolitical status and economic strength of the Cosa Nostra organized crime families throughout the twentieth century have been significantly augmented by their influence in local and international

[27] An excellent example of the AFL-CIO attitude toward corruption and racketeering in unions is David Elbaor and Larry Gold's (1985) monograph, *The Criminalization of Labor Activity: Federal Criminal Enforcement against Unions, Union Officials and Employees.* This short monograph (by the chief counsel of the AFL-CIO) denies the existence of any significant organized crime problem in the labor movement and attributes investigations and prosecutions to a sinister plan by big business and big government to undermine the labor movement. The following excerpt provides a flavor: "The government continues to seek a substantial increase in money and personnel to carry out its prosecutorial campaign against organized labor, peddling sensational recitations of union crime and preying on public willingness to equate labor with corruption. Ironically, the motley assortment of prosecutions in recent years suggests not that the government's substantial investigatory resources have produced great results, or proven organized crime's permeation of the labor movement, but that most union crime is isolated, unconnected with larger criminal networks, involves relatively small sums of money, and is of a technical nature" (p. 66).

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unions. Unions have provided organized crime with jobs, patronage, money, and power. Businesses and government agencies have to deal with organized crime figures who hold union office. Corrupt businessmen have allied themselves with corrupt union bosses, bribing them for sweetheart contracts and for ignoring or circumventing terms of collective bargaining agreements. The status that the labor racketeers derived from their positions or associations with unions translated into political power, especially in the heyday of the urban political machines. Unions provided endorsements, workers, and campaign contributions to political candidates. In return, the politicians looked the other way when the union bosses lined their own pockets.

There are many reasons why the American labor movement has declined over the twentieth century, but one factor worth considering is the negative impact of racketeering. To an extent, perhaps, some unions at some time, under some leaders, benefited from being allied with organized criminals; such alliances may have increased their leverage at the bargaining table. But labor racketeers are out for themselves and their organized crime cronies, not for the rank and file. They promote themselves and their cronies to leadership positions within the unions, draw excessive salaries, sell out the members' contractual rights, and loot the pension and welfare funds. They show no interest in organizing and no interest, of course, in union democracy. Labor idealists who wish to democratize and strengthen their unions cannot succeed in unions penetrated by organized crime. Indeed, the taint of organized crime may partly explain the failure of the labor movement in the second half of the twentieth century to attract the energy and idealism of the younger generations.

B. Criminal Justice and Labor Racketeering

As late as the 1980s members of Congress, labor officials, businessmen, politicians, and scholars considered the Italian-American Cosa Nostra crime families invincible. The 1986 President's Commission on Organized Crime was highly pessimistic about the prospects for purging the labor movement of Cosa Nostra racketeers.

Less than two decades later, the prospects for change look much brighter. The Cosa Nostra crime families, under constant legal attack for almost two decades, have been significantly weakened, in some cities practically eliminated (Jacobs and Gouldin 1999). The boss of every Cosa Nostra crime family has been imprisoned; in many cases their successors and their successors' successors have followed them to

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jail. Dozens of high-level Cosa Nostra members have become cooperating witnesses, assisting in the investigation and prosecution of their former colleagues, their rackets, and corrupted unions and businesses. This unprecedented attack on "traditional organized crime" has had repercussions for labor racketeering. For one thing, the organized crime families are much weaker than they were a generation ago; they have fewer and weaker resources to bring to bear in support of labor racketeering activities. For another thing, the federal government has attacked Cosa Nostra by powerfully attacking its base in labor unions.

Civil RICO has been the great engine of the government's onslaught. Beginning with the 1982 suit against IBT Local 560, government lawyers have brought one major labor racketeering case after another against local unions and international unions, including the IBT, HEREIU, ILA, and LIUNA (complaint prepared but not filed). Civil RICO allows the government to address an entire crime problem, like a mobbed-up union. There have been approximately twenty trusteeships resulting from DOJ civil RICO suits brought against unions (see app. table A1); unfortunately, there has never been a comprehensive accounting.

The civil RICO suits have been advantageous for the government because they have led to court-appointed trustees, almost always former prosecutors with major experience investigating and prosecuting organized crime cases. There is no uniform role or set of powers for these court-appointed trustees. Each judge or each consent agreement provides the trustee or trustees with case-specific authority. Moreover, each court or consent decree provides for how the trusteeship will be funded and for how long; funding has varied from generous to inadequate.

The continued interest and support of the presiding judge is critical to the court-appointed trustee's success. If the judge makes it clear that reform of the union is a nonnegotiable goal that the court will see through until victory, rank-and-file members will be more willing to step forward to work with the trustee and to challenge the racketeers for union office. But as long as a feeling persists in the union that the judge will lose interest, the trusteeship run out of funds, and the trustee become distracted with other work, the rank and file will remain intimidated, demoralized, and disorganized, anticipating the return of mob dominance.

The FBI, DOL, OCRS, and the U.S. attorney's office also play key roles in determining the success of the trusteeship. If they stay involved, they can help the trustee identify union members who continue

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to associate with organized crime, and they can assist in putting together disciplinary cases seeking a corrupt member's expulsion from the union. Continued investigations can also lead to a new round of criminal charges and civil RICOs. The FBI, DOL, and U.S. attorney can also keep the pressure on the trustee to be aggressive and creative in his reform efforts. The trustee's success depends upon his authority and resources, whether he can appoint paid assistants, and whether the union members are persuaded that he will be on the job until the racketeers are purged and union democracy restored. Perhaps even more important are the skills, creativity, determination, and competency of the trustee. Most of the trustees are former prosecutors. This facilitates coordination with the Department of Justice and equips the trustee to investigate racketeering and other wrongdoing. But it does not facilitate the fostering of union democracy and the energizing of a plundered and demoralized union. Those tasks can best be carried out by knowledgeable, skilled, and charismatic trade unionists. Some trusteeships have been fortunate to have had both types of trustees, but many have not.

A court-appointed trusteeship is not a panacea. Many trustees have not been successful. While there has never been a study of the successes and failures of RICO suits against mobbed-up international and local unions, our impression is that less than half could be called successful and only a few, at least to this point, could be called completely successful. If the court-appointed trusteeships are to fulfill their potential as an organized crime control strategy, much research needs to be done on how to achieve success. To date, only the IBT Local 560 trusteeship has attracted scholarly attention (Goldberg 1989; Summers 1991; Jacobs and Santore 2001).

The dozens of trustees who have been appointed to clean up corrupt unions have never been brought together for a conference.[28] Their numerous reports to their respective judges have not been assembled and therefore are not available to new trustees. After almost twenty years of such initiatives, there are neither "how to" manuals nor any materials whatsoever on how a trustee can maximize the chances of success. Here there are surely roles for the National Institute of Justice, private foundations, and university-based criminologists, among others.

It is hard for someone interested in labor racketeering to understand

[28] In 1989, some of the court-appointed trustees testified regarding the successes and failures of their trusteeship (see United States Congress 1989).

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why the National Institute of Justice has shown no interest in sponsoring research on labor racketeering or its remediation; such research would undoubtedly be valuable to scholars and law enforcement officials in other countries that face serious organized crime problems. Perhaps the "blame" lies with the academic research community that, for one reason or another, has not focused much attention on organized crime, much less on labor racketeering. The subject, of course, is somewhat politically sensitive. But if political sensitivity has not prevented DOJ's prosecutorial wing from exposing and attacking labor racketeering, it makes no sense for DOJ's research wing to avoid studying the subject in aid of the department's future remedial efforts.

This is not the place to present a full-scale research agenda on the subject of labor racketeering. Suffice it to say that we need case studies on each of the major initiatives against labor racketeering. We need to carefully document and analyze the strategies used to purge corrupt elements from the unions and to rebuild the unions' democratic structures and processes. Such case studies, carefully coordinated and analyzed, and supplemented by joint meetings with the individuals who carried out these remedial efforts, would yield policy recommendations of great assistance to future initiatives in the United States and in other countries facing similar or analogous organized crime problems.

A final note. While organized crime controlled labor racketeering may be fading, that does not mean that labor corruption will die out as well. Dishonest officials, unconnected to organized crime, will always be in a position to embezzle money, defraud their unions, and extract excessive fees and reimbursements. The government cannot (and should not) try to monitor and regulate all the union locals and internationals in the country. In the final analysis, only an energized and watchful rank and file can assure that dishonest union officials will be swiftly exposed and deposed.

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APPENDIX

TABLE A1

Civil RICO Suits against "Mobbed-Up" Unions

Case Name	Date Filed	Published Opinions Discussing Various Aspects of the Case
1. U.S. v. IBT Local 560, No. Civ. 82-689	March 9, 1982, D.N.J.	*U.S. v. Local 560*, 581 F. Supp. 279 (D.N.J. 1984), *aff'd* 780 F.2d 267 (3d Cir. 1985)
2. U.S. v. Local 6A, Cement and Concrete Workers, LIUNA, No. 86 Civ. 4819	June 19, 1986, S.D.N.Y.	*U.S. v. Local 6A*, 663 F. Supp. 192 (S.D.N.Y. 1986)
3. U.S. v. The Bonanno Organized Crime Family of La Cosa Nostra, Philip Rastelli, et al., No. Civ. 87-2974 (IBT Local 814)	August 25, 1987, E.D.N.Y.	*U.S. v. Bonnano*, 683 F. Supp. 1411 (E.D.N.Y. 1988); 695 F. Supp. 1426 (E.D.N.Y. 1988); 879 F.2d 20 (2d Cir. 1989)
4. U.S. v. Local 30, United Slate Tile and Composition Roofers, et al., Civil Action No. 87-7718	December 2, 1987, E.D. Pa.	*U.S. v. Local 30*, 686 F. Supp. 1139 (E.D. Pa. 1988), *aff'd*, 871 F.2d 401 (3d Cir. 1989)
5. U.S. v. John F. Long, John S. Mahoney, et al., No. 88 Civ. 3289 (IBT Locals 804 and 808)	May 1988, S.D.N.Y.	*U.S. v. Long*, 697 F. Supp. 651 (S.D.N.Y. 1988); 917 F.2d 691 (2d Cir. 1990)
6. U.S. v. International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, et al., No. 88 Civ. 4486 ("IBT International Case")	June 28, 1988, S.D.N.Y.	*U.S. v. IBT*, 708 F. Supp. 1388 (S.D.N.Y. 1989); 723 F. Supp. 203 (S.D.N.Y. 1989); 725 F. Supp. 162 (S.D.N.Y. 1989); 728 F. Supp. 1032 (S.D.N.Y. 1990); 899 F.2d 143 (2d Cir. 1990); 905 F.2d 610 (2d Cir. 1990); 907 F.2d 277 (2d Cir. 1990); 931 F.2d 117 (2d Cir. 1991); 941 F.2d 1292 (2d Cir. 1991); 964 F.2d 180 (2d Cir. 1992)
7. U.S. v. Locals 1804-1, 824, 1809, 1909, 1588, and 1814, International Longshoremen's Ass'n, et al., No. 90 Civ. 0963*	February 14, 1990, S.D.N.Y.	*U.S. v. Local 1804-1*, 745 F. Supp. 184 (S.D.N.Y. 1990); 812 F. Supp. 1303 (S.D.N.Y. 1993); 44 F.3d 1091 (2d Cir. 1995); *U.S. v. Carson*, 52 F.3d 1173 (2d Cir. 1995)
8. U.S. v. IBT Local 295, No. Civ. 90-0970	March 20, 1990, E.D.N.Y.	*U.S. v. Local 295*, 1991 WL 35497 (E.D.N.Y. 1991); 1991 WL 340575 (E.D.N.Y. 1991); 784 F. Supp. 15 (E.D.N.Y. 1992)

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TABLE A1 (*Continued*)

Case Name	Date Filed	Published Opinions Discussing Various Aspects of the Case
9. U.S. v. District Council of NYC and Vicinity of the United Brotherhood of Carpenters and Joiners of America, et al., No. 90 Civ. 5722	September 6, 1990, S.D.N.Y.	*U.S. v. District Council*, 778 F. Supp. 738 (S.D.N.Y. 1991); 941 F. Supp. 349 (S.D.N.Y. 1996)
10. U.S. v. Edward T. Hanley, et al., Civil Action No. 90-5017 (HEREIU Local 54)	December 19, 1990, D.N.J.	*U.S. v. Hanley*, 1992 WL 684356 (D.N.J. 1992)
11. U.S. v. Anthony R. Amodeo, Sr., et al., No. 92 Civ. 7744 (HEREIU Local 100)	October 23, 1992, S.D.N.Y.	*U.S. v. Amodeo*, 44 F.3d 141 (2d Cir. 1995)
12. U.S. v. IBT Local 282, No. Civ. 94-2919	June 21, 1994, E.D.N.Y.	*U.S. v. Local 282*, 13 F. Supp.2d 401 (E.D.N.Y. 1998)
13. U.S. v. Mason Tenders District Council of New York and Vicinity of LIUNA, No. 94 Civ. 6487	September 7, 1994, S.D.N.Y.	*U.S. v. Mason Tenders*, 1994 WL 742637 (S.D.N.Y. 1995); 909 F. Supp. 882 and 891 (S.D.N.Y. 1995)
14. U.S. v. LIUNA (International Union "voluntarily" instituted reforms in exchange for government not filing complaint)	Never filed	*Serpico v. LIUNA*, 97 F.3d 995 (7th Cir. 1996)
15. U.S. v. Edward T. Hanley, HEREIU, and HEREIU's General Executive Board, Civ. No. 95-4596	September 5, 1995, D.N.J.	*U.S. v. HEREIU*, 974 F. Supp. 411 (D.N.J. 1997); Agathos v. Muellenberg, 932 F. Supp. 636 (D.N.J. 1996)
16. U.S. and LIUNA v. Construction and General Laborers' District Council of Chicago and Vicinity, Civil No. 99C 5229	August 8, 1999, N.D. Ill.	*LIUNA v. Caruso*, 1999 WL 14496 (N.D.Ill. 1999), *aff'd*, 197 F.3d 1195 (7th Cir. 1999)
17. U.S. v. LIUNA Local 210, Civil No. 99 CV-0915A	November 18, 1999, W.D.N.Y.	*Panczykowski v. LIUNA*, 2000 WL 387602 (W.D.N.Y. 2000); *Caci v. LIUNA*, 2000 WL 387599 (W.D.N.Y. 2000)
18. U.S. v. HEREIU Local 69	April 17, 2002	

* The civil RICO suit in this case resulted in four separate trusteeships.

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VIOLENCE IN THE QUEENSLAND CFMEU

A. INTRODUCTION

1. The Administrator of the CFMEU has directed me to investigate violence in the Queensland operations of the CFMEU.[1]

2. Violence is any behaviour which is physically, sexually, emotionally, psychologically or economically abusive. It includes conduct which is threatening or coercive, or which causes a person to feel fear for their safety or well-being. It specifically includes conduct which "*causes a child to hear or witness, or otherwise to be exposed to the effects of, such behaviour".*

3. That definition of violence should not be unfamiliar to the CFMEU – the definition is one drawn up by the CFMEU to be included in its enterprise agreements.[2] The purpose of having such a wide definition of violence was, apparently, to protect CFMEU members from harm.

4. Yet, as will be seen, the CFMEU has breached – deliberately breached – every aspect of its own anti-violence policy. The CFMEU in Queensland actually intended to inflict physical, sexual, emotional, and economic abuse on others. The CFMEU used threats and coercion deliberately to cause fear. As will be seen, the CFMEU directed threats and intimidation at women and children.

5. In summary, there is no doubt that there is violence in the Queensland construction sector and there is no doubt that the CFMEU was a big part of that violence. This is hardly a revelation. In 2024 a federal judge said he did not require evidence of CFMEU violence because it was "*well documented"* that the Queensland CFMEU had "*engaged in thuggish behaviour".*[3]

6. The purpose of the violence is plain – the violence is used by the CFMEU to support a pursuit of political, industrial, and financial power. This included, if necessary, destroying individuals and businesses. The CFMEU is ruthless – it will crush anyone offering any resistance to it.

7. The campaign of violence was very likely planned and directed by the CFMEU leadership – principally by the secretary, Michael Ravbar, and an assistant secretary, Jade Ingham.[4] The campaign was eagerly executed by some CFMEU organisers,

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1 The terms of reference are attached as Appendix A. The terms were altered on 27 May 2025 to extend the period under investigation back to 2015. References in this report to the "CFMEU" should be read as limited to the Union's Queensland operations, either through the Queensland Branch of the federally-registered CFMEU or the state-registered entity, the CFMEUQ.

2 See, as just one example, clause 42.3 of the "*RB Major Projects Pty Ltd and CFMEU Collective Agreement 2023-2027*"

3 Justice Rangiah in *CPB Contractors Pty Ltd v Construction, Forestry and Maritime Employees Union* [2024] FCA 459 at [51].

4 As will be explained, Ravbar and Ingham were given multiple invitations to attend an interview or to respond in writing. They declined all invitations. They were specifically requested to respond to this suggestion regarding their role in the violence. Neither did.

some delegates, and some rank-and-file members. Ravbar and Ingham successfully cultivated a culture of violence in the CFMEU.

8. This report is not motivated by any hostility toward the trade union movement - far from it. This report is generated from a genuine respect for the essential role trade unions hold in redressing the imbalance of power between labour and capital, in improving the lives of working Australians, and keeping workers safe. But the power and benefits conferred through the recognition given to a trade union carries with it responsibility and accountability, and subjects its conduct to scrutiny. The rights of organisation and protest are not unlimited; there is a line somewhere - and violence is always on the wrong side of that line.

9. The Queensland CFMEU has well and truly crossed that line. The problem of violence in Queensland is serious. Numerous instances of violence are detailed in this report.

10. The CFMEU methods have proved effective in Queensland. The CFMEU has got its way, time after time, on numerous aspects of policy and during practical negotiations. Many of the opponents of the CFMEU have stood up to the intimidation, but others have been cowed by the threats. One common CFMEU method is to target individuals, isolate them, attack them, and not let up. The CFMEU is relentless. The conduct of the CFMEU has required some of their targets to quit their jobs, to move their homes, and to seek medical assistance. The CFMEU has ruined careers and caused long lasting emotional and financial damage to its opponents.

11. Yet often the methods employed by the CFMEU are childish and cowardly - *childish* because many of the methods used are scarcely more sophisticated than schoolyard bullying; *cowardly* because the CFMEU commonly sends a dozen or more men to intimidate its targets. The CFMEU imagines that strength is best reflected in sending ten men to threaten one. That is not strength – it is thuggery. Consistent with the thuggery, the CFMEU targets the vulnerable, including women.

12. There is a lot of hypocrisy in the CFMEU. The leadership speaks of its concern for the mental health of workers, but then deliberately damages the mental health of its opponents. The leadership speaks passionately about job security, but then constantly calls for the sacking or resignation of its opponents. The leadership speaks emotionally of unity in the trade union movement, but then tries to wipe out competing unions.

13. But far and away the worst hypocrisy from the CFMEU relates to its treatment of women. The leadership speaks of its concern for women, but then viciously attacks the women who oppose it in degrading and sexist terms. A specific section of this report will focus on violence inflicted on women by officials and members of the CFMEU. One of the witnesses is a health and safety advisor with more than thirty years' experience on Queensland building sites - she said that the belief that conditions for women are

improving is wrong and, if anything, the way in which women are treated has been deteriorating.

14. Unless it is stopped the CFMEU violence in Queensland will get worse. That said, there is evidence that suggests that if changes are made the risk of violence can be reduced and may even be removed.

15. If there is to be a change it will need to be initiated by the Administration. Even though Michael Ravbar and Jade Ingham have been removed, and even though a handful of officials have resigned, there seems to be little willingness amongst the holdover officials to change. Instead, those officials I interviewed were steadfast in denying that there was any problem at all – I was told repeatedly by organisers that they had never seen any violence emanating from the CFMEU. That is laughable given the extensive court findings and the irrefutable video evidence.

16. The Administration's response needs to be swift and ensure long lasting change. To end the violence will require the immediate removal of some officials.[5] Those officials and delegates who remain will need to be warned that repetition of the violence will lead to termination of their employment or appointment. Violence by the CFMEU can no longer be tolerated.

The course of the investigation

17. Over three months, 55 people were interviewed during the investigation, most more than once.[6] Those interviewed included CFMEU officials and members, other trade unionists, politicians, bureaucrats, building contractors, representatives from employers' associations, bystanders and – worst of all – victims of the abuse. Speaking to the victims was especially eye-opening. Extensive video and photographic evidence has been obtained and examined. The information included contemporary press reports and social media posts made by the CFMEU. There are thousands of pages of material.

18. Yet I fear this investigation only scratched the surface of the violence in the Queensland CFMEU. There are many other potential witnesses and many other stories which could have been told. There was no chance nor need to pursue them all. Enough was uncovered to make me confident of the accuracy of the matters included in this report.

19. This investigation was conducted while the CFMEU constitutional challenge to the Administration was unresolved.[7] The investigation was hampered to some extent by that fact. While that decision was outstanding several potential witnesses were reluctant to co-operate in case Michael Ravbar and Jade Ingham were successful and reinstated.

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5 The names of those officials will be provided separately to the Administrator in a private report.
6 A list of participating witnesses has been provided to the Administrator.
7 At the time this report was prepared the judgment had not been handed down.

A lack of co-operation from CFMEU witnesses

20. An investigation like this requires some degree of co-operation: potential witnesses need to be willing to talk; potential witnesses need to be truthful and accurate.

21. There was an obstinate refusal to co-operate from some critical witnesses with connexions to the CFMEU. It seems, sadly, that CFMEU officials are afflicted with widespread memory loss.

22. Four groups of witnesses connected to the CFMEU were identified as especially important to the investigation.

23. The first group comprised the former secretary Michael Ravbar, and a former assistant secretary, Jade Ingham.

24. Given the High Court challenge to the validity of the administration, it was regarded as inappropriate to require Ravbar and Ingham to attend an interview under s 323L of the *Fair Work (Registered Organisations) Act 2009*. Instead, Ravbar and Ingham were given multiple invitations to attend an interview. Neither took up the invitation.

25. This was a pity because there is no doubt that each could have assisted the investigation. It also meant that information adverse to Ravbar and Ingham was left uncontradicted.

26. A second group of current officials was identified as potentially helpful. Because this group comprised current employees of the CFMEU, they were directed by their employer to attend interviews. Independent legal representation was provided. They were [redacted]

27. The interviews were disappointing. Several of these men were deliberately unhelpful and even gave palpably false answers. A summary of what they had to say and the reasons for the adverse assessment of it is provided in my private report to the Administrator.

28. Because of specific matters adverse to him, a further invitation to attend or to provide a written response was sent to [redacted]

29. A third group of witnesses comprised previous employees of the CFMEU. This group could not be directed to attend, so they were invited to attend an interview. Again, independent legal representation was provided. Each of them declined to participate in an interview. This group comprised [redacted] a former co-ordinator, and the former organisers [redacted]

30. [redacted] accepted an opportunity to provide answers to written questions. Those answers are referred to where necessary in this report.

31. Because specific matters of concern arose during the investigation, further invitations were made to [redacted] to attend an interview or provide written responses to address the issues. [redacted] gave a minimal response and [redacted] declined to respond altogether.

32. A fourth group of witnesses are or were CFMEU delegates – ie officials of the CFMEU, but not employees of the CFMEU. They were also given an opportunity to attend an interview or answer questions. As none were employed by the CFMEU there was no power to direct them to attend an interview or to answer questions. Again, legal representation was made available, but each declined an interview. They are [redacted] and [redacted].

33. Because the investigation raised specific issues of concern against them, further invitations to attend an interview or provide written responses were extended to [redacted] to address the matters raised. Both declined the invitation.

The reports

34. My report is in two parts: this public report and a private report which will be provided only to the Administrator.

35. This public version has been deliberately framed to prevent repercussions against those who have provided assistance. Some names and other details have been withheld. Some of the images reproduced have been cropped or altered to protect identities. The content of some social media posts that targeted victims has been suppressed – to republish them would only retraumatise the victims and possibly grant some perverse pleasure to those who posted the abuse.

36. *Warning* - some of which follows in this report will certainly be distressing to some readers. It includes violence and threats toward women and, in one instance toward a child.

B. BACKGROUND: THE CFMEU IN QUEENSLAND

The legal structure of the CFMEU

37. Although references to the CFMEU will be made throughout this report, there are actually three separate bodies relevant to this investigation.[8]

38. The first body is the federally registered organisation, which has three Divisions – the relevant one being the Construction and General Division. The second body (and the principal focus of this report) is the federally registered Queensland and Northern

[8] Even the reference to the "CFMEU" needs to be qualified; because of amalgamations or separations, the Union has had different titles, but those make no difference to this report – throughout the Union will be referred to as the CFMEU.

Territory Branch of the C & G Division. The third body, typically referred to as the 'CFMEUQ', is registered under the *Industrial Relations Act 2016* (Qld).

39. It will generally be sufficient to refer simply to the CFMEU, using that as a means of describing the conduct of one or more of the CFMEU organisations operating in Queensland.

The leadership structure of the Queensland CFMEU

40. Before the Administration commenced the control of the Queensland Branch was vested in the Branch Committee of Management – commonly known as "*the COM*". The COM is elected by members.

41. Beneath the COM, during the period relevant to the investigation, [redacted] a secretary, Michael Ravbar, and two assistant secretaries, Jade Ingham and Kane Lowth. No adverse information was ever received in respect of Lowth.

42. Ravbar and Ingham were removed from their position upon the commencement of the Administration. [redacted] Under the Administration the powers and duties of the executive have been transferred to an executive officer.

43. Beneath the executive were, roughly, 40 organisers. The organisers were allocated roles, sometimes by reference to a geographical area, sometimes by reference to a task or trade. The number and names of the organisers changed occasionally. It will only be necessary to identify a few in this report.

44. The executive and the organisers were directly employed by the CFMEU.

45. Beneath the organisers there were, roughly, 400 delegates. Delegates are supposedly selected through a democratic process – ie a vote of members on a particular site. In practice the members are more commonly presented with a single candidate. The delegates are not employed by the CFMEU; they are employed by the contractor or contractors on a particular site. Upon selection a delegate will be recognised by the CFMEU and given specific training. The number and identity of the delegates changes often, and only those of particular present interest will be mentioned in this report.

46. Together the organisers and delegates are known as "*officials*" of the CFMEU and have a role of representing the Union in different circumstances. They are positions of power and authority.

C. THE CYCLE OF LAWLESSNESS

47. There is a plain and consistent theme running through the operations of the CFMEU in Queensland – that theme is the CFMEU's utter contempt for the law, its disregard for laws and rules, its refusal to be bound by ordinary norms of behaviour, and its attempt to take advantage of its acting outside the law. There is something deeply hypocritical

that, when challenging the validity of the legislation introducing the Administration, the CFMEU took their arguments to the High Court on the basis that the CFMEU was entitled to the protection of the rule of law – a protection it had repeatedly denied to those with whom it dealt.

48. In some ways the problem goes deeper than a mere disregard for the law, it seems to extend to deliberate breaches. The CFMEU wanted to have the reputation of an outlaw.

The CFMEU's attitude to industrial prosecutions

49. In August 2024 the Fair Work Commission detailed how, in the 21-year period between 2003 and 2024, there were 213 separate court proceedings brought against the CFMEU, resulting in 2,600 convictions and the imposition of $28 million in fines. Things were getting worse, not better: in the High Court challenge the Solicitor-General cited records showing how, in the five-year period between 2019 and 2024, the CFMEU had been convicted of 1,163 breaches of industrial laws, resulting in more than $10 million in fines.[9]

50. This is quite out of order with the experiences of other trade unions: the CFMEU had collected 55 times more convictions than its closest competitor; many large trade unions had not been prosecuted for a single breach. While it is fair to observe that the Australian Building and Construction Commission targeted the CFMEU, other unions were also subject to the ABCC, and did not have conviction rates anything like the CFMEU.

51. Some federal judges imposing punishment on the CFMEU have observed that the CFMEU has no regard for the fines and that fines have proved ineffective as a deterrent. Several judges have described the CFMEU's attitude as treating the fines as a cost of doing business.

52. I would go further – it seems more likely that breaching the laws and suffering fines was an integral part of the CFMEU business model. Its reputation as an aggressive outlaw created a fear and reticence amongst those dealing with the CFMEU. Those running the Queensland CFMEU were obviously content that the value of that outlaw reputation well exceeded the amount of the fines.[10]

53. Those statistics apply to the whole of the CFMEU; this investigation is focussed on Queensland Branch. For that reason literally dozens of Queensland court decisions were read as part of this investigation – there is something of a summary below. Reading judgment after judgment is dispiriting: the lawlessness in Queensland affects every aspect of the CFMEU's operations - its relations with government, its relations

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9 See Ravbar v Commonwealth of Australia [2024] HCATrans 90 (10 December 2024).

10 In his evidence in the Trades Union Royal Commission, Michael Ravbar said that "*I don't have a problem*" with the CFMEU breaching court orders, including an injunction: Michael Ravbar, 6/8/14, T: 347.25-39. Referenced Heydon Report, Volume 5, page 400.

with regulators, its relations with other trade unions, its relations with contractors, its relations with women, and its relations with the public.[11]

Who paid the fines?

54. Unless a punishment stings it will not deter. For this reason, there is a statutory power to make an individual liable to pay the fine and to prevent recovery from the CFMEU or some third party.[12] Unless personal payment orders were made, the CFMEU routinely paid the fines imposed upon its officials. That meant the individual official faced no downside; the individual develops the confidence and impudence to continue breaching the law.

55. Several personal payment orders have been made against Queensland CFMEU officials by federal judges.

56. There were strong rumours that the CFMEU protects its officials and members from the impact of personal payment orders. An examination of CFMEU records was conducted which showed payments were being made which had the effect of defeating the sting of the personal payment orders. It seems the CFMEU may have received legal advice that third-party payments would be acceptable if made by the State registered union. That advice appears to have glossed over the complex financial relations between the Queensland Branch and the Queensland Union.

57. When individual officials were asked about the matter, objections were taken invoking the privilege against self-incrimination. Those who claimed the privilege were [redacted]

58. The only reasonable inference is that those claiming the privilege had not complied with personal payment orders made against them. There is no doubt that they and others were being funded in a way to evade the orders of the courts.

59. The step of consciously evading court orders is serious, and a further demonstration of the utter disregard the CFMEU has for the rule of law. It also explains why officials were repeatedly breaching the law.

D. INSTANCES OF VIOLENCE

60. The violence the CFMEU brings into the construction sector occurs in a wide variety of ways – in far too many ways to catalogue the lot. There is chaos – the CFMEU thrives on chaos. This makes it difficult to organise the violence into some kind of sensible order.

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[11] These statistics grossly understate the actual number of breaches. One witness – in a very good position to know – explained that on the Cross River Rail Project there were thousands of individual breaches notified by contractors to the ABCC, but the ABCC were selective as to those which would be prosecuted.

[12] See s 546 of the Fair Work Act 2009.

61. Although there are many other types and occasions of violence, this report is limited to five categories or areas in which the CFMEU deliberately extended its violence.

62. The *first* is the approach the CFMEU took toward the government - the Ministry and the senior bureaucracy. It seems that the CFMEU thought it was, or at least should be, running the Queensland government.

63. The s*econd* is the way the CFMEU treated the Work Health and Safety inspectorate – another area in which the CFMEU decided it should be in control.

64. The *third* is in its relations with the Australian Workers' Union – an Australian trade union which the CFMEU in Queensland seems to have decided should no longer exist.

65. The *fourth* is the relations the CFMEU had with employers and with employer organisations. Here it is perfectly understandable that there would be tensions, but the CFMEU recognised no boundaries and went much too far.

66. The *fifth* is the way in which the CFMEU treated women. This issue has been left until last because in some ways it is the most important. It is a showcase of what is wrong with the CFMEU.

67. As foreshadowed, much of what follows involves abusive language. It might be said that these are only words, but that ignores the real effect the words had. The CFMEU knew by 2014 of the power and effect of abusive language, and why it was unacceptable. In *CFMEU v BHP Coal Pty Ltd*[13] a mine worker's employment was terminated because he was carrying a sign bearing the words "*No principles, SCABS, No guts".* The CFMEU litigated the matter all the way to the High Court, where the termination was upheld because the language was offensive, abusive, humiliating, harassing, and intimidatory.

68. It is stunning to compare those words – "*No principles, SCABS, No guts"* - with the horrifying abuse about to be disclosed below.

HOSTILITY TOWARD GOVERNMENT

69. Australian politics, especially at a State level, is notoriously robust; strong criticism is common. But even by those standards the CFMEU went too far.

70. The problem starts with Michael Ravbar. He, like all Australians, enjoys a freedom of political communication, but that does not entitle him or anyone to engage in persistent, threatening abuse. His language set a low standard of conduct for the whole of the Queensland CFMEU. If the CFMEU was sliding into violence, the slide was starting from the top.

[13] [2014] HCA 41.

"Politically moronic"

71. In speech after speech, Ravbar denigrated politicians because they would not give in to him. The attacks were personal, lifted straight from the Trump playbook. Ravbar described the Prime Minister as *"gutless", "willingly ignorant",* and *"politically moronic".* He said that the Prime Minister had "*lost control",* had a "*glass jaw",* was a "*bed wetter",* and had "*panicked and soiled himself".* In one memorable speech he shouted that the Prime Minister was *"doing a shit job"* four times in about two minutes.[14]

72. Ravbar also attacked a succession of Queensland Ministers. He described successive Premiers as "*increasingly remote and intolerant of criticism",* as demonstrating *"an appalling lack of judgement",* and as being *"a joke of a leader".* He described a Deputy Premier as a *"dud"* and another Minister as the "*worst industrial relations minister Queensland has ever seen".*[15] Meanwhile the CFMEU Facebook page told a Minister you have *"blood on your hands".*[16] Ravbar's standard response when faced with the slightest opposition was to call for Premiers, Deputy Premiers and Ministers to be sacked or to resign.

73. I spoke to politicians about this. Their stories were similar.

74. One Minister described the CFMEU as "*the most aggressive"* trade union, and "*so aggressive so that nothing can satisfy its appetite".* Another said "*the CFMEU is uncomfortable if there isn't a battle or a fight on".* One politician asked a very good question – *"the CFMEU is so aggressive, but the AWU is not. Both are building unions – why the difference?".*

75. On public occasions – even formal occasions – the CFMEU would have members attend and heckle politicians. When one Minister was addressing a group, they were drowned out by CFMEU members - *"you've got blood on your hands".* One Minister's office received so many abusive telephone calls that – ironically - as a workplace safety issue the staff were instructed not to take calls from the CFMEU. That Minister was constantly abused by Ravbar; his abuse was described as *"relentless".*

76. The abuse was so bad that the Queensland police insisted that one Minister be given a security upgrade.

77. The abuse was sexist. Occasionally signs were attached to the door of the ladies' facilities near a female Minister's office - "*Flush Labor Down the Toilet".* One of these signs actually used tampons to form the words.

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[14] See as examples: *"Albanese shields mates, sells out workers",* CFMEU media release, 17 July 2024; *"Queensland Union boss lashes out out at Labor government over CFMEU probe*", Brisbane Times, 17 July 2024; *"Doing a sh*t job: Ravbar takes aim at Albanese" Courier* Mail, 27 August 2024; Ministers Media Centre, 14 August 2024.

[15] "*Michael Ravbar blasts Qld Labor for giving plum IR positions to senior union figures*", The Australian, 5 July 2019; "*Minister rejects resignation calls after worker injured*", Canberra Times, 26 July 2023; "*Ex CFMEU powerbroker savages Miles as 'a joke' '*", The Australian, 27 August 2024

[16] CFMEU Facebook post, 15 February 2024.

78. The aggression was quite mindless. For example, a Minister's electorate office was picketed, but when the Minister asked the men on the picket line what their issue was, they had no idea.

"*You're now working for us"*

79. The following might be the best example of how the CFMEU thought of government, especially a Labor government.

80. When Labor recovered government in Queensland in February 2015 the CFMEU seems to have regarded itself as having taken over administering industrial relations.

81. Just after the change of government, two members of an agency attended the CFMEU offices at Bowen Hills for stakeholder consultation over new industrial legislation. The new law had been a promise of the incoming government. I was told by a senior public servant that, upon arrival, they were verbally attacked by by [redacted]

82. According to that public servant, [redacted] complaint was that the CFMEU should have been involved in *drafting* the legislation, and not just consulted after the law was drafted. In other words, in [redacted] view the CFMEU should be making the law, not the Parliament.

83. The public servant said that [redacted] is a large man and he stood, towering above the consultative team. He shouted for about five minutes. The theme was consistent – *"I am your boss now".* He told them "*You'll take your directions from me"* and added "*You're now working for us".*

84. I wished to raise these issues with [redacted], but he declined my invitation to attend an interview. Instead, he gave a written response which contained no details beyond a bare denial.

"The crack was probably already in the glass… it was probably foreign product."

85. On 5 April 2023 the CFMEU organised a *"National Day of Action"* during which an estimated 5,000 of its members marched through the CBD toward the Commonwealth offices in Waterfront Place in Eagle Street.

86. The principal reason for the protest was to force the federal government to abolish the Fair Work Ombudsman – the body responsible for prosecuting the CFMEU for its many breaches.

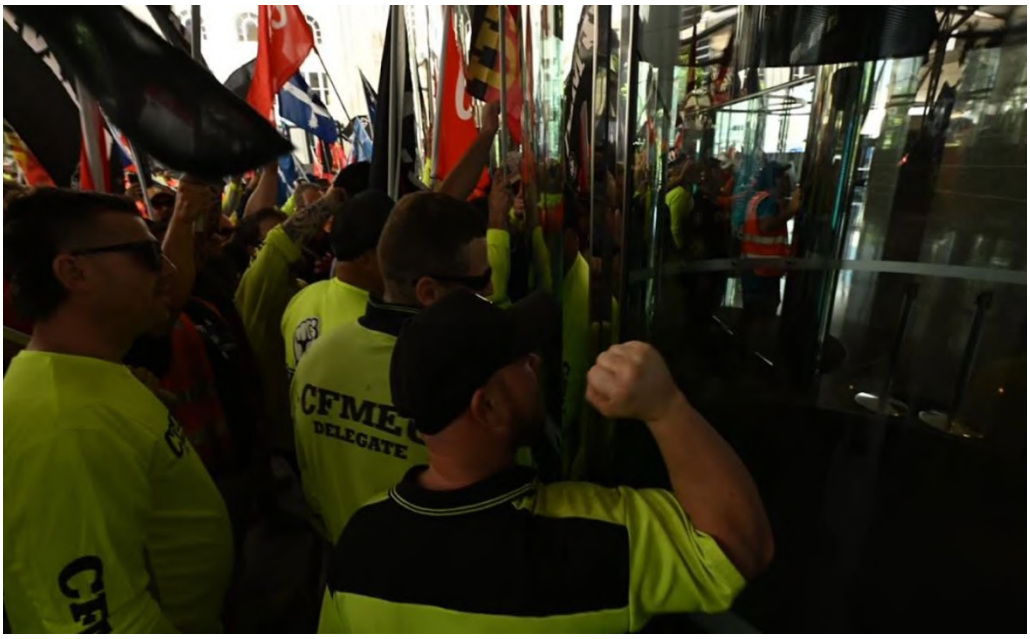

Figure 1: The protesters arrive at the Commonwealth offices (Source: Courier Mail 5/04/2023)

87. The premises at Eagle Street were locked down in advance of the protestors, but several men forced a glass revolving door, smashing it to pieces.

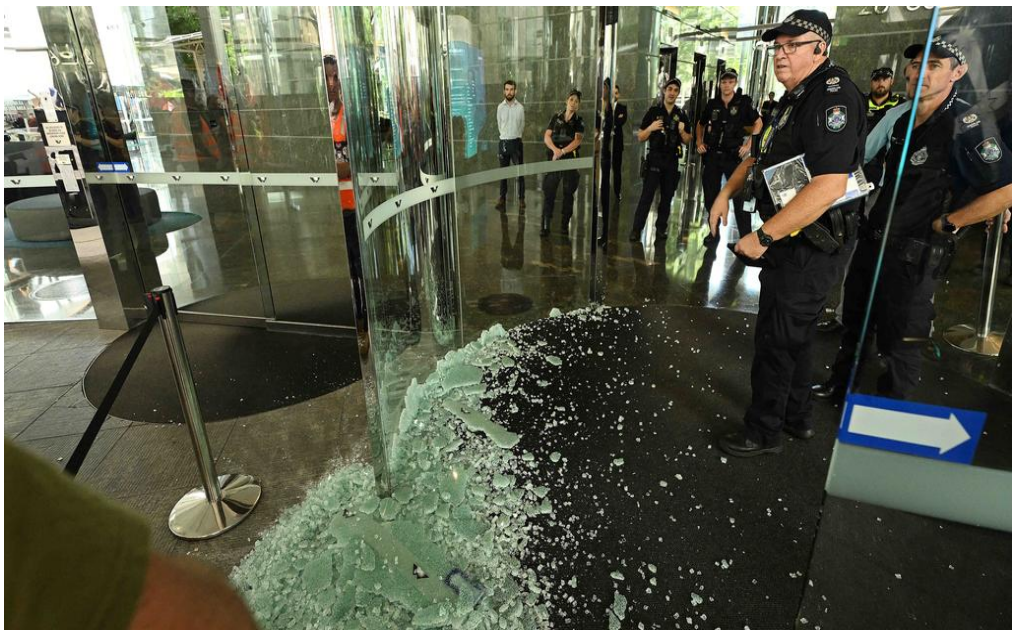

Figure 2:Police inspect the smashed glass door. (Source: Lyndon Mechielsen/Courier Mail 19/04/2023)

88. There was also graffiti found painted onto the building: for example, one message was "*Fuck ABCC*" and another simply said *"Pigs".*[17]

89. Apart from the inconvenience, the cost of the damage to the property was in the order of $25,000.

[17] "T*wo men face court after violent CFMMEU protest"* The Courier-Mail, 19 April 2023. The message regarding the ABCC is puzzling; the ABCC had already been abolished some months earlier.

90. Although there is clear video evidence that the locked door was smashed when CFMEU members were forcing it open, Jade Ingham brushed that aside: he told the mob – "*I know the crack was probably already in the glass and that it wasn't our fault".* He was even able to blame the destruction of the door on foreigners – *"It was probably foreign product to begin with".*

Workers just *"wanting to have a say"*

91. On 23 August 2022 the Queensland Transport and Roads Investment Program had organised an industry briefing at the Department of Transport and Main Roads offices in Mary Street in the CBD. This was an important strategic planning event. Amongst others, three senior officials of the CFMEU were invited to attend.

92. The event never happened. Before the briefing could commence around 200 members of the CFMEU "*stormed"* the premises, forced their way in, and occupied the area in which the briefing was to occur. The mob knocked a security guard to the ground, although he was not seriously injured.[18]

Figure 3: CFMEU protesters occupying the Department of Transport and Main Roads office. (ABC 26/08/22)

93. Departmental workers and persons attending the briefing were forced to take cover. The police were called. The building was placed into lock down. The departmental staff and the visitors were evacuated.

94. The CFMEU's tactic was effective: QTRIP had to abandon the remainder of the briefing program on safety grounds.

95. The Premier, Annastacia Palaszczuk, labelled the CFMEU conduct as "*disgraceful'* and called on the CFMEU to apologise to those hurt. The CFMEU refused: Jade Ingham made a statement that trespassing on the premises was *"nothing more"* than construction workers "*wanting to have a say".* He accepted no blame that an important

[18] See "*Queensland opposition calls on Labor to hand CFMEU donations to anti-bullying charity after protestors entered government building*", ABC News, 26 August 2022; and "*Qld state of disunity as CFMEU flexes muscle in construction industry*", The Courier Mail, 22 July 2024.

industry briefing had to be cancelled; instead he said "*the meeting was cancelled by a government too scared to face scrutiny".*

96. In a gesture typical of the CFMEU, Ingham called for resignations – *"Clean out your sclerotic bureaucracy, starting at the top".*

HOSTILITY TOWARD THE WHS INSPECTORATE

97. The CFMEU had no respect for the independence of the regulators; as far as the CFMEU was concerned, if the regulators would not bend to its will, then they were corrupt or incompetent[19] and could be subject to threats of violence, intimidation and targeting.

98. The CFMEU method for putting pressure on the WHS inspectors was to abuse them, to belittle them, and to whip up an angry response from the membership toward the inspectors. This last matter was commonly done through posts placed on the CFMEU Facebook page. The posts were often accompanied by doctored video images. The worst feature of this was undoubtedly deliberate – it meant the inspectors could be identified.

99. And, as will be seen, their families could be identified too (see "*Is that your old man on the video? – He's a fucking cunt*", below).

100. In case it appears that what follows is a biased account provided only from WHS inspectors, it might be important to know that the fact of the abusive conduct was independently corroborated. There are videos of the CFMEU captured by the inspectors. There is also independent corroboration from others who saw the exchanges on various worksites. For example, an employee of one of the contractors on the Cross River Rail Project was an independent witness to the way in which the CFMEU treated the WHS inspectors. He described how the CFMEU organisers and delegates would openly abuse the inspectors and attack them verbally if the inspectors declined to follow the CFMEU's directions.

"Fuck off – I told you I would get you removed"

101. A theme constantly repeated by the WHS inspectors raised issues surrounding the role of a former WHS director, Helen Burgess. This is problematic because those matters are currently under investigation by the Crime and Corruption Commission.[20] In fairness to Burgess I decided not to review those matters in this investigation.

102. But it is necessary to raise this present matter because it demonstrates just how much power the CFMEU wielded over the WHS Inspectorate.

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[19] For example, in about 2021, a CFMEU organiser, [redacted], was disgruntled with the decision of a WHS inspector and so he told the inspector "*you're on the take from the builder*".

[20] See, for example, "*Health and safety officials under investigation for allegedly giving confidential information to CFMEU*", ABC News, 19 August 2019.

103. In about 2021 a bomb threat was made in respect of a building site in Edmondson Street, West End. The police were called and specialist teams carried out a search for the bomb. After some hours the threat was exposed as a hoax.

104. While work on the site was stopped a CFMEU organiser, [redacted] attacked the safety representative of the builder. [redacted] began screaming at the man that he was "*a fucking cunt*" and "*a fucking dog*".

105. A WHS inspector was standing nearby and stepped in and told [redacted] he was not permitted to speak to the safety representative that way, or to use that kind of language.

106. Within minutes the WHS inspector received a telephone call from his boss who ordered him to "*immediately remove himself*" from the site. When [redacted] saw the inspector preparing to leave, he called out to him "*Fuck off – I told you I would get you removed*".

The inspectors' own workplace became unsafe.

107. Things became so bad for the WHS inspectors that they had to introduce their own safe work practices to protect themselves from the CFMEU. This came in two waves.

108. The first change came in about 2018 when a direction was made that a lone inspector could not attend a site where there were multiple CFMEU officials present. In those circumstances a second inspector had to be called. From that time WHS inspectors have had to attend CFMEU sites in pairs for their own safety.

109. The second change came in 2022 when the inspectors were issued with body worn cameras as part of their PPE.[21] This came about because the CFMEU was shooting their own videos, then editing them to show the inspectors falsely in a bad light. When these videos were published on the CFMEU Facebook page they would be accompanied by critical or even humiliating commentary, setting off a thread of unhinged responses. To counter this, the WHS inspectors began wearing cameras and collecting their own videos. Thousands of hours of those videos have been provided to me.

110. The body worn cameras produced an unexpected beneficial result: when the CFMEU officials became aware they were being recorded, their behaviour improved markedly.

"You're that cunt from the video"

111. In about 2022, during the worst of the period of abuse caused by the CFMEU Facebook page, a WHS inspector attended a site in Brendale, just north of Brisbane. He was accompanied by two female trainee inspectors.

112. The inspector was talking to a representative of the builder on the top deck of the building under construction, when one of the workmen came at the inspector with an

[21] PPE – ie personal protective equipment.

angle grinder. The angle grinder was in operation. The workmen shouted at the inspector, "*You're that cunt from the video*".

113. The inspector shepherded the two trainees to safety but was followed by the man with the angle grinder. The man told the inspector "*I want to take you outside and bash the shit out of you*".

114. This happened shortly after the CFMEU had posted an inflammatory video about that inspector on its Facebook page.

"You're a bit of a fucking dog"

115. A WHS inspector was at the funeral of his friend's wife. His friend was from the construction sector and so were several of the other mourners.

116. The inspector was approached by three men he did not know. One of the men came to him and said "*You're that cunt from the video*". Another added "*You're a bit of a fucking dog*".

117. Not long before the funeral, that inspector had been the subject of an inflammatory video posted by the CFMEU on its Facebook page.

"You're a fucking dog, you're a fucking dog, you're a fucking dog"

118. On 4 April 2018 a CFMEU organiser, [redacted], was troubled by what he felt were deficiencies in an emergency evacuation plan. When a WHS inspector demurred, [redacted] responded by moving in close to the inspector and screaming at him "*You're a fucking dog, you're a fucking dog, you're a fucking dog*".

119. [redacted] admitted he did this.[22]

120. It is true that [redacted] was subsequently acquitted of criminal charges arising from this episode[23], but that in no sense excuses [redacted] for what he did: [redacted] was purporting to act under an authority received from the CFMEU while wearing a CFMEU uniform. His conduct was disgraceful.

121. The response from Michael Ravbar to this incident demonstrates just how far the leadership of the CFMEU had departed from the norms of conduct in a civil society: according to a newspaper report, Ravbar called on the WHS Inspectorate to apologise to [redacted] and the CFMEU.[24]

HOSTILITY TOWARD THE AWU

122. The worst violence coming from the CFMEU has been directed at the Australian Workers Union and its officials.

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22 See [redacted]

23 [redacted]

24 " [redacted]

123. The key factor driving CFMEU hostility toward the AWU is an intention to drive the AWU out of the south-east corner of Queensland – if the CFMEU had its way, the AWU would cease to function in that area or, perhaps, cease to function altogether. The CFMEU could then take control of all building sites.

124. Not only is this inconsistent with the industrial legal system, but it is also directly contrary to the objects of the CFMEU which require the CFMEU "[t]*o work as far as is lawful in harmony with other labour unions*."[25]

125. The CFMEU was driven to illegal methods because legal methods were not open to it. Under the competing coverage rules, if the CFMEU had gone through conventional legal processes they would have lost. There is a sufficiently clear dividing line between the workers covered by the AWU and the CFMEU and it showed that the CFMEU did not cover workers on many sites where it was pressing its involvement. On those occasions where the coverage issue had been litigated, the CFMEU had lost.[26]

The commencement of the personal hostility

126. Before 2022 there had been decades of simmering political and industrial competition between the CFMEU and the AWU, but it did not cross into violence. In about 2022 something changed and the competition was converted into a hostile campaign.

127. It is possible to place a date on the spike in the violence deployed by the CFMEU against the AWU. In August 2022 Stacey Schinnerl was elected as the State Secretary of the AWU – the first woman to hold that office.

128. On 6 November 2022 Schinnerl spoke at the ALP State Conference and made a reference to the incident where the CFMEU had stormed the Department of Transport and Roads (see "*Workers just wanting to have a say*", above). Michael Ravbar was leading the CFMEU contingent at the conference. He erupted and demanded that all CFMEU delegates to the conference immediately leave. Those delegates followed their leader.[27]

129. From that time there has been continuous intimidation of the AWU by the CFMEU.

130. There are numerous instances of different kinds of violence inflicted by the CFMEU on members of the AWU – far too many to list all of them; these are just a few.

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[25] See the Objects stated in Part 4 article (m) of the the most recent iteration of the rules of the CFMEU.
[26] One especially vivd example is in the decision of Justice Munro in *Re Australian Workers Union* (1998) 26 IR 197 at 200-201.
[27] Ravbar was specifically asked to respond to this, but declined. H

"You fucking sell-out cunts"

131. On 23 March 2023 there were two incidents at the Brisbane Metro site at the corner of Grey and Melbourne Streets in the city - one in the morning; the other in the afternoon. Each was serious.

Figure 4: CFMEU members blocking the AWU organiser's entry.

132. In the morning three AWU organisers arrived near the site to attend a scheduled meeting. The meeting was approved by the contractor.

133. The CFMEU were determined to prevent the AWU from gaining access to the site. A dozen or more CFMEU members waited for the AWU organisers and blocked their access to the site. The AWU organisers were then surrounded and two were pushed and shoved and dragged by their clothing.

134. Slogans were shouted – a rhythmic chant which starts "*AWU*" – then a pause before – "*Grubs*". It looks childish on paper but is not so harmless when repeatedly shouted by an angry mob. Personal abuse was hurled – "*You fucking sell-out cunts*" was one memorable line.

135. This was happening on a public street and members of the public were nearby – one CFMEU man, in an agitated an aggressive manner, approached bystanders at a bus stop screaming "*Do you think the AWU are grubs?*" Two women near the scene became distressed and commenced crying.

136. I was told by a person that [redacted] a CFMEU organiser, grabbed and manhandled him. This was corroborated by a witness. [redacted] sent a written response adamantly denying it – but I do not see why I should believe him given this seemed to be a miraculous improvement on his memory during his interview. [redacted] was involved, although it is not clear whether he became physically involved.

137. The AWU organisers, with the assistance of the contractor, were able to extract themselves and escape.

138. [redacted] was asked about this incident and, at least at first, he had some recollection – but, as questioning became closer his memory suddenly failed him. When [redacted] was asked about it he, at first, said he recalled being there, but when allegations were put to him he reverted to his standard answer - "*I don't recall*".

"We're the CFMEU – we're here for the Blue"

139. On the afternoon of 23 March 2023 the same three AWU organisers returned to the Brisbane Metro site with a view to speaking to their members. About 25 CFMEU men

again blocked their entry. Again, the conflict was taking place out on a public street. The chants and threats were repeated at full volume.

140. The episode was captured on a video from which screenshots can be extracted.

Figure 5: The point at which the CFMEU blocked AWU access.

141. These scenes show the point on the public street where the CFMEU blocked the AWU organisers from entering the worksite. The large man in the middle is [redacted], a delegate of the CFMEU. [redacted] had formerly been t[redacted]. The man in the yellow jacket being threatened by [redacted] is an AWU organiser. This was happening on a public street.

142. The screenshots do not convey the chaos and anger at the scene. The video does. The screenshots cannot capture the fact that the CFMEU members were screaming abuse at the AWU organisers. It was as though the CFMEU *wanted* to trigger a physical fight. One chant was "*CFMEU – We're here for the Blue*".[28]

143. The AWU organisers maintained their composure and did not respond; if they had physical violence was inevitable.

144. Participants in the afternoon episode can be identified from the video: the CFMEU officials included [redacted]

145. Some of those involved in this incident were directed to attend an interview with me. The interviews were quite unsatisfactory. I asked [redacted] about the incident but each claimed a defective memory prevented them from assisting.

146. Each of [redacted] and [redacted] declined to attend an interview, so each was sent a written request to answer questions about the incident. Both declined.

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[28] [redacted] said that "*We're the CFMEU – We're here for the Blue*" is a common CFMEU chant, but each implausibly denied that the word "*Blue*" might be speaking of a physical fight.

"We know you have two young sons"

147. On 20 June 2023 there was an especially threatening incident at the Gabba Station site on the CRR.

148. Two AWU organisers had come to the site to address members on the progress toward a new EBA during the workers' lunch break.

149. The meeting should have been straightforward, but it was immediately disrupted by [redacted] and another CFMEU representatitve who were bellowing abuse and chanting "*Australia's Weakest Union*".

150. The meeting could not continue and the AWU organisers, together with the AWU site delegate, suspended the meeting. The AWU organisers were parked at a nearby shopping centre. As the AWU organisers then made their way to leave the site they were warned by a contractor – "*You have a crowd waiting for you*".

151. At the front gate there were about 40 CFMEU members waiting for the AWU organisers. A contractor assisted the AWU organisers to find an escape through a side entrance, but there were about 25 CFMEU members waiting there.

152. The AWU organisers were surrounded and prevented from moving for about five minutes. Meanwhile the abuse revved up – "*What the fuck are you doing here?*", "*You are screwing over workers*", "*You fuckers worked on ANZAC Day*", "*Are you scared now?*" – and more along similar lines.

153. The two AWU organisers were separated. One had his backpack ripped from his shoulders, he was pushed and shoved and encircled by angry men. Two men – one of whom has been identified as [redacted] – then shoulder charged the organiser, forcing him out onto the road into the path of traffic. One of the men told the organiser that he knew where he had previously worked; another said "*We won't stop coming for you – no-one can protect you*" and another said "*We know where you live*".[29]

154. Then one made an especially chilling remark – "*We know you have two young sons*".

155. The AWU organisers made their way back to the shopping centre, still surrounded by the CFMEU. The abuse continued even though they were in a public place - some of what then occurred was captured on CCTV footage taken inside the shopping centre.

[29] The CFMEU men did know where the AWU organiser lived. One morning when retrieving his rubbish bins, he found those bins covered with stickers disparaging the AWU. It is known that these stickers have been designed and purchased by the CFMEU (see *The sticker campaign*, below).

Figure 6: The CFMEU surround two AWU delegates in the Coles shopping centre on Stanley Street.

156. This screenshot shows a moment during which the two AWU organisers were surrounded by over ten CFMEU members. This occurred in a public area, adjacent to the opening of the shopping centre on Stanley Street. The movement of the AWU organisers was impeded for a long period.

157. Those from the CFMEU who can be identified as involved in this incident include the organisers [redacted] and [redacted] and the delegates [redacted], and [redacted]. There are many others, who engaged in criminal conduct, who remain unidentified.

158. [redacted] was asked about this incident, but claimed he had a defective memory which prevented him commenting. I had intended to ask [redacted] but it had become apparent that he was not assisting the investigation. [redacted] and [redacted] declined to attend an interview and declined to respond in writing.

"You don't know who I run with"

159. On 25 May 2023 there was an incident when an AWU organiser attended a site to engage in negotiations with an employer over a new AWU EBA. A CFMEU organiser, [redacted], turned up uninvited and inserted himself into the discussions.

160. When the AWU organiser objected to [redacted] involvement [redacted] insisted they take the matter outside – "*Can I have a word with this bloke?*".

161. Once outside [redacted] spoke aggressively to the AWU organiser:

> [redacted]: "*We have to work collaboratively*".
>
> AWU: "*Why – you have no coverage here*".
>
> [redacted]: "*Okay. You want to be a dog*".

162. When the AWU organiser raised the coverage rules [redacted] stopped him:

> [redacted]: "*Shut up little boy - remember what happened at Cross River Rail – we got you there*".

This was undoubtedly a reference to matters described earlier.

163. The AWU organiser then turned to walk away, but [redacted] called him back:

> [redacted]: "*I will see you down at my car later*".

[redacted] then rolled up his sleeve and showed off a tattoo – the AWU organiser said he did not know what the tattoo meant:

> [redacted]: "*You don't even know who I run with. You better watch yourself*".

164. [redacted] denies being a member of or being associated with any members of the Bandidos or any outlaw motorcycle gang, and I accept that denial – but otherwise the aggression disclosed in this encounter is regrettably consistent with other misconduct by [redacted] described in this report.

"You big fat cunt"

165. On 26 or 27 July 2023 an AWU organiser attended a site known as the Northern Portal on the CRR. The wider project was closed following an accident. The purpose of the organiser's visit was to address AWU members on the progress of the investigation into the accident.

166. To enter the site required the organiser to pass through a CFMEU picket line – which was permissible given the purpose of the visit. But when the organiser began to get out of his car he was surrounded by about ten CFMEU members, who got so close to the organiser he had to back up so that he was pinned to his car. More men joined the mob.

167. For 15 minutes the organiser had to suffer shouted personal abuse – "*You fucking grub*", "*Fuck off – it's our site now*" and the like. The men then started chanting "*You big fat cunt – You big fat cunt - You big fat cunt*". Meanwhile, one of the CFMEU men let the air out of one of the tyres on the organiser's car.

168. A CFMEU organiser, [redacted], was present, although he stood apart, watching the abuse go on, but from across a footpath. The AWU organiser also recognised the CFMEU delegates, [redacted] and [redacted].

169. Jade Ingham arrived a little later and when he arrived and spoke to the AWU organiser the hostility diminished. Eventually the AWU organiser was allowed to leave, driving his car with a partly deflated tyre.

170. I spoke to [redacted] about this incident but he claimed his defective memory meant he had no recall. Similarly [redacted] ability to recall the events was compromised, and he was

unable to assist. Invitations extended to [redacted] and [redacted] to be asked about this incident were declined.

171. Although Ingham had declined to attend an interview he did briefly respond by denying any knowledge of this incident.

"Do you want to step outside with me?"

172. On 28 February 2023 at the Gabba CRR site, two AWU organisers were conducting a scheduled meeting in the smoko shed. One of the organisers was new and was introducing himself to AWU members on-site. A CFMEU delegate, [redacted], entered the shed, disrupted the meeting, aggressively shouting abuse about the AWU.

173. When [redacted] was asked to leave he responded to the new organiser – "*Do you want to step outside with me?*" – obviously a threat of violence. When his threat was ignored, [redacted] remained in the smoko shed, disrupting the meeting by repeatedly shouting "*AWU – Australia's Worst Union*" and heaping childish personal abuse on the new AWU organiser.

174. When the organisers were leaving, [redacted] followed them to the perimeter of the site, hurling more abuse. An opportunity for [redacted] to speak about this incident was declined by him.

The Centenary Bridge incident

175. On 23 February 2024 there was an incident at the Centenary Bridge site at Jindalee. Two AWU organisers had been on the site with the knowledge and permission of the contractor and were leaving in their cars, one car following the other. As the first car reached the gates and was about to enter a public road more than ten CFMEU members surrounded the car, shouting at the driver and rocking the car.

176. The scene was captured by a dashcam on the second AWU car:

Figure 7: Dashcam footage of CFMEU officials surrounding an AWU car, blocking exit.

177. The identity of most of those involved remains unknown. Witnesses at the scene say that the CFMEU members were drawn from the so called "*Youth Crew*".

178. The action continued for about 20 minutes before the CFMEU members dispersed when they became aware the police had been contacted.

"When I say AWU, you say grub"

179. At about 9.30am on 2 March 2023 three AWU organisers attended a scheduled meeting at the Albert Street Mall site of the CRR. Two CFMEU organisers tried to break into the meeting.

180. By the time the meeting ended there were six or seven CFMEU members, including the two organisers, waiting outside. They encircled the AWU officials in a threatening fashion, slinging threats and personal abuse. They plastered "*AWU - Australia's Worst Union*" stickers onto the bodies of the AWU organisers (see "*The sticker and poster campaign*", below). The loud and childish chant was struck up – "*When I say AWU, you say grub*".

181. When the AWU organisers attempted to leave, the group blocked their path and surrounded them. Slowly the group inched forward and out onto the public street, with the abuse and chants still ringing.

182. The CFMEU group remained ringed around the AWU organisers, walking with them all the way back to the Adelaide Street offices of the AWU – a distance of several hundred metres. This was all occurring in a public space. Members of the public were pushed out of the way by the CFMEU to allow them to continue with their abuse.

The sticker and poster campaign

183. As part of its war against the AWU, the CFMEU designed and commissioned a range of stickers and posters with messages disparaging the AWU. It is, quite frankly, one of the most childish protests one could imagine.

184. Here is an example of one of their posters:

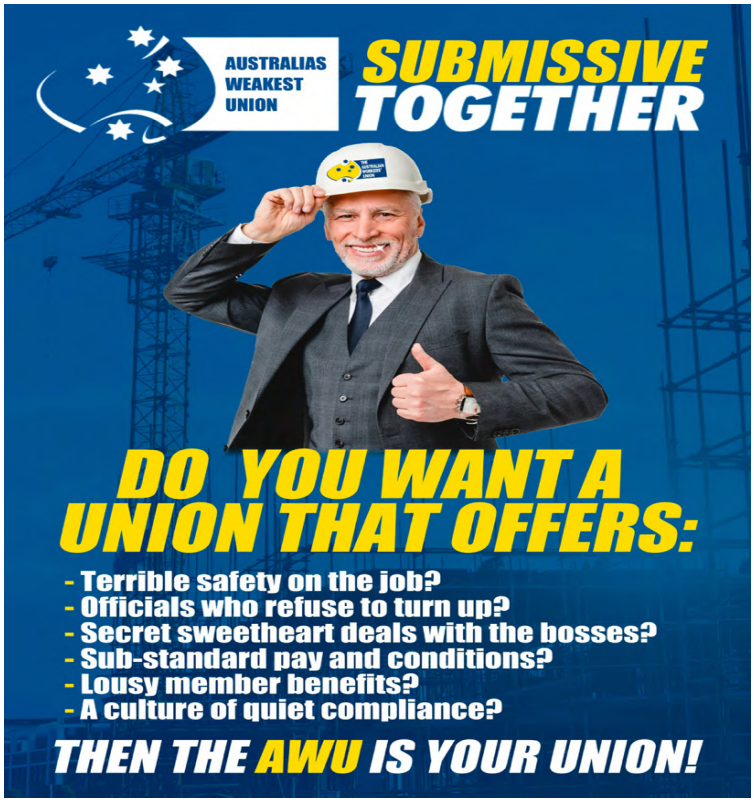

Figure 8A: CFMEU-designed poster.

185. Apart from the sheer stupidity of the campaign, there is a deep irony in some of the messaging. For example, when the poster says something about "*sweetheart deals with the bosses*", it is notorious that the CFMEU has favoured contractors with whom it is close and with whom the CFMEU entered favourable arrangements. When it says the AWU has "*officials who refuse to turn up*" – it is an odd complaint to make when, as shown above, the CFMEU did everything it could to prevent the AWU getting on to sites and organising its members.

186. These are some other examples of CFMEU creative abilities:

Figure 8B: CFMEU-designed stickers and posters.

187. A search of CFMEU financial records shows that substantial sums were spent on these posters and stickers. It is not possible to be precise, but nearly $40,000 of members' money was wasted on this rubbish.

188. The CFMEU went further and applied the stickers to private property.

189. For example, on 24 February 2023 two CFMEU organisers, [redacted] and [redacted], entered a secure carpark beneath the AWU offices and plastered stickers over the AWU vehicles. Stickers were also fixed onto the external walls of the building and the internal walls of the carpark.

190. These are some screenshots taken from CCTV footage from the carpark:

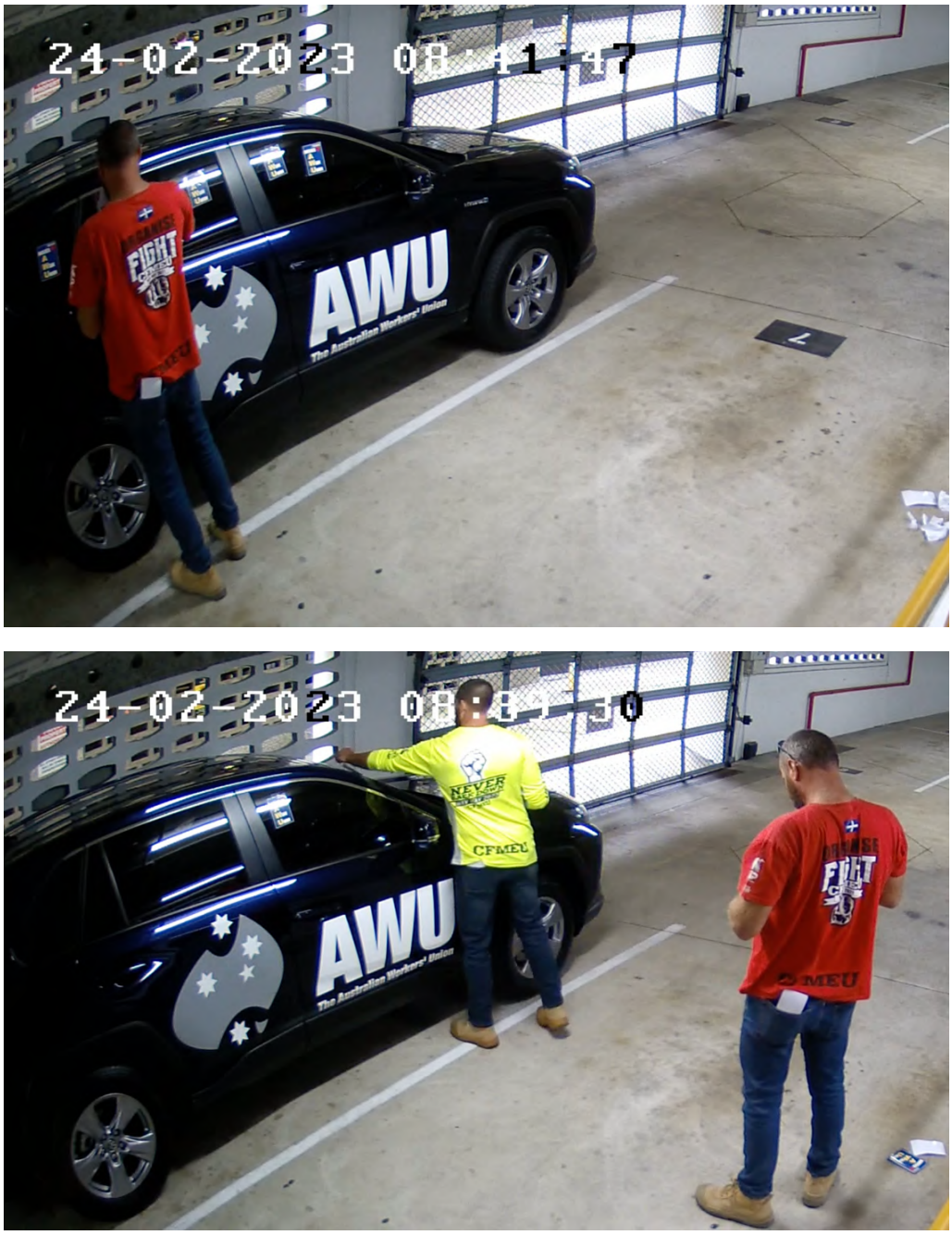

Figure 9: CFMEU member plastering AWU stickers on an AWU vehicle, and around the parking lot (Source: CCTV Camera)

191. An AWU organiser who knew [redacted] and [redacted] saw them and attempted to stop them, leading to a slanging match.

192. When [redacted] and [redacted] were finished the AWU cars were not driveable.

Figure 10: CFMEU-plastered stickers on AWU vehicle.

193. By itself, something like this sounds no worse than a childish prank, but it was the start of a pattern of conduct. The stickers became a large part of the CFMEU campaign. There are other instances where AWU officials returned to their cars and were unable to drive away because the windscreens were covered with these ridiculous stickers.

Figure 11: A separate incident of CFMEU members covering AWU vehicles in similar stickers.

194. In any event, the CFMEU conduct should not be dismissed as a joke - the entry to the carpark, and the damage to the carpark and to the AWU cars constituted deliberate trespasses committed by the senior CFMEU officials [redacted] and [redacted]. It is another example of lawlessness.

195. When I asked [redacted] about this incident he declined to answer the question upon the grounds he may incriminate himself. [redacted] was given the opportunity to be interviewed, but declined.

HOSTILITY TOWARDS CONTRACTORS AND EMPLOYER GROUPS

196. Hostility between trade unions and employers and employer associations is to be expected; in some ways it is the reason each exists.

197. Again, there is plainly a line in a civil society between representing contending interests and unjustifiable aggression. There is no room for violence.

198. Yet, there was violence.

"It's a picket line ya fuckin' cunt"

199. Throughout April 2024 there was a dispute over the Cross River Rail project.

200. As part of the dispute, the CFMEU organised and manned picket lines at various sites on the CRR. Picket lines are a common and legitimate means of protest. They provide an opportunity for the picketers to persuade others to join their cause. They should never result in violence.

201. On 30 April 2024 a picket line was formed at the Dutton Park site on the CRR. Non-CFMEU workers attempted to cross the picket line. There was a violent brawl between the two groups which was captured on video. Two non-CFMEU workers were manhandled, pushed and shoved and punches were thrown; one had his shirt torn off.[30]

[30] The man whose shirt was torn was the subject of an attempted assault at 5am on 31 July 2024 when two men, probably armed with baseball bats, attacked him as he was leaving his home to travel to his work on the disputed site. The press reported that the police were investigating whether the CFMEU was involved: "*I know it was you*: *Cross River Rail worker blames CFMEU for pre-dawn assault*", Nine.com.au, 1 August 2024.

Figure 12: Picket Line Brawl (Source: 9 News 31/07/2024)

202. No doubt it can be argued that responsibility for the outbreak of the brawl should be shared, but that would not excuse either side for participating. To the extent it matters, there is a reason to regard the principal fault to lie with the CFMEU. Amongst the CFMEU picketers were two organisers, [redacted][31] It has been alleged that when a non-CFMEU worker approached the picket line, [redacted] shouted "*It's a picket line ya cunt*" and encouraged a fight by daring the non-union workers with "*Try and cross it. Try and cross it*".[32]

The Grim Reaper

203. On 8 February 2022 the CEO of the Master Builders' Association was contacted by the Special Emergency Response Team of the Queensland Police and warned that a CFMEU protest was coming. SERT is commonly known as the Riot Squad.

31 [redacted]

32 [redacted]

204. The Riot Squad was correct: approximately 5,000 CFMEU members had gathered in Emma Miller Place in the CBD with the intention of marching on the MBA offices in Spring Hill.

205. The reason for the protest march was over a potential restructuring of BUSSQ – a superannuation fund favoured by Michael Ravbar.[33] It was not a real dispute; the issue had been manufactured by those organising the march.

Figure 13: The Grim Reaper expresses his disquiet with a proposed superannuation reform.

206. The march was led by Michael Ravbar and Jade Ingham, with special guest appearances by the Grim Reaper and a coffin – if what followed was not as serious as it turned out, the scene would have been comical.

207. Inflammatory speeches were given by both Ravbar and Ingham. By the time the protestors arrived at the MBA offices they were described as being in a "*frenzy*". The whole building was placed in lock down. The Riot Squad placed themselves on the ground floor. The offices have glass doors and glass curtain walls on the ground floor. The protestors tried to get access by beating on the glass and trying to force the doors. There was loud chanting, including protestors shouting "*You fucking cunt*" when they saw the CEO.

208. When they could not break in, the protestors hoisted the coffin into the branches of a pandanus tree immediately outside the window of the CEO of the MBA – he was shouted at – "*If you don't fix this we will end you*".

[33] The suggestion was that BUSSQ would be amalgamated with another construction industry superannuation fund, CBUS. But the protest was absurd: an amalgamation of that kind would require months of negotiation before it could be approved by APRA. In any event, the amalgamation never happened.

Figure 14: A coffin hoisted outside the window of the CEO just after the CFMEU promised to "end" him.

209. The cartoonish imagery of the Grim Reaper and the coffin stood as a warning to MBA employees of their likely fate should they disagree with the CFMEU. When the Grim Reaper leads a mob of 5,000 chanting workers it is bound to have some impact and, unsurprisingly, several MBA employees were very distressed by the incident.[34] There were also some quite appalling comments made by members of the CFMEU mob (see "*Come out here and I'll fuck you*", below).

"There's a bullet with your name on it"

210. The Cross River Rail Project was a hotspot for CFMEU violence. One witness called it "*Ground Zero*".

211. An industrial relations representative for one of the contractors on the CRR described how he suffered three years of constant abuse from CFMEU officials. He said the officials and members acted as a "*collective*" and described them as "*angry, foaming at the mouth*" and that they would "*attack anyone with industrial relations in their title*". The IR adviser ended up moving to another project.

212. In one instance it led to a death threat.

213. In 2021 an apparently simple disagreement over an asserted Right of Entry at the Boggo Road site escalated to a point where two CFMEU officials verbally assaulted an IR representative. The officials were named, but they will not be identified in this public version of the report because what follows clearly constitutes a crime.

[34] The estimate of 5,000 participants comes from the CFMEU press release. There was another estimate of "*thousands*" in the article "*Protest disrupts Brisbane traffic, streets closed*", Brisbane Times, 8 February 2022.

214. During the argument the more senior official told the IR representative that "*We know where you live*". By itself that is a threat. But the organiser went further – he told the IR representative "*There's a bullet with your name on it – we're gonna get you*".

A *"Convicted woman basher!!!"*

215. Around April 2023 the CFMEU began a personal campaign against another industrial relations adviser on the Cross River Rail Project.

216. When the CFMEU met resistance from the IR adviser it set out to destroy the man and his career.

217. The technique was crude: officials from the CFMEU made deliberate, serious, and false statements defaming the man and then published the false statements in the most public places in Brisbane.

218. It was an organised campaign: the CFMEU made up crude, hand-painted placards, each about 120cm by 60 cm. The placards named the man and included a large image of his face. The placards carried slogans – "*Convicted woman Basher!!!*" and "*General Degenerate*", and others. These are just two of the placards:

Figure 15: Publicly displayed poster (left) with the text "I like contacting female workers more than half my age!!" and "They scraped the bottom of the barrel when hired me". Another publicly displayed poster (right) with the words: "CPB IR" "Convicted woman basher!!"

219. The placards were placed on the public street in some of the busiest streets of Brisbane – Vulture Street and Roma Street.

"*Come on, fucking hit me, you weak cunts*"

220. On 20 April 2020, two organisers, [redacted] and [redacted], entered the site of the Marine Parade apartments in Labrador on the Gold Coast, fabricating a concern for the safety of workers on the site, and then acting entirely inconsistently with the safety of those workers.

221. [redacted] and [redacted] deliberately blocked a concrete pour. They spoke very aggressively to a Work Health and Safety Inspector who was on the site. [redacted] then tried to start a fight with the workers on the site.

222. [redacted] taunted the truck drivers; "*Come on, fucking hit me. I want you to hit me.*"

223. When the truck drivers declined to run him over, [redacted] turned to the workers on site and said "*Come on, fucking hit me, you weak cunts*."

224. A Deputy President of the Fair Work Commission described [redacted] conduct as "*totally aggressive and improper behaviour*" and said it was delivered in an "*intimidatory manner*". The Deputy President suspended [redacted] Right of Entry.[35]

225. Although this conduct might, by itself, seem extreme, the fact is that it was not the worst thing that [redacted] did on that occasion. [redacted] also abused a woman in the most disgusting and degrading terms – a matter which will be detailed later (see *"You fucking cunt dog"*, below).

"Grubby little cunt"

226. On 8 March 2019 a CFMEU official, [redacted], attempted to stop work on the Sunshine Plaza site because a worker, employed by a shop-fitting business, was not a member of the CFMEU.

227. [redacted] conduct was captured on video. He told the worker that he was a "*grubby little cunt who refused to join the union*".

228. The judge who heard the matter described [redacted] conduct as "*aggressive, intimidatory, loud, abusive*" and as "*pure industrial standover tactics*".[36]

"You fucking dog cunt"

229. On 23 August 2019 [redacted] entered the Logan Enhancement Project on the Gateway Motorway. In a completely unprovoked outburst, [redacted] called the site supervisor "*you fucking dog cunt*" and continued shouting and yelling aggressively.

35 [redacted]
36 [redacted]

230. Although there was no justification for doing so, [redacted] then fabricated an account that he had been assaulted – "*we're going to sue you, you grabbed my throat, you fucking dog cunt*".[37]

Other industrial prosecutions

231. A picture of the CFMEU attitude toward contractors can be obtained by taking a few examples from the long string of industrial prosecutions of the CFMEU. They tell a story that the CFMEU, and its officials, were quite willing to disrupt work on sites to inconvenience and financially damage contractors with a view to obtaining some kind of industrial advantage.

232. There are far too many prosecutions to list the lot - these are just some examples.

233. In 2018 Michael Ravbar, [redacted] disrupted the Bridge 21 site on the Sunshine Highway, shutting down operations, by placing themselves in front of moving trucks, and making "*unprovoked*" and "*entirely inappropriate*" attacks on the site safety officer. Heavy fines were imposed, including personal payment orders against Ravbar and [redacted] was required to undergo "*anger management*".

234. In 2018 a number of CFMEU officials manufactured a Right of Entry dispute, refused to produce entry permits, and shut down operations on a site on the Bruce Highway/Sunshine Coast Motorway. This was repeated on seven or more occasions. The officials were arrested – [redacted] twice, and [redacted] once each. Heavy fines were imposed and personal payment orders made against [redacted][38]

235. In 2018 a number of CFMEU officials disrupted the Logan Enhancement Project by making multiple illegal trespasses onto the site, and false Right of Entry claims. Very heavy fines were imposed, including personal payment orders against [redacted] ($24,000) and [redacted] ($12,000).[39]

236. Between 30 April and 2 May 2018 several officials of the CFMEU disrupted work on the Toowoomba Second Range Crossing by entering a site and refusing to produce entry permits. Amongst others, [redacted] were fined for their breaches.[40]

237. In 2019 [redacted] was prosecuted for stopping a concrete pour at the Bridge 22 Pacific Highway Upgrade. At trial and on appeal, [redacted] claimed an entitlement to have stopped the concrete pour on safety grounds, claiming there was an "*imminent danger*".

37 [redacted]
38 [redacted]
39 [redacted]
40 [redacted]

[redacted] evidence on this was rejected at both levels, with one of the judges expressing "*considerable credibility concerns as to the entirety of his evidence*".[41]

238. In 2020 Michael Ravbar and [redacted] deliberately entered the Southbank New Performing Arts Complex under a false Right of Entry claim. Heavy fines were imposed.[42]

239. In 2020 the CFMEU deliberately stopped a concrete pour during the construction of a Coles Distribution facility in Redbank. The two officials involved were [redacted] and [redacted]. The judge found that their actions were "*motivated by industrial relations conditions referable to the non-union agreement in place*".[43] Very heavy fines were imposed, including personal payment orders against [redacted] and [redacted].

240. In 2020 two organisers, [redacted], abused a site manager, stopping work at the Central Energy Plant Towers Site, telling him "*you don't know what the fuck you are doing*".[44]

241. In 2020 [redacted] and [redacted] manufactured a Right of Entry dispute on the CRR, making "*insultingly childish comments*" toward the site manager.[45]

242. In 2021 the organiser, [redacted], instigated a Right of Entry dispute by refusing to undergo a safety induction, and wandered unaccompanied around a site on the Pacific Motorway Upgrade. His actions caused the stoppage of the laying of a lane of asphalt.[46]

243. In 2021 Michael Ravbar and [redacted] were heavily fined following two instances – one at the Gabba site, and the other at the Roma site of the CRR. These were instances where Ravbar and [redacted] refused to sign in or undertake safety inductions. In the instance of [redacted] he made deliberate physical contact with those on site. Heavy fines were imposed and personal payment orders were made.[47]

244. In 2021 three officials of the CFMEU manufactured an industrial dispute for the purpose of moving a particular dogman from the Brisbane Racecourse project to another site. When the employer refused, the CFMEU simply shut down work on the project. Very heavy fines were imposed ($750,000 on the CFMEU).[48]

245. I could go on, but it seems pointless – it would just be more of the same.

41 [redacted]
42 [redacted]
43 [redacted]
44 [redacted]
45 [redacted]
46 [redacted]
47 [redacted]
48 [redacted]

HOSTILITY TOWARD WOMEN

246. This might just be the single worst aspect of the violence perpetrated by the CFMEU.

247. In addition, the CFMEU's treatment of women is deeply hypocritical.

248. Although the CFMEU boasts of its promotion of equal treatment of women, its actions show otherwise: the material shows the CFMEU had a focus on attacking women, and using tactics which were abusive and degrading.

249. Witnesses came forward with many stories proving dangerous and damaging conduct by CFMEU officials and members toward women. Some of the women are so traumatised they would not permit their stories to be reproduced in this report – they still feared retribution. In addition, I have decided not to include the accounts of some of the women because after speaking to them, I was concerned reproducing what they had to say may cause them emotional harm.

"You fucking cunt dog"

250. On 20 April 2020 [redacted] and [redacted] arrived at a site in Marine Parade, Labrador. Some of what happened that day on that site has already been detailed (see "*Come on, fucking hit me, you weak cunts*", above).

251. The fact is that [redacted] did something worse, much worse: he attacked a female health and safety advisor in terms which should never have been used and should never be used.

252. In his prosecution [redacted] admitted to disgraceful conduct, but as part of bargaining to secure a guilty plea, it was agreed with the CFMEU that the prosecutor would not press offences relating to [redacted] personal abuse of the safety advisor.

253. The true position is that when the safety advisor told [redacted] that she intended to call the police, he loudly said *"you fucking cunt dog*". If that was not bad enough, [redacted] then began to bark like a dog. He then repeated the statement and the barking on and off, until the police arrived, when he ran away.[49]

"You should be dragged out of here"

254. In about 2020 a female public servant arrived at the CFMEU offices as part of a delegation. She was soon asked by [redacted] to separate herself from her colleagues and to come with him into another office.

255. Once she was seated Michael Ravbar entered. He locked the door from the inside – which would prevent other members of the delegation entering the room. [redacted] – a big man – remained, standing beside Ravbar; both stood between the woman and the door – there was no escape.

---

[49] This account was given to me by the victim of the abuse. It is also recorded in press articles from the time: "*CFMEU Organiser abused female safety rep*", Courier Mail, 10 December 2020.

256. Ravbar began to berate the woman, shouting, getting close to her face, using abusive and denigrating language. Ravbar made it plain that the woman was being watched by the CFMEU. He said the woman "*should be dragged out of here*" and she was told "*we're after you!*". This went on for about 15 minutes.

257. The woman was alone and scared. There were times when the woman thought Ravbar was about to attack her physically. When the woman was allowed to leave the room she left the CFMEU offices immediately. A report of the incident was made. The woman required psychological assistance.

258. It should be noted that [redacted] responded in writing to questions about this episode. [redacted] vehemently denied it occurred. But I have no doubt the account of the woman, which was confirmed by an independent witness, is true. [redacted] had declined to meet me in person; the woman and her corroborating witness were perfectly believable. It is telling that Ravbar declined an invitation to respond to this matter.

"How does it feel to know your Mum is a fuckin' grub?"

259. The 2023 Labour Day celebration was intended to be a family event and unionists were encouraged to bring their children. There were special activities for children, including face painting.

260. Late in the day a female official from the AWU and her 13-year-old child were confronted by a heavily built man. The man was wearing a CFMEU t-shirt and his face and forehead were painted with the words "*Australia's Worst Union*".

261. The man came right up to the woman and the child and pointed to his forehead:

> Man: "*How do you fuckin' like this?*"
>
> Woman: "*Beautiful – you must be really proud.*"
>
> Man: "*Yeah, I fuckin' am*."
>
> Woman: "*Just leave, just leave*."
>
> Man: "*You're nothing. You're a grub. You're a sell-out. You sell out workers*."
>
> Woman: "*Don't do this in front of my kid*."

The man then drew near to the woman, turned and spoke directly to the child:

> Man: "*How does it feel to know that your Mum is a fuckin' grub who sells out workers?*"

Security then arrived and the man snuck away.

262. The man involved has not been identified, but this cannot be regarded as a rogue member acting on his own initiative. The conduct is similar to and consistent with aggressive conduct of other CFMEU members at around the same time. In any event,

the woman said she recognised Jade Ingham standing less than 50 metres away, probably within earshot of the conversation.

263. Although he declined to take an interview, Ingham did take an opportunity to deny any recollection of this incident in a written response to some questions.

"Come out here and I'll fuck you"

264. The following occurred during the protest by the CFMEU on 8 February 2022 which ended outside the offices of the MBA (see "*The Grim Reaper*", above).

265. When the CFMEU's protest arrived at the offices of the MBA, men in the front line, pressed on the glass walls and called out to young women they could see through the doors and windows – they called out to the young women "*Come out here and I'll fuck you*".

266. The Riot Squad stepped in and shepherded the women away to a safer place in the building.

"Is that your old man on the video? – He's a fucking cunt"

267. Reference has already been made to the use by the CFMEU of its Facebook page to identify and humiliate WHS inspectors (see "*Hostility toward the WHS Inspectorate*", above). The following is a graphic example of that and the CFMEU's attitude toward women.

268. In around June 2022, the 21-year-old daughter of a WHS inspector was attending her local gymnasium in suburban Brisbane. Thankfully, she was there with some friends.

269. Unprovoked and unexplained, a man came to the young woman in the gymnasium, and asked: "*Is your name [withheld]?*". When the young woman said "*yes*", the man responded "*Is that your old man on the video? – He's a fucking cunt*".

270. The young woman's friends intervened and stopped the man taking it further. The identity of the man is not known.

271. The only sensible inference is that the video the man referred to was one of the abusive "videos" posted by the CFMEU on its Facebook page.

"We know where you live"

272. In the afternoon of 23 March 2023 there was an incident involving approximately 25 CFMEU men threatening three AWU organisers, one of whom was female. There is a video recording of the incident (see "*You fucking sell-out cunts*", above).

273. The CFMEU singled the female out for special treatment, yelling at her that they knew her home address and the identity of her husband. One even observed that the organiser had changed her haircut from her Facebook posts.

274. It is not possible to identify the persons who actually conveyed the threats to the woman, but from the video and other means it is known that senior organisers from the CFMEU were present when the threats were made – [redacted] and [redacted] Two CFMEU delegates, [redacted] and [redacted], can also be seen on the video, directly involved when the threats were made.

E. WHAT MUST BE DONE?

275. Several witnesses said that since the commencement of the Administration the south-east Queensland construction sector has been peaceful or, at least, relatively peaceful.

276. This cessation of violence demonstrates two important things. The first is that the CFMEU campaign was planned and controlled from the top: once Ravbar and Ingham were removed, the violence abated. The second is that the cessation of violence proves that the cycle of violence can be broken.

277. In my view, the Queensland CFMEU can be restored to function as it used to function – a tough representative of its members, operating lawfully to secure improved conditions and safety in its members workplaces.

278. To break the cycle of violence and to end the culture of violence will require good strong leadership. That can be assisted, in the short term, by some steps which I will suggest below. But it will take time.

F. RECOMMENDATIONS

An end to the lawlessness

279. It might seem obvious, but the CFMEU's attitude to obedience to the law needs to change immediately. No longer can the CFMEU encourage or tolerate breaches of industrial and criminal and regulatory laws. No longer can a fine be absorbed as a cost of doing business. Members bear the extraordinary costs of such conduct, including by the payment of increasingly large penalties and the significant legal expenses incurred in defending such cases. The CFMEU bares the cost of the reputational damage caused by the lawlessness, but also inflicts it on other parts of the union movement. The Administration is committed to conducting an effective union, but also one that is a lawful enterprise.

> ***RECOMMENDATION 1:*** *I recommend that the employees, delegates and members of the CFMEU be advised that from now if they are successfully prosecuted for breaches of industrial laws they will be required to justify why they should not be disciplined for their unlawful conduct. Such discipline may, if the conduct is sufficiently serious, include termination of employment and expulsion from membership.*

Personal payment orders

280. Any attempt by the Administration to uncover information regarding the defeat of personal payment orders is likely to fail: further investigation will be stone-walled by privilege claims. The Fair Work Ombudsman, however, holds superior investigative powers which may be capable of getting to the bottom of this important issue. Advice should be promptly sought about whether steps taken to defeat personal payment orders is unlawful and, if so, what steps should be taken to draw this matter to the attention of the Federal Court or any other Court that made the order.

> ***RECOMMENDATION 2****: I recommend that the information collected in this investigation be referred to the FWO and that the Administration co-operate with the FWO in determining whether, and if so by whom, any personal payment orders have been disobeyed. Further, advice should be promptly sought about whether steps taken to defeat personal payment orders were unlawful and, if so, what steps should be taken to draw this matter to the attention of the Federal Court or any other Court that made the order.*

Disciplinary action

281. Immediate disciplinary action is warranted against several individuals named in this report. The disciplinary action against each varies depending on their present role with the CFMEU.

282. The reasons for this disciplinary action are sufficiently revealed in the body of the report. In some instances there are additional grounds: some of those named have repeatedly engaged in conduct which has led to heavy fines being imposed on the CFMEU; some have even had their rights of entry cancelled or withdrawn on character grounds.

> ***RECOMMENDATION 3****: I recommend the immediate dismissal of several current officials of the CFMEU and the removal of several more as delegates. Where appropriate, steps should be taken to determine whether their membership of the CFMEU should be terminated*

283. Those persons will be identified to the Administrator in a separate private report.

The Youth Crew

284. The Queensland CFMEU has a group or sub-branch known as the Youth Crew. The age of those eligible to join the Youth Crew is unclear: one witness, [redacted], said the potential members were aged between 17 and 23; another, [redacted] said it was open to members under 35 years. [redacted] said there were about 150 members.

285. Numerous witnesses said that the Youth Crew was a particular problem. Many witnesses described how the Youth Crew was critically involved in many of the violent

episodes catalogued above. One witness described the Youth Crew as a *"wrecking crew"* and "*a hit squad*".

286. It is presently not clear whether the Youth Crew serves any useful purpose. Until matters settle, it would be preferable if the Youth Crew in Queensland ceased operations.

> ***RECOMMENDATION 4****: I recommend that the operations of the group or sub-branch known as the Youth Crew be suspended.*

287. In due course it can be considered if there is good reason to revive the Youth Crew.

Facebook and other social media

288. The abusive and inflammatory content posted by the CFMEU on its Facebook page was repeatedly identified as a serious source of violence. The stories told by individual WHS inspectors, and their families, show just how pernicious these entries were. The most poisonous content was posted as a reply or comment following the original CFMEU post.

289. Yet it was not clear who was placing the posts. Whenever I asked a CFMEU official they claimed they did not know who controlled the Facebook page; when I attempted to ask questions of the person who was paid to be in charge of the CFMEU social media, he would not speak to me without the assistance of a lawyer.

290. There appears to be no clear chain of control, if there is any control at all.

291. This problem can be corrected. This solution can be applied to all aspects of social media used by the CFMEU. I understand that pursuant to a National restructure of the communications function of the Union, including that of the Branch, the role of the Branch in posting material on social media has recently been substantially changed.

> ***RECOMMENDATION 5****: I recommend the CFMEU's use of social media be in accordance with a clear social media policy.*

292. That policy should include the appointment of a small control group, being the only persons able to place posts on social media in the name of the CFMEU. In other words, it would mean someone could be held responsible if and when abuse occurs.

Women

293. The CFMEU's attitude and conduct towards women needs to change urgently.

294. The problem is serious and will be difficult to correct. Removal of some problematic characters will assist, but that is nowhere near enough.

295. I understand that pursuant to a National restructure, the CFMEU will invest $5.4 million over 5 years focussed on addressing behavioural change by men in the industry

towards women, including conduct by staff and delegates of the Union. The CFMEU will employ a Project Officer and staff necessary to deliver on the program and will be subject to a steering committee and an enhanced role for the National Women's Committee. I recommend that the Union appoint staff, as soon as possible, to advise on the design and implementation of a framework to address the gendered issues which currently dominate the CFMEU.

> ***RECOMMENDATION 6****: I recommend that the CFMEU appoint staff, as soon as possible, to advise on the design and implementation of a framework to address the gendered issues which currently dominate the CFMEU.*

296. That will take time, so an interim measure should be implemented.

> ***RECOMMENDATION 7****: I recommend that the employees, delegates and members of the CFMEU be advised that any conduct of a kind which is abusive or threatening, or is sexual harassment, is a ground for immediate termination of employment and may result in termination of membership of the CFMEU.*

Geoffrey Watson

17 June 2025

APPENDIX A

Terms of Reference

I request that that you Geoffrey Watson SC, investigate the CFMEU Construction and General Division, Queensland/NT Branch and the associated state registered entity ("the union") and inquire into the following matters:

1. Credible allegations of violence, threats of violence and menacing conduct from the period 2015 to date, including allegations of such conduct by or against employees and former officers of the union.
2. The culture and actions embraced by the former leadership that tolerated, accepted, promoted and failed to confront a culture of violence and menacing conduct in the union and the industry as a way of doing business.
3. The culture of the union that lead to threats against other unions and unionists, disrespect and threats against regulators, and isolation from the broader union movement.
4. Identify the consequences of the union's culture and attitude to the broader democratic principles of unionism and provide case studies about those consequences.

In the investigation of these matters, I request that you co-operate with and interview, if appropriate, police, regulators, others within the union movement and employers, as well as union employees.

In addressing the staff of the union, I made clear that union values include openness, honesty, accountability and transparency and that the values of criminal and threatening cultures include retribution, retaliation and a code of silence.

I directed staff to fully co-operate with this investigation, and made clear that I will not tolerate pressure, directly or indirectly, on others not to cooperate with the Administration or the investigation.

Information required should be treated with the strictest confidence. The capacity and willingness of those that are the subject of inquiry to seek to victimise and retaliate against members must be considered.

Racketeering in Legitimate Industries

A Study in the Economics of Intimidation

Peter Reuter

RAND

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Racketeering in Legitimate Industries

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October 1987

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U.S. Department of Justice

RAND

PREFACE

This report presents a study, sponsored by the National Institute of Justice, of the influence of racketeers on legitimate industries. The study was initiated at the suggestion of the head of the New York Organized Crime Task Force (OCTF), who offered to give The RAND Corporation access to data collected in an ongoing investigation being conducted by his office into racketeering and collusion in the Long Island garbage collection industry. He believed that these data could provide important insights into the general phenomenon of racketeering in legitimate industries. He also thought it would be useful to obtain outside assistance in the formulation of policy recommendations for structural remedies to supplement standard criminal sanctions for dealing with the racketeering problem.

The OCTF investigation provided extensive materials on the relationships between racketeers and various participants in the industry. The results of the analysis performed on those data were compared with available (less detailed) data on racketeering in other industries, leading to the formulation of possible policy changes that might reduce the role of organized crime in such industries. These changes are offered as an example of the kind of restructuring needed to reduce the influence of racketeers in legitimate industries.

The analysis and conclusions of this report are solely the responsibility of the author. They do not necessarily represent the views of the OCTF.

The report should be of interest to officials and scholars interested in organized crime and ways to control it.

SUMMARY

It is widely believed that certain industries in some cities are substantially influenced by members of organized crime. It is asserted that this influence, by stifling competition and/or extorting suppliers, imposes significant costs on both customers and firms. From time to time, law-enforcement agencies investigate this problem and find evidence that it exists. However, those same agencies readily admit that even if convictions are obtained, their efforts do little to remedy the problem. The available evidence, though quite fragmentary, suggests that the problem is inherent in certain structural characteristics of the industries that are affected.

PRIOR RESEARCH

This study builds on an earlier study of racketeering-influenced industries.[1] One of those industries was the garbage collection industry in New York City and New Jersey. The study concluded that this case illustrated the workings of a mature racketeer-initiated cartel, in which racketeers received money for permitting the smooth functioning of a restrictive agreement. Customers were allocated among carters so that they, in effect, became the property of the carters and were correspondingly bought and sold. The result was payment of significantly higher prices for solid-waste collection services.

The racketeer influence clearly found its historical focus in control of corrupt local Teamsters unions, which were used to coerce carters and customers into compliance. However, it appears that the union now plays a less central role in either New York City or New Jersey. The earlier study suggested that the industry had acquired a reputation for racketeer influence. As a result, those who were still in the industry were willing to abide by the rules of the current agreement, there was little new entry, and customers no longer challenged the agreement by aggressively seeking competitive bids. The primary beneficiaries of the arrangement were the carters, though racketeers also received income from their participation in settling disputes about the operation of the "property rights" system.

[1]Peter Reuter, Jonathan Rubinstein, and Simon Wynn, *Racketeering in Legitimate Industries: Two Case Studies*, National Institute of Justice, Washington, D.C., 1982.

THE LONG ISLAND CARTING INDUSTRY

The basic arrangement of the Long Island carting industry in 1986 was very similar to that in New York City and New Jersey. Customers were allocated and treated as property by the carters. However, one long-time member of the industry rebelled against the agreement and began to aggressively solicit the customers of other carters. This resulted in an elaborate but unsuccessful effort to suppress his rebellion, including threats, property damage, use of political influence, and economic coercion.

The Teamsters union played only a very slight role in this effort, as did the Lucchese family (a component of the Cosa Nostra), apart from the one member who was a carter, Salvatore Avellino. But discussion among the participants in the effort to suppress the rebellion showed that both the Luccheses and the union were regarded as of central importance to the continued operation of the customer allocation agreement. Avellino regularly consulted Anthony Corallo, head of the Lucchese family, about how to operate the industry and deal with the union. Avellino also collected money from other carters each quarter to give to Corallo and the head of the Gambino family.

Three findings about the Long Island racketeering arrangements are of particular interest: First, although the union was relatively uncooperative in the suppression of the rebel's efforts, the leading carters saw the obtaining of more direct control of the union as critical to increasing the power of the customer allocation agreement. Second, the racketeers appeared to take a modest share of the increased profits generated by the agreement, although Avellino asserted that he was now supplying them much more money than they had previously received. Third, the agreement seemed very stable; it had survived over a very long period in very much the same form, despite changes in the distribution of power among the Mafia families that had interests in the industry.

The major consequence of the allocation of customers was the suppression of competition. Because carters can so readily overstate the quantity of service they are supplying, and because it is difficult to obtain independent measures of that quantity, it is impossible to determine what prices were actually being charged. Analysis of the fragmentary data on the prices paid for customers in transactions among carters suggests that the average price for commercial service may have been about 50 percent higher than it would have been with competition; for residential customers, the price increase was probably only about 15 percent.

OTHER INDUSTRIES

This report also examines three other industries, although in significantly less detail: stevedoring (waterfront cargo handling), casinos, and garment trucking. Each of these industries presents a different pattern of racketeering involvement.

The waterfront industry is a case of pure racketeer extortion. Despite the regulatory efforts of the Waterfront Commission, racketeers continue to occupy positions of influence in the relevant locals of the International Longshoremen's Association (ILA). That influence, although no longer used to extort union members as was done in the 1940s, permits the racketeers to extract payments from waterfront employers in New York and other major East Coast ports. No effort has been made to restrict entry or control prices in the industry. Further, some of the payments are made, in effect, to take advantage of the ability of racketeers to prevent union members from otherwise exploiting the employers.

In the casino industry, the role of racketeers appears to arise from the historical origins of the industry in Nevada. Racketeers have control over some Nevada casinos, a control which arises largely from the financing of those casinos. The control is used mostly to skim money, defrauding the government rather than other private owners. Unions are very weak in Nevada, and racketeer influence does not appear to be based on control of these unions, though the Central States Pension Fund of the Teamsters has been an important source of financial power for racketeers in the industry. The regulation of the New Jersey industry, together with the corporate ownership of the firms, has ensured that racketeers, though active on the periphery of gaming in the state, have been unable to take control of the casinos. In neither state does it appear that racketeers have influenced the conduct of the industry as a whole.

The final industry studied is garment trucking in New York City. Here, the racketeers' role is much closer to that found in the solid-waste collection industry. Garment producers (jobbers and contractors) are forced to deal with particular trucking firms, and there is anecdotal evidence that a property-rights system has evolved with respect to individual customers. However, racketeers are also heavily involved in the financing of jobbers and contractors and are also more openly active in the individual trucking firms. The relevant local—102 of the International Ladies' Garment Workers Union (ILGWU)—is an important and active enforcer of the restrictive agreement among the truckers.

POLICY ANALYSIS

The problem of racketeer control is clearly complex. The major responses to it have been prosecution and/or economic regulation. A review of the history of these responses suggests that they have been notably ineffective.

In both New York City and New Jersey, allegations of racketeer influence over the carting industry have led to comprehensive economic regulation, although that regulation has taken different forms in the two jurisdictions. There is abundant evidence that the regulation has not prevented the increasingly smooth operation of a customer allocation agreement, with racketeers as significant beneficiaries of that agreement. It appears that the regulatory schemes have failed to focus on the elements of industry behavior that led to the customer allocation agreement and racketeer influence. Given the poor record that regulation generally has in inducing competition, this should come as no surprise.

The study concludes by detailing a proposal for the reform of the Long Island carting industry. It starts by noting that the recent prosecution of carters and associated racketeers resulted in sentences that will do nothing to discourage continued operation of the scheme. Indeed, these sentences may even encourage the participants and reduce the willingness of customers to seek alternative suppliers or of new firms to enter the market. A fundamental restructuring is necessary.

The proposal has four elements:

1. The creation of a Regional Authority to take over contracting for solid-waste collection services in the two counties of Long Island. The Authority would create a comprehensive set of districts, which would include both residential and commercial customers. Each district should be large enough, and the term of the contract long enough, that the winning of a single district contract would permit the establishment of a firm large enough to operate at close to minimum operating costs.
2. The requirement that all commercial and industrial establishments in each district provide to the Authority the modest amount of information necessary for the issuance of contract specifications that permit informed bidding and accurate reimbursement.
3. The creation of an office whose sole responsibility is the preparation of engineering estimates for each contract. This could possibly be a component of the Authority, but would more sensibly be attached to an existing state agency.

4. The creation of a public benefit corporation to operate a carting enterprise in competition with the private carting industry. The objective of the corporation would not be to maximize profits or market share, but to provide a monitoring device that gives force to the engineering estimates for the individual contracts. The corporation would provide, in effect, a yardstick for determining the reasonableness of contractor prices.

The suggestions presented here are not intended to be permanent reforms of the industry. If the market is seen to be working (if new firms enter, there is evidence of competition in bidding, etc.), then a return to unregulated direct contracting should be considered. But a period of restructuring is necessary to ensure the removal of barriers to the smooth functioning of the market induced by a reputation for racketeer control.

ACKNOWLEDGMENTS

The project reported here was initiated at the suggestion of Ronald Goldstock, head of the New York Organized Crime Task Force (OCTF). Mr. Goldstock ensured the availability of relevant materials from an ongoing OCTF investigation and provided extremely useful suggestions concerning the policy recommendations outlined here. James Stewart, of the National Institute of Justice (NIJ), was instrumental in providing funding at short notice, and Lois Mock provided sound advice as NIJ project monitor.

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I. INTRODUCTION

It is widely believed that certain industries in some cities are substantially influenced by members of organized crime. It is asserted that this influence, by stifling competition and/or extorting suppliers, imposes significant costs on both customers and firms. From time to time, law-enforcement agencies investigate this problem and find evidence that it exists. However, those same agencies readily admit that even if convictions are obtained, their efforts do little to remedy the problem. The available evidence suggests that the problem is inherent in certain structural characteristics of the industries that are affected.

The phenomenon of racketeer-influenced industries, despite a substantial journalistic interest, has attracted little scholarly attention. In an earlier study funded by the National Institute of Justice (NIJ) (Reuter, Rubinstein, and Wynn, 1982), two industries in the New York metropolitan area—garbage collection and vending machine distribution—were used as case studies to examine the general phenomenon. A preliminary effort was also made to provide a theoretical framework that would account both for the selection of particular industries by racketeers and for their choice of technique by which to apply their influence.

This study expands on the earlier effort in three ways: First, it makes use of new and richer material on racketeer influence in the garbage collection ("carting") industry; these materials provide extensive detail concerning the relationships among the major sets of participants—racketeers, carters, labor officials, and governmental officials. Second, brief descriptions are provided of the role of racketeers in three other industries in which they have been asserted to have significant influence. This points to the variegated nature of the problem. Finally, the study presents an extended analysis of public policy options available for dealing with racketeer influence.

STATEMENT OF THE PROBLEM

"Whether by violence or by effective mutual understanding, the stabilization of the market is highly desired in established business. . . . The gangster undertakes to effect by illegitimate means what is a normal tendency in legitimate business" (Landesco, 1929 [1968], p. 151). This was Landesco's explanation in 1929 for the rapid growth in the

number of industries in Chicago of which "racketeers" were said to be in control or attempting to gain control.

Landesco's comments indicate that even in 1929, there was considerable alarm about the influence of organized crime over the conduct of particular industries in major cities. While Landesco was careful not to endorse a list of twenty-three such industries issued by an official of the Employers' Association of Chicago, he was able to adduce credible evidence of significant racketeer influence in at least a dozen industries. The constant repetition of alarm at the rise of a new phenomenon, as contained in the reports of the Kefauver Committee (U.S. Congress, 1951), the President's Commission on Law Enforcement and the Administration of Justice (1967), and the President's Commission on Organized Crime (1986), is misleading. Groups with the ability to coerce—the most significant asset of organized crime—have long found a ready market for their services in legitimate industries.

Moreover, Landesco saw, as later observers often did not, that the problem was not simply one of involuntary parasitism: "What, if any, is the function of the 'racketeer'? What problem of modern business and industrial life has led to his appearance? Is he a parasite or does he perform a service?" (p. 150). His view seemed to be that racketeers were invited in to deal with particular problems of organization in a market, but once there, they acquired exploitative powers that could deprive the initial host of any profit from their presence. Landesco's case material provided some support for this position. It is also interesting to note that many of the industries he named still appear on contemporary lists of racketeer influenced activities: dry cleaning, trucking, garbage collection, etc.

Landesco made little effort to explain the sources or consequences of racketeer influence; his was, after all, a descriptive study. He thought the problem was likely to occur in "a situation of cut-throat competition among small business enterprises" (p. 167). He also conjectured that the antitrust laws, by making restrictive practices on the part of individual businessmen more difficult, contributed to the problem. Indeed, Landesco saw little reason to distinguish between the sources of involvement of organized crime in legitimate and illegitimate businesses: "Where a line of action is outlawed, whether the manufacture and sale of alcoholics (sic) or gambling or trade and price agreements, a situation is created favorable for the entrance of the gangster, on invitation, or upon his own initiative" (p. 167).

Landesco's work, dated as it is, represents the most detailed scholarly description of, and sensible speculation about, racketeer control of legitimate industries published to date. Block (1982) provides similar

detail for industries in New York between 1930 and 1950. He, like Landesco, found that conflict between employers and unions, or among competitors seeking a collusive solution to market problems, was what provided racketeers with the opportunity for acquiring a significant role in an industry. In general, during this period, the racketeer apparently entered "by invitation" rather than through his own initiative. The Depression's extraordinarily deep and rapid decline in demand intensified the incentive for collusive services.[1]

There are few other works that provide relevant information about the phenomenon. Jonathan Kwitny, an investigative journalist for the *Wall Street Journal*, provides a good journalistic account of racketeering in some contemporary industries, primarily in the New York metropolitan area (Kwitny, 1979). He gives a particularly detailed description of a complex extortion in the meat distribution industry involving a Mafia associate using his power over a union. Kwitny also discusses racketeering in liquor distribution, garment manufacturing, and mobile canteens. However, he does not attempt to explain why the problem occurred in these particular industries and not in others.

Studies by Hutchinson and Skolnick contain useful descriptive information, although neither attempts serious analysis of the sources or consequences of racketeer influence in the industries studied. Hutchinson (1970) provides a history of union corruption, relying largely on the investigations conducted by the McClellan Committee (the Senate Permanent Subcommittee on Investigations) in 1957–1967. Inevitably, his study deals with some industries in which union corruption provided the basis for racketeer control. Detailed descriptions are provided of the stevedoring industry and the needle trades in New York, and shorter descriptions are given of a number of other industries in Chicago and New York. Hutchinson notes the apparent importance of market factors in explaining the distribution of union corruption, which he asserts "has been most flagrant and enduring in industries of shared characteristics . . . the building, garment, longshoring, service and road transportation industries. All these industries are notable in some degree for small business units, high proportional labor costs, small profit margins, intensive competition, and a considerable rate of business failures" (p. 380).[2] While union corruption is broader than the phenomenon we are studying, those remarks are germane.

[1]Reduced demand increases the discrepancy between marginal and average cost for each firm, since fixed costs are spread over a smaller production run. Since unconstrained competition will result in most firms incurring losses in the short run, the incentives to seek collusive price arrangements rise when demand declines sharply.

[2]Enough counterexamples can be provided, however, that this listing of factors is really not helpful.

Skolnick (1978) examines another industry in which racketeer influence has long been alleged, the Nevada casino industry. While acknowledging the historical roots of racketeer involvement, Skolnick focuses most of his attention on the difficulties the presence of racketeers or allegations of their presence have created for regulators. Except very indirectly, he does not consider the influences of racketeers on the operation or structure of the casino industry.

The President's Commission on Organized Crime (1986) offers some useful material on organized crime control in two New York industries, construction (Chap. 8) and the distribution of meat, fish, and poultry (Chap. 9). The Commission was struck by the relatively open and direct role played by a leading Mafioso, the late Paul Castellano, in the meat industry.[3] It explained the success of meat distribution firms run by organized crime as a consequence of the Mafia's reputation for being able to get goods distributed; union power was given a less prominent role in the Commission's account.

The Commission detailed the workings of a classic cartel in at least one sector of the construction industry. Here, all firms that sought to make bids on the pouring of ready-mixed concrete (RMC) contracts of more than $2 million were required to coordinate their bids through the cartel and kick back 2 percent of their winning bids to Mafiosi.

The cartel's enforcement seems to have come from organized crime's control of the relevant unions, but the fact that the RMC material was supplied to the contractors by a monopolist apparently under the control of organized crime certainly eased the task. The racketeers, in fact, chose to take some of their profits from the downstream contractors rather than exclusively from their monopoly in the RMC supply industry. Moreover, the organized-crime figures took (at least directly) a small share of the profits generated by the apparently effective contractors' cartel. The Commission provided less detail on other segments of the construction industry but suggested that similar arrangements might prevail in those segments.

Strikingly absent from the Commission's description is any mention of overt violence. The threat of violence presumably underlies the power of figures such as Castellano, but it very rarely needs articulation or actual performance.

The Commission also drew attention to the fact that the task of removing racketeers from their positions of control is not simply a matter of better law enforcement. The problem is too broad for that, since both labor and the business sector have made accommodations to

[3]Castellano was the head of the largest Mafia family, the Gambino family, until he was murdered in 1985.

organized crime. Further, the problem differs in different industries and thus requires an industry-specific response. Unfortunately, the Commission did not suggest what the remedies might look like for any particular industry.

In summary, the existing literature establishes that there are some industries in which racketeer influence is a significant factor, in at least some major cities. New York City is prominent, but there may well be a reporting bias here, since New York is also the city with the most aggressive organized-crime enforcement agencies. There appear to be common elements that distinguish racketeer-influenced industries, but the identification of the necessary and sufficient conditions for racketeer influence is incomplete. There is some hint that the presence of racketeers is not accidental, and that they may generally serve some purpose for other participants in the industry.

However, the available data are very limited. Little attention has been paid to the sources and consequences of racketeer involvement, and even less to the appropriate remedies. Moreover, there is only a rather dim understanding of the means through which racketeers exert their influence. This report addresses these shortcomings, using the carting industry on Long Island as a case study.

PRIOR STUDY OF THE CARTING INDUSTRY

As previously mentioned, an earlier study developed an economic framework for analyzing both the sources and consequences of racketeer control. It also presented data on the carting industries of New Jersey and New York City. The following summary of that project is adapted from the published Executive Summary of the study (Reuter, Rubinstein, and Wynn, 1982).

A Conceptual Analysis

Racketeers are characterized by their ability to make credible threats of violence against a large segment of the community. This analysis assumes that they make economically rational use of that reputational asset, maximizing their income while taking into account the risks of legal sanctions to which alternative uses expose them. The analysis also assumes that not all legitimate entrepreneurs have the same willingness to voluntarily enter into agreements with racketeers that yield benefits to both parties, and that at least some of the variation in attitude is explained by the social background of entrepreneurs in a particular industry.

We deal with industries in which racketeers are alleged to affect the conduct of all participants. Not all industries in which racketeers participate meet this criterion. A racketeer may be able to use his criminal reputation and skills in the legitimate economy to earn high rates of return on the investment of time and capital without influencing the conduct of others. He might, for example, acquire a legitimate business that is complementary to one of his illegitimate enterprises, e.g., a bar may complement a retail cocaine or loansharking business.[4]

A racketeer may also use his reputation to intimidate existing and potential competitors, thus creating a monopoly. This is a risky strategy. It generates many potential informants, while competitors may turn to other racketeers for protection. In addition, naked monopoly is the outcome most likely to attract the attention of antitrust authorities.

An alternative strategy, the creation of cartels (agreements among businessmen in the same market to coordinate their actions and restrain competition), can yield similar returns with less risk. Racketeers may induce entrepreneurs in an industry to form cartel arrangements which yield profits for the industry close to those that could be obtained by a monopoly. The reputation for credible threats of violence makes racketeers efficient cartel initiators and enforcers. The racketeers receive some share of the returns from these cartels. Creating cartels also solves the problem of coordinating the activities of numbers of gang members having independent and potentially competing interests within the same market.

This does not imply that cartel formation is the only method by which racketeers may control an industry. Indeed, Section III provides instances of quite different strategies. However, cartel formation does seem to be the most enduring and successful method, in part because it provides profits for others and is not purely exploitative.

The analysis suggests that racketeers are likely to play an important role in markets that have certain characteristics, including strong incentives to create a cartel (inelastic demand for the good or service, little product differentiation, etc.) but impediments to its formation (numerous firms, low barriers to entry, etc.). The social background of the entrepreneurs is probably also relevant. Low-status background will ease contacts between entrepreneurs and racketeers; thus low-status industries where the firms are owned by poorly educated entrepreneurs are more likely to be under racketeer influence. A union

[4]The presence of racketeers in some industries, notably the hazardous-waste collection industry, may simply be explained by the large returns available from rule violations and racketeers' greater willingness to violate rules, together with their ability to command silence from their associates.

is an effective and available tool for racketeer-run cartels where numerous firms employ low-skill labor and are vulnerable to short-term strikes (see Taft, 1958).

The little material available concerning industries in which racketeers have clearly acquired an important influence is consistent with this analysis. Racketeers are not believed to be influential in the industries containing large corporations or involving high technology. Rather, they are influential in those essentially local activities where small, family-based enterprises are particularly important. The solid-waste case study exemplifies this.

It can also be argued that racketeers seek to organize a particular type of cartel, namely a customer allocation agreement. Here, the principal rule is that each customer belongs to a particular cartel member; others cannot compete for the allocated customer's business.

The cartel is unlikely to attempt to control member prices. This conclusion comes from consideration of the cost of the cartel detecting and sanctioning violations of various kinds of agreements, the probability of an effective government prosecution of various agreements, and the attractiveness of the simplest possible rule for an illegal cartel.[5] Customer allocation agreements are generally feasible only in certain industries, essentially those where the customer population is fixed in location and the service or good is delivered to the customer. Most of these industries are in the intermediate-goods, rather than final-goods, sector.

What are the consequences of racketeer domination of an industry? Assuming that racketeers are the organizers of a customer allocation agreement, we can predict (using conventional economic analysis) three major effects: As compared with the competitive alternative, these industries should have less efficient production, higher prices, and smaller firms. Less efficient production is engendered by the reduced incentive for lowering production costs; a firm cannot obtain an increase in market share by lowering costs, since all existing customers are allocated. If, as has generally been the case, technological change raises the minimum efficient size of the firm, the customer allocation agreement may permit the continued existence of many suboptimal firms. The agreement also permits inefficient firms to stay in the market and prevents efficient firms from growing. The higher prices result directly from the imposition of restraints of trade.

In each dimension, the effect is likely to be greater for a racket-run cartel than for other cartels. The reputation for racketeer involvement raises the barriers to entry into the industry. Customer resistance to

[5]The analysis is based on the work of Stigler (1974).

producer price increases is lessened by concern about the adverse consequences of aggressive complaints; there is fear of violence against property and person. Since racketeers increase the confidence of participating entrepreneurs that the cartel will endure, incentives for efficient production are even more sharply reduced than they would be in a conventional cartel, where certainty about future success is always limited and the probability of imminent competition never vanishes.

The Case Study

The industry selected for the case study is the solid-waste collection industry, particularly the collection of waste generated by commercial and industrial establishments. While many of the firms in this industry also collect solid waste from residences, there are differences in the technology and marketing systems that permit the two activities to be analyzed separately.

The earlier study dealt with solid-waste collection in New York City and New Jersey in the late 1970s.[6] Most of the firms in the industry were very small. In the New York and New Jersey case-study markets, firms with less than five trucks, and probably no more than ten employees, accounted for the bulk of revenues. Indeed, nearly half of the firms in New York City had three or fewer trucks. The companies were closely held, either as partnerships or as family corporations. Ownership was often passed down from father to son. Moreover, there were family ties among many of the firms.

The tendency toward cooperation rather than competition was reinforced by two other factors: In most metropolitan markets, one ethnic group is dominant, though the ethnicity is different for different cities; in New York City and New Jersey, the dominant ethnic group is Italian. In addition, many carting firms started with minimal capital and no reserve equipment. Trucks broke down frequently, particularly the earlier vintage trucks. The only way each firm could offer the uninterrupted service customers needed was to have reciprocal arrangements with other carters to provide backup in the event of equipment failure.

The McClellan Committee held hearings on the solid-waste industry in Los Angeles and the suburbs of New York in 1957. Those hearings left the industry with a lasting reputation for anticompetitive practices and racketeer involvement.

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[6]Most of the data on New York City were obtained from regulatory agency records; the Division of Criminal Justice in New Jersey provided access to records of an extensive investigation of the industry in that state.

A major change in the industry since the McClellan hearings has been the development of national collection companies.[7] The largest, BFI and Waste Management, Inc., grew rapidly during the early 1970s through the acquisition of dozens of small local firms, though many of these affiliates retain considerable autonomy and many are even run by their former owners. The introduction of modern managerial techniques and of corporations with broad reputational concerns may substantially change the behavior of the industry. However, these companies presently account for only about 15 percent of the total solid-waste collection and disposal market.

New York City

In 1980, commercial and industrial establishments in New York City obtained solid-waste collection services from approximately 300 small firms.[8] The city provided residential waste collection and operated all disposal facilities within the city limits. Almost all of the firms were owned by males of Italian origin, and most were organized as partnerships. There were no affiliates of the national collection companies in the city; indeed, there were no publicly held collection corporations at all. The largest firm had approximately 20 trucks, while approximately 800 firms with only one truck accounted for about 17 percent of the total truck capacity.

Allegations of racketeering in the New York City industry predate the McClellan hearings. In 1956, when the city ended collection services to commercial establishments in residential blocks,[9] there was general concern about anticompetitive behavior on the part of carting firms. The Department of Consumer Affairs (DCA) acquired regulatory authority, setting maximum rates per cubic yard of waste collected and screening licensees to ensure that no racketeers were present.

There was very direct evidence of the existence of a customer allocation agreement. In hearings before the DCA, carters were willing to state that the purchase of a customer by one carter from another gave the purchaser the exclusive right to service that customer. A 1974 investigation of the Brooklyn carters' association also provided direct evidence on this point.

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[7]These companies are also involved in the disposal of solid and other wastes.

[8]Figures for New York City and New Jersey are based on 1980 data, unless otherwise specified.

[9]This service was deemed an inappropriate subsidy for a subset of businesses. No allegations have been made that the decision resulted from the political influence of the carting industry or racketeers.

More indirect but comprehensive evidence of the allocation agreement came from the DCA-condoned practice of selling customers at high multiples of monthly revenues. Carters routinely sold groups of customers to each other. The multiple of monthly revenues used in these sales rose steadily over the first quarter-century of DCA regulation, from about 10 to approximately 40. In 1981, a single truck carter may have been able to sell his customers to other carters for as much as $400,000. Customers had become property.[10]

The rise in the multiples over the years was probably the result of two factors: First, as the agreement continued to function without serious interference over a period of years, the confidence of participants concerning its future success rose. Thus, the participants increasingly believed, based on experience, that they could exploit customers in perpetuity. The second factor was also a consequence of the continued success of the arrangement. Threats of entry by new carters became more remote, and customers became increasingly inured to the monopolistic practices of their carter, who was thus able to more fully exploit his monopoly power. The increase in the value of each customer came then from increases both in the certainty of retaining the customer and in the degree of perceived monopoly power, as the reputational barrier to entry increased.

The high multiples paid for customers also made it clear that carters were routinely evading income-reporting requirements. The DCA required carters to submit financial statements, which were used in rate hearings. Those returns showed that the gross operating profit of the carters was less than 11 percent of total revenues. A customer charged $100 per month should then on average have yielded a gross profit of no more than $11 per month or $132 per annum. If the customer was sold for $4,000, this would suggest that carters were content with a return of less than 3.3 percent on their investment, far below market rates on the most secure investments. A little anecdotal evidence reinforced the impression of massive underreporting of income. The true operating margins were probably closer to 50 percent of actual operating costs, i.e., the cost of servicing the customer billed $100 per month was $67 per month, rather than the $90 reported.

Why did the DCA not intervene? It was certainly aware of the prevalence of monopolistic pricing, customer allocation, and unreported income. In part, it was hindered by very limited legal resources and

[10]A 1984 court case described in New York State Assembly (1986, pp. 218–225) showed that the system continued to operate: An industry spokesman testified that the customer was property; goodwill appears not to have been part of the justification for this arrangement.

staff (and uncooperative courts). More fundamental was the carters' ability to overstate the level of service delivered. Smaller stores put out their waste in irregular containers and were completely dependent on the carter for an estimate of the volume of waste collected. With larger customers, whose waste was collected in fixed-size containers, carters might cheat in any or all of three ways: overstating the size of the container, not completely emptying the container when they pick it up, or picking up the container when it was not full. All such practices were apparently common. Thus, regulation of unit prices had little impact on exploitation of customers.

It is possible to use the size of the multiples at which customers were exchanged to make an estimate of the excess cost imposed on commercial establishments in New York by the customer allocation agreement. A rough but generally conservative figure was approximately $45 million in 1981, or about 35 percent of the total payments for collection service.[11]

Why did customers not take action against the carters? The customers included, after all, many large commercial establishments with a degree of managerial and legal competence. The reputation of the industry for having racketeer involvement probably served as an important deterrent. The fact that solid-waste collection costs were also a very small percentage of total operating costs and all firms were subject to much the same level of extortion with respect to this activity also may have hindered complaint.

Racketeers played a continuing role in the operation of the allocation agreement, primarily through the constant need to mediate disputes—hardly an unexpected situation in a conspiracy that involved the allocation of over 100,000 customers among 300 carters. The "grievance committees" that settled these disputes, using the basic rule that whoever serviced the site first has continuing rights to any customer that occupies the site, included at least one Mafioso.

There was little evidence of either threats or actual violence, but it seems reasonable to infer that the racketeers provided a credible continuing threat of violence that ensured compliance with the rulings of the committee. The union, which was instrumental in the creation of the original agreement, now appears to have played a negligible role. We were not able to identify how much racketeers received for their services or even to learn much about the manner in which they were paid.

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[11]The method used in this calculation is presented in Section II.

New Jersey[12]

The solid-waste collection industry in New Jersey in 1980 shared many characteristics with the New York City industry. Most of the firms were owned by persons of Italian extraction, many of them in fact descended from a group of entrepreneurs who came from the same town in Italy. There were many family ties within the industry, which had a long-standing reputation for anticompetitive practices and racketeer involvement.

An inquiry into these matters by the New Jersey State Commission of Investigation in 1969 showed that associations of carters had formal customer allocation agreements. Since the state lacked an antitrust statute at the time, this was not clearly illegal. Following the report of the agency, the industry was brought under the regulatory control of the Public Utilities Commission (PUC). The PUC used a more complicated approach to price regulation than did the New York DCA; each carter was required to obtain approval for his own tariff. These tariffs were routinely ignored by the carters in the 1970s. It is unlikely that most customers were aware either of their carter's tariff or of the quantity of waste that the carter actually collected.

As in New York City, carters in New Jersey routinely sold groups of customers to each other. The PUC, though somewhat troubled by the practice, required only that each sale be registered.[13] The price, expressed as a multiple of monthly revenues, was significantly lower than in New York City, averaging approximately 20, rather than 40. The difference may have been due partly to the relative newness of the statewide agreement in New Jersey and possibly to the larger share of total costs going to disposal, as opposed to collection.[14]

Many of the commercial carters in New Jersey belonged to a statewide association; this organization replaced the various local associations that had operated customer allocation agreements during the 1960s. The statewide association (Trade Waste Association) was convicted in 1982 of serving as the vehicle for a continued allocation agreement. Most of the 29 indicted member firms pleaded guilty to restraint-of-trade charges.

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[12]In the earlier report, New Jersey was referred to by a pseudonym, "Victoria," since the study dealt with litigation that was ongoing at the time.

[13]The PUC orders approving these transactions (as "transfers of assets") always asserted that, on the basis of the number of carters servicing the relevant counties, they were not likely to reduce the level of competition. There is considerable doubt that a group of counties does in fact constitute the relevant market.

[14]The carter's monopoly power was restricted to the share of his charges that reflected collection costs. As the share going to pay disposal costs rose, the capitalized value of monopoly rents declined as a multiple of the total price charged by the carter.

As in New York City, the role of racketeers in New Jersey seems to have centered around the settlement of disputes concerning the assignment of particular customers. This was alleged in the 1980 suit, *New Jersey vs. Trade Waste Association.* The racketeers' role was less direct than in New York, in that they did not generally appear at grievance committee meetings. Nonetheless, they sometimes appeared as last-resort enforcement agents when a dispute was not resolved within the association.

The major union cited in the earlier study was a singularly corrupt Teamsters local (Local 560). Two of its officials were murdered, and several others have been convicted of labor racketeering activities over the last quarter-century. It was certainly active in the past in the enforcement of customer allocation agreements. However, there was little available evidence that this was still the case in the late 1970s, despite the corruption of recent administrations of the local.

We were again unable to determine how much money racketeers received in return for their services to this industry or by what means they were paid. But there is reason to believe that the carters were the primary beneficiaries, although the lower multiples than those in New York City indicate less effective extortion of customers.

DATA COLLECTION: THE CURRENT STUDY

The study reported here was undertaken to provide data and analysis that would assist in the formulation of policy recommendations for structural remedies to supplement standard criminal sanctions for dealing with the problems of this industry.

The New York Organized Crime Task Force (OCTF) agreed to provide information collected in an ongoing investigation of racketeering and collusion in the Long Island garbage collection industry, including electronic surveillance reports and informant reports. Some materials, such as grand jury minutes, could not be made available, for legal reasons. Strict security was imposed with respect to the information provided. No original materials, or even copies of those materials, could be removed from the OCTF offices. Names of individuals in notes taken from these materials had to be coded, using a code maintained at OCTF. All notes were secured in a safe at The RAND Corporation. The OCTF retained rights to review all publications arising from this research, to ensure that there was no breach of the privacy rights of individuals under investigation and no threat to sources of information.

The OCTF review was restricted to these matters only. RAND retained the right to take policy positions and interpretations of data

that were different from those of the OCTF. The views and goals of prosecutors and researchers differ; so do the interpretations of certain materials used in this study. The prosecutors had access to some materials not available to the author; he had, arguably, a broader perspective. The resulting disagreements are modest.

Since much of the litigation has now been completed and relevant wiretaps released, real names are generally used in the narrative.[15] Some names have been omitted to protect individuals not named in public proceedings. Throughout the project, the OCTF made available all the legally permitted investigative material, and OCTF personnel cooperated fully in collating and interpreting this material.

The three major sources of information were, in order of importance:

1. *Electronic surveillance.* The OCTF carried out a number of court-authorized electronic surveillances, including both telephone taps and "bugs" (i.e., microphones placed in locations where discussions of criminal activities were likely to occur). Some were consensual; others were not. RAND was given access to these in order to permit the development of policy recommendations for the reform of the Long Island industry.

The realities of electronic surveillance are very different from the picture provided in fiction. Many conversations are extremely difficult to interpret, simply because of background noise. Some are inaudible. Others are clear but incomplete. A car "bug" was particularly fruitful in this investigation, but it placed heavy demands on the surveillance team that had to follow the car. The preparation of accurate transcripts took a great deal of effort.

However, the transcripts provided an immense amount of information on relationships among conspiring carters and among these carters and some major racketeers. In interpreting this information, it is important to note that many statements are made for effect. For example, one principal in the conspiracy claimed on a number of occasions that his business was very marginal. Yet his business records, as well as his very lavish lifestyle, indicated that his earnings from this enterprise were substantial. The statements overheard in the electronic surveillance were made to justify, both to himself and to others, his position in various bargaining sessions. Such posturing makes for controversy in the interpretation of transcripts, as suggested by earlier analyses of the de Carlo and de Cavalcante tapes (Anderson, 1979;

[15]Excerpts from the investigation's electronic surveillance were released at hearings of the President's Commission on Organized Crime on April 24, 1985.

Smith, 1975). Of course, such problems bedevil interpretation of all conversations, not just those heard through electronic surveillance.

Finally, it is important to note the difficulties created by the confusing syntax of many participants. It was sometimes impossible to determine which individual was being referred to by a certain pronoun. In such cases, the conversations could not be used, even though every word was deciphered.

2. *Investigator reports.* Investigators conducted surveillances and interviewed informants. The records of these activities, as well as discussions with investigators and one informant, provided significant information.

3. *Seized documents.* A search of the office and safe deposit boxes of a major figure in the conspiracy, Salvatore Avellino, yielded many books and records. These helped investigators to determine the prices paid in the sales of customers. They also helped describe the evolution of Avellino's business but were otherwise difficult for an outsider to interpret.

ORGANIZATION OF THIS REPORT

The following section presents a detailed study of the Long Island carting industry, focusing particularly on the relationships among racketeers, union officials, local politicians, and carters. It shows how interdependent the different groups are in the operation of the customer allocation agreement and points to an apparent paradox, i.e., the relatively small share of the profits extracted by the racketeers.

Section III analyzes the information available on three other industries in which racketeers have been alleged, over a number of decades, to play a substantial role: stevedoring in New York, casinos in Nevada, and garment manufacturing in New York. The discussion shows that there are at least three different forms of racketeer influence.

The final section analyzes public policy options available to deal with the problem of racketeer influence in legitimate industries. Particular attention is given to the structural reform of the Long Island carting industry. It is argued that heavy-handed regulation is not likely to be the best response to the problem of racketeering influence, and that the appropriate remedies are market-specific. The recommendations for Long Island carting call for a basic, but temporary, restructuring of the market to break the power of the dominant carter group and racketeers.

II. ORGANIZING CARTELS: LONG ISLAND CARTING

The primary data for this study concern the operation of the carting industry on Long Island. The cast of actors (both institutions and individuals) involved is relatively long and the roles are complex. Consequently, this section takes the form of a character-by-character narrative, after two brief background sections, one describing the setting of the industry and its general features and one providing some historical background.

THE LONG ISLAND CARTING INDUSTRY

Long Island consists of two counties, Nassau (the western county) and Suffolk. Each has a population of about 1.3 million, having trebled (Nassau) and quadrupled (Suffolk) since 1950. Both now contain substantial urban areas and a diversified economic base, including heavy industry. New York City commuters still constitute a significant share of the populations of both counties.

The counties are divided into townships (three in Nassau and ten in Suffolk). Within the townships are villages, some of which (despite the name) have populations of tens of thousands. The division of responsibility between the two levels of government is erratic. In the case of solid-waste collection, for example, either the township or the village can assume primary responsibility by providing municipal service or contracting out to a private carter.

The county level of government is dominant for some purposes, such as law enforcement. However, it has a relatively modest role with respect to solid-waste collection. Certain classes of trucks are required to have county Department of Health licenses, which are intended to ensure that organic waste is picked up and transported in facilities that do not threaten public health. That is the extent of county regulation.

The towns and villages exert varying degrees of regulation over private carters. Most towns require that carters be licensed to operate within the town limits. A carter whose routes cross more than one town may be required to obtain licenses from all of the towns involved, even if he does not collect in all of them. Some towns impose a limit on the number of carters that may operate within the town. Others set maximum rates that the carters may charge their residential customers.

Finally, some require that a carter have a minimum number of customers before receiving a license. This rule effectively limits the number of licensees, since it creates a significant barrier to entry and thus gives the current licensees, jointly, a degree of market power.

All towns are concerned with ensuring that the waste is disposed of at sites they operate themselves.[1] There are no privately operated disposal facilities within the two counties. The charges at the dumps vary greatly, so there is a temptation for carters operating in towns with a high-cost facility to take their waste to a low-cost facility. Monitoring of this is constant, though imperfect; it is suspected that corruption surrounds the collection of dump fees and the monitoring of which dump each carter uses. In February 1987, four carting companies pleaded guilty to charges of bribing officials at the Islip town dump to avoid paying dump fees.[2]

There were approximately 200 firms in the carting industry on Long Island in 1983.[3] In the absence of a central registry, and given the number of corporate entities that can be operated by the same individuals, it is impossible to make a more precise statement, or even to make an authoritative estimate of the number of trucks being operated. Suffolk County Health Department records indicate that in 1984, 68 companies with a total of 305 trucks were registered in the county. This did not include trucks that picked up only inorganic material, most of which were "roll-off" trucks used at construction sites.[4] It did include trucks that were held as backup equipment and may have rarely been used. Thus, the list provided only a very rough measure of the capacity of the industry. No comparable list was available for Nassau County.

The firms in Suffolk County ranged in size from 20 trucks to a single truck. The latter accounted for 5 percent of truck capacity. Firms with fewer than 5 trucks accounted for just over one-third of the truck capacity. Given that most of the roll-offs (which were not on the list) were operated by larger companies, this probably overstated the share

[1]Their interest in doing so arises from the fact that marginal costs are declining and prices approximate average costs.

[2]Reported in the principal local newspaper, *Newsday*, February 28, 1987.

[3]This number was obtained by counting all the firms in the 1983 list of the local industry association—the Private Sanitation Industry (PSI) Association—and adding all other firms found in the Yellow Pages telephone directories for Nassau and Suffolk Counties for the same year. There were also firms belonging to the PSI members that were not in either the association or the Yellow Pages. In addition, some firms may have changed names or gone out of business during the period between compilation of the Yellow Pages and the creation of the PSI membership list.

[4]A "roll-off" truck has a flat platform that carries a rectangular container. The empty container is left at the site, and the truck hauls away a full container.

of the smaller firms in total capacity. But clearly this was an unconcentrated industry; the four largest firms had less than 25 percent of the market, to use a standard criterion.

None of the national firms (BFI, Waste Management, Laidlaw, etc.) was active in either county. BFI did have one contract, to haul waste originally destined for a resource recovery facility which turned out to be nonoperational; the waste instead had to be taken to a site in upstate New York. But BFI has not attempted to compete for local collection contracts from commercial or residential customers.

The local firms were all privately owned. Some were closely held corporations; most were sole proprietorships or partnerships. As in New York City, the vast majority were owned by males of Italian descent, and many owners were related to others in the business.

There are four distinct product markets within the industry, defined by class of customer: (1) individual residences, (2) institutions or large apartment buildings, (3) commercial and industrial establishments, and (4) construction sites. Different kinds of equipment are used for collection in each class;[5] most firms operate in only one or two of these markets.[6]

The distinction among product markets is particularly significant for the racketeering issues with which we are concerned. The contracts for the four product markets for the time period examined here had the following differences:

1. *Individual residences.* For about one-fourth of the Long Island residences, garbage pickup was contracted for directly by the householder. The carter billed the individual household and, in theory, the householder could change carters if he chose to. In most towns where this was the mode of collection, the rates were regulated to some extent. This mode of contracting is called "scavenging."
2. *Institutions and large apartment buildings.* For about one-third of such households, pickup was provided by a private carter operating under municipal contract. The contracts were for one to three years and were awarded to the lowest qualified bidder. The typical contract covered a community of

[5]The separation is not complete, however, e.g., a rear-end loader might be used for individual residences and commercial establishments. But larger commercial customers are usually serviced by specialized equipment.

[6]The definition of product markets in the carting industry has recently been the subject of litigation. In a 1984 merger case, the Second Circuit Court ruled that the residential and business/industrial customers constituted distinct markets; it did not accept finer distinctions offered by the government (*U.S. v. Waste Management, Inc.*, 743 F. 2d 976, 2nd Cir. 1984).

2,000 to 3,000 households and generated annual revenues of approximately $250,000. Some municipal contracts included provision of service to small commercial establishments; most did not.

3. *Commercial establishments.* The market with which we are most concerned is the collection of solid waste from commercial establishments, such as restaurants, stores, and light industry. These establishments contracted directly with the carter, and there was no regulation of the rates. Contracts were generally not written; the arrangement provided for service as required, although, apart from seasonal fluctuations, this was likely to be fairly routinized on a weekly basis.
4. *Construction and industrial sites.* Construction activities and heavy industry generate different, mostly inorganic, kinds of waste. Construction sites usually require collection service for a relatively short period of time. However, a construction firm will typically have, over time, many sites, so that there may be a certain contractual stability, i.e., one carter may effectively have a contract to provide pickup at all the sites of a particular construction company within his service territory. The equipment used is different from that usually used for commercial waste. A large roll-off container is picked up at the site, and an empty one is left in its place.[7]

It is important to note that Long Island contained more than one distinct geographic market. Suffolk County alone extends for more than 100 miles and, given the importance of transportation costs in this industry,[8] no firm was likely to offer services to customers throughout its length, at least not from a single location.

This suggests that there was no necessity for a large-scale conspiracy among the 200 firms operating on Long Island for carters to achieve cartel profits. A relatively small number of firms, sometimes as few as five, operated in the individual geographic markets;[9] an agreement that included only those firms was not likely to face much threat

[7]Commercial establishments generating large quantities of waste may also be serviced with roll-off containers.

[8]Some indication of the significance of transportation costs was provided by an analysis of tariffs filed by New Jersey carters in 1984. These gave marginal costs of about 5 cents per mile per cubic yard; tariffs were approximately $4 per cubic yard for customers in the carters' prime territory. A customer 20 miles further away might be 25 percent more expensive to service.

[9]The term "market" is used here very loosely, simply to connote an existing set of suppliers and customers. No claim is made that these constitute antitrust or economic markets.

from firms operating in other areas. On the other hand, there may be enough overlap among these territories that some larger coordinating mechanism was necessary for boundary disputes, particularly since barriers to entry were slight.

HISTORY

There is a long history of accusations and investigations of racketeering in the carting industry on Long Island. Indeed, the 1957 New York City hearings of the McClellan Committee on the carting industry dealt primarily with racketeering in Nassau and Suffolk Counties. That investigation showed that the union had cooperated in the enforcement of a customer allocation agreement in the commercial sector and with respect to publicly bid (residential) contracts. Racketeers, members of various Mafia families in New York, had beneficial interests in certain carting firms, and the union had treated those firms favorably. Bernard Adelstein, the leader of Teamsters Local 813, was accused of misappropriating union funds as well as of cooperating with well-known organized crime figures. The racketeers appeared to have initiated the organization of a carters' association and the operation of the customer allocation agreement within that association.

The McClellan Committee's investigation led to some indictments. Adelstein and Vincent Squillante (the principal Mafioso involved in day-to-day operations of the industry) were convicted of extortion, but the conviction was overturned on appeal. Squillante disappeared—he was presumably murdered—prior to a scheduled trial in 1960. His nephew, Aniello Mancuso, who was much investigated by the Committee, continued to be active in the industry for another decade. Adelstein was still active at the time of this research, in 1984.

Ten years later, another probe was made into the carting industry in the two-county area. The story reported in *Newsday* indicates the repetitiveness of the accusations:

> Nassau District Attorney Cahn began an investigation yesterday of an alleged attempt by key Cosa Nostra figures to take over the multi-million dollar Nassau garbage industry. . . . Cahn said that (rackets bureau chief) Levy was investigating an alleged attempt to take over private carting companies and to dominate the private companies and the membership of the (Waste Removal) Institute. . . . Cahn's garbage investigation followed one by U.S. Attorney Robert Morgenthau's office, which is probing reports in Suffolk County of intimidation, truck burning, route take-overs, shylocking, and rigged bidding on waste disposal contracts. (December 22, 1967)

We were unable to find any report in later issues of the same newspaper of indictments resulting from either of the investigations.

Another decade later, *Newsday* carried another set of stories concerning the carting industry. There were reports of arson and violence among the carters, apparently surrounding the effort by two men, Aponte and Gonzales, to form a union that would compete with Local 813, and a related effort by some of the carters to form a rival carters' association. Some 22 trucks were destroyed during 1977, and the two union organizers were found murdered in a car trunk. Their deaths ended the effort to organize the rival association and union. The carter most prominently involved in the rebellion, a man who had also testified against the racketeers before the McClellan Committee, was killed in 1981. The newspaper reported that this death was probably related to the 1977 rebellion. None of these murders was solved.

The exact origins of the dispute among the carters are hard to identify. One of the rebel leaders was a prominent associate of the Columbo family,[10] which had apparently been pushed out of the Long Island industry by the Gambino and Lucchese families. However, it may simply have been an effort by some of the carters to expand their share of the market by neutralizing the power of the union.

Then in 1978, *Newsday* entered the fray directly with a very detailed and carefully researched five-part series on the Long Island carting industry. The first part accurately summarized the conclusions of the series:

> Despite past government investigations, convictions and industry claims of reform, organized crime has influenced for years the operations of the carting industry's trade groups, whose membership includes most of the large private carting companies. Those trade groups have served to suppress price competition and rig the bidding on public contracts to benefit favored companies, some of them owned by mob figures.
>
> Questionable tactics by some municipal governments on Long Island have helped carting monopolies flourish. Some contracts to private carters have been awarded without competitive bidding. Thousands of businesses pay taxes for municipal garbage service that they never get. . . . In some cases, sloppy municipal records result in residents paying carting firms to collect from routes that include nonexistent "ghost stops."
>
> The influential role of organized crime in the industry has produced terror tactics aimed at driving lower price competitors out of the

[10]The Columbo family is one of five Mafia (or Cosa Nostra) gangs ("families") operating in New York in the 1980s. The other four are known as the Bonnano, Gambino, Genovese, and Lucchese families.

> marketplace. . . . A recent internal war in the industry has led to two killings. . . .
>
> A corrupt alliance between the carting monopoly and its principal union serves as an additional means of assuring higher profits by keeping competition out of the industry. . . .
>
> The carters' trade organizations orchestrate a flow of contributions to politicians. . . . In one town officials passed legislation producing bigger profits for carters and higher bills for taxpayers, and a sudden flurry of carting company contributions totaling $16,900 promptly flowed into the officials' campaign committees. (December 17, 1978)

The evidence for all these conclusions was powerful. With respect to public contract bidding, for example, the newspaper reported uncontested single bids for major contracts of state and county facilities. Every effort by authorities to generate competitive bids failed. In some cases, apparently competitive bids were offered by a carter other than the previous contract holder, but they were later withdrawn for rather flimsy reasons and the contract had to be awarded back to the firm which had previously held it, generally at a higher price than the firm had offered initially. Typically, the same firm held a public contract for many years.

Other parts of the series raised questions about just how aggressively local government officials contested the carters' collusive behavior. In one incident, it was shown that a notorious figure in the carting industry who had a short criminal record had lied about that record in applying for a local license, but a political contribution had apparently led to a nonpublic decision to award him the license. The same town had adopted very restrictive rules for licensing new carters; in effect, the only way to enter the town was to purchase a large existing route from one of the current licensees. The newspaper estimated the cost of such a purchase at about $150,000. The town used this restrictive rule to disbar a low bidder for a contract, since he did not have a license at the time of the bid.

Apart from possible corruption in the municipalities' dealings with carters, there was also some question about the competence of the municipal agencies. In one town, the officials did not have an accurate estimate of the number of residences in the various districts put out for bids. One of the districts turned out to have only half as many residents as the town officials thought; when the error was discovered after the award of the contract, the town made no effort to recover revenues. The winning bidder had certainly known of the error, since he had held the contract previously.

In those towns that were supposed to receive carting services for commercial establishments under municipal contracts, the situation was even more egregious. One town specified that 112 establishments were to receive service; in fact, only 23 did. The remainder (there were actually only 97 establishments) contracted with other carters, since the city contractor would not provide them the specified services.

The *Newsday* series generated approving comments from law-enforcement officials. The Nassau County District Attorney said that at the time of the series, an antitrust probe of the industry had already been under way for eight months. In Suffolk County, the District Attorney and the County Executive both said that they would begin investigations. The federal Organized Crime Strike Force also reported that it had an investigation in progress.

The products of these investigations, despite the documentation provided by *Newsday*, were meager. Joseph Petrizzo, a leading figure in the industry, according to the newspaper's account, was convicted on loansharking charges; but there was nothing to suggest that this came out of the investigations of the carting industry. Another, lesser figure was convicted on charges of billing a town for pickup services not actually provided, and two carters were indicted for attempting to bribe an IRS official. The major investigations into customer allocation and bid-rigging, however, failed to produce any indictments related to these matters.

This history indicates how well known the central features of the industry are. There has been a constant reiteration of evidence that the carters, the union, and racketeers act together to suppress competition in important segments of the market. The passivity, and even cooperation, of local politicians has been widely publicized. There have been repeated investigations of the industry by law-enforcement authorities. Yet none of these investigations prior to 1984 had led to indictments of conspirators for coordinated actions.

CURRENT ORGANIZATION

Since racketeers first entered the Long Island carting industry in 1953, the principal coordinating organization has been at the county level. The names of the organizations have changed over time but there has always been either a Long Island association or one for each county, through which customer allocation agreements have operated with varying degrees of success. The current organization, the Private Sanitation Industry (PSI) Association of Nassau/Suffolk, was set up in 1978. One reason for its creation was the growing disrepute of its

predecessor, the Nassau-Suffolk Cartmen's Association. The new name may also have represented a transition in Mafia family control, with the Luccheses succeeding the Columbos as the principal controllers.

The PSI had 142 member firms in 1983.[11] In many ways, it operated like a conventional local trade association, representing the industry in front of local regulators, orchestrating political contributions, and organizing social functions. It had a very visible executive director, James Corrigan, who made frequent public appearances on behalf of the industry. He served the same role for two other industry associations.

The association was governed by a self-selected executive board of members. This board appeared to play a central role also in the unlawful operations of the PSI, namely the allocation of customers and the intimidation of members. There were indications that board members were intended to serve as regional "captains." A carter who had a complaint against another carter was expected to approach the captain of his region. In practice, there were often other ties between a carter and a board representative that might lead to a different route of complaint. Moreover, as we shall see, the board was not the only means for dealing with complaints about competition.

The organization of the industry in 1984 can perhaps best be understood by describing the incidents surrounding the effort of one conspirator to expand his share of the market. This rebellion engendered a strong reaction from some of the other carters, partly accounted for by the fact that another carter was also defying the agreement.

Robert Kubecka, the rebel, was the owner of a medium-sized carting firm with three affiliates. The affiliates had a total of 5 to 10 trucks, depending on the state of their business. The firm was originally founded by Kubecka's father, who served primarily residential customers in a small and rather rural area of Suffolk County. Even then, the firm was occasionally involved in market-sharing agreements, generally losing out when the agreement broke down. By 1983, the firm did a significant amount of commercial pickup.

It was of considerable significance, at least in the eyes of the other carters, that the Kubeckas were not of Italian descent. Robert's ethnicity was a matter of frequent comment by the others, who occasionally referred to him as the "Polish ham."

Robert and his father had long been suspected by the other carters of being informants for a particular police agency. Prior to joining the

[11] A review of Yellow Page listings showed an additional 31 carting firms in Suffolk County who were not members of the PSI. However, some may have been affiliates of PSI member firms.

PSI in 1979, they had been subject to harassment, both by other carters and by the union. Anthony Vespucci, from Sail Carting,[12] had offered to buy out the firm. After Robert's father (who was running the firm at that time) refused this offer, union officials approached commercial customers of the Kubecka company and directed them to switch to supposedly unionized firms. It is not clear, in fact, that all of the favored firms were fully unionized.

A number of customers switched to these other carters, in some cases after acts of vandalism had occurred that they associated with the union demand. In response to this loss of customers, the Kubeckas enrolled some of their employees in the union and restricted their activities to an area in which they did not conflict with Sail Carting.

Nonetheless, they were members in good standing of the PSI, from its early days until Robert decided to break the agreement with respect to customer allocation. He began aggressively soliciting customers of other carters in the towns in which he was most active.

The firm most directly affected by Robert's actions was again Sail Carting, whose owner was in the process of selling the business. The major asset of the business was its customers, and Vespucci was selling the firm in pieces, each piece consisting of a block of customers and a small amount of equipment. The sales contracts all specified payment over a period of about 60 months, and each was contingent on the purchaser receiving customer revenues of the amount specified in the contract. Loss of customers posed a peculiar threat to Vespucci, since it immediately reduced the capital value of the firm at a time when he lacked the means to retaliate.

Kubecka's price-cutting engendered a variety of responses. Some customers found themselves the beneficiary of a price war, when Vespucci or his successor offered as much as six months' free service and/or a drastically cut price. Other customers found, in addition, that disguised threats were uttered about the probability of Robert not being able to provide service much longer.[13]

Some customers were subjected to more direct threats. One restaurant owner found his car severely damaged and was convinced that this was the work of the carter whom he had given up for Robert. Others found that Robert's containers, placed on their property at their request, were moved away.

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[12]Carters are mostly known by the name of their firm; indeed, they often know each other only by first names. Vespucci would introduce himself on the telephone as Tony Sail. When he retired, he found it awkward to use his real name in identifying himself on the telephone to former associates.

[13]Descriptions of these incidents are drawn from investigators' reports, frequently based on interviews with the affected customers.

Many different carters were involved in these retaliatory efforts, although Sail and its successors were the most active. Some customers were unintimidated and stayed with Robert; some were persuaded by the better offers to switch away from Robert; and still others were intimidated into dropping Robert's services.

It was notable that the union, a major participant in the customer allocation agreement in the past, did not exert pressure against Robert. Salvatore Avellino, the leading figure among the carters, was very unhappy about this. Indeed, one of the major reasons that Avellino and his associates later contemplated setting up another union local to replace Local 813 was that they were unable to persuade Michael Fleischer, the union organizer on Long Island, to harass Robert. Fleischer's reluctance was based in part on his suspicion that the industry was being investigated by law-enforcement agencies.

A number of other methods were used to suppress Robert's rebellion, none of them very successful. A town official, who was on close terms with some of the leading figures in the PSI, arranged a meeting between Robert and Vespucci to have them work out their differences. Meanwhile, Avellino discussed possible arrangements for sabotaging the trucks of rebel carters, possibly including the Kubeckas. Someone placed metal shavings in the engines and Robert had to undertake expensive repairs, as well as search for backup equipment. There were also meetings between Robert and as many as six other carters who had taken customers away from him. One of the carters, who had a lawsuit pending against Robert in connection with a municipal contract the Kubeckas had won, offered to take back commercial customers (returning matters to the *status quo ante* rebellion) and drop the lawsuit.

The failure of this last offer is instructive. The swaps were offered on the basis of price, i.e., the carters wanted Robert to give them customers yielding current revenues equal to those yielded by the customers that he had taken from them earlier. Kubecka protested that he had cut prices so drastically that he now would have to return many more customers than he had originally taken. He countered with an offer that they literally swap customers, i.e., he would return those he had taken from them and vice versa. This appeared to be an acceptable offer, until negotiations broke down because of bidding on a certain school contract.

This school contract had previously been held by another carter but Kubecka had won it in the most recent round of bidding. That bidding had led to a lawsuit contesting the legality of the award to Kubecka, on very questionable technical grounds. Nonetheless, bidding had been reopened. The other carter proposed that Robert should enter the

same bid in this new bidding as he entered before. The other carter would enter a lower bid.

After agreeing to this arrangement, Robert decided not to bid on the school contract at all, reasoning that there was no point in bidding if he knew he was going to lose. As it turned out, yet another carter submitted a lower bid and won the contract. Some of the carters blamed Robert for this and said the deal was off.

More efforts were made to end the rebellion. Robert's father, who was still a part-time participant in the business and was concerned about his son's safety, approached Avellino, asking him to act as a mediator. Avellino refused, saying that this was not a proper function for a board member of the PSI.

Still more meetings were arranged, with other carters acting as mediators. Nothing came of these either, although one included an offer to buy out Robert's business at a very generous price. Robert was, quite reasonably, suspicious that the contract, which would certainly specify payment over time, might not be fulfilled once he had given up operating the business himself.

In all these transactions, reference was made to the "multiple" that would be paid for commercial stops, between 40 and 45 times monthly billings. A significantly lower multiple was attached to residential customers, 20 or 25.

Robert did not restrict his rebellion to the commercial segment of the market. He started to bid aggressively on public contracts formerly held by other carters. In the course of doing this, he found himself confronted by indications of conspiracy between carters and public officials. In general, there was a concerted, almost uniformly successful, effort to prevent Robert from taking public contracts from other carters. He even had difficulty obtaining copies of specifications for some contracts.

Robert's final act of defiance concerned an application by the PSI to obtain an increase in the maximum allowed rate for residential pickup in the town of Huntington. He argued in front of the town council, which was considering the application, that no increase was required. This was the act that led finally to his expulsion from the PSI. The increase was in fact awarded. The PSI and two town officials pleaded guilty to conspiring to bribe the town officials. One councilman is under indictment for soliciting and accepting a bribe.

It is curious that at no stage did any gangsters from outside the industry enter the process of directly intimidating the Kubeckas. Sal Avellino, whose complex role and identity are discussed below, was the one exception to this noninvolvement of gangsters. The most likely explanation for the paucity of threats is that there was always concern

that Robert might be a police informant. From time to time, Vespucci, the carter most directly threatened by Robert's rebellion, refused to follow up a suggestion for direct action, such as a threat, by asking (rhetorically), "Do you want me to go to jail?"

Somewhat veiled threats were made from time to time against both Robert's business and himself. At one stage, a veteran carter from New York City, Fred Lamangino, who was reported to have boasted of his connections with organized crime, called to persuade Robert to sell out. He stated that the deal would be guaranteed by Sal Avellino, in return for 3 percent of the sales price "up front." Robert did not find this an attractive offer.

Robert's rebellion revealed both the strengths and the weaknesses of the industry's customer allocation agreement. Its strength lay in its breadth. Union officials, racketeers, and political officials, as well as the other carters, were all willing to provide some support for the continuation of the agreement. But it was weak in that only the carters were willing to involve themselves directly in enforcement. Their enforcement efforts, in fact, turned out to be cumbersome and provided the basis for the first serious investigation of the customer allocation agreement.

PROPERTY RIGHTS

The essence of the customer allocation agreement was that each member agreed not to accept or seek business from customers who were currently served by another member. This was referred to as a system of "property rights."

The system was identical to that operating in New York City and northern New Jersey, except in its comprehensiveness. In New York City, the agreement covered only commercial and industrial customers, since residential collection was carried out entirely by the city itself. In New Jersey, there was a separate, and recently ineffective, vehicle for dealing with municipal contracts.[14] On Long Island, the one association, the PSI, operated a property rights system that covered both private and public contracts.

The carter who first serviced a given location had a perpetual right to service that site. For example, a carter complained to Robert that he, Robert, was servicing one of his stops (commercial customers). The claim rested on the fact that some years earlier the other carter had provided service to that location. He had lost the business when

[14]The New Jersey Attorney General indicted twenty carters for bid-rigging on municipal contracts in September 1984.

the town decided to include small commercial premises in the coverage of the municipal contract. The township had since dropped that service, and the premises were in the hands of a different business from the one the other carter had serviced. Nonetheless, he asserted, and Robert seemed to think that it was a reasonable application of the rules, that he retained the right to service those premises.

It was clear that there was competition for the right to first service a location. Customers did provide evidence that they received very large price increases fairly early in their dealings with a carter. Efforts to find another carter were uniformly unsuccessful. The first question asked by a potential carter was who currently serviced the stop. If the answer was a member of the association (then the PSI), the carter would tell the customer he could not bid for the work.

The arrangement was restricted to PSI member relationships—PSI members were at liberty to take customers from nonmembers. Indeed, timing was important. Robert demanded the return of customers from another PSI member, who argued that Robert had not been a member at that time. When Robert said that was not true, the other carter agreed to return the customers.

The arrangement for public contracts differed in no significant way from that for commercial customers. Sometimes a matching bid was arranged. Indeed, Robert, scarcely an inner member of the group, had certain contracts for which the only rival bid was one arranged by him to avoid the appearance of impropriety. He was willing to reciprocate the favor and enter a high bid for a contract held by his collaborators.

Not every member of the agreement felt the need to obtain matching bids. Some contracts were regularly let to sole bidders. Public officials—and it is not possible to vouch for the veracity of their responses—claimed that efforts to obtain more competitive bids had occasionally led to "punishment." The second round of bidding would again produce only the one bidder, and he would enter a higher price than he had the first time.[15]

Though this system of bid-rigging had been in place for some time, there was still a certain lack of confidence in its efficacy. This was revealed in a conversation between Tommy Ronga, a carter who was second in influence only to Avellino, and Mary, a principal in a carting firm run by a group of family members. Ronga told of the following conversation on the occasion of a visit to Mary's home, after her firm had won a bid for which the PSI had arranged complementary bids.

[15]Similar experiences were recorded in the New Jersey investigation of the New Jersey Trade Waste Association (see Sentencing Memorandum, *New Jersey v. Trade Waste Association et al.*, 1983, pp. 19–20).

The firm had, however, bid lower than the PSI had suggested:[16]

> She said to me, "I'm sorry Tommy if I said anything to offend you. I was all confused but I know what it's all about now." I said, "Pat's got to learn to trust people, Mary. You see, at the end there, you still went and did it for a cheaper price. And the position you put Sal in? A very embarrassing position. When we go in there for one number, we got to go for that number. If we get killed, we get killed. If we win, we win."[17]

The carters themselves were sometimes unconvinced of the impropriety of their behavior. One of them, in the course of discussions about the sale of customers and the nature of the restrictive covenant associated with it, said, "To me, what I am doing is legit. Sometimes I think I ain't. . . . I've started to believe the news media in what they talk about us, that we are all no good."[18]

Later, in talking to the Kubeckas, he said,

> Me and you are negotiating buying and selling routes. I think it is only ethical, you are looking to buy my business, I'm looking to sell my business to you, that you shouldn't solicit my customers and I shouldn't solicit yours. . . . After our negotiations break down, then I think you can go ahead and do what you want because you have a perfect right. You still have a perfect right now. I still think it is unethical if we are negotiating to talk.[19]

Such statements are, of course, potentially disingenuous. No doubt all criminals, particularly those who are not obviously depriving others of life or property, see little evil in what they do. After people have participated in an activity for thirty years without active punishment, they are highly likely to believe their own self-deceptions.

RESIDENTIAL CUSTOMERS

There is some evidence of a customer allocation agreement in the residential sector, where the carters bill the individual homeowners directly. Occasionally the conspirators attempted to punish Robert, most of whose business was residential, by "raiding his residential

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[16]In some of the quoted material in this report, expletives have been deleted.

[17]Sentencing memorandum, *People v. James Corrigan, Jr.*, County Court of the State of New York, July 1987, hereafter referred to as *Sentencing Memorandum*. This document included over 500 pages of transcripts from electronic surveillance by OCTF.

[18]*Sentencing Memorandum*.

[19]At another stage, a carter complained that it was unreasonable to expect him to compete with another carter with whom he was on friendly terms. To take customers would be like his friend taking his wife when they came over for dinner (*Sentencing Memorandum*).

stops," but that was done to sanction him for taking commercial stops. On one occasion, the industry association used political connections to prevent some carters from entering Huntington and soliciting residential stops at a lower price. The association was concerned that this would lead to the rejection of an application for a rate increase then being considered by the town council.

This latter incident is of some interest. On the one hand, it does suggest that the association operated to increase prices for residential customers. On the other hand, there is nothing to indicate that the association intended to sanction those carters who sought a "peddler's license" in the town. No overt threats were made to those carters to force withdrawal of their application. The political strings were pulled merely to delay the awarding of their licenses.

It is very significant that the union had not organized most of the residential collection firms. The conspirators, in discussing the potential of a new union local, to be called Local 813A, saw its value in being a means of eliminating competition in the residential sector. By implication, that suggests that there was, at that time, competition in that sector. On the other hand, they also seemed to believe that they could use the new union to reduce the number of commercial carters.

The answer may be that there was less necessity for, and less reward in, an explicit agreement in the residential (scavenger) sector. Residential customers are not able to pass along to others increased garbage collection costs, and there is always the threat of their shifting to municipal collection or municipal contract. In light of this, the rest of this analysis concerns only the commercial and contract markets, except in our consideration of explanations for the distribution of power in the industry (see Section IV).

The multiple for residences appeared to be between 20 and 25 times monthly billings. One firm was willing to consider paying 25 to 1 to a small carter who wanted to sell a route with 2,000 homes on it. He hesitated because there was a rumor among the carters that the town in which this route was located was about to put out a municipal contract for residential collection. In various other transactions involving both conspirators and nonconspirators, the multiple of 20 to 1 was mentioned.

The multiple apparently increased between 1974 and 1984. When Avellino entered the business in 1974, he purchased a number of residential routes from other carters at multiples of around 12 to 1. The increase probably represented a strengthening of the cartel arrangement.

There were some interesting boundary cases concerning classification of customers. One carter was negotiating for the sale of his busi-

ness, which included some school district contracts. These contracts, most of which were fairly small (between $5,000 and $20,000 per year), are awarded in public bidding. The purchaser talked to another carter about what he should be paying for these school contracts. The carter advised him that once the school contract has been renewed, "The thing is worth 40 or 45 to 1. Well 40 to 1. . . . You negotiate with him and see how he takes it. I says the schools are commercial. I says the only things that are bid on for 20 to 1 are homes."

ROLL-OFF CUSTOMERS

The other major market apparently not covered by the conspiracy was the roll-off market. Referring to New York City, Salvatore Santoro, a senior Mafioso, said directly, "There is no association with roll-offs."[20] No explanation was offered either by him or by anyone else, but there are some factors that may have bearing.

Perhaps the most important factor is that much of the roll-off work is short-term. A builder will need to have waste picked up at a particular site for a period of some weeks. After that, he may not need roll-off services in the same neighborhood for quite some time. An allocation agreement would not work for the site, since roll-off work would not be needed there after the initial service.

Also relevant were the numerous ties among contractors, the customers for roll-off work, and the principal carters. The ties came from racketeer connections: Construction firms were frequently extorted by the same racketeers involved in the operation of the carter customer allocation agreement.[21] One method for making a payoff to the racketeers was to give the roll-off contract to a carter favored by them.

Avellino was a prime beneficiary of these arrangements. At one stage he was asked to mediate a dispute between a carter and a building contractor who had refused to pay his bill. Avellino said that he would settle the matter and then obtain exclusive rights to pick up from any Long Island site of that contractor.

This raises the question of whether it would be profitable to have that right if the builder was working at a site remote from the garage of Avellino's company, clearly a generic problem for this kind of alloca-

[20]The New Jersey customer allocation agreement also did not include roll-off work. See the deposition of Harold Kaufman in *New Jersey Board of Public Utilities vs. Carmine Franco and Co., Inc.*, State of New Jersey, Board of Public Utilities, Agenda date: 8/27/87, Agenda item: 10A.

[21]The heads of the five Mafia families in New York were convicted in November 1986 on charges that, among other things, they controlled the allocation of cement contracts to building sites in the metropolitan area.

tion agreement. The answer seems to have been subcontracting. Avellino frequently subcontracted roll-off work to other firms; the price he charged the customer was sometimes 50 percent higher than the amount he paid to the subcontractor. Indeed, Avellino had no choice but to subcontract as he had no equipment for roll-off work. Avellino's records suggested that he made between $250,000 and $300,000 from such subcontracting in 1983. This should be regarded as almost entirely profit, since it involved no cost other than that of processing bills among customers and subcontractors.

Not all roll-off work is for temporary construction sites. Very large stores and certain kinds of industrial plants that generate mostly nonmetallic waste also prefer to use the large (25- to 40-cubic-yard capacity) containers that can be handled through roll-off. In New York City, this was regarded by carters as the most profitable segment of the market, and the multiple used for the sale of these customers was higher than that for other commercial stops.

Clearly, the explanation offered above for the lack of a customer allocation agreement in the construction site market would not apply to this other roll-off market. It may be that so few firms offered the service that no formalized agreement was required. That in turn raises the question of why more carters did not enter the market, since the entry barriers were not substantial, at least for any existing carter. At this stage, we can offer no explanation, except perhaps the speculation that the firms in this segment were those with the most threatening reputations.

RACKETEERS

The role of racketeers in the Long Island carting market is central, but difficult to characterize. On the one hand, there is no doubt that they regularly obtained money from carters as a group, though direct payments were modest. On the other hand, it is not clear just what services they provided in return for that money. We also do not know what other monies they may have received indirectly, a matter taken up later. Their involvement is best understood by consideration of Avellino, the central figure connecting the carters and the racketeers.

Avellino had been the owner of a carting company since 1974. He entered the industry in his late thirties, having previously been the owner of a garment-manufacturing firm. He had no criminal record, and at the time the OCTF began its investigation, it could find no

intelligence information suggesting that he was involved in any criminal activity while a garment manufacturer.

However, he came from a family with extensive criminal involvement. His father was probably a soldier in the Lucchese family, in which his uncle was later a capo. His brother was a gambling operator. He himself became a member of the Lucchese family. It seems implausible that he was not involved in organized crime activities well before 1974.

When Avellino entered the carting industry, he apparently had no particular cachet or connection with the union or other carters. He was subjected to intense union pressure in the mid-1970s. An effort was even made to destroy his property during the 1977 intercarter struggle.

At some stage, though, he became a member of the Lucchese family and a prominent figure in the carting industry. The exact sequence is hard to determine, but it seems plausible that the two events were related. He helped organize a new carters' association, the PSI, to replace the notorious and faction-ridden Nassau-Suffolk Cartmen's Association. He established close relations with other, more experienced and prominent carting company owners. He became the chauffeur and close associate of the leader, Anthony Corallo; he also became close to the deputy leader of the Lucchese family, Salvatore Santoro.

He became a dominant figure among the carters. The head of the PSI checked with him before making decisions, and other carters deferred to him and expected him to be able to resolve disputes. He took a public role as a spokesman for the carters and was on the board of the PSI. He headed the (unofficial) group that bargained with the union in 1983.

His connections went well beyond the carting industry. For example, he knew some prominent figures in the construction industry on Long Island, and he used those connections to influence the distribution of carting contracts for new construction. He was involved in discussions of efforts to extort money from businesses in the trucking sector of the garment industry.

His involvement in purely criminal activities was also fairly routine. He was active in the management of a gambling business, and he frequently talked with other racketeers about the operation of an illegal casino in New York City.

Avellino had a complex identity. He was clearly a member of the Lucchese family, although he was sometimes not very knowledgeable about its customs, and he actively concerned himself with the politics of the five families. But he was also an active carting entrepreneur. One of Avellino's major roles appeared to be the delivery of money to

the Lucchese and Gambino families. Each quarter, he and a small number of other carters collected monies from a subgroup of the PSI for delivery to the two family heads. The one indication of the amounts involved suggested that more than $50,000 was delivered to each family each quarter.

Avellino was proud of the fact that he increased the amount delivered after he became prominent in the industry. Indeed, he was clearly miffed that his success was not formally acknowledged. In one conversation, he commented on the attitude of the leader to whom he delivered the money:

> You want to know the truth, Tommy. He never says a word but they are all doing good. . . . He never asks how much. It's all sealed up. The accounting is inside. All the notes are inside. But you would like, say, "Gee is there a mistake?" Next time would they say, "Is there a mistake?"

Tommy replied skeptically,

> "Take $5 out, see if they find it, Sal."[22]

It was often made clear that control of the industry was shared between the Lucchese and Gambino families and that the money must be split evenly between them. A discussion of the possibility of setting up an alternative union (Local 813A) is particularly interesting in this respect. Avellino and his carting associates still proposed to share the profits between the Gambinos and the Luccheses, but the union leader would no longer be entitled to a share.[23] This suggests, though not with certainty, that Adelstein received some money independently of the racketeers. If he did, it must have been through his own agents, for at no stage did Avellino suggest that any carters paid Adelstein directly or that the money he collected included a share for Adelstein.

It was reported at one stage that the head of the Gambino family (Paul Castellano) said how pleased he was with the way Avellino had coordinated the industry since he took over. One of the questions that this comment opens up is how the system was organized before Avellino took over. It is clear that the two families, and perhaps the Colombos as well, received monies from the carting industry. The total payments to the heads of the families appear to have been less than $200,000 before Avellino took control, since he claimed to have more than doubled the total. The previous racketeering representatives, who were less directly involved in the industry, may have taken more for

[22]Cited in the April 1985 hearings of the President's Commission on Organized Crime (hereafter referred to as *PCOC Hearings*), p. 691.

[23]See conversation quoted on pp. 686–687 of *PCOC Hearings*.

themselves (since they received income only from extortion, whereas Avellino received income from operating a carting business as well), and the lower-level figures may have also received a share of the total. Thus, the amount taken out for the racketeers may not have increased, but more may have been delivered directly to the senior members of the families.

A striking feature of Avellino's performance was the fact that he persuaded so many of the carters that he was seeking, almost altruistically, arrangements that benefited all. Repeated references were made by others to how much their lot improved after Avellino entered the industry. For example, Avellino reported that Freddy, another carter,

> came to my house one Sunday with a brand new Mercedes, the small one, the fifty thousand dollar one, so I walked out, it was a Sunday morning and I said, "Congratulations, beautiful, beautiful." He says, "I just wanted you to see it, cause this is thanks to you and to PSI that I bought this car."[24]

In another conversation, Avellino made clear that he understood the value of playing fair in the application of the property rights rules:

> Ya see, out here Frank in Nassau, Suffolk County . . . we don't shake anybody down, we don't steal anybody's work, we don't steal it to sell it back to them like they do every place else, in five or six years . . . whenever I got a stop back for a guy because somebody took it, never was a price put on it, because if it was his to begin with and he was part of the club and he was payin' every three months, then he got it back for nothin' because that was supposed to be the idea. . . . So I never let them think that we were interested or that I was interested in just taking money from them.

It is clear that the agreement disproportionately favored a relatively small number of carters, who received a larger share of new business. But it is also likely that all the members of the PSI, many of whom probably had little contact with Avellino, also benefited from the increased security that Avellino's honest application of dishonest rules provided.

Avellino's behavior was also seen to contrast sharply with that of others involved in the carting industry in New York City and that of his predecessors on Long Island. For example, it was said of one of his predecessors that he "makes a partner out of everybody that he bumps into," i.e., that he took a share of the profits of each carter with whom he came into contact.

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[24]*Sentencing Memorandum.*

One puzzle about Avellino was the method he used to build up his business. Originally he purchased a small residential carting firm from an associate of the Columbo family. Over the next ten years, the company, Salem Carting, purchased at least twelve routes from other carters. The prices paid appeared to be in line with the multiples reported in other sources. For example, in September 1979, the firm paid $83,209 for residential stops with a monthly income of $3,262, a multiple of about 25 to 1.[25]

The puzzle has two elements: First, why did Avellino go into the segment of the business in which the union, and indirectly the racketeers, was least powerful? Second, if he had an advantage relative to other carters arising from his close connections with racketeers, why did he pay the market price for customers? We have no explanation for these observations.

None of the racketeers with whom Avellino conversed showed much independent knowledge of the industry. They occasionally gave advice to Avellino about how he should deal with specific problems, but only when he brought up those problems. For example, Corallo and Avellino discussed the desirability of filings, rather than nuts and bolts, being put into the engines of rebels' trucks. Corallo also told Avellino that, in light of the possibility that the industry was under investigation, strong action against rebels should be delayed. "Once it's over, you get him; you don't make waves, throw gasoline on the fire. That's the gist of it."[26]

Avellino did have a concern about racketeers involved in the carting industry in New York City, since there were some firms headquartered in Queens that also operated on Long Island. A Gambino capo named James Faiella was the racketeer most heavily involved with the New York City carting industry, and Avellino perceived Faiella as having much closer ties to the union. At one stage, Ronga wanted to buy the business of a recently deceased New York carter. Avellino was concerned that Faiella would try to extort Ronga. He instructed Ronga that if that happened, he was to say that Avellino was a partner in the venture and then Faiella would have to deal with Avellino.

Members of the Gambino and Lucchese families may have benefited from their influence in the Long Island carting industry in other ways as well. For example, there were possible ties through the insurance industry, but nothing conclusive was found.

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[25]It is possible that the documents do not reflect the actual transaction. If Avellino had intimidated the selling carter, he could force that carter to sign a contract overstating the sales price.

[26]*PCOC Hearings*, p. 666.

THE UNION

Only one union local played a significant role in the Long Island carting industry, Local 813 of the International Brotherhood of Teamsters. This local also represented carting employees in New York City and Westchester County. On Long Island, it apparently represented only the workers involved in commercial collection. The residential carters were not generally unionized.

The leader of Local 813 in 1984 was Bernard Adelstein. He had been the leading figure in the union, first as president and then as business agent, since 1951. The McClellan Committee, in 1957, showed that Adelstein had received payments of a doubtful nature out of union funds and that he had selectively enforced union rules to favor firms controlled by racketeers. He was convicted of labor racketeering charges, but the conviction was overturned in 1958 on technical grounds. His son and nephew were, respectively, president and treasurer of Local 813 in 1984.

Union negotiations with the PSI and its predecessors have not always been smooth. In 1978, a ten-day strike resulted from a breakdown in negotiations. The final outcome was a compromise between the union's demands and the carters' final offer. In 1983, the two sides started very far apart; Local 813 sought an increase of $160 over three years, and the carters offered $60. The final increase ($81 over three years) was achieved without a strike.

The strike in 1978 requires some explanation. On its face, it would appear to suggest that there had been genuine bargaining between carters and union officials, a view inconsistent with the hypothesized collusion between the two groups. After all, a strike imposes losses on both parties. There are two possible responses to this.

First, it may have been a temporary disagreement between conspirators, either about the optimal strategy or about the division of the spoils. The strike came shortly after a long struggle over the creation of a new union, which included the killing of at least three persons in the industry. Relationships may not have been sufficiently harmonious to permit agreement on the wage increase, even though the two groups were cooperating on the enforcement of a customer allocation agreement. After all, the famous electrical conspiracy of the 1950s, involving collusion among the major manufacturers of electrical generating equipment, broke down at one stage, though the conspirators retained the basic framework of negotiation throughout the period (Geis, 1977).

Second, it is possible that the carters had a strategic interest in promoting the appearance of tough bargaining. In a number of towns, the ceiling rate that may be charged residential customers is regulated. It

is unclear how that rate is determined, since there are no public hearings, and no justifying documents are presented for setting the rates. However, the carters apparently believed that they would be allowed to pass on increased wage rates in the form of a rise in the ceiling rate.

Under certain rate-setting procedures, the regulated firm benefits from increases in wage rates, provided they are incurred by all the regulated firms. This is true, for example, of the "operating ratio" method used by the International Communications Commission (ICC) until the mid-1970s; the allowed rate of return on invested assets rose with wage rates (Moore, 1978). The implicit rate-setting formulas used by the towns may well be of this type, so the wage increase was beneficial to the carters.

However, there has long been a suspicion that the carters and the union were colluding at the expense of the customers. The wage bargain may have been regarded by many as the product of that collusion, thus leading politically sensitive town councils to refuse to pass on the full costs of the increase. The strike then might be seen as a method for the carters to establish that they had bargained in good faith, even though they had not.

This is a highly conjectural explanation which is contradicted by a small number of observations. First, information concerning the negotiating attitude of the carters in 1983 indicated a real concern with achieving the lowest possible increase. In the following conversation, the carters who led the (informal) negotiations for the PSI (Avellino, Ronga, and Fezzini) were rehearsing what they would say to Bernie Adelstein:

> We can't give the store away because there is no store to give away. Things are very bad. The men are all complaining. The bosses are all complaining. You got a few Indians out there, robbing all kinds of work . . . which is not your problem Bernie. That is our problem, an association problem. But in the meantime we got Indians there, losing work. The union can't do nothing to stop them. The union doesn't do nothing to help. We have in Brookhaven, in Islip, in Smithtown firms that are nonunion, so when municipal bids come up they are up there bidding away. This prevailing rate[27] doesn't mean a thing to them. Nobody abides by it, so when you get a guy that is a union man and he toes the line, he hasn't got a chance to win the bid. He hasn't got a chance. (Taking Adelstein's role:) We go on strike. (Reverting to his own role:) Then I got to say you're not strong enough to make it, to really make a strike go. The strike was only a few days (referring apparently to 1978). Everybody was ready to go to work. The union people were ready to go to work. You

[27]Towns generally require that municipal contractors pay "prevailing wages." If an industry is heavily unionized, the prevailing wage is the union contract figure.

> don't have enough people to man the dumps. You didn't have pickets in front of two of the dumps that we had. O.K., we can work with a strike.[28]

This certainly conveyed the impression of people preparing to bargain aggressively in the forthcoming negotiations. Avellino laid out the need for such bargaining by showing that the existence of nonunion firms limited the ability of unionized firms to raise the level of wages. He cast aspersions on the union's ability to back up a tough bargaining position with an effective strike, arguing that the 1978 strike was not a success from the union's point of view.

It is hard to interpret this as the prelude to a collusive agreement in which the union leader and the carters were merely bargaining about how to find a credible method for passing on large increases. The proposed $20 per week increase offered by the carters amounted to only about 5 percent per annum, on top of the $18.20 required as a cost-of-living increase under the previous contract.

Moreover, Corallo had instructed Avellino to take a strong position. Avellino reported to his associates a conversation that he had with Corallo before setting off for the bargaining session. "He said don't let [Adelstein] get away with anything. You tell him no, this is it, this is what you want and that's it. Stick to your guns about it."[29]

The carters in this same conversation complained, in some detail, about the economic troubles they faced. They claimed to each other that they could not afford to pay the wage increases that the union demanded. Of course, a great deal of data indicated that they made large incomes, so this may have merely been a device to make them feel more aggressive in the bargaining situation.

The conversation later turned to the interesting issue of whether it was in their interest to offer a bribe to the union leader for not bargaining aggressively, or whether he was likely to offer them a payment for agreeing to a substantial increase. One of the carters suggested that Adelstein was likely to make them an offer. Avellino responded by saying, "He wants to talk envelope, we can talk envelope. . . . Instead of you bringing us an envelope, I'll bring you an envelope." Which led one of his colleagues to say, "You're giving me an opportunity of saying well let us deliver you an envelope and come up with a good contract that the guys could live with."[30]

This suggests a weak connection between the union and the employers. However, there are also two pieces of direct evidence con-

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[28] *Sentencing Memorandum.*

[29] Ibid.

[30] Ibid.

cerning such collusion. First, Michael Fleischer, the union organizer, conversed frequently with Avellino about enforcing union rules for the benefit of the participants in the customer allocation agreement. The conversations showed that Fleischer did not do this as actively as Avellino and the others wanted, but he did indicate a general willingness to consider selective enforcement of union rules against carting firms nominated by Avellino as troublemakers. For example, Fleischer was asked to go to the commercial customers of the rebel firm and tell them that the rebel was not a unionized firm and that the customer risked being picketed if he permitted that firm to pick up his garbage.

Fleischer's reluctance to carry through forcefully on Avellino's request was a source of considerable irritation to Avellino and his associates. This irritation was heightened by the fact that some of the carters were paying Fleischer directly for nonenforcement of union rules.

The relationship between the carters, as represented by Avellino, Ronga, et al., and the union was clearly very complex. Avellino complained bitterly about Adelstein's unwillingness to cooperate with the carters. He blamed this lack of cooperation on two factors: First, the union leader was more closely associated with the Gambino family than with the Lucchese family, of which Avellino was a member. The Gambino interests in the Long Island industry were less direct than those of the Luccheses. Consequently, Avellino believed the Gambinos were not willing to push Adelstein to support the Lucchese-run conspiracy. Second, the union leader was no longer aggressive, perhaps because he was getting older.

Moreover, the Gambino control of Adelstein was not strong in Avellino's eyes. He and Ronga discussed it at one point:

> Ronga: What I can't understand, Sal, is all the years now how they let him get away with that.
>
> Avellino: I don't know.
>
> Ronga: He gets very little of that.
>
> Fazzini: Who controls?
>
> Avellino: See, years ago, believe it or not, just between us, years ago he was on our side. . . . And there was a few guys around . . . then how they let, when Paul's (Castellano) son married Tommy's daughter. . . . See, and he went and they more or less drifted over there. They claim him but they don't control him. . . . I'm a firm believer that you can't claim anybody unless you can control him. If

> you can't say to this guy, stop, and you keep saying no, I'm not going to stop, then I don't have you.[31]

The carters were enthusiastic about setting up the new Local 813A. It would complement rather than compete with Local 813 by unionizing the residential carters, particularly in Suffolk County. The purpose of the new union would be the completion of the customer allocation agreement.

Avellino and Ronga said that they did not intend to misuse union funds:

> Avellino: Sure we're going to have a union, a real legitimate one.
>
> Fazzini: Got to be legitimate.
>
> Ronga: We are using it for a totally different reason.
>
> Frosh: You want to control the workers. . . . Right now you control the employers.
>
> Avellino: Right, right now we as the association control the bosses, right. . . . Now when we control the men, we control the bosses even better now, because they're even more afraid now.[32]

At another point, Avellino said, "The union is only a tool to make everything strong," and, "A strong union makes money for everybody, including wise guys [a synonym for Mafiosi]. The wise guys make even more money with a strong union because the envelopes could be bigger and better."[33]

Indeed, Avellino was somewhat embarrassed by the fact that he was not currently unionized, or at least he claimed that it put him in an awkward position in his dealings with other carters. "I win a bid and then he'd say oh . . . look at all the houses he got and he's nonunion. They do that. People are jealous." Avellino maintained throughout that he was effectively paying the prevailing wage, including benefits, despite the fact that he was not unionized.

He claimed to be embarrassed in another way by the lack of effective union control: "We got the embarrassment right now. I don't have the face to go at the end of time for collection[34] and ask for, they look at me, they give me the money. I got a bad face because I know

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[31]*PCOC Hearings*, pp. 680–681.

[32]Government exhibit 327a in *U.S. v. Anthony Salerno*, 86 Cr 245 (S.D.N.Y. 1986).

[33]*PCOC Hearings*, pp. 689.

[34]This apparently refers to the quarterly collection of money from carters for payment to the Gambino and Lucchese leaders.

in my heart I am not servicing these people. . . . Do you know what an embarrassment that is?"[35]

These remarks suggest that the union was only marginally involved in the customer allocation agreement. Fleischer, the local union organizer, did provide some assistance to the conspirators, but much less than they wanted. He took a significant amount of money from potential members of the customer allocation agreement in return for not unionizing them or not enforcing union terms. Whether Adelstein was aware of this was unclear. Fleischer eventually disappeared from the scene; this may have been a consequence of his lack of cooperation with the conspirators or the result of his greed in shaking down carters generally. However, these possible reasons for his disappearance are purely speculative.

Adelstein's bargaining behavior was equally difficult to assess. He did eventually settle for an amount much closer to the carters' initial offer than his own initial demand. But that is perfectly consistent with honest bargaining behavior. Nothing from the conversations of the conspirators suggested that they expected, or achieved, a corrupt bargain with Adelstein.

On the other hand, everyone involved who might know of Adelstein's connection with organized crime seemed to assume that Adelstein was intimately involved with the Gambinos. But no direct evidence was available concerning this. Nor was it clear who wielded the power in the relationship. Did the Gambinos pay Adelstein for the right to extort money from carters or did Adelstein pay the Gambinos for ensuring that no competitive union entered the scene? The answer may be that there was no actual exchange of money, but that the two found it in their joint interest to support each other. The Gambinos assured that there would be no union competition, and Adelstein supported the interests of the Gambinos against other organized crime groups.

PLANS

Avellino and his collaborators were not content to leave matters as they stood. In their conversation after meeting with Adelstein, they discussed plans for increasing their control of the industry. Those plans are of interest, since they reveal both the goals of the principals and their own understanding of the factors that currently limited their reach.

[35]*Sentencing Memorandum.*

As made clear in some of the previously cited excerpts, Avellino and his associates were convinced that the autonomy of the union leadership limited their ability to organize the industry. Avellino laid out his hopes about the returns from controlling the union in a long, rambling speech to Ronga and Fazzini:

> This is what we want to do. Get the international, get the Teamsters put "A" on 110 or local 813A. . . . Our people, you know when I say our people, our people that we tell what to do, but, but the package is divided fifty-fifty.[36] In other words whatever is to be, every dollar that is made is fifty-fifty. But the only people that count, you see, offers what to do, is us. 'Cause we, do you understand me. And then let's go to town and then because eventually Tommy what do you think it's gonna be? It's gonna be fifty-sixty of us. If there's gonna be ten of us, four of us pickin' up all the garbage. I want to tell you who's gonna pick up. We're gonna knock everyone out, we're gonna knock everybody out, absorb every, eat them up, of whoever we, whoever stays in there is only who we are allowing to stay in there.[37]

Fazzini admiringly commented, "You got big plans," to which Avellino responded, "Well, isn't that the truth." Certainly this was a very different vision of the industry than what they had been able to accomplish so far. From a customer allocation agreement among a large number of carting firms, Avellino was proposing to move to a small-number cartel, driving out the firms owned by all but the principals in his group.

Before the meeting with Adelstein, Avellino also seems to have envisioned a more direct role for gangsters, at least if the term "gold tooth" in the following conversation means "gangster," as the experts believe:

> But we gotta have the strength . . . [so] that when that Bob Morga comes along and bids 71 County buildings that tomorrow he's got four gold tooths in front of him saying okay now that you've took all these buildings, where's all the men.[38]

This raises directly the question of the relationship between the senior racketeers, Avellino and Adelstein. Avellino was explicit in his view that he held his company as a franchise granted by Corallo, the family boss. Indeed, he saw that relationship as pervasive among those associated with rackets. In an earlier conversation with Richard DeLuca, another Lucchese family member, he recalled a conversation

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[36]This probably refers to the division of payments between the Gambino and Lucchese families.

[37]*PCOC Hearings*, pp. 693–694.

[38]Ibid., p. 688.

with another racketeer associate who was in control of a union:

> I'm saying what do you mean, the union is yours. He believes the union is his. . . . I'm gonna say, the union, nothing is yours, everything is the boss and we only got the privilege of working it or running it, unless you got a, something that is a legitimate thing that, ya know, that it's yours, then they say well that's yours. . . . I mean, I know Salem is mine in stock but I gave, I signed my life to you. . . . So really if I sign my life to you, my stock is yours but because you're kind enough that you don't make a demand on me.[39]

Avellino claimed to understand the relationship between the Gambinos and Adelstein:

> They made a deal many, many years ago that no other union would come into the garbage and they're honoring that deal . . . cause we (presumably the Luccheses) have a Teamster local that could come out here, Local 522 (New Jersey and Greater Metropolitan Area representatives for the Lumber Drivers, Warehousemen, and Handlers) and break his croller (sic) . . . but he's the only game in town.[40]

However, there is no evidence to suggest that this was more than speculation on Avellino's part. He may have been told this by the Lucchese boss, but, given his relatively recent introduction into the family, it is unlikely that Avellino was very authoritative on the matter.

All the principal carters saw the union as the critical instrument for controlling the carting market. Fleischer's slackness in failing to unionize Morga, who took 71 county contracts from other PSI members, constantly rankled. Improved performance for the PSI, particularly its expansion to the residential market, could come only from aggressive unionization and control of that union through Adelstein's power, derived from his presumed Gambino connections.

It is of some interest to speculate about Adelstein's reluctance to expand Local 813 into the residential market. He may have been unwilling to enter a market that presented more political difficulties. All the factors that make the residential sector unattractive for a customer allocation agreement also are sources of potential problems for aggressive unionization. Large increases in pay and benefits must be borne by the individual householder, who is unable to shift them forward, as commercial establishments do. Householders are also more likely to complain in politically effective ways.

These are merely speculations. The fact remains that Local 813 did not enter the residential market and that Adelstein cooperated on only

[39] *PCOC Hearings*, pp. 675–676.

[40] *PCOC Hearings*, p. 678.

a limited basis with the colluding carters. This significantly restricted the effectiveness of the customer allocation agreement.

POLITICIANS

The last group involved in the operation of the various conspiracies consisted of local officials and politicians. Their role was peripheral, but there can be little doubt that the conspiracies worked more smoothly because of their participation. It was not a coordinated activity but a series of small and apparently unconnected favors. What was remarkable was the ubiquity of the favor-giving. It seemed to operate in almost every town in Suffolk County and also in county and state agencies.

The officials provided three kinds of favors: favorable rulings for the industry as a whole, coercion of dissidents, and nonenforcement of rules for favored members.

Industry favors. The most egregious example of an industry favor concerned the granting of a rate increase in Huntington. The carters were very concerned that the rate increase not become a partisan issue. Thus, they were seeking to ensure that both the Republicans and the Democrats on the town board would vote to approve the increase. However, a number of carters had applied for new licenses to solicit customers in Huntington at lower prices than those currently prevailing. To prevent them from coming in, Corrigan called a town official (Jo-Ann Raia) and asked her to delay the issuance of the licenses. Raia was told the real reason for the request and nonetheless agreed, without any fuss.

An effort was also made, through official intermediaries, to assure the votes of certain members of the board. After some time, that effort was also successful. The result was that the carters, through their association, agreed to provide some money for the party's campaign fund. As alleged in the state's indictment of the two town officials, the carters were to contribute to the Democratic party and certain candidates $800 in postage and $12,000 in monetary contributions.[41]

Disciplining dissidents. The primary dissident, Robert, tried to win a number of government contracts, but he was repeatedly thwarted by the actions of officials. Two examples are described below:

1. Robert won the collection contract for a major county facility in 1982, taking it from one of the conspirators. The following

[41] *People of New York v. Arthur Romersa and Vito Biondo*, Indictment No. 1476–84, Supreme Court of New York, County of Suffolk.

year he called the purchasing agent for the facility on a number of occasions requesting that he be sent the bid documents for the 1983 contract. The official never sent them, and Robert lost the contract.

2. A town was putting out some of its areas for bids. Robert had not operated in the town previously but wanted to submit bids on certain districts. The town official responsible for the bidding promised repeatedly to send him the specifications but never did so.

Favoring particular carters. In Huntington, random inspections were supposed to be made at the local disposal facility to verify that trucks were in compliance with local equipment rules. This had not been done for months. The PSI wanted to use inspections to harass certain carters. Local officials were asked to carry out an inspection but inform Corrigan once the day was picked. The PSI rapidly distributed this information to its members, so that they could avoid bringing noncompliant equipment to the facility on that day.

There was no evidence that the officials involved in helping to suppress Kubecka's rebellion received payments for their efforts. In the case of the town bids, the official may simply have been opting for a quiet life, knowing that having Robert active in the town was likely to create tension, and even violence. Nonetheless, officials consistently behaved in ways that furthered the bid-rigging conspiracy.

The carters were politically active and intensely aware of their vulnerability to political decisions. A town could deprive them of their livelihood by deciding to use municipal pickup. It could greatly reduce the value of their businesses by going from "scavenger" collection to districts. The carters often needed approvals for rate increases. All of these decisions can be made at any time, so the carters were constantly in the market for political protection.

The one relatively direct payment on record was made to the Democratic party in Huntington. In return for obtaining the rate increase in the town, the PSI was required to mail some 4,000 pieces of campaign literature.

It was not surprising that the carters individually and jointly made substantial contributions to political campaigns. *Newsday* found in 1978 that the carters had contributed to a local political campaign, using a device that concealed the origins of the contribution during the campaign itself. After the election, the winning candidate voted for a large increase in rates.

In another case, Avellino was approached by a minor political figure who was soliciting contributions to the annual party dance. He asked

Avellino to buy 150 tickets at $125 per ticket. At the same time, he asked Avellino if he wanted a sanitation district created in the town, possibly involving one of the dissident carters. He said that he wasn't trying to be tough, just reminding Avellino what was at stake.

CONSEQUENCES

What was the result of all this collusion? The cost of garbage collection for commercial establishments was significantly increased, although we can only infer this. Data on the true prices paid by customers are not available, since it was not possible to do the close monitoring necessary to determine the actual prices paid.

There may be substantial discrepancies between the actual per-unit prices and those apparently paid. The carter can cheat customers in at least four ways: overstating the size of the container at the site, only partially emptying the container, emptying the container before it is completely full, or placing an unnecessarily large container on the site. Anecdotes from other areas suggest that all four methods have been used, although no information was available about their use on Long Island.[42]

The result of such cheating is that data on the amounts paid by customers to their carters cannot be converted into unit prices, since there are no independent data on the quantity of waste being collected, and the cost of trying to obtain such independent data would be prohibitive.

Hence, we can only reproduce the analysis that was used to infer the cost of conspiracy in New York City. This analysis was based on the prices paid by carters when buying and selling customers. The justification for these transfers of customers is the claim that the carter has developed goodwill, a transferable asset. However, it is apparent from the complaints of customers collected in the investigation and recorded by *Newsday* in 1978 that the quality of service is not generally high.

Moreover, it would be surprising if high-quality service were provided, since the existence of the customer allocation agreement reduced the incentive for offering service of higher quality than was necessary to prevent aggressive search behavior by customers. The carters had an interest in ensuring that customers were not so unhappy that they frequently sought out alternative suppliers, however, because complaints about the existence of a customer allocation agreement were likely to be triggered if large corporations were dissatisfied with the

[42]There was evidence of income concealment. One carter regularly offered customers a lower price if they would pay by cash rather than by check.

quality of service and found that they were unable to obtain competitive bids from other carters. Even more than for the traditional monopolist, the optimal reward for an illicit cartel is a "quiet life" (Hicks, 1935).

This means that the cartel wanted to ensure that none of its members offered very low-quality service, which could have endangered them all. But the cartel may also have sought to prevent any member from offering noticeably better service than the others, since that might have made those customers dissatisfied and could have induced them to test the strength of the customer allocation agreement.

We have only one direct observation on this kind of behavior. A member of the PSI, in the residential sector, consistently provided low-quality service. This generated numerous complaints to public officials. One of those officials, an ally of the PSI leadership, passed on the complaints to the PSI. The association leaders were concerned about the threat posed by the complaints and forced the carter to resign from the PSI.

Let us return now to the estimation of the excess costs of garbage collection arising from the existence of the customer allocation agreement. As stated above, commercial customers were sold for 40 to 45 times the monthly revenues they provided the carter. To make our estimate conservative, we use the lower figure.

In a competitive market, what would the multiple be if the carters were in fact providing high-quality service? In the New York/New Jersey study, it was suggested that a multiple of 10 was appropriate as an upper bound, based on the figure that apparently was used in the early days of the customer allocation agreement in New York City. It is also close to the figure that apparently prevailed in the residential market on Long Island in the early 1970s, when a relatively weak customer allocation agreement was in operation. It is likely, then, to be a generous estimate of the baseline multiple.

The differential in the two multiples is 35, enough to permit a rough estimation of the rents being extracted by the carters from customers. We can calculate the increase in the capitalized value of the customers resulting from the allocation agreement. Since each carter can either sell the customers to another carter and invest the proceeds in equity or bonds or continue to service the customers, those who stay in the business must earn at least as much from doing so as they would from the other option.

Assume that the rate of return on relatively safe investments is r percent per month. Consider a customer yielding revenues of $p per month. Let $(m) be the price paid by a carter for a customer yielding $1 per month (i.e., the multiple). The cartel price equals the

competitive price plus the rents the carter must earn on the increase in the capitalized value of customers arising from the customer allocation agreement:

$$p^* = p + r([m]^*p^* - [m]p) .$$

where asterisks refer to values with a customer allocation agreement, and those without an asterisk are the values that would prevail in a competitive market.

Assuming that [m] = 10, r = 0.01 (an annual interest rate of 12 percent), and [m]* = 40, we obtain p*/p = 1.5. That is, the price under the customer allocation agreement was 50 percent higher than that which would have prevailed in a competitive market.

This is probably a conservative estimate. It assumes that the operating costs of carters were the same with customer allocation as with competition. In fact, the customer allocation agreement may have reduced the incentives of carters to minimize costs. That would have the effect of further raising the discrepancy between the cartel and competitive prices. The only factor that might make the initial estimate an overestimate is the possibility that a significant proportion of profits were unreported for tax purposes, which would have lowered the rate of return that carters needed to earn on the excess capitalized value of the customers.[43]

The estimate of a 50 percent increase applies only to the commercial sector. In the residential sector, the multiple was between 20 and 25. Using the same formula and m* = 22.5, we obtain p*/p = 1.15; i.e., prices in the residential sector were 15 percent higher than they would have been in the absence of a customer allocation agreement.

We do not have an estimate of the base revenues, since there is no centralized registry that provides an estimate of even the total number of trucks, let alone the revenues generated. Estimating total industry revenues and the share of those revenues that can be allocated to excess profits is important because it would enable us to determine the share going to racketeers. The absolute amount seems to have been about $400,000, shared equally between the Gambino and Lucchese families.

We assume that the industry had a total of 500 trucks, taking the Suffolk County 300 as representing half the total for the two counties and allowing for overlap of one-third, and that they were divided equally between commercial and residential markets. We also assume, using New York City and New Jersey figures, that the average com-

[43]Income concealment is not a cartel function. Carters may conceal cash customers with or without a conspiracy.

mercial truck generated a total of $125,000 in revenues in 1986. Commercial collection revenues in 1984 then totaled $31.25 million, of which $10.4 million was assigned to the customer allocation agreement. Residential trucks generally earned less, say, $100,000. If prices were 15 percent higher than they would have been with competition, the $25 million in revenues generated by residential collection included $3.2 million in excess profits.

This yields a total of $13.6 million in returns to the customer allocation agreement in 1984. It should be clear that this is a very rough estimate, particularly since the base estimate of total revenues is built on so many assumptions. But the true figure is not likely to be less than $5 million, suggesting that the prime beneficiaries of the agreement were the carters themselves, rather than the racketeers.

The other potential beneficiary of the agreement was the union, including both members and officials. The existence of the customer allocation agreement permitted the union to make higher wage demands, just as Teamsters were able to obtain high wages and benefits under the national master agreement when the interstate trucking industry was subject to ICC regulation (Moore, 1978). The discussion among the carters in preparing for preliminary negotiations with the union in 1983 suggests that they believed the union did bargain aggressively, despite the ties between its leadership and the Gambinos.

Union officials benefited both from the higher wages and benefits, which provided a more substantial base for their own salaries and benefits, and from other consequences of the agreement. The union organizer, Fleischer, certainly received monies for not enforcing the union wage scale at some companies. Presumably, he also received benefits from enforcement actions on behalf of the conspiring carters, though no direct evidence of that was available.

CONCLUSION

What does this add to our understanding of racketeering in legitimate industries? Two points seem to deserve emphasis: the self-sustaining nature of the customer allocation agreement and the stability of the cartel.

Independence

The self-sustaining nature of the customer allocation agreement is remarkable. The carters comprised a large-number cartel, or perhaps a

set of small-number cartels with some overlap, which was able to maintain discipline without a great deal of external assistance.

The racketeer and union roles were certainly not trivial. The conspiring carters saw the union as central, and clearly it had an important role historically. But union officials pursued their own interests in the period with which we are dealing. A corrupt union official provided some support but was unwilling to take any risks and, more important, was able to resist the carters' demands that he take a more aggressive role.

The racketeers, except for Avellino, were even more remote from the activity. The Gambinos and Luccheses were known to be involved, and Avellino's ties to the Lucchese boss were a matter of considerable interest. But there was no suggestion that racketeers extorted individual carters directly, as they had in the past. Avellino collected from some carters for payment to the two families. That appeared to confer a benefit on those who chose (or were permitted) to make payments. However, it was never possible to determine precisely what benefit was received. Presumably it related to how much assistance the carter received in disputes with others about property rights or which contracts he received in the allocation of bids, at least when new contracts were let. But this is a matter of speculation.

Public officials also played some role in maintaining the cohesion of the cartel, although there is nothing to suggest a centrally directed political conspiracy. Rather, the cartel, through the vehicle of the carters' association, was able to purchase the services of the low-level officials necessary to impose sanctions on those carters who defected. But these politicians were simply individuals who turned out to be willing to sell illicit services. In at least one case, the sale was on behalf of a party organization, but again there is no reason to believe that it was a decision involving a large group of individuals within the party.

The difficulties the carters experienced prior to the formation of the PSI are instructive. The outbreaks of violence reported from time to time seem to reflect problems in maintaining cohesion. Some of those problems may have arisen from interfamily conflicts, or at least lack of interfamily coordination within the New York Mafia. Three families have historically had an economic interest in the Long Island carting industry, although the Columbo presence seems to have become relatively unimportant. The fights leading to the killings of carters and putative union officials may have resulted not from failures of commitment to the cartel by carters, but from efforts of different outside groups to obtain larger shares of the cartel revenues.

The eventual dominance of the Lucchese family was probably the result of the fact that Avellino, whose ties were to that family, proved

such a charismatic figure within the industry. Others talked of him with a respect that did not seem to be explained solely by his ties to the Luccheses. In an industry whose entrepreneurs were not notably articulate or dynamic, he stood out.

The strength of the Lucchese interest is surprising because the family had very weak ties with the union. The union leader's association was with the Gambinos, although, as Avellino and his Lucchese friends said, the Gambinos seemed to "own" him but not control him.[44]

Stability

As in New York City and New Jersey, the involvement of racketeers in the carting industry on Long Island is well known. In the other two jurisdictions, that knowledge led to the imposition of comprehensive, though ineffective, regulation. On Long Island it led, until the OCTF investigation, only to relatively weak governmental responses.

It was argued in the earlier study that the reputation of being racketeer-dominated was very valuable for an industry. It ensured that customers did not complain aggressively, noncartel firms did not attempt to expand their market share (under the umbrella of cartel pricing), and new firms did not enter. All these promoted cartel durability.

The Long Island carting market bore out this conclusion. There was almost no evidence of active consumer complaints, noncartel raids on cartel customers were relatively rare (Kubecka's activities surely affected less than 1 percent of the total market), and there was no entry by new firms.

The same situation also prevailed in the mid-1970s, when the cartel was at its weakest. *Newsday* published numerous articles indicating that the efforts to organize another union represented a split within the ranks of the carters. Yet that induced no entry of new firms or any other significant change for the industry. This probably derives from the fact that such conflict does not clearly reduce the dangers incurred by those who would challenge existing arrangements.

A second kind of stability also merits comment. The division among the Mafia families in New York survived a major change in the distribution of power within the carting industry without any major conflict. The growth of the Lucchese interests did not disturb existing arrangements. Monies from the carters were split evenly, in what appeared to be a time-honored formula. Even when Avellino and his associates

[44]Adelstein's original connection was with the Luccheses. However, there were references to the fact that, after a marriage between children of the two leaders, Adelstein "drifted" over to the Gambinos.

were discussing their dreams of a new union local, under their control, it was clear that any additional monies provided to Mafiosi would be split evenly between the two families.

On the other hand, part of this stability seemed to derive from the relative passiveness of the organized crime leaders involved. The conversations between Avellino and Corallo never suggested that Avellino was under great pressure to increase the amount turned over to the families, which was a small share of what we estimate to be the returns from the conspiracy. The Gambino leader (Castellano) was once said to be seeking a doubling of his revenues over an unspecified period. But there was certainly no suggestion that the amounts were intended to be the maximum the conspiracy could sustain.

III. OTHER INDUSTRIES, OTHER RACKETS

To understand the general public policy problem with which we are dealing, it is useful to consider some other industries in which it has been established that racketeers have considerable influence. The three industries discussed here (stevedoring, casino gaming, and garment manufacturing) illustrate the range of ways in which racketeers may involve themselves in the operation of an industry. Developing a general policy for dealing with such a variegated problem may be very difficult, as discussed in Section IV.

STEVEDORING

The 1954 film *On the Waterfront* established a firm image of racketeer influence over the workings of the docks in New York. That film was produced during a period when the problem became a matter of public scandal. The public interest led to notable reforms, with the New York State Crime Commission being the major institutional actor. The creation of the New York-New Jersey Waterfront Commission was the most important long-term product of those reforms.

Twenty-five years later, the Department of Justice announced the results of a major long-term investigation of the docks in a number of East Coast ports, known as Operation "Unirac" (for union racketeering). That investigation established that even in the late 1970s, racketeers continued to play a very important role in the operation of the docks, not only in New York and New Jersey, but also in Savannah, Miami, and Norfolk. Federal authorities make no claim that the success of Unirac, which led to the conviction and incarceration of some major union and racketeering figures, eliminated the influence of racketeers. As FBI Director William Webster said:

> We have obtained convictions of most of the major organized crime figures associated with the industry problem. But as Senator Chiles pointed out before, they have their surrogates and in some areas it is business as usual.[1]

Nonetheless, a comparison of the details of the problem in the early 1950s and more recently shows that there has indeed been a substantial change. The racketeer influence has become highly institution-

[1]U.S. Senate, 1981, p. 18.

alized, almost formalized, but the costs of that influence have been spread more widely than before, and some of the most pernicious aspects, those related to the exploitation of dock laborers, have been mitigated.

The New York Docks Around 1950

For our purposes, it is unnecessary to describe the complicated history of investigation and prosecution around the New York docks between 1949 and 1957. What that flurry of investigation found is readily summarized by the following excerpts from the Table of Contents of the *Fourth Report* of the New York State Crime Commission (1953):

I. UNHEALTHY CONDITIONS EXIST IN THE STEAMSHIP AND STEVEDORING INDUSTRY
   A. Many Instances of Collusion Were Shown to Exist Between Officials of Steamship and Stevedoring Companies on the One Hand and Union Officials on the Other
      (1) Improper Cash Payments Have Been Made to Union Officials by Stevedoring Companies for "Services Rendered" or for Goodwill
      (2) "Phantoms"
      (3) Various Occasions Were Used by Employers to Make Payments to Labor Leaders
   B. Corrupt Payments Were Made to Steamship Officials by Stevedores
   C. Corrupt Conduct on the Part of Some Stevedores is Further Indicated by Huge Unexplained Cash Disbursements and by the Alteration of Books and Records to Conceal Payments to Union Leaders and Others

II. THE ILA AND ITS COMPONENT LOCALS HAVE FLAGRANTLY DISREGARDED THE WELFARE OF THEIR MEMBERS AND THE PUBLIC
   A. The Operations of the ILA
      (1) The ILA Has Failed in its Obligations as the Bargaining Agent of the Dock Workers
      (2) Ryan and Many ILA Organizers Are Demonstrably Unfit for Their Posts
      (3) The ILA Has Failed to Supervise its Locals
   B. The ILA Locals, Their Control and Administration
      (1) Known Criminals Are in Control of Important ILA Locals and of Key Waterfront Areas
      (2) Criminal Control of ILA Locals and Waterfront Areas Produce Crime. Serious Instances of Extortion Were Established
      (3) The Financial Affairs of Most of the Locals Have Been Loosely and Irresponsibly Conducted, Funds Have Been Misused and Records Have Been Destroyed
      (4) Undemocratic Procedures Have Helped to Keep Unscrupulous Labor Leaders in Power
      (5) Creation of Unnecessary Locals is Used to Perpetuate Unfit Leaders in Power and Constitutes a Drain on Dues Paid by the Longshoremen

III. CORRUPT LABOR LEADERS USE THEIR OFFICE FOR THE PROMOTION OF PRIVATE BUSINESS INTERESTS, OFTEN ILLEGAL

IV. THE SHAPE-UP AND THE FORCING OF UNDESIRABLE HIRING FOREMAN ON THE EMPLOYERS ARE BASIC EVILS
- A. The Shape-Up Is a Vicious and Antiquated System
- B. The Hiring Foremen Are Often Ex-criminals Forced Upon the Employer by Union Officials

V. THE PUBLIC LOADING RACKET IS A SERIOUS DRAIN ON THE PORT
- A. The Pier Operators Have No Control Over Loaders and Are Forced to Supply Services Without Charge on the Threat of Work Stoppages
- B. The Dual Employer-Union Status of the Public Loaders is An Evil
- C. The Public Loaders Threaten to Expand Their Depredations Beyond the Piers
- D. The Loaders Have Used Coercion and Extortion
- E. Although Collecting Millions of Dollars Annually, the Public Loaders Keep Practically No Books and Records
- F. The Proceeds from Public Loading Are Largely Siphoned Off by Union Leaders and Known Criminals
- G. Public Loading Has Resulted in Serious Loss to the Port and Shipping Industry

VI. THE PRESENT WATCHMAN SYSTEM ON THE PIERS IS INEFFECTIVE AND OPERATES TO THE DETRIMENT OF THE PORT
- A. Control of the Port Watchmen's Union by ILA Leaders Has Worked to the Disadvantage of the Watchmen
- B. There is Complete Absence of Union Democracy in the Port Watchmen's Unions
- C. Thefts in the Port Cost the Consumers Millions of Dollars Every Year
- D. The Watchmen Are Discouraged From and Even Reprimanded for Reporting Thieves
- E. The ILA Has Opposed Efforts by Steamship Companies to Improve the Watchman System

In effect, the International Longshoremen's Association (ILA) was seen in the 1950s as a vehicle for looting all participants in the longshoring industry: carriers, shippers, union members, truckers, and stevedores. The ILA was itself a decentralized organization whose president exercised relatively weak control over many of the more aggressive locals.[2] Those locals were in the hands of criminals. Senior officials of the ILA and the local officials made their separately corrupt bargains with the various other industry participants.

Of particular interest here is the role of broader criminal organizations in the operation of the longshoring industry. Some very important racketeers were significantly involved. Perhaps the most notorious was Anthony Anastasia (brother of the fearsome Albert), a major figure in the Genovese family, who controlled six union locals in Brooklyn. Another prominent Mafioso was Anthony Strollo, best known as Vito Genovese's chauffeur, who controlled the U.S. Army Linden pier in New Jersey (Hutchison, 1970, p. 101).

[2]See Block (1982, p. xv) on the assumed centrality of the organization.

However, the control was by no means restricted to the Mafia and its associates. In that period, many of the docks were served by predominantly Irish laborers, and the associated criminals were also Irish. Indeed, the division here ran along geographic lines. The Manhattan docks were held by the Irish, the rest by Italians. The criminal gangs involved represented those two ethnic groups, and the ILA was content to endorse that division.

Bell (1960), in an insightful essay on racketeering on the docks, argued that the problem began with the extraordinary pressures on the use of space around the New York docks. No direct railroad lines went to the docks, and trucks faced very congested streets there. This had led to the creation of the "public loader," whose function was to move freight from the docks, after it had been handled by longshoremen, to trucks, where it was handled by members of the Teamsters union. Bell identified the public loader function as the point from which racketeers could extort the steamship and trucking companies, since control of public loading could be used to impose high costs on both sets of participants. It was certainly true that racketeers had taken control of this function and had extorted large sums from both truckers and steamship companies.

Nonetheless, Bell's hypothesis has been contradicted by events. The public loader function has been abolished, yet racketeers remain in the industry. Since the structure of opportunity has changed, so has the function of racketeers. Bell attributed the unique strength of racketeers in New York Harbor to the unique characteristics of that waterfront, but racketeers appear to perform similar functions in a number of Eastern ports.

The Contemporary Stevedoring Industry

Following the revelations of the New York State Crime Commission and other investigative bodies, major reforms were implemented on the waterfront. The most significant were those associated with the formation of the Waterfront Commission.[3]

The Commission is a bistate agency, with members appointed by the governors of New Jersey and New York, representing recognition of the reality that the docks of New York and New Jersey form a single market. Efforts to regulate one more stringently than the other would merely result in the diversion of traffic to the less stringently regulated.

[3]Details on the Commission are given in Jensen (1974, Chap. 5) and Hutchison (1970, Chap. 23).

The Commission has brought a great deal of order to the confusion of the waterfront labor force. In particular, it has limited the use of casual labor on the docks, which had provided one of the major sources of corrupt income for union officials in the past. Discretion over who was hired each day permitted officials to extort workers. Since 1954, all persons seeking work on the docks have been required to register, and they must maintain a regular commitment to such work in order to continue their registration. The register is kept by the Commission, which also furnishes employment centers to ensure the integrity of the hiring process. The Commission also disbars from union office persons who have been convicted of serious criminal charges.

The other major area of Commission responsibility is ensuring that reasonable procedures are followed to minimize theft from the docks. Registration is required not only for those persons and firms immediately involved in the loading and unloading of cargo, but also of firms that hold the cargo in inventory, a notorious leakage point in earlier eras. Commission officials inspect and test the security arrangements of port contractors and may fine or suspend those caught acting irresponsibly.

These measures have reduced the incidence of racketeering activities. There is little, if any, abuse of dock workers by union officials. Indeed, dock workers are now exceptionally well paid and cared for. Their guaranteed annual earnings in 1983 amounted to $29,120 (Scopetta, 1983, p. 6). The level of theft in the port seems to have declined to levels comparable to those in other, similar ports, whereas it was previously claimed to be three times as frequent in New York-New Jersey.

The extent and locus of racketeering on the New York waterfront have clearly changed over the last 30 years. However, it is also clear that racketeers maintain their influence within the ILA locals. A number of racketeers have been senior officials of the major locals, while others have exercised influence without formal office. The rents that racketeers obtain from this power are extracted directly from the ship companies, stevedoring firms, and suppliers.

The power of the racketeers rests on their ability to impose excessive costs on companies that fail to make payments to them. Union power can readily be used to dress up extortion as the legitimate expression of labor concerns. A slowdown may be justified as an attempt to obtain particular conditions for union members, even though its true purpose is the extraction of payments to racketeers and their associated officials.

The Waterfront Commission lacks the power to deal with this problem. It has exerted its investigative capacities, perhaps raising the

risks associated with certain of these schemes. Clearly, it is regarded as an irritant by participants in the extortion efforts. But equally clearly, those risks are not large enough to prevent an apparently routine extortion of the major entities in the industry. Regulation has not prevented racketeers from making large sums of money from the waterfront industry.

The Unirac investigation revealed a great deal about the fabric of corruption and racketeer influence in the 1970s. We shall focus here on the role of Anthony Scotto because he was so prominent in the industry and figured so centrally in the schemes revealed by the prosecution.

Scotto had been a senior official in the ILA in New York since 1963, when his father-in-law, Anthony Anastasia, the head of Local 1814 in Brooklyn, died of cancer. Although he was identified as a capo in the Gambino family in 1968 by the U.S. Senate, Scotto had continued as the most prominent political figure among the dock workers in New York. His political power was indicated by his presentation of two former mayors of New York (Robert Wagner and John Lindsay), Governor Hugh Carey, and AFL-CIO Secretary-Treasurer Lane Kirkland as character witnesses at his trial. He raised large sums of money for major Democratic politicians, including President Carter.

As a result of his fund-raising activities, Scotto acquired considerable influence. Three successive New York City Commissioners for Ports and Terminals were reputedly his nominees. Governor Carey nominated Scotto's personal lawyer as the New York State member of the Waterfront Commission, although political pressure led to the withdrawal of that nomination. It is not surprising that Scotto had extraordinary power within the stevedoring industry.

His reputation for access to political as well as racketeering resources produced a great deal of income. According to a 1981 Senate investigation, "At least four companies on the Brooklyn waterfront made regular payments or 'tribute' payments to Scotto merely because of his power, without seeking any particular assistance" (U.S. Senate, 1981, p. 251). His assistance, however, was sought by companies for a variety of tasks: preventing the continuation of a workers' compensation fraud scheme (not initiated by Scotto), the allocation of repair business by shippers, and the allocation of unloading business by carriers. Scotto was apparently able to deliver on all these commitments. His reputed involvement with the Mafia was certainly an aid to the suppression of the fraudulent workers' compensation scheme, while the other tasks may have been accomplished more as a result of his reputed political power.

Scotto was the most prominent racketeer involved in these activities, but he was by no means the only one. From 1974 to 1977, the New Jersey State Police, using a businessman associate of some racketeers as their point of introduction, ran an undercover operation known as Operation Alpha (U.S. Senate, 1981, pp. 349–383). Alpha was the name of a trucking company in the Newark Port area that had contact with three different groups within the Mafia.[4] Those groups arranged for Alpha to avoid unionization, despite the fact that it was dealing with unionized customers and was in a unionized sector of the industry. Business from some firms, controlled by gangsters, was given to Alpha. Other firms were persuaded to deal with Alpha in return for union peace. Payments were made by Alpha to these racketeers in a number of ways: Personal services were paid for out of company funds, money was siphoned off to dummy corporations, and phantom employees were included on the payroll. None of the racketeers involved in these activities were formally affiliated with any registered company or union. However, union officials from various locals were willing to meet with the racketeers and accept their instructions for dealing with Alpha.

Similar incidents emerged in the investigation of the Miami waterfront, to which a number of disbarred New York ILA officials had moved. Racketeers were instrumental in the maintenance of union peace and hence in the allocation of certain contracts, as well. There was a territorial division along the East Coast in terms of racketeer influence, with the Miami group controlling matters south of Norfolk and the New York groups controlling Norfolk and ports north of it.

Racketeer control on the East Coast waterfront obviously takes a very different form from that found in the solid-waste collection industry. On the waterfront, it is not direction of an industrywide conspiracy but the extortion of individual companies that provides the profits from union control. The ultimate cost of the extortion in both cases may be borne by the final consumer, but the stevedoring, shipping, and terminal companies do not receive gains equivalent to those received by the carters. Payments to the racketeers merely redistribute industry profits. The anecdotal evidence from Unirac and Alpha suggests that racketeers have an understanding of the value of the services they provide (such as assured contracts and union peace) and attempt to extract all profits available from them. This contrasts with the

[4]Two of the groups were branches of the Genovese family, one run by Tino Fiumara, the other by John deGiglio. The third group was a branch of the Bruno family run by an incarcerated capo named di Norscia. Interesting details are provided in the Senate hearings on the intergang dealings and the understanding of property rights in the system.

small share they take (at least directly) from the profits generated by the solid-waste collection cartel.

Racketeers and Shippers

In recent years, the principal employers' association in the industry, the New York Shipping Association (NYSA), has acquiesced to a number of actions by the ILA which have materially increased the costs of doing business in the New York port. It is plausible, though certainly not more than that, that the NYSA's behavior can be ascribed to the influence of racketeers over the ILA.

The problem centers around the guaranteed annual income (GAI) which is part of the contract negotiations between the ILA and the NYSA. The GAI was originally set up in 1967 to reimburse longshoremen for the loss of jobs arising from containerization. It provided that every worker then eligible was to be guaranteed an annual income (calculated on a 40-hour-week basis, together with many fringe benefits) as long as he was willing to work in the industry. From a modest beginning, this has become a major element of total freight-handling costs in the port; direct GAI payments amounted to over $79.7 million in the year ending September 30, 1983. In effect, almost 32 percent of the total work force of 8,400 received full pay without any work (Scopetta, 1983).

Clearly, efforts to reduce the cost of the GAI system could yield important benefits to the firms using the New York port. Though each firm is, to a first approximation, equally penalized by the current system, all of them are handicapped in competition with shippers and carriers using other ports, which have much less generous GAI plans. Total fringe benefits, of which GAI is the major component, amounted to $240 per 40-foot container in New York in 1982, compared with $40 per container in the port of Baltimore.

Yet the NYSA has consistently supported ILA efforts to prevent the Waterfront Commission from adopting policies that would lower total labor costs without harming the rights of any current ILA members. For example, in 1978, the port had a shortage of checkers (i.e., longshoremen who tally the cargo rather than physically move it). For older workers, checking is probably a very desirable job. The Commission, faced with a chronic excess of longshoremen on the register, recommended that the current longshoremen be offered the opportunity to be reclassified as checkers, remaining eligible for all their existing benefits.

Understandably, the ILA opposed this, preferring to open the registers and admit nonregistered workers to become checkers, eligible for

union membership and all GAI benefits. Astonishingly, the NYSA supported the ILA; the two jointly appealed the matter all the way to the Supreme Court, where they were denied *cert.* The lower courts upheld the Commission's right to allow the transfers and pointed to the substantial benefits to the port from allowing these to occur. A number of other instances of similar NYSA behavior are cited in Scopetta (1983).

One explanation for this behavior on the part of the NYSA is the fear of opposing the racketeering elements that have influence in the ILA. The potential costs of labor difficulties that these racketeers engender may well be higher than the costs of supporting ILA stands against the Commission. Any set of union leaders could, of course, carry out the same harassment, but in doing so they would need to concern themselves with the responses of union members. Racketeers influencing the union do not have to concern themselves about member responses, at least not to the same extent.

The incentives of the racketeers for opening the books for new registrants are high. The registrants will become highly paid workers with a lifetime guarantee of very generous benefits. While registrants may be barred for possession of criminal records, thus preventing racketeers from putting their junior associates on the books, the racketeers may be able to sell off the right to register.

This is obviously a very speculative explanation. The NYSA behavior may simply reflect fear of labor unrest consequent upon adversary stands with respect to Commission rulings. However, the extraordinary costs the NYSA has accepted through support of ILA positions suggests that a fear of other consequences is plausible.

It does not appear that racketeers attempt to restrict entry into the major segments of the business. Thus, they confer no benefits on the current firms, as they do for the carters, unless the very presence of racketeers serves to discourage entry. This might occur if few firms are willing to deal with racketeers or if potential entrants perceive the results of such dealings to be depressed profits. Again, however, the anecdotal evidence from the investigation points to a good deal of competition and new entrants in the different segments of the business.

CASINOS

The taint of organized crime involvement is probably more pervasive in the casino industry, at least in Nevada, than in any other industry. Large-scale casino operation has its origins in organized-crime investments, starting with the building of the Flamingo Casino in 1946 by

Bugsy Siegel. There has been a continuing flow of convictions of organized-crime figures for their involvement in the Nevada casino industry. When the Governor of New Jersey inaugurated casino gambling in Atlantic City in 1978, he made much of the claim that the state would regulate the industry to keep organized crime out.

In fact, it is not clear what role organized crime plays in the contemporary casino industry. The historical explanation for its involvement is clear, and there are some important institutional links that could account for connections to certain casinos. But it is quite plausible that organized crime has little control over the industry generally.[5]

Nevada

In 1943, Siegel, a prominent former bootlegger with close ties to a number of major organized crime figures, including Lucky Luciano, Frank Costello, and Meyer Lansky, persuaded a number of his colleagues to invest in the construction of the first major hotel casino in Las Vegas. The Flamingo opened in 1946, but cost overruns had led to a suspicion that Siegel was defrauding his partners; he was shot and killed in California in 1947.

At a time when gambling was a highly suspect activity on moral grounds, regardless of its legal status, it was not surprising that only criminal groups were able to find capital to fund major investments. Presumably, such groups were responsible for many of the early projects.

The industry acquired a modicum of respectability in the late 1960s, however, and the character of investors and operators changed (Skolnick, 1978, Chap. X). The entry of Howard Hughes, not then as bizarre a figure as he later became, provided the first important inflow of respectable capital. Nevada changed its laws in 1969 to permit corporate ownership of casinos; until then, every person with an equity interest, no matter how small, had to be licensed by the Nevada Gambling Commission. Major hotel corporations began to invest; Hilton, Holiday Inn, and Sheraton, among others, acquired or built major casinos.

The entry of publicly held corporations potentially changed incentives for criminal activity in the industry. A great deal of the early racketeer activity centered around the "skimming" of earnings. Earnings of the casino were removed in the form of cash and were paid to racketeers who were probably the providers of the original capital,

[5]This section draws heavily on Skolnick's (1978) excellent study of Nevada casino regulation.

although not registered as owners or operators. The income was unreported and untaxed. In effect, the true owners of the casino stole from the government.

A public corporation has no positive interest in unreported income. Managers who skim deprive the true owners of the casino of their returns. Clearly, managers have an incentive to skim in both cases, but when the casino is privately owned by racketeers, they are skimming *on behalf of* their nominal superiors and may share in the proceeds. When the casino is publicly owned, they are skimming *from* their superiors.

Before we analyze the actual record of racketeer involvement, it is important to describe the role of the Central State Teamsters Pension Fund. Accusations have long been made that this fund is controlled by organized-crime figures; its directors, until the intervention of the Department of Justice in 1978, were nominated by the leaders of locals, frequently themselves organized crime associates. A series of undercover investigations established the credibility of the government's assertions of racketeer control.

The Central State Teamsters Pension Fund has made large investments in Las Vegas casinos. By 1976, a total of $269 million (of the fund's total assets of $1.4 billion) was "loaned" to Las Vegas casinos. Many of the individual transactions were highly suspect; one of the most notorious involved loans of $146 million to a young entrepreneur, Allen Glick, for the purchase of five casinos, despite the lack of any evidence of entrepreneurial skill or industry knowledge on Glick's part. It is widely believed that these loans were made to permit the same organized-crime figures who control the fund to obtain control of the casinos. In this view, a weak figure such as Glick ensured that the racketeers would be able to skim with impunity.

A recent federal criminal case in Kansas City verified that these suspicions were correct. Glick testified that he had been ordered to let certain gangsters steal money from the casinos that he, in theory, owned. His testimony, possibly self-serving, was that these orders were backed with explicit threats of violence.

Skolnick summarizes the argument for Teamster-racketeer involvement in six linked propositions: "(1) The pension fund's investment policy; (2) coupled with organized crime domination of Teamsters union locals nominating trustees to the fund; (3) generated kickbacks to those controlling the fund; (4) who in turn controlled casino management to permit kickbacks involving (5) skimming and embezzlement of casino revenues (6) deposited with organized crime families who influenced the nominations of the trustees" (Skolnick, 1978, p. 299). Of course, this also suggests that the racketeer control, if it is

solely concerned with embezzlement and skimming, will be particularly strong in casinos with loans from the fund. There has indeed been a significant flow of convictions involving just those casinos. Most other casinos where significant racketeer influence has been found went into operation prior to Howard Hughes's entry, i.e., before casino investment was respectable.

The casino business has some aspects that may make racketeers more efficient than nonracketeers as operators. One is credit extension. Debts incurred for gambling are not enforceable in a court of law,[6] yet the casino business is very dependent on the extension of credit to high-stakes gamblers. Racketeers are more likely to be able to collect from delinquent debtor-players than are people who lack the reputation of being able and willing to employ violence. Racketeer-owned casinos, if they can convincingly convey their racketeer association to debtors, will have a smaller bad-debt ratio than will other casinos. Indeed, a legitimate owner of a casino might want to create an association with a racketeer precisely to reduce his bad-debt problem. In theory, he could make payments to the racketeer and still be better off, even if the racketeer provides no service.

In fact, however, the bad-debt problem does not seem to be a very significant factor. The total bad debts for Nevada casinos amounted to only $5 million in 1984, compared with total gaming revenues of $2.5 billion. Nor is it evident that publicly owned casinos, presumably without racketeer taint, have more of a bad-debt problem than do others with whom racketeers are more plausibly associated. The exchange of credit information among casinos, which means that bad debts at one casino may lead to termination or restriction of credit at all other casinos, is possibly an important explanatory factor. True gamblers may rate casino blackballing as a serious sanction.

It is also possible that much of the credit extension and collection responsibility rests with the operators of junkets—entrepreneurs who bring groups of high rollers to individual casinos. These junket operators, not subject to the same stringent licensing as casino operators, frequently have racketeer associations. Publicly owned casinos may thus be able to solve the problem in effect by delegating the racketeer association to their agents.[7]

Employee discipline may also be an advantage of racketeer operators. All casinos invest heavily in the monitoring of employee theft.

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[6]New Jersey is an exception to this rule. The Nevada state legislature recently enacted a law to make such debts court-enforceable, but its constitutionality has been challenged and not yet resolved.

[7]This is entirely speculative; there have been only a few cases filed against junket operators for collection through intimidation.

Nonetheless, significant sums are still stolen by employees. A casino whose senior management is known to be willing to use violence as punishment may incur lower theft losses.

Despite all of this, it seems reasonably clear that racketeers' deep involvement in the casino industry of Nevada does not amount to "control." Entry is not restricted. No effort is made to set prices. Individual casinos are subject neither to uniform extortion nor to individualized extortion of the type present in the stevedoring industry of the East Coast. There may be some union corruption, with racketeers receiving benefits from that corruption, but this is not the central source of revenue for racketeers involved in the industry. It is a separate source of power and funds.

Structural changes in the casino industry are probably reducing racketeer involvement, as may be the government's persistent, and apparently productive, prosecution of many hidden-interest and tax-evasion cases against the racketeers. The weakness of casino unions may also be a significant factor.

Nevada is not a hospitable state for unions. Efforts by the Teamsters, for example, to organize in that state have been unsuccessful. Nevada judges are willing to impose stringent restrictions on striking workers, which the police are thought to enforce quite aggressively. Only one union has acquired a significant influence over the casino work force, the Hotel Employees and Restaurant Employees International Union (HEREIU). At the national level, this union has been frequently tarred with the racketeering brush (see President's Commission on Organized Crime, 1986). Congress has held extensive hearings on the subject of its pension and benefit fund practices (U.S. Senate, 1981) and has found that many of the major locals, including the Las Vegas local, have given contracts for insurance, medical, and dental services, etc., to the nominees of racketeers. Senior officials have been investigated for tax evasion and ties to racketeers. The HEREIU is generally cited as one of the four most corrupt unions nationally, along with the Teamsters, Laborers, and Longshoremen's.

Yet, despite the ties between racketeers and union officials in the Las Vegas local (one of whose senior officials was murdered as part of a factional dispute), there is little to suggest that the union is an instrument for influencing the casino industry. No indictments have been brought against union officials or their racketeer associates for efforts to influence or extort the casinos. Wage negotiations have been quite adversarial, with a long strike in 1984 resulting in modest concessions by the casinos.

This is somewhat surprising in light of the extortionate power that the union has with respect to casinos. A strike imposes very high costs

on a casino, which is a capital-intensive operation. It may also result in significant loss of goodwill with individual customers, for there is no way that the casino can stockpile, so to speak, as manufacturers do in the face of a strike threat.

There are at least two possible explanations for the slight importance of unions for racketeer power in the casinos. First, Nevada's government, with its tradition of hostility against unions, may make it difficult to call effective strikes. Second, it is possible that racketeers with interests in casinos can dissuade their colleagues with interests in the unions from imposing losses on them. However, it is important to note that many major casinos are probably not racketeer-controlled, and this explanation would not hold for them.

New Jersey

The New Jersey casino industry (limited to Atlantic City) was established after a statewide referendum in which concerns about organized crime involvement in the casino industry were at the forefront of the debate (Dombrink, 1981). An extraordinarily elaborate set of controls was set up precisely to minimize the possibility of racketeer influence in any part of the industry. A major battle that erupted in the Philadelphia Mafia family in the late 1970s centered on the family's role in the emerging industry. Fairly intense scrutiny by state investigative agencies, yielding a variety of scams against the casinos by employees and customers, has shown only modest evidence of racketeer influence. Only the casual granting of credit to racketeers constitutes a serious continuing breach in the casinos' independence from organized crime.

It is not difficult to account for the apparent differences between Nevada and New Jersey in this respect. The racketeer involvement in Nevada has its origins in the early financing of casinos, itself a function of the moral pariah status of legal gambling before about 1970. By the time the New Jersey industry came into being, conventional financial institutions were willing to provide loans and major publicly owned hotel and entertainment firms were willing to invest in casinos.

New Jersey has a complex regulatory apparatus, which requires licensing and full financial disclosure not only by the casino operators but by all individuals and firms who deal with casinos. The control of unions is the most controversial element of this regulatory policy and is being contested in court, the unions arguing that federal regulation preempts the state's efforts to impose additional qualifications on

union members and office-holders.[8] It appears that some of the major unions in New Jersey are dominated by racketeers (U.S. Senate, 1981), in particular, members of Mafia families in Philadelphia and New York. However, the consequences of this situation for casinos, as well as the assertion that it is a result of the union's involvement in the casino industry, are quite unclear. Certainly, no peculiar consequences for the casino industry have been demonstrated, and there are many other unions in New Jersey that have similar problems of racketeer influence.

It is interesting to note that the first three licensees in New Jersey (Resorts International, Caesar's World, and the Bally Corporation) have all been accused of racketeering connections in the past. For Resorts and Bally, the accusations are somewhat aged, and the Casino Commission (the licensing authority) declined to follow the Division of Gaming Enforcement's recommendations that permanent licenses be denied, essentially for that reason. In the case of Caesar's World, the accusations were more recent, though less cogent, and the Commission ruled that the two largest shareholders had to divest themselves of the stock in order for the license to be granted. After court proceedings, that order was upheld. No evidence has been produced to date that any of these three companies operates its casinos any less honestly than do other, less tainted licensees.

In summary, the racketeer influence in the casino industry appears to be opportunistic and limited. As in the waterfront industry, there is nothing to suggest that racketeers have attempted to restrict entry into the industry or to influence prices. The primary victim of their presence has been the U.S. Treasury, although some casino operators may have lost income, and certainly respectability, as a consequence of racketeer involvement.

GARMENT MANUFACTURING

The garment industry is as notorious as the others we have examined, in terms of racketeer involvement. Numerous cases have been made over the years against major racketeers for illicit involvement in the industry. For example Johnny Dioguardia, a prominent member of the Lucchese family, received payments from a number of garment manufacturers in return for ensuring labor peace; his convictions on such charges spanned a period of 35 years, starting in 1937. Indeed,

[8] A recent court ruling affirmed the state's right to regulate unions in this industry, federal legislation governing the same conduct notwithstanding. The potential corruption associated with the industry played a major role in this decision.

members of all the New York Mafia families have been convicted of various kinds of extortion in the garment industry.

Throughout the twentieth century, the garment trade, centered in New York City, has been associated with criminal gangs. In the early days of the industry, that association sprang from efforts to organize workers into what later became the International Ladies' Garment Workers' Union (ILGWU) and the Amalgamated Clothing Workers of America (for men's clothing). Both the unions and the employers made use of criminal gangs in the first quarter of the century—the former to facilitate unionization, the latter to prevent it. On occasion, the same gang would serve both sides, extorting happily from all parties, including dissident Communist union leaders.

During the Depression, the employers also sought to form cartels to prevent price cutting, using the services of gangs such as that of Buchalter and Shapiro (Block, 1982, Chap. 7). Inevitably, the gangs did more than police adherence to price schedules. They also extorted individual firms that sought to avoid conformity with the cartel rules.

The current role of the racketeers is quite different. To understand that role, it is necessary to know something about how the industry is structured. The garment industry is not really a single entity. In fact, it has a number of quite distinct components. Ladies' garments and men's garments are generally made by different firms, unionized by different unions, and marketed through different channels. Throughout the remainder of this section, we shall deal only with ladies' garment manufacturing, which is the largest component of the garment business.

There are three major sectors within the ladies' garment production industry. *Contractors* actually make garments or the components of garments; *jobbers* are the firms that design the garments, provide orders for the contractors, and sell the garments to distributors; and *truckers* transport fabric to the contractors, garments or pieces of garments from contractors to jobbers, and garments from jobbers to the distributors. Though there has been some diversification of location, New York City (particularly Manhattan) still dominates the national industry. Total employment in the New York City industry is estimated at about 250,000,[9] and it is the largest industrial sector in the city. Northeastern Pennsylvania also has a significant amount of

[9]We use a standard figure cited in newspapers and legislative hearings (Leichter, 1982) rather than the official figures from the Bureau of Labor Statistics because there is a significant probability of undercounting. This is a consequence of the employment of many illegal aliens, often in unregistered workplaces. This is an industry in which illegal "homework" is thought to be a major problem, and official statistics are likely to undercount these workers.

garment industry activity, again alleged to be much influenced by racketeers.

Contractors are often very small and ephemeral firms. As described in a series of reports by a New York State legislator (Leichter, 1979, 1981, 1982), the industry has a large number, perhaps as many as 3,000, "sweatshops"—small contractors set up in apartments or other settings where workplace codes are grossly violated and immigrant labor receives wages very much below the federal statutory minimum. Chinatown, where law enforcement generally is very weak, is one of the two major sites for these sweatshops. The other is northern Manhattan, where Latin American immigrants provide cheap labor. Leichter estimates that the typical firm employs 15 to 30 workers.

Jobbers tend to be more substantial firms, with revenues of up to $50 million, although it is claimed that no one firm has as much as 1 percent of the total market. The jobbers are perceived as the more powerful in negotiations with contractors. Indeed, the ILGWU has, in recent years, attempted to deal with this perceived imbalance by including a restrictive clause in its contract with jobbers, which requires them to register a certain number of "permanently designated" contractors who may be fired only for cause (Kwitny, 1979, p. 237).

Racketeers

The racketeers are involved in both jobbing and trucking. Trucking seems to be the more significant of the two. It has been consistently alleged, over a four-decade period, that (1) contractors and jobbers may not switch trucking firms; (2) trucking prices are set well above the competitive level; (3) members of the Mafia are the actual owners of the trucking firms; and (4) the relevant union local (ILGWU Local 102) is controlled by the same racketeers. The evidence for these assertions is largely anecdotal, but the density of the anecdotes, together with a number of undercover investigations and successful prosecutions, gives credence to them.

This would appear to be the same situation as that in the garbage collection industry. The customers (contractors and jobbers) are subject to a customer allocation agreement, which is made effective by a corrupt union. There are, however, two significant differences: First, the racketeers are far more directly involved in the garment trucking firms than in the garbage collection firms. There is no question that they are paid to provide cartel enforcement services for a set of garment trucking firms which retain the bulk of the profits generated by the cartel. Second, racketeers have used their power in the trucking

sector, together with an associated financing role, to enter quite directly into the business of garment manufacturing itself.

Clear evidence of a customer allocation agreement among the garment industry carters is provided by Leichter (1982, p. 31), who reports the following interview with a garment manufacturing executive:

> An officer of one jobber related how, "Last week I got a call from Tom Gambino.[10] He suggested a few Chinatown shops for me, but I said I was happy with the ones I am using right now." He said Gambino did not press the issue because, "I've been in this business a long time, I know Tom, and I get a lot of respect." He felt that other jobbers might feel "more inclined" to go along with the suggestions, however. And later in the interview he admitted that the truckers he uses could sell his accounts without his permission, that he actually has no control over who his trucker will be for particular loads . . . and that he even has to pay the truckmen five dollars for every load "just to get it out of the building."

Similar comments are reported in a 1977 series of *Women's Wear Daily* articles on racketeering in the garment industry.

Leichter and Kwitny also reported that some of the major trucking firms in the garment industry were owned by members of the five New York Mafia families. For example, Thomas Gambino, the son of Carlo Gambino, was the owner of a major trucker, Consolidated Carriers Corporation, which also controlled a number of smaller trucking companies and jobbers. Leichter also claimed that Consolidated Carriers had been used to finance a number of sweatshops.

The basis for control of the garment trucking sector appeared to be the corrupt ILGWU Local 102. The ILGWU is not a union about which many allegations of racketeer influence have been made. But the union leader was reported as saying that the international had little control over Local 102 (Kwitny, 1979, p. 237). The leaders of the local had long been associated with members of the Gambino family. However, it is not possible, based on existing published information, to make any more precise statement than that. Certainly, we cannot establish whether the local had the same kind of autonomy from the racketeers that appeared to characterize Teamsters Local 813 in the Long Island carting industry.

Loansharking is another important element of organized-crime influence in the garment industry. The sudden changes in fashion, the seasonality of the demand for particular kinds of garments, and the small size of most contractor and jobber firms induce frequent, acute, short-run liquidity problems that conventional sources of finance are unwilling to handle. It is asserted that the same organized-crime

[10]Gambino is alleged to be the central racketeering figure in the industry.

figures who were involved in other aspects of the garment industry also provided loans as a method of taking control of the borrower firm.

The lender may demand that the borrower provide no-show jobs for himself and/or various associates. Alternatively, the lender may try to control the allocation of trucking or contracting by the borrower firm. The eventual result may be bankruptcy for the borrower or loss of effective control to the lender. The bankruptcy is likely to involve misappropriation of credit from other companies. (There are many anecdotes concerning this kind of behavior, but there is no way to determine its frequency.)

What characteristics of the garment industry have made it subject to racketeer influence? If the problem was found only in the trucking sector of the industry, we might assert that it was simply a slight variant of the carting industry. The more visible involvement of the racketeers can be explained by the fact that there is no regulation here that induces a need for concealment.[11] The customers, i.e., contractors and jobbers, are, like the commercial establishments served by carters, poorly situated to resist a customer allocation agreement and also weakly motivated to do so.

However, the racketeers' involvement in the other sectors of the business must also be accounted for. Mafia loansharks may have a significant advantage over conventional financiers in estimating the riskiness of different potential borrowers, both because organized crime has superior information and because it has better methods for inducing repayment. The superior information comes from involvement in the trucking sector, which enables the Mafia to obtain credible assessments of the soundness of individual small businesses. The loansharks' prospects of repayment are better because, even without physical coercion, they may be able to obtain returns from bankruptcy scams if the borrower is in fact unable to service the loans. They may also be able to persuade other suppliers to extend more credit, to give the debtor a better chance of repaying the original loan.

It is important to note that the loansharking function does not necessarily provide a basis for influencing the conduct of a sector of the industry. Individual firms, jobbers or contractors, may be under the control of individual racketeers, but that does not imply that racketeers can control the whole sector. There is no suggestion, for example, that racketeers can restrict new entry into either the contracting

[11]Although the Long Island carting industry is not subject to comprehensive economic regulation, there is local regulation of some sectors. Local government is also a major customer. Both these factors motivate greater concealment of the racketeer role.

or jobbing sector.[12] Indeed, if their major income in the garment industry derives from a monopoly of the trucking sector, they have an incentive to promote competition in the other two sectors.

Policy Response

As in each of the other industries we have discussed, racketeer involvement in the garment industry is widely recognized and has been the subject of repeated law-enforcement investigations. Indeed, this industry has probably been responsible for more Mafia convictions than any other legitimate industry. Moreover, those convicted have included some of the more prominent Mafiosi in New York, including Thomas Lucchese and Johnny Dioguardia. The investigations span almost five decades.

There is no reason to believe that these investigations have had any significant effect on the racketeers' influence in the industry. A series of articles in *Women's Wear Daily* in 1977 indicated that participants in the industry, as well as police and prosecutors, still believed that the trucking sector was entirely controlled by Mafiosi and that many firms in the jobbing sector were also controlled by Mafia members.

Regulation has not been seriously considered. There have been occasional calls for the ICC to extend its jurisdiction to intracity trucking in New York City, but these are less frequently heard in the era of deregulation. Nor is there much reason to believe that the ICC, which has made no serious effort to deal with Mafia influence in the interstate trucking business, would have any more success in dealing with the New York City garment truckers. In any case, inducing competitive behavior among truckers is not one of the ICC's stronger points.

The extension of regulation to the jobbing and/or contracting sectors seems even less plausible. The rapid turnover in small firms in these sectors would make such regulation exceedingly difficult. More stringent enforcement of laws concerning work conditions and wage payments is certainly appropriate but would strike only marginally at the influence of racketeers.

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[12]To the extent that they are better able, perhaps because of lessened concern about detection by official agencies, to obtain labor for substandard wages, they may affect the conduct of the contracting sector as a whole by driving out those contractors who are unwilling to pay illegally low wages.

IV. POLICY OPTIONS

INTRODUCTION

Racketeer influence over an industry can result in higher prices, restricted entry, fear among customers, and reduced innovation. There are also more subtle, indirect consequences: Control over one industry may provide racketeers with opportunities in other industries (e.g., garment trucking facilitates jobber loansharking).

The problem with which we are dealing is an old one. It has received a little more attention of late, through some major prosecutions and the hearings of the President's Commission on Organized Crime. Nonetheless, it is not an issue that is high on the nation's policy agenda.

In part, this reflects the relatively static nature of the problem. Racketeer influence is concentrated in a few industries, just as labor racketeering is a significant problem in only four major unions. More important, it has been concentrated in the same set of industries for over fifty years (allowing for the disappearance of some sectors of these industries as the result of technological progress, e.g., the ice carting business). The problem may be a reasonably serious one, but it shows no signs of spreading beyond its long-established base.

In this section, we begin by considering the varieties of forms that racketeering influence over an industry can take and the regulatory alternatives available for dealing with each of them. This is followed by an analysis of the relationship of the phenomenon to the more widely recognized labor racketeering; the analysis suggests that the two have an important historical connection but that the relationship may have weakened. Finally, a more detailed analysis is provided of policy options for dealing with our case-study industry, solid-waste collection on Long Island.

DISTINCTIONS

Racketeer control has taken a quite different form in each of the industries in which it has been identified as a problem. In the casino industry, the influence does not seem to include the power to exclude or affect the behavior of others. The significant racketeer presence is largely the result of historical accident and certain features of the

casino business itself. The known presence of racketeers may have affected decisions by others about investing in the industry and may have led to certain regulatory rules, but it does not appear to have led to exploitation by the casinos as a group.

In the stevedoring industry, racketeer influence is purely exploitative. Regulation has prevented the most predatory forms of labor exploitation, but has apparently not had the same effect in reducing the power of racketeers to use their influence within the union to control actions of the stevedoring and shipping companies.

Finally, the garment industry represents a mixed case. In some respects, it is very much like the carting industry, with a customer allocation agreement among the garment trucking firms. However, in other respects, it is more like the waterfront sector. Union influence has been used to affect relations among the garment manufacturing firms themselves. The role of the racketeers in the financing of the garment manufacturers is reminiscent of that in the casino industry, although the sources of their involvement are different in the two cases.

We can scarcely claim that three examples exhaust the possible forms that racketeer influence over an industry can take. But an argument can certainly be made that racketeers can derive their income from only three bases: labor, capital, and customers.[1] In the carting industry, the final customer is the source of racketeering incomes, with the providers of capital, and perhaps even labor, as joint beneficiaries. In the waterfront industry, labor used to be the prime victim; now it is possibly a beneficiary, and capital, along with the final users, bears the cost of the racketeering tax. In the garment industry, both labor and capital bear the cost.

This variety of racketeer influence suggests that there may not be a single set of policies appropriate for dealing with the problem. In the waterfront industry at least, the racketeers appear to be entirely parasitic. They provide no service to the overall industry, although certain firms may fare better than they would in a purely competitive setting. In the carting industry, the racketeers appear to substantially improve the well-being of the firms as a group, although some firms (the potentially more efficient) may fare less well than they would in a purely competitive market.

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[1]This is no more than a standard statement of tax analysis. Racketeers' influence may be regarded as essentially a tax, which must be borne by one of the factors of production and/or passed forward to the final purchaser. The government might be added as a fourth base, in the form of tax evasion. However, tax evasion does not require racketeer control of an industry.

Clearly, the techniques for reform are likely to be different in these two cases. The waterfront industry may generally not resist reform, provided that reform takes credible forms. The industry would probably resist reform that is likely to induce a major struggle between racketeers and regulators, since this could impose significant short-run costs on the industry. But in the carting industry, reform of any kind will meet resistance from the carters, who are prime beneficiaries of the racketeers' involvement. Different techniques thus may be necessary.

REGULATION

The standard policy response to the problem of racketeer influence, when one has been forthcoming at all, has been regulation of a very detailed and intrusive kind. The regulation of carting in New York City and New Jersey, both responses to the revelation of racketeering influence, is illustrative of this. The regulations are discussed in more detail below; suffice it to say here that they appear to have imposed significant paperwork burdens on participants in the industry and little else.

The regulation of the waterfront in New York and New Jersey has arguably been more successful. It has certainly prevented the outrageous exploitation of union members that characterized the first half of this century. But it has not, despite a significant bureaucratic structure with broad surveillance powers, prevented the abuse with which we are specifically concerned, namely, racketeer influence over the stevedoring and shipping firms.

The casino industry in New Jersey represents the extreme in terms of a regulatory response. Since the very inception of the industry in 1977, concern with racketeer influence has been prominent. Governor Brendan Byrne, when signing the bill which permitted the operation of casinos in Atlantic City, made the statement, "Organized crime, keep out of here."

An extremely elaborate regulatory apparatus was erected, in the form of the Casino Control Commission. A separate agency within the Attorney General's office, the Division of Gaming Enforcement, was set up to investigate applicants for the many classes of licenses that were to be issued for participants in the industry.

Any firm proposing to sell more than $50,000 of goods or services to casinos is required to pass intensive scrutiny, as must all union officials and most employees. The casino licensees themselves are subject to investigations sometimes costing millions of dollars. The first three

licensees (Resorts International, Bally Corporation, and Ceasar's World) all had difficulty getting their licenses; the leading figures in two of them were required to divest themselves of their interest because of allegations of organized-crime connections. The Hilton Corporation was denied a license after spending $300 million constructing its hotel/casino, because of its use (in an unrelated matter) of a lawyer who was reputed to have organized-crime connections.

Despite evidence of corruption on the part of the Vice Chairman of the Casino Control Commission in 1980, revealed in the federal Abscam investigation, there has been no serious allegation that racketeers have a significant influence in the New Jersey industry. It has been repeatedly alleged that the major unions involved in the casino industry, particularly the construction unions, are controlled by racketeers.[2] However, no one has suggested that the racketeers have been able to use this influence to determine who runs the casinos or to divert casino profits illicitly.

The regulation of the New Jersey casinos has apparently succeeded in preventing racketeer control—but at a significant price. The regulation itself is quite costly. The Casino Commission and the Division of Gaming Enforcement had total budgets of $41 million in 1985; total industry revenues were $2 billion in that same year. This cost estimate ignores the significant additional costs imposed on the applicants themselves, not just the casino operators but also the many employees and suppliers. Nor does it include the cost of wrongful rejections, inevitable in any regulatory system that makes judgments about the moral fitness of individuals.

There is some question as to whether this elaborate regulatory apparatus is necessary. We have argued that the racketeer influence in the Nevada casinos was very much the result of specific historical features, particularly the unwillingness of legitimate financial institutions in the 1940s and 1950s to back economic entities as morally dubious as casinos. The history of Nevada casinos owned by publicly traded corporations did not suggest that racketeer influence was a significant problem. Less elaborate licensing and monitoring activities might have sufficed in New Jersey in the late 1970s, to accomplish the same result.

However, it can certainly be argued that such heavy-handed regulation at the beginning of the industry was appropriate to avoid even a modest risk of racketeer entry. Precisely for this reason, it is not clear

[2]One of the major sources of an extended and bloody conflict in a Philadelphia Mafia family was a concern about the leader's passivity in dealing with Atlantic City, part of its traditional territory. Younger members of the Bruno family objected to their leader's failure to move aggressively when the casinos made that territory much more valuable.

that this apparatus provides much guidance for control of racketeer influence in other industries. It seems plausible that the difficulty of removing racketeers from an industry is significantly greater than that of preventing their entry. A new industry will not have created the networks of favors and fear that give many participants reason not to cooperate with efforts to remove them. Nor will it have generated the reputational barrier to entry that makes it so easy to exclude legitimate potential entrants.

To summarize, regulation has not yet succeeded in eliminating racketeer influence over any industry in which such influence has become well-established. It will be argued later in this section that this situation derives from the need to change the structure of opportunity within the industry; regulation rarely can accomplish that.

LABOR RACKETEERING AND INDUSTRY CONTROL

Before considering the general policy problem, we must briefly analyze the relationship between labor racketeering and racketeer control over an industry. It is tempting to consider racketeer influence over an industry as simply an extension of racketeer control of a union. At first glance, it appears that the control of a union has been essential for racketeer influence in three of the industries we have examined (carting, garment trucking, and stevedoring). The casino industry is a dubious counterexample, precisely because it is not clear that racketeers can be said to exert any influence, despite their presence in the structure of the industry. That may be a consequence of the lack of any effective union presence; racketeer influence without a union may require the kind of naked aggression that makes it a relatively easy target for law enforcement.

Yet there are arguments for denying the equivalence of the two problems, except in a historical sense. It may be true that control of a union is an essential element in the initial acquisition of influence by racketeers, but is not necessary for the maintenance of that power. Again, it is important to distinguish between the circumstances leading to the creation of a problem and those necessary for its maintenance. History, in the form of participant attitudes and expectations, can greatly alter options.

The carting industry certainly illustrates this. The relevant Teamsters locals in New York and New Jersey seem quite corrupt, but they appear to play a modest role in the continuation of the conspiracy from which racketeers benefit. The conspiracy would work better, i.e., the industry profits would be higher and there would be less friction, if the

union were more responsive to the interests of those racketeers who receive money from the carters. But the conspiracy is able to maintain itself with only a modicum of union cooperation because (1) current carters have acquired the habits of conspiracy, (2) customers are cowed by the past record of intimidation (partly union-executed) in response to complaints (they may be even more cowed by the lack of success of such complaints), and (3) potential entrants are inhibited from entry by a concern about aggressive response to entry (e.g., destruction of entrants' property, intimidation of their customers).

Thus, it may be possible to solve the problem of racketeer influence in an industry without simultaneously eliminating racketeers from the relevant union. Given the apparent intransigence of the union racketeering problem, this is of some importance. After all, the federal government has conducted a consistent campaign against the four principal unions controlled by racketeers (Teamsters, ILA, Hotel and Restaurant Employees, and Laborers) yet has apparently been unable to eliminate the racketeer presence (President's Commission on Organized Crime Hearings, 1985). Racketeers with control of a union may be content to use it solely, or at least primarily, for the exploitation of its various pension and welfare funds. While such exploitation is a significant problem, there is also merit in seeking remedies that at least confine racketeers' predations.

However, for investigative purposes, it is clearly important to note the connection between labor racketeering and racketeer influence over an industry. A police agency that has information about racketeer control of a union may well find it useful to investigate whether that same control has been extended to some associated industry. Similarly, evidence that there is racketeer control of an industry might appropriately trigger an investigation of the relevant union.

POLICY ANALYSIS: LONG ISLAND CARTING

In the following, we set out a series of proposals which attempt to deal with the problem of racketeer influence in the Long Island carting industry. The analysis is quite specific, dealing with this particular industry in this particular location, but it should be applicable as well to other industries in which racketeers have helped create industrywide agreements and in which the union plays some role in facilitating the racketeers' activity.

We start with the proposition that the problem is not one that can be solved simply by removing a few "bad apples" (the usual approach of law-enforcement agencies). The problem in the Long Island carting

industry has persisted for many years. The experience of other jurisdictions in the area, notably New York City and northern New Jersey, provides little basis for optimism that the conviction and punishment of the principals will change the conduct of the industry. No single prosecution is likely to change the calculations of participants concerning the risks and benefits of collusion and racketeering. We cannot expect a prosecution to result in the exit of racketeers, the entry of new firms, or competition among existing firms. The cost of investigation and prosecution of activities is high enough that the participants are likely to assume (correctly) that there is little chance of another such investigation in the near future. The history of sentencing for white-collar crime, of which this is marginally an instance, does not inspire much fear of such prosecutions. Finally, the outcome of the OCTF investigation actually affirmed the profitability of the conspiracy.

The Outcome of the OCTF Investigation

After eighteen months of investigation, the OCTF brought a series of indictments against the principal figures, in November 1984. Those indicted included:

- Tony (Ducks) Corallo, reputed leader of the Lucchese family.
- Salvatore (Tom Mix) Santoro, underboss of the Lucchese family.
- Salvatore Avellino, Corallo's chauffeur and principal racketeering representative in the Long Island garbage industry.
- James Corrigan, director of the Private Sanitation Industry.
- 4 local officials.
- 1 state official.
- 11 other carters, together with their companies.

The indictments covered a wide variety of offenses. The local officials were indicted for agreeing to influence the Huntington town council to increase rates for residential collection. The state official, head of the regional branch of the Department of Motor Vehicles, was indicted for providing Corrigan with information that confirmed his suspicion that he was under state investigation. But the principal indictments concerned the property rights agreement and efforts to discipline the rebel carter.

Another two years passed in litigation concerning the technical aspects of the investigation. The principal focus of this litigation was electronic surveillance, e.g., did the OCTF have authority for wiretaps in certain locations, was adequate effort made to minimize the extent

of such surveillance, and did the transcripts accurately reflect the content of the wiretaps? Given the large number of defendants (who retained approximately 30 lawyers), these were inevitably complex proceedings.

Some defendants were dismissed on technicalities. For example, it turned out that two of the carters were immune from prosecution because they had testified before the Nassau County grand jury.

At the end of all this, most of the defendants, including the ringleader, Avellino, pleaded to the charges. The pleas did not include any agreement with OCTF prosecutors on sentencing recommendations to the court. The prosecutors did provide some signals about the relative status of the defendants; three ringleaders were required to plead guilty to a D felony, while the others pleaded to a lesser E felony.

The judge gave all those who pleaded almost identical nonpenal sentences: five years' probation plus some community service. Avellino was required to provide 840 hours of garbage collection; some of those hours could be worked by an employee if he worked with Avellino.

Without denying the complexity of determining the appropriate sentence for a criminal offense, the penalties imposed here certainly raise serious questions for public policy. If we view such sentences as setting the "price" of the crime, then they are clearly too low; this price is far below any reasonable estimate of the return to the participants.

We have suggested that the annual income derived by the carters from their customer allocation agreement was approximately one-third of their income from commercial customers and one-sixth of that from residential customers; our very rough estimate of the total annual income accrued by the carters was about $14 million. The total value of the penalty imposed on the industry by the judge, measured in terms of lost freedom and legal costs, is clearly a great deal less than that. Unless those involved are extraordinarily risk-averse, the penalty is highly unlikely to change their calculation as to the net returns from continuation of the customer allocation agreement.

Matters may actually be even worse than this suggests. The investigation produced a great deal of publicity about the involvement of racketeers in this industry and about the network of political favors generated by the current carters. Neither potential entrants nor customers are likely to derive any comfort from this information even if it only confirms their prior beliefs. Together with the light sentences imposed on the principals, this publicity may well increase the barriers to entry into the industry and the passivity of customers.

A slight piece of evidence for this may be found in the recent effort by the town of Babylon to obtain bids for garbage collection. The town actively sought bids from firms (new as well as old) for a long-term

contract to pick up waste from the entire community. The total annual value of the contract was at least $5 million. No companies other than those currently operating there entered a bid.

Goals of Reform

Structural remedies changing the whole opportunity system in the industry are necessary. We begin by setting out the problems that we are attempting to solve:

1. Racketeer involvement in the carting business.
2. Anticompetitive behavior by carting firms.
3. Fraudulent representation of service levels to customers.
4. Racketeer influence in the union.
5. Income underreporting.

These are set out as distinct problems, although they are clearly related. For example, the elimination of racketeers increases the probability of competition. On the other hand, it is not sufficient to guarantee competition; collusion in this industry appears to be quite frequent even without racketeer involvement.[3] The racketeers may only facilitate collusion.

Identification of the various objectives is also important because it is likely that strategies will differ in how well they attain particular goals. For example, some strategies may be highly successful in eliminating racketeer influence but may have very little effect on income underreporting.

Intrinsic characteristics of strategies or policies themselves will also affect the relative desirability of those strategies. Three characteristics seem to be particularly significant:

1. Costs to government.
2. Costs to private parties.
3. Intrusiveness.

We seek remedies that involve modest costs to government, impose low costs on other parties, and are minimally intrusive. But again, it is important to note that policy choices may involve tradeoffs among these dimensions.

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[3]Indictments alleging collusion in the garbage collection industry, apparently not involving racketeers, have been brought in Atlanta (1980) and Syracuse (1983) in recent years.

Regulation in New Jersey and New York City

As previously mentioned, both New York City and New Jersey have responded to evidence of racketeer influence in the carting industry by creating comprehensive and intrusive regulatory apparatuses. The regulation is generally perceived to have failed to achieve its ostensible objectives in both jurisdictions, i.e., it has neither induced competition nor eliminated racketeers. In addition, regulation has imposed significant costs on both government and private parties. Since both regulatory schemes appear, on paper, to be quite reasonable and appropriate to the problem, it is worth investigating the sources of their failure.

The New Jersey regulatory system follows classic public utilities lines. The underlying legislation is rather vague, and responsibility for its implementation rests with the Board of Public Utilities (BPU), whose primary function is to regulate the major fixed capital utilities (electricity generation, natural gas distribution, and telephone service). Each carting firm applies for an individual rate schedule[4] which, according to its submission to the BPU, will permit it to earn a "reasonable" rate of return on invested capital.[5]

The appropriateness of such a scheme for an industry of such low capital-intensity is questionable. Analysis of the financial statements of 41 carters in Bergen County showed that a return on the rate base (a utility measure of capital) of 12 percent in 1984 would have accounted for only 4 percent of total revenues.[6] Capital-based regulation focuses on too small an element of total cost.

In New York City, the Department of Consumer Affairs (DCA) regulates the industry, following a different but also well-established mode of regulation. A maximum price (per cubic yard collected) is set for the industry, following hearings on an application for a rate increase. The rate is set to allow a reasonable profit for the average firm, measured as a share of total operating costs. This is similar to the method used by the ICC for the regulation of trucking, an industry with a similar ratio of variable to fixed costs.

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[4]The carter may set different prices per cubic yard for customers distinguished by frequency of pickup per month, size and type of container, characteristics of waste, etc. Tariff schedules can contain more than one hundred separate prices.

[5]The same regulatory scheme also covers waste disposal. In New York City, there are no private disposal sites.

[6]See Appendix 7 of testimony of Peter Reuter in *BPU v. Carmine Franco and Co., Inc.*

Both regulatory systems impose "good character" requirements for licensees, to ensure that known felons are kept out of the industry.[7] Both agencies also have a general requirement that all changes affecting ownership and finances of licensees be submitted to them for prior approval. For example, New Jersey licensees must get approval from the BPU before incurring any debt with a maturity of more than twelve months.

Neither agency has the resources to carry out investigations that would permit it to pierce the veil of paperwork that surrounds a great deal of the misbehavior in the industry.[8] The location of responsibility in relatively large regulatory agencies, whose other responsibilities are far more salient (and greater, in money terms), has also helped ensure that the carting industry receives relatively little attention from the senior regulatory officials.[9]

It is also important to note that the regulators have never had the means to deal with the fundamental problem of the industry, namely, the reputation for racketeering which deters entry, aggressive competition, and aggressive search on the part of customers. The occasional prosecution and investigation, usually prominently covered by the press, has probably only added to the reputational asset of the carters. With the customers being passive, regulators have not been able to prevent the various kinds of fraud that undermine price regulation, at least not without large-scale and intrusive inspectional efforts.

Restructuring the Market

The failure of the conventional regulatory systems suggests the need for a much more fundamental restructuring of the market, at least initially. The following recommendations, specifically tailored to the Long Island carting industry, shift some of the responsibility of contracting from the current set of customers, in both the residential and commercial sectors:

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[7]The New Jersey legislature recently broadened the "good character" requirements. This law was upheld in court shortly before the writing of this report; too little time has elapsed for an evaluation of its impact.

[8]The agencies have to rely on financial statements submitted by the licensees. Officials recognize that such statements may seriously understate revenues and overstate expenses, but the audit staffs do not have sufficient manpower to effectively challenge these figures.

[9]The New Jersey BPU's efforts to remove licenses from some of the carters found guilty of antitrust violations in the Trade Waste Association case have led the BPU to substantially increase its involvement in solid-waste regulation, at least in 1984–1986.

1. A Regional Authority should be created to take over contracting for solid-waste collection services in the two counties (Suffolk and Nassau). The Authority would create a comprehensive set of districts on Long Island, which would include both residential and commercial customers. Each district should be large enough, and the term of the contract long enough, that the winning of a single district contract would permit the establishment of a firm large enough to operate at close to minimum operating costs.
2. All commercial and industrial establishments in each district should be required to provide to the Authority the modest amount of information necessary for the issuance of contract specifications that permit informed bidding and accurate reimbursement.
3. An office should be created whose sole responsibility is the preparation of engineering estimates for each contract. This could possibly be a component of the Authority, but would more sensibly be attached to an existing state agency.
4. A public benefit corporation should be created to operate a carting enterprise in competition with the private carting industry. The objective of the corporation would not be to maximize profits or market share, but to provide a monitoring device that gives force to the engineering estimates for the individual contract, i.e., the corporation would provide, in effect, a yardstick for determining the reasonableness of contractor prices.

This strategy does not rate highly on all the criteria we have offered for evaluating alternative policies. It is certainly intrusive. It has the appearance of being expensive, although we shall show that it is likely to lower costs for both government and private parties, as compared with the current situation. And it should dramatically reduce the incidence of the problems we have identified as ubiquitous in this industry around New York.

What follows is an outline of how this system might be implemented and how it should affect participants in the industry. It is not a detailed implementation plan, but it offers enough detail to permit assessment of its feasibility and desirability.

Regional Authority

A Regional Authority will be formed to create districts for solid-waste collection, both residential and commercial. The districts clearly

must cross local jurisdictional lines, simply because many local governments have too small a population to provide anything close to an optimal-size district, i.e., one requiring at least five trucks.[10] The board of the Regional Authority should consist of representatives of the local governments that will be directly paying for the collection services.[11]

After creating the districts, the Authority will solicit bids. An important part of its function will be the collection of information about the service needs of the individual districts. All business establishments within its jurisdiction will be required to provide the information necessary for the initial estimation of the total service requirement. The Authority will also have to update this information during the performance of contracts to establish the appropriate level of compensation to be received by the carter. Finally, it will determine the service levels received by individual commercial establishments, using self-reports of the carter as an interested-party auditor.

Bids will be sought on the basis of unit price, where the unit is a "point," a notion of service level defined below. The Authority will estimate the number of points for the district, and bidders will specify a total price for that number of points, together with a price for each marginal unit. The latter will be used by the Authority to adjust the amount paid to the carter in light of any discrepancies, up or down, between the estimated amount of service actually provided and the amount originally specified. Given the relatively long duration of the contracts, this specification of a marginal price is an essential feature. Bids will specify annual total and marginal prices for each contract year.

The districts should be large enough that the winner of a single contract can conduct an operation of an efficient size. Likewise, the contract must run for a period long enough that the winning firm can amortize the costs of any fixed plant involved in fulfilling the contract. These two conditions will facilitate the entry of new carting firms, which are at present deterred from the government contract market by the small size and relatively brief duration of the contracts issued by

[10]This estimate of the minimal optimal size is offered by Stevens (1978). While there may be multiplant economies, as evidenced by the rapid growth of national firms, these can be captured by appropriately sized districts.

[11]Not all jurisdictions can be represented on the board—there are hundreds of local government entities on Long Island, not including school districts. Board membership might rotate among the local governments, as is often done with regional authorities serving other functions.

most public authorities.[12] There is a widespread but mistaken belief that small contracts will induce more bidding because more firms can bid on them; this ignores the fact that the competitive problem in this industry relates more to the lack of entry than to the numbers of current providers. By creating larger and longer contracts, the Authority can induce bidding by firms not currently operating in the Long Island market.

Bid Solicitation: Measurement Problems

A major difficulty in implementing this scheme is the need to create a method for measuring the service needs of a district. The mingling of commercial/industrial waste service with residential waste collection presents relatively novel problems. This section outlines the basis for a solution.

The overt difficulty is the heterogeneity of service needs of different customers. Some customers generate large volumes of inorganic waste which must be placed in special containers (such as roll-offs) and picked up daily by other specialized equipment. Other establishments generate modest amounts of organic waste, placed in whatever boxes or cartons happen to be around, to be picked up no more than once a week by any equipment that the carter has available. The cost per cubic yard is likely to be much higher for the latter. A technique is needed that takes account of the relative cost of providing these different services and can combine them in a single index which represents the total cost of providing service to a mix of customers. In effect, we must develop a "hedonic price index."[13] Before discussing the technical problems of such an index, we consider some evidence that suggests that only a modest number of dimensions need be taken into account in creating one. The evidence comes from a review of the tariff filings of carters in New Jersey. There, the BPU requires each firm to file a separate tariff for each type of service it offers. The per-unit price charged any customer must be one of the filed tariffs.

Firms file as many as twenty different tariff schedules. Each schedule may contain three or four different tariffs, depending typically on the distance from the container to the nearest point that the pickup

[12]For example, the town of Islip divided itself into 91 districts in 1983 for purposes of letting residential waste collection contracts. The average-size district probably required fewer than two trucks on a full-time basis. Though the Islip contracts were let for a three-year period, many other towns let contracts of only one year's duration.

[13]This is a term for a set of prices that attach to the various *services* provided by a good, rather than the good itself (see Rosen, 1974).

equipment can approach. There are eight dimensions in the New Jersey tariffs:

1. Nature of service (roll-off, non-roll-off).
2. Size of container (generally two size classes).
3. Compacted or noncompacted waste.
4. Frequency of pickup (weekly, twice weekly, daily or twice daily).
5. Containerized or noncontainerized waste.
6. Character of waste (share of inorganic matter).
7. Distance of customer from disposal site.
8. Distance between pickup and loading points.

An index with even eight dimensions presents a formidable technical problem. However, if one allows for a certain amount of cross-subsidy and recognizes that the existing price differentials are probably fairly arbitrary, since customers are allocated by historical accident, the problem is a little less daunting. It may be possible to use a much smaller number of variables for assigning each customer a number of "points" of service.

The most important variables are likely to be the quantity of service provided on each occasion (cubic yards of waste), the compactability of that waste (assignable to one of two classes), and the distance from the point of disposal. These variables are likely to explain almost all of the variation in the unit costs of servicing different customers.[14]

In light of the fact that the New Jersey market is known to have been characterized by a customer allocation agreement, the remaining factors may have merely represented methods for discriminating among different classes of customers on the basis of differences in their elasticity of demand. For example, it is difficult to see why the frequency of service should affect the unit cost. The tariff schedules of the New Jersey carters show declining tariffs for more frequent collection. One argument for this is that the carter, who usually provides the container, can generate more revenues per invested dollar if the container is emptied more frequently. It is just as plausible that actual unit costs rise with frequency, since customers who are serviced less frequently can more easily be fit into a schedule that minimizes total collection costs. On the other hand, customers who use more frequent services may be those who are more likely to consider self-hauling if prices are

[14]Note that the price involves both collection and disposal services. Since the carter must bear the cost of disposal and cannot, for all but the largest customers, separate out the waste of individual customers at the disposal site, he must take into account characteristics of the waste that affect the disposal cost, even if they do not affect collection costs.

too high and/or who pay more attention to the price of the service (i.e., are more likely to seek out other carters). Moreover, many carters in New Jersey have very simple tariff schedules. Some of those who provide service to a narrow range of commercial customers in a compact geographic area probably specify a single rate for those customers. Finally, we note that New York City carters operate with a far simpler tariff schedule (as approved by the Department of Consumer Affairs) than do the New Jersey carters.

If these assertions are correct, the problem of designing a roughly equitable pricing system for individual commercial establishments is not so formidable. Each customer needs to provide the Authority with only three pieces of information: location, average quantity to be disposed of on each occasion, and the nature of the material being disposed of. The Authority can adjust these to a relative cost scale by taking into account the variation in prices actually charged in other jurisdictions. This is not a technically trivial exercise, but it can certainly be done with techniques that have been developed for assigning costs in other regulated industries in which the product or service is not homogeneous. It may be possible to analyze data from other markets to develop an index for weighting individual customers' unit costs.

Two potential problems need to be dealt with here: (1) private deals between carters and customers and (2) the Authority's need to monitor observance of contract terms. The two problems are connected in that the possibility of private deals raises the need for monitoring.

Private deals. It is not clear that carters and customers have any incentive to strike private deals whereby the customer pays the carter directly and either avoids registering with the Authority or underreports the amount of waste he is generating.[15] The carter has a preference for cash income, but the customer has a similar preference, under most circumstances, for paying by check and thus creating objective evidence of a deductible business expense. Some businesses may be laundering funds and therefore seeking to show a higher taxable income, but this is likely to be a minor problem in the general population of businesses.

Is there any other incentive for the carter to seek private deals? The contract with the Authority will include payment for any additional waste collected within the district. The marginal price the carter bid will certainly not be below his marginal cost. The customer will pay above marginal cost (since the billing to each customer will reflect average cost for the contract as a whole), and there may be room for a

[15]Not registering may be difficult, if, for example, the Authority draws its list of registrants from property tax rolls or other land-use documents. Underreporting is more feasible.

bargain reflecting the difference between the customer's marginal price and the carter's marginal revenue. Whether this is a serious problem depends on the size of the difference between average and marginal costs in these contracts.

Monitoring observance. The opposite problem, carter intimidation of customers, may necessitate monitoring of actual service levels. After all, the principle of this scheme is that customers will either report actual service utilization levels or some lower figure; their incentive for underreporting is that their bill from the Authority increases with their reported utilization level. Underreporting is impeded by the fact that the carter has the opposite interest; he would like the service levels to be overreported.

In most markets, there would be little reason to be concerned about this. The balance of power, so to speak, is equal, and neither side would assume that it had the ability to prevent accurate reporting. But in this instance, the private carters do have a reputation that inhibits the customer from challenging the carter's assertions about service levels actually provided. After all, in the current market, the customer has exactly the same incentive to challenge his carter's claim about service level, and we have evidence that the carters generally succeed in exaggerating that level. Perhaps the creation of a new contracting mode and the signal that the government sector is taking the problem seriously will increase customer aggressiveness, but that is by no means guaranteed.

This suggests a need to monitor service levels. There are two possible means for doing this. One involves monitoring aggregate service levels for a given contract. Total waste delivered at the disposal site (measured in tons or cubic yards of *compacted* waste) must be turned into an estimate of total volume of waste collected (mostly measured in cubic yards of *uncompacted* waste). Such a conversion presents numerous technical problems. For example, the compaction ratio achieved by equipment, on which the conversion depends, varies not only among types of equipment, but also for a given type of equipment, depending on how well it is maintained.

The alternative approach is less parsimonious in terms of data collection. It requires actual auditing of service levels for individual customers. Inspectors measure the size of containers to ensure that they have the volume claimed by the carter. They can also check that the container is nearly full at the time of collection and empty after collection.

This inspection activity need not be carried out intensively, if appropriate penalties can be imposed on a carter who is caught exaggerating service levels. Truly draconian penalties, such as loss of the

contract, would probably not be sustained by the courts, as the experience of the New York City DCA suggests,[16] but the contract could specify penalties of sufficient severity, including carter-financed increased inspection rates, to provide a serious disincentive.

Public Benefit Corporation

A critical element of the proposals is the creation of a public benefit corporation to provide competition to the private sector carters. This need not necessarily be a permanent entity; indeed, one would hope that it would fail to establish a permanent market niche. But initially, this corporation provides an efficient method for signaling a rise in the government's concern and, more important, for monitoring the competitiveness of the private carters.

The public benefit corporation will operate a carting enterprise, which should mirror as closely as possible the conditions under which a private enterprise would work. It should receive no long-term subsidy from the governmental entities that set it up, although they will have to provide the initial capital, perhaps to be repaid at a rate of interest roughly equal to that on loans to established small businesses. Its sole purpose is to bid on contracts of randomly selected districts, at prices that it estimates are sufficient for it to earn a market rate of return on its equity. Profits may be either reinvested in the business or, initially, returned to the governments that established the corporation.[17]

The corporation would not bid on all available contracts. It would bid on contracts chosen at random, perhaps one out of every three. To bid on all contracts might lead to a substantial contraction in the size of the total market available to private carters, which is not the intention of this scheme. Bidding must be frequent enough to represent a serious threat to any conspiracy. The randomness is an important element because it prevents a conspiracy confined to a submarket,

[16]Efforts by the DCA to enforce severe penalties have been greatly hampered by court delay. For example, a major firm, New York Carting, was given time by the courts to sell off customers over a six-month period, largely negating the financial penalty arising from loss of its license (see Reuter, 1984).

[17]It was suggested at one stage that any profits earned by the firm should be returned to the employees of the corporation. That may indeed be a preferred means for running a firm whose employees' performance is difficult to monitor, though most of the successful national firms use conventional wage payments. However, the objective here is simply to induce competition. It is possible that the current carting firms have failed to adopt efficient organizational forms, perhaps because of the deterrence of entry by new firms. But until these newer and more efficient forms do enter the market, their implementation by the public benefit corporation would simply have the effect of driving out the existing firms, conspiratorial or otherwise.

namely, those districts on which it is known that the public benefit corporation will not bid.

Even if the corporation bids on only as few as one-third of the contracts, its introduction will still significantly reduce the total market available to the private carters. Resources, both capital and labor, will move out of this sector into other sectors of the local economy. There will also be mergers among some firms, and others will be driven out of the industry. These are all dislocations, some of which certainly should be considered social costs. But in view of the fact that the industry has failed to meet its own legal obligations and has imposed costs on the rest of society, the existence of these social costs does not of itself suggest that these reforms should not be implemented.[18]

The corporation will also serve the function of providing service to districts whose low bid from private carters is more than, say, 10 percent above the engineering estimate. The corporation could conceivably end up taking a large part of the total market. This is not the intended outcome, but it would indicate that the private carters had failed to perform competitively.

The public benefit corporation will be required to use unionized labor; its nonmanagerial employees will, in fact, have to be members of the same union that represents employees of private carting firms. This is necessary to ensure that the corporation has no labor-cost advantage over its competition.

Engineering Estimates

For purposes of preparing its bids, the corporation will collect data on the costs of providing the same service in other jurisdictions. It may be desirable to have those data collected and analyzed by a separate affiliate of the corporation whose activities are subsidized, possibly through a charge to local governments in proportion to their population. The data and the analysis would be published to ensure that the private carters are as well informed as the public benefit corporation at the time of bidding.

It might be argued that the preparation of valid engineering estimates, which is what this second affiliate would effectively be doing, mitigates the necessity for the operating arm. The entity that is set up to receive bids might simply state its rule, i.e., that it will accept no bid that exceeds its (now unpublished) engineering estimate. In this form,

[18]Even if it turned out that these costs could be shown to be equal to those arising from the industry's current conduct, the reforms might be considered desirable, since the particular costs of reform discussed here would largely be borne by the offending parties, i.e., the carters.

it would reproduce the notoriously ineffective system used by some states for monitoring highway construction bids. The many prosecutions by the Department of Justice since 1980 show how this system has been circumvented.[19]

The problem is, at heart, a political one. The entity that seeks bids wants to purchase the service; determining whether it is paying a fair price is a secondary consideration. Highway transportation departments have routinely adjusted to conspiratorial bidding which exceeds their engineering estimates by altering those estimates, when the alternative was not acquiring the service at all or, more realistically, acquiring it only with a long delay. The availability of a public benefit corporation which will provide the service at a competitive benchmark price ensures that the contracting authority has a reasonable alternative in the event of excessively high bids.

Since the problem of preparing good engineering estimates for the letting of bids on solid-waste collection is not confined to Long Island (see New York State Assembly, 1986), it might be desirable to create an office within a state agency which would have the responsibility for making such estimates for any local government entity that desires the service. For Long Island, the Regional Authority would be required to obtain these estimates from the state office; the Authority would not prepare such estimates itself. In other parts of the state, preparing estimates might be treated as voluntary, although a finding of racketeering in the industry in some other region could trigger a requirement that the local governments in that region obtain estimates before letting a contract.

The preparation of engineering estimates is not a particularly difficult undertaking. For residential service, reasonably good estimates can be developed from data on a very small number of variables in a sample of other solid-waste collection markets; households serviced per truck, crew size, and a few characteristics of the community (density of houses, hilliness, frequency of very adverse weather conditions) may be all that are needed. Together with union wage rates and benefits, fuel costs, insurance requirements, community characteristics (as already listed), and unit disposal costs, these should be sufficient to provide engineering estimates of acceptable accuracy for any given set of residences. The development of estimates for commercial markets has already been discussed; the same data used to develop the relative weights for customers can be used to develop engineering estimates for the cost of servicing any collection of customers.

[19]An analysis that points to the problems of engineering estimates in conspiratorial markets is presented in Feinstein, Block, and Nold (1985).

EVALUATING THE PROPOSAL

Consequences for Racketeering

None of our recommendations deal directly with the presence of racketeers in this industry. Nonetheless, the net effect of changing opportunities in the market should be the elimination of the racketeer presence.

The current function of racketeers is to facilitate a customer allocation agreement and permit carters to operate it without much customer resistance. In the restructured market, any effort to operate a customer allocation agreement by rigging bids on the new districts will fail. The agreement will attempt to raise prices but will risk loss of a substantial share of the market to the public benefit corporation. Moreover, the loss will not be shared equally. Because the districts will be relatively large, some smaller firms will service only one. A small firm that loses its bid to the public benefit corporation would be entirely excluded from the market. Even firms that have more than one district will lose a very significant share of their total activity. Each conspirator who loses one of the districts assigned to him by the conspiracy will have a strong incentive to seek compensation through aggressive bidding on a later district. This will make it far more difficult for the group to maintain collusive discipline.

Equally important, the development of realistic benchmarks, together with the availability of the public benefit corporation to provide service at the ceiling price (perhaps 10 percent above the engineers' estimate), will reduce the profit available even from a well-disciplined conspiracy. The most that the private carters can gain is a price slightly less than 10 percent above the engineers' estimate. This appears to be far less than they are able to obtain in the current market.

In light of this, there should be no demand for racketeers' services in the organizing of a customer allocation agreement or indeed any other kind of market-sharing scheme. The profits available from such schemes, even if successful, will be too small to permit adequate compensation of the racketeers for entering the activity.

Labor Racketeering

Even if the incentives for carter collusion are much reduced, racketeers may still find it profitable to retain their control of the union.

Indeed, a new strategic consideration enters, since the union may be used to disadvantage the public benefit corporation.

It appears that many private carters, though signatories to the union agreement, are not in fact paying union-level wages. The public benefit corporation, precisely because of its quasi-governmental status, cannot evade its union contract obligations. Consequently, it will incur higher costs than the private carters if the latter continue to pay below-contract wages.

Moreover, a racketeer-dominated union would have a greater incentive to negotiate, together with the evading private carters, a higher contract wage than before. The greater the disadvantage incurred by the public benefit corporation as a result of its payment of union wages, the better off the private carters. The higher union wage would also raise the engineers' estimate used for decisions as to whether to accept the private carter's low bid.

The return to racketeer control over the union would increase in this situation and could, in principle, negate the whole restructuring effort. However, the remedy is not difficult to find. It consists of more aggressive monitoring of the enforcement of union contract terms. The corporation might be authorized to request, at least in the first, say, five years, auditing of particular firms that it suspects are paying below-contract wages and benefits. In addition, the New York Department of Labor might be required, during the same period, to conduct a specified number of audits in this industry.[20] Under these circumstances, the returns to the carters from negotiating falsely high wage levels in the hope of taking advantage of the public benefit corporation's guaranteed compliance will be greatly reduced.

This does not eliminate racketeer interest in controlling the union. The membership is still a relatively low-skill group, not accustomed to exercising all its rights. The employers are still a group of small businessmen who compete only on a local basis. These are conditions under which labor racketeering is commonly found. But the imposition of tighter scrutiny on wage negotiations will at least reduce the probability that the racketeers, together with conspiratorially minded carters, will be able to effectively manipulate negotiated wages to their advantage.

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[20]The existing penalties for noncompliance with union contract obligations may be low enough to provide minimal incentive for compliance. If this is so, the regional authority may be authorized, by statute, to impose some penalty on a detected noncomplier in making comparisons.

Other Benefits

The proposed restructuring also deals with two other ubiquitous problems, local corruption in the regulation of the carters and the awarding of contracts and the evasion of income-reporting requirements. Both benefits are incidental to shifting the locus of contracting from private parties and general local government.

In the current situation, carters are subject to rather unsystematic regulation by townships. The criteria for the setting of prices and allocation of operating permits are extremely vague, allowing easy manipulation. The OCTF investigation uncovered many instances of just such manipulation, sometimes in return for explicit payments and sometimes as part of a general web of favors involving the carting industry and local political parties. Eliminating local economic regulation (towns might still be permitted to set regulations covering noise, cleanliness, etc., for equipment) makes the possibilities for corruption, if not fewer, at least far easier to monitor. Since the Authority's sole responsibility is the letting of these contracts, its behavior is much more readily subject to scrutiny.

Evidence concerning the share of unreported income in the industry is presently very slight. There is anecdotal evidence and little else; there is not even much anecdotal evidence. Evidence collected from a number of small commercial customers during the investigation indicated that most paid by check. Whatever the amount of income not reported for tax purposes, the shift in the mode of contracting will reduce it to close to zero. The only opportunities for cash income will be provided by businesses that evade the Authority's registration requirement; we have already argued that few will succeed in doing that, or will even seek to do so.

CONCLUSION

What has been suggested above amounts to a radical reform of the business of solid-waste collection on Long Island. It is a reform that offers the promise of drastically reducing the opportunities for racketeers in the industry and that, in an admittedly heavy-handed way, provides inducements for competition in a market that has been notably uncompetitive for at least thirty years.

It is not intended to be permanent. One of its central purposes is to eliminate history, so to speak. This market is one in which competition is likely to be inhibited in the future simply because it has been,

quite literally, inhibited in the past. After some years of operating under very different rules, probably with a different set of actors—new carting companies without the habit of conspiracy—the market may not be prone to conspiracy even if left to its own unregulated devices. How long a period is necessary one cannot say. It could be as long as ten years; certainly not less than five.

The primary criteria for returning to private contracting, at least in the commercial market, are the successful entry of a number of new firms and a declining market share for the public benefit corporation. It is to be hoped that the public sector nature of the corporation will, in the long run, prove a mild handicap, and that the corporation will win a smaller share of the contracts on which it bids and receive fewer contracts as a result of high bids on those for which it does not compete. Even after the market has been returned to private hands, some additional monitoring will be necessary for a period of time. The preparation of sound engineering estimates should remain a permanent feature of the municipal market, since local governments have proved so inept at providing adequate information for active competition. It is also likely to be more efficient to make this a centralized function, since so many of the local governmental units are small. But, as already stressed, the preparation of engineering estimates is not an expensive or particularly intrusive governmental function.

The reforms described here are far-reaching and difficult to implement. They will require hard political and administrative decisions by many different governmental bodies. But unless some very substantial restructuring is undertaken, there is every reason to believe that the racketeering influence of the past thirty years will continue to levy its tax on the citizens of Long Island.

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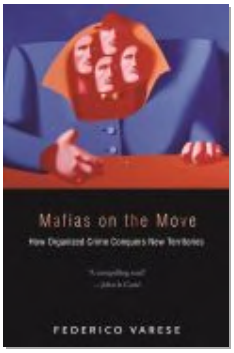

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Mafias on the Move

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HOW ORGANIZED CRIME CONQUERS NEW TERRITORIES

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I published a shorter version of chapter 3 as "How Mafias Migrate" in *Law and Society Review* 40, no. 2 (2006): 411–44. I am grateful to the editor and the publisher for allowing me to reproduce some parts here.

Sections of this work are based on judicial evidence. Such evidence is used simply for analytical reasons, and there is no intention to imply any criminal responsibility of the individuals mentioned in this work.

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Mafias on the Move

Introduction

On September 11, 1996, *Boris Sergeev* the director of an import-export company based in Rome and father of two, a stocky man in his late forties, arrived in Moscow to finalize a valuable contract for the importation of frozen meat. The Russian partners were Agroprom, a giant Soviet agricultural concern that was now in private hands, and two prominent banks, the Nuovo Banco Ambrosiano and Promstroybank. The former had a somewhat bumpy history—its CEO Roberto Calvi was found hanging from beneath Blackfriars Bridge in London in 1982—but was now under new management and aggressively trying to enter the Russian market. Promstroybank of Saint Petersburg was a safe bet—formerly the largest state bank in the Soviet Union and now a joint-stock company. Even Vladimir Putin once sat on its board. Some twenty million U.S. dollars were at stake. Sergeev had several meetings with top officials at both banks and the Ministry of Agriculture. His most valued contact in the political world was a Soviet-era politician who had taken part in the coup that tried to oust Mikhail Gorbachev in August 1991 and was now a lobbyist for agro-industrial interests.

By the end of the week, Boris had secured the funding and felt confident. Despite fears voiced by his family before the trip, nothing bad had happened. He could relax and spend the last few nights in his native city in style. He took a suite at an upscale hotel located on the central Tverskaya Ulitsa, the street a few yards from Red Square that runs northwest from the Manege toward Saint Petersburg. On the night of September 23, he was sipping predinner drinks at the bar on the fourth floor when two men entered

the hotel looking for him. Even with the closed-circuit television system and heavily armed guards that patrolled the hotel's granite lobby, entry was not difficult. The pair showed a bogus hotel pass and boarded the elevator to the fourth floor. Sex for sale was on display at the bar. Yet they moved on, past the gaggle of women flaunting their heavy makeup and cheap jewelry. They stopped in front of Boris's table and extracted two TT pistols with a silencer. Their victim was hit in the head by four bullets (some reports say five). The killers, who were seen on the closed-circuit television camera, calmly took the elevator back to the lobby, walked on to the busy Tverskaya, and climbed into an old Zhiguli that was waiting for them. They were in the hotel for no more than six minutes, between 6:55 and 7:01 p.m.

In the meantime, some fifteen hundred miles away, a special unit of the Italian police was picking up a lot of chatter on the several telephone lines that it was tapping. More details on the murder emerged. Boris's brother, *Sasha*, who lived in Vienna, had joined him and was sitting on the same sofa when Boris was shot. At 7:51 p.m. Moscow time, Sasha, still in shock, called Boris's wife, *Nadia*, in Rome from the police station where he was being interrogated. At first she thought he was joking, but then she asked if it was a "Georgian" who had shot Boris. Sasha replied: "It happened very fast, but the man was dark skinned." The next day they spoke again. Boris's distraught wife could not comprehend how the murder could have happened in one of the best hotels of the city, in front of so many people, with no reaction whatsoever from the hotel "security." "The police say," replied Sasha, "that the murder had the hallmarks of a professionally planned operation, with the intention of sending a clear message to others as well. Nadia, believe me, there is no chance the culprits will ever be found."

The victim in question was no ordinary businessman. Born in Russia in 1948, he had used at least four aliases in the previous ten years. He moved to Rome in 1993 to set up an import-export company. By then, he had already been prosecuted in Italy, Austria, and France on several charges related to the possession of weapons, forgery, polygamy, and fraud. He was rumored to own a large villa in Vienna and hold bank accounts worth at least thirty million U.S. dollars. Official papers state that his company, *Global Trading* dealt in the import and export of frozen meat and other food products along with oil, alcohol, timber, and coal. The company also conducted, so the papers claim, "market research." Intent on covering his tracks, Boris had taken a rather roundabout way to reach Moscow:

he flew from Rome to Milan, then crossed the Swiss border in a rented car, and finally took a plane from Zurich to the Russian capital. While in Moscow, he carried a gun at all times. The Italian authorities were certain that Global Trading was a front for the Solntsevskaya, the most important crime group to emerge from the collapse of the Soviet Union. The Russian mafia had created an outpost in a faraway territory and was expanding fast. It was high time that someone took notice. When I was shown the files for this investigation, almost ten years ago, I decided to devote my research to the study of mafias' ability to transplant in new and distant territories. This book is the result.

One reading of the Tverskaya hotel murder would support the conventional wisdom on globalization and "transnational organized crime" that has emerged in recent years, especially thanks to authors such as Claire Sterling (*Crime without Frontiers*), Manuel Castells (*e Rise of the Network Society*), Moises Naim (*Illicit*), Louise Shelley (*Global Crime Inc*), and Phil Williams, and is influential among policymakers: organized crime migrates easily, due to the spread of globalization and population migration, and criminal multinational corporations are increasingly unattached to a specific territory. "International organized crime," writes Shelley, the director of the Transnational Crime Institute in Washington, DC, "has globalized its activities for the same reasons as legitimate multinational corporations." She maintains that "just as multinational corporations establish branches around the world to take advantage of attractive labour or raw material markets, so do illicit businesses."[1] For Williams, organized crime now "can migrate easily."[2] Castells, who also describes this phenomenon, lists a number of localities where (he thinks) well-known mafias have opened outposts, such as Germany for the Sicilian mafia, Galicia for Colombian cartels, and the Netherlands for the "Chinese triads."[3] These and other authors go further by arguing that the notions of territorial entrenchment and control are becoming obsolete for a "Global Crime Inc." that "transcends the sovereignty that organizes the modern state system."[4] Factors often cited to explain the globalization of criminal activities and the geographical expansion of criminal firms include technological innovation in communications and transportation along with disappearing language barriers.[5] This position reflects the broader debate on the nature and consequences of globalization, and is consistent with the view advanced by authors who emphasize the de-territorialization of economic power.[6]

The "transnational organized crime consensus" is influential among policymakers. Mafias have now become "liquid," as argued in a recent report by the Italian Anti-Mafia Parliamentary Commission (CPA). Liquidity in this context does not refer to the availability of cash but instead to a version of modernity where control of a territory has been superseded by a rather unspecified fluidity. Politicians from both ends of the political spectrum find ammunition in the assertions promoted by the consensus: sections of the Right peddle unqualified fears of migrants, while some on the Left are only too happy to blame globalization and "neoliberal policies" for local state failures.

The world of international crime is more complicated than these authors wish to admit. Chapter 4 and chapter 7 will expand on the context of the Tverskaya hotel murder and unpack its mechanics. Here I wish to direct the reader's attention to the fact that most authors interpret globalization as a process that facilitates movement and eventually transplantation. In order to evaluate the effect of globalization on organized crime generally and mafias more specifically, one needs to spell out the motivations for a group to open a branch abroad and the effects that different motivations have on how those outposts are created as well as explore whether globalization might have the opposite effect—namely, that of enabling a mafia to acquire resources produced in other countries simply by buying them on the open market rather than by setting up foreign branches. Furthermore, not all attempts at transplantation are successful. To outsiders, a mafia group might seem like a giant and unbeatable octopus about to take over the world from its headquarters in an unreachable Eastern European city. Looked at from the ground up, transplantation is fraught with difficulties.

Does it follow that mafias can never be found in faraway territories? Both Peter Reuter and Diego Gambetta, arguably the foremost scholars in the field of mafia studies, have emphasized that these organizations are hard to export and tend to be local in scope. An illegal organization opening a branch abroad would find it difficult to monitor its agents in distant localities. Outside their home region, mafiosi would struggle to corrupt the police and collect reliable information. Finally, it might be taxing to make victims believe that the person standing in front of them belongs to a menacing, foreign mafia. A reputation for violence depends on long-term relations, cemented within independent networks of kinship, friendship, and ethnicity. It is next to impossible to reproduce them in a new land.[7]

And yet under particular conditions, mafia groups have been able to open branches in distant territories. In the 1950s, members of the Calabrese `Ndrangheta migrated to the northern Italian region of Piedmont, managed to penetrate the construction sector of some towns outside Turin, and soon became entrenched. In 1995, the president of Italy disbanded the city council of Bardonecchia, which hosted the 2006 Winter Olympics, as a result of the `Ndrangheta's enduring influence. This was an unprecedented decision for a town in the north of Italy. An attempt by the `Ndrangheta to set up a branch in the Veneto region at around the same time, however, failed.

Similar dyads, although neglected in the literature on organized crime, are not that rare. Most strikingly, the migration to the United States of Italians, some with mafia skills, at the turn of the nineteenth century gave rise to a set of powerful mafia groups known as the "five families" in New York City. Italian migration to another seaport, the city of Rosario in Argentina, failed to generate long-lasting criminal groups of Italian descent. After a relatively brief spell, the "Rosario Mafia" disappeared and is now a forgotten episode of local history. Why? The central question of this book is why in some cases mafia transplantation succeeded while in others it failed. In order to answer this question, I have used a wide range of data and traveled to several parts of the world during the past ten years.

Below I consider cases of both successful and unsuccessful attempts by mafias to open branches outside their territory of origin. Chapter 3 is a matched comparison between Bardonecchia and Verona, while chapter 4 is a study of efforts by the Solntsevskaya to create subsidiaries in Rome and Budapest. Chapter 5 takes us back to the turn of the twentieth century with a matched comparison between New York City and Rosario. The final chapter of this book explores the movement of Hong Kong and Taiwanese triads to mainland China. In chapter 7, I outline a general perspective of mafia emergence and transplantation, and offer some considerations on the relation between democracy and mafias.

Before I proceed further and anticipate the conclusions I reach, I should say a few words on the unit of analysis (mafia), the phenomenon (transplantation), and the structure of the argument. I focus below on a specific type of criminal organization, defined as a group that supplies protection in the territory of origin. The `Ndrangheta, the Sicilian Cosa Nostra, the

Italian American mafia, the Hong Kong and Taiwanese triads, the Solntsevskaya and other Russian *gruppirovki*, and the Japanese yakuza are essentially providers of extralegal governance, and can be collectively referred to as mafias.[8] These groups engage in extortion—the forced extraction of resources in exchange for services that are *not* provided.[9] But such behavior is not their defining feature.[10] Rather, they are groups that aspire to govern others by providing criminal protection to both the underworld and the "upper world."[11] They can supply genuine services like protection against extortion; protection against theft and police harassment; protection for thieves; protection in relation to informally obtained credit and the retrieval of loans; the elimination of competitors; the intimidation of customers, workers, and trade unionists for the benefit of employers; the intimidation of lawful right holders; and the settlement of a variety of disputes. For example, in his classic study of Chicago organized crime published in 1929, the U.S. ethnographer John Landesco highlighted the enforcement of cartel agreements as a service provided by mafia groups. Producers have an incentive to enter into cartel agreements but also to undercut fellow conspirators, placing themselves in a classic Prisoner's Dilemma. The mafia offers to enforce the cartel agreement among producers, thereby deterring conspirators from cheating on the deal.[12]

I take the word "transplantation" to mean the ability of a mafia group to operate an outpost over a sustained period outside its region of origin and routine operation.[13] Although in principle the new territory could be contiguous or faraway, I will focus mostly on territories that are not contiguous (a better word for transplantation in contiguous territories might be expansion). The actors involved are "made" members of the organization of origin; in other words, they are bona fide mafiosi who have gone through an initiation ritual in the territory of origin. If transplantation succeeds, such rituals may come to be performed in the new environment and recognized by the group of origin. Mafiosi might find themselves in the new territory by an accident of history, such as migration, or because they have been forced to reside there by a court order. In such cases, their presence is due to exogenous factors rather than an explicit *ex ante* plan to set up shop in a new region. Alternatively, or in addition, the mafia of origin might consciously decide to open a branch in a new land. In both scenarios the "foreign" mafiosi actively work at creating a new group, relying on the skills acquired beforehand. The new entity or "family" is either

affiliated to or a branch of an established existing mafia family. The outpost might become financially autonomous and able to generate its own profit, or continue to rely on transfers from the center. A rather crude indicator of the phenomenon is whether the mafiosi in question reside in the new territory, although they might be seen occasionally to travel back "home." Over time, the branch organization might drift away from the original "firm" and become fully autonomous as well as financially independent, or retain a degree of dependency with the homeland.

The above definition helps distinguish transplantation proper from several phenomena that are often lumped together in the category of transnational organized crime. Criminals crossing a border (physically or virtually, as in the case of Internet frauds) with an illicit good or a person do not automatically qualify as either mafia or transplantation but rather as a form of illegal *trade*, and need to be placed in a conceptual box that differs from attempts to control markets or territories abroad. Similarly, members of mafia groups traveling abroad do not constitute transplantation of the group, nor do conspiracies between mafiosi and foreign criminals to smuggle workers, drugs, weapons, and other illegal commodities either into or out of their country.

In this work, I try to identify distinctive factors in the narratives that I present. One is the generalized migration of the population from territories where mafias are well established, such as western Sicily and Calabria. It seems plausible that when large groups of individuals migrate from territories where mafias are pervasive, some with criminal skills would also relocate and be more likely to engage in mafia activities in the new territory (I am referring here to resettlement prompted by non-mafia-related reasons). A second possible boost to mafia transplantation might be the migration of people specifically trained in violence and with mafia skills. In the case of Italy, we can evaluate this dynamic thanks to *soggiorno obbligato*, a policy that punished convicted mafiosi by forcing them to relocate outside their area of origin. Third, I consider the extent to which members of mafia groups are pushed to migrate in order to escape mafia wars or prosecution in their areas of origin, or whether they are in search of particular resources or investment opportunities.

In each chapter, I then discuss the conditions under which mafia groups are likely to become entrenched. A key dimension is the presence of a

demand for criminal protection in the new place. The presence of large illegal markets, booms in construction, an export-oriented economy, incentives to create cartel agreements, or the inability of the state to settle legal disputes quickly and effectively usually generate such a demand. I also examine whether lack of trust and low levels of civic engagement would predict a higher likelihood of mafia entrenchment.

Let me anticipate the main conclusions of this study. In all the cases narrated in this book, mafiosi find themselves in the new locale not of their own volition; they have been forced to move there by court orders, to escape justice or mafia infighting and wars. They are not seeking new markets or new products but are instead just making the most of bad luck. I had not anticipated this result, and certainly did not choose the cases in order to conform to this finding. What might appear the product of globalization is in fact the consequence of state repression exporting the problem to other countries (even mafia infighting can to an extent be the product of pressure put on the group by the state). This finding does vindicate an aspect of the perspective suggested by Reuter and Gambetta—namely, that mafias would not normally move out of their territory. An additional issue I explore is that even if they do not move willingly, they can still to an extent choose *where* to move. I find that they move to places where they had a previous contact, a trusted friend or a relative.

Is the presence of mafiosi in a new territory enough for a mafia to emerge? No. A special combination of factors must be present. First, no other mafia group (or state *apparati* offering illegal protection) must be present. It is too much of an uphill struggle for an incoming mafia to set up shop in the presence of a powerful local competitor. Second, a mafia group is most likely to succeed in transplanting when its presence coincides with the sudden emergence of new markets. To the degree that the state is not able to govern new markets, the possibility of mafia emergence or entrenchment from abroad is strong. States might be unable to clearly define and protect property rights, and market operators hence would develop a demand for alternative sources of protection. In addition, states by definition cannot protect dealers of illegal commodities. In both instances, significant opportunities exist for mafias to govern access to valuable markets, offer genuine services of dispute settlement and protection, enforce

cartel agreements, reduce competition, and thus serve the interests of a sector of society. These opportunities can be easily taken up when a supply of people trained in violence, either local or from abroad, is at hand.

The presence of a supply of mafiosi and the inability of the state to govern markets are the key factors that link cases of successful transplantation, such as the `Ndrangheta in Bardonecchia (chapter 3) and the Russian mafia in Hungary (chapter 4). In Bardonecchia, disenfranchised migrant workers from outside the region accepted illegal employment over unemployment, thereby forgoing membership in trade unions and more generally state-sponsored protection. Entrepreneurs not only hired illegal workers but also schemed to restrict competition. The structure of the local labor market and the booming construction industry (in which firms compete locally and there is a strong incentive to form cartels) led to the emergence of a demand for illegal protection. Members of the `Ndrangheta Mazzaferro clan resided in this territory. They offered certain firms privileged access to this market, and were able to settle disputes between workers and employers.

Although Piedmont does not have a new market economy like those of Eastern Europe, a striking parallel exists in the successful transplantation of the Russian mafia's Solnstevo criminal group in Budapest (chapter 4). In that instance the state failed to create a system to adjudicate disputes quickly and effectively, thereby leaving significant sectors of the emerging market economy unprotected by the law, as was the case for immigrant workers in Bardonecchia. When vast numbers of economic agents operate in an unprotected market, they develop a demand for nonstate forms of protection. In both Bardonecchia and Budapest, skilled criminals were available to organize a mafia group and offer a variety of services, such as the settlement of disputes and elimination of competitors in local markets.

A powerful set of mafia groups emerged in the United States around 1910 because of the unintended consequences of police reform and it was able to expand later thanks to Prohibition (chapter 5). Until then, illegal markets were protected by a combination of local politicians and corrupt police officers. When the mayor of New York enacted far-reaching reforms that curbed grand graft, illegal markets such as gambling and prostitution were in search of new protectors. In legal markets, like garment production, poultry, garbage collection, and construction, existing operators were

only too happy to turn to an agency able to ensure the continuation of cartelization. Unemployed immigrant workers, mostly from southern Italy and equipped with some mafia skills, stepped in.

The case of China allows us to spell out in greater depth some crucial mechanisms. The state has been unable to offer swift and efficient avenues of dispute settlement for the new players in the rapidly emerging market economy, and a significant sector of the workforce operates in the informal economy, where state protection is absent. In addition, large illegal markets, such as in prostitution, gambling, and drug trafficking, have developed since the opening of the Chinese economy in the 1980s. On the "supply-side" of the story, "brothers" (triads members) from Hong Kong and Taiwan have moved to the Middle Kingdom. They have failed (so far) to become entrenched and offer generalized protection, however. Why? Chapter 6 shows that in China, a powerful actor is already in place to offer such services—that is, corrupt fragments of the state apparatus, which work as the "protective umbrella" for both legal and illegal businesses. In the cases of successful transplantation, no other mafia (or bent state apparatus) was already on the ground to compete with the outsiders.

Globalization hinders mafia transplantation in a way that has escaped most contributors. In the case of two of the failed attempts to transplant mafias, the local economies relied on exports—Verona on exported furniture, and Rosario on exported agriculture. There is no demand for cartels in the export-oriented sector of the economy since producers export to different parts of the world. In order to stop competition for producer A in, say, northern Europe, the mafia would need to scare away producers in a variety of different countries who all export to northern Europe. Thus, as economies become more export oriented due to globalization, the likelihood that mafias will transplant themselves may diminish.

Migration as such is clearly not a cause of mafia transplantation. Despite roughly similar patterns of migration from the south to the north of Italy, a southern mafia did not transplant itself in either Rome or other towns of Piedmont. Only when migration is coupled with illegal employment and the absence of state protection does a demand for criminal protection emerge that can be met by a mafia. In other words, migration—even from regions with a high mafia density—does not necessarily carry the seed of a new mafia. Rather, it is the state's failure to offer effective legal protection

and the lack of avenues for legitimate employment that set in motion a chain of events that might give rise to a new mafia.

The Italian policy of soggiorno obbligato, flawed as it might have been, cannot be blamed for successful transplantation. In the case of Bardonecchia, the supply of foreign mafiosi went hand in hand with a genuine demand for criminal protection. When it did not, transplantation failed. Moreover, other parts of Piedmont and northern Italy also experienced an influx of skilled mobsters forced to migrate due to the soggiorno policy, but mafias did not develop. Similarly, the Russians in Rome failed to establish a successful group because there was no demand for their services. Even a supply of specialized criminals (as distinct from generalized migration) is not enough to produce successful transplantation.

Contrary to what is suggested by the seminal work of Robert D. Putnam, a high level of generalized trust and "social capital" among the law-abiding population is not enough to prevent transplantation. The study of Bardonecchia suggests that high levels of trust among the general population are not sufficient to prevent transplantation and social capital might remain high while a mafia flourishes. The mafia was able to offer to a large enough section of the local population protection against competition, a workforce cheap enough to reap the opportunities generated by the construction boom, and more generally capital and employment. Those who rejected this state of affairs, recognizing that it was built on violence and disrespect for the law, were soon ostracized and marginalized.

Not only do I show that a mafia can transplant itself in highly civic northern Italy and that some local groups can rally to its defense. I also establish that in Verona the dense network of social trust allowed the drug trade to operate without recourse to third-party enforcers. This network reduced the demand for third-party enforcement by the mafia and thereby inhibited mafia migration. The more general point is that social capital can be used for good or ill depending on the goals of the actors involved.

In all the cases narrated in this book, mafiosi were forced to move, but once in the new territory, started investing in the local economy, as the Russian mafia did in Rome and the triads did in China. Yet investments alone are not sufficient to lead to long-term transplantation. When investments combine with a supply of mafiosi and a specific demand for protection services, a group can become entrenched.

Finally, the incentives to open outposts abroad in order to obtain resources such as labor, intelligence, and specialized equipment are few, and decrease as the mobility of goods and people increases. Globalization will increase the ability of mafia groups to obtain some of the resources that they need without having to move. To put it more generally, globalization will affect the way crime is committed in a given locale. For instance, labor mobility *toward* traditional mafia territory can well increase, allowing mafias to import labor from trusted suppliers. A feature of globalization that we observe in legitimate firms—the ability to outsource work, such as opening call centers in India—will not be an option for mafia groups; workers cannot be located in India to run protection rackets in New York City. To the extent that mafias seek specialized technical equipment, like arms, globalization could increase the number of international locations from which a mafia group obtains its resources, but will reduce the motivation to open outposts abroad.

Can the conclusions on transplantation form the basis of a general perspective of mafia emergence and transplantation? A relatively recent body of research has shown that mafias emerge in societies that are undergoing a sudden and late transition to the market economy, lack a legal structure that reliably protects property rights or settles business disputes, and have a supply of people trained in violence who became unemployed at this specific juncture. This perspective—I call it the "property-right theory of mafia emergence"—has been applied to cases such as Sicily, Japan and post–Soviet Russia, to explain how mafias might emerge in times of rapid but flawed transitions to the market economy. I suggest that this perspective is a special case of a broader phenomenon. Mafias emerge and transplant when certain key structural conditions are present in the economy. The critical factor is proximity to a sudden market expansion that is not properly regulated by the state and the presence of people who can step in to regulate such markets. In a nutshell, opportunities in the market economy bring about mafias. Effective states can ensure the orderly development of markets, and hence neutralize a mafia's transplantation or emergence. In chapter 7, I address the unintended consequences of some state policies along with the complex relationship between democracy and mafias. I also return to Boris's murder at the Tverskaya hotel and offer a clue to identify the culprit.

Mafia Transplantation

Does transplantation ever take place? It is often difficult to gauge what the police, judicial authorities, or press reports mean when they claim, for example, that the Russian mafia is active in at least twenty-six foreign countries, or that the Calabrese `Ndrangheta is present in more than twenty countries.[1] From the few academic studies that mention the phenomenon, we know that mafias are rather stationary. Peter Reuter, while discussing U.S. "illegal enterprises" (of which mafias are a subset), notes that they tend to be "local in scope."[2] In *e Sicilian Mafia*, Diego Gambetta writes that "not only did the [Sicilian] mafia grow mainly in Western Sicily, but, with the exception of Catania, it has remained there to this very day." More generally, the mafia, he adds, "is a difficult industry to export. Not unlike mining, it is heavily dependent on the local environment."[3] Similarly, Yiu Kong Chu argues that "Hong Kong Triads are localized and they are not international illegal entrepreneurs whose wealth and connections may enable them to emigrate to Western countries." Although Hong Kong triads might be involved in international crime, observes Chu, they "are not likely to be the key organisers."[4] Peter Hill, the author of *e Japanese Mafia*, dates the beginning of the foreign activities of yakuza from the 1970s, when the Ishii Susumu branch of the Tokyo-based Inagawa-kai started to organize gambling trips for wealthy Japanese. A few years later, corporate racketeers began to target Japanese companies abroad. Yet "more usually foreign travel has been recreational or to invest either in real estate (usually very unsuccessfully) or weaponry. At no time however, have the yakuza managed to extend their core protective role beyond a native

Japanese market."[5] Moreover, the opposite claim—that a Chinese mafia is invading traditional yakuza turf—is, according to Hill, for the moment incorrect and politically motivated.[6]

Reuter and Gambetta offer several theoretical insights into why mafias find it difficult to become entrenched in foreign countries.

Ability to monitor agents Distance makes it harder to monitor an employee, and ensure that the agent works efficiently and honestly. The agent can misappropriate capital (both tangible and organizational) from the enterprise by embezzling it and engage in activities that are not sanctioned by the principal, thereby attracting police attention and endangering the entire organization. In order to get off, the agent might even inform on the bosses back home.[7]

Information collection and communication The collection of reliable facts on what people do is a vital part of a mafioso's job, but they are likely to find it hard to come by this information in an unfamiliar region, where they cannot rely on an extensive network of friends and accomplices. Furthermore, agents and bosses need to be in touch frequently, thus increasing the need for communication traffic between the two territories. Since face-to-face meetings would be the exception rather than the rule, the likelihood that the police might intercept such communication increases with distance.

Reputation Reputation is a crucial asset for mafiosi to carry out their jobs. The greater one's reputation for the ability to wield violence, the lesser one's need to resort to violence, since victims comply more readily. Reuter writes that investments in violence, which yield a reputation for being able to deliver threats, have a higher return when the criminal has contacts, through a continuous chain of other persons, with at least one witness to the violent act. It is more likely that such a chain is broken with distance. Along similar lines, Gambetta maintains that a reputation for effective violence depends on long-term relations, cemented within independent networks of kinship, friendship, and ethnicity. It is next to impossible to reproduce such networks in a new setting.[8]

Still, transplantation does take place. In his memoirs, Catania mafia boss Antonio Calderone reminisces that during his time, there were two

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recognized branches of Sicilian mafia families in central and northern Italy. Another family operated for a while in Tunis, its existence having been recorded since at least the 1930s. "At the time," writes Calderone, "Tunis was a haven for many mafiosi fleeing Fascism. . . . [There] they had formed a regular family with a representative."[9] In his study of southern Italian mafias' expansion and entrenchment in nontraditional territories within Italy, Rocco Sciarrone shows how a concatenation of mechanisms accounts for the expansion of the Neapolitan Camorra in the neighboring region of Apulia in the late 1970s and early 1980s. First, a number of Camorristi had been incarcerated or forced to resettle in Apulia. By the 1980s a new smuggling route from Yugoslavia had opened, and Apulia had become a crucial node. As the former Yugoslavia descended into war in the early 1990s, Apulia offered even greater criminal opportunities for smuggling drugs and people from the ruins of the former Communist bloc. Finally, the leader of the Neapolitan Camorra, Raffaele Cutolo, decided to expand into Apulia, putting into action a long-term plan that included establishing relations with corrupt officials. Yet the final outcome was not as Cutolo had planned: soon the local criminals tried to free themselves from their masters and founded the Sacra Corona Unita, a new mafia invoking the regional Pugliese identity against the intrusion of the foreign Neapolitans.[10]

Moving beyond Europe, we encounter other instances. The charismatic leader of Taiwan Bamboo United, a major triad group, has been living in Cambodia for several years, where he appears to broker deals between visiting businesspeople and the local elite. At least thirty other Taiwanese gangsters live and operate in Phnom Penh.[11] According to reports, the reign of Evgenii Petrovich Vasin, a Russian mafia boss of the Far East, has been succeeded by that of a triad boss, Lao Da, now "the main organized crime figure in Vladivostok."[12] Xiangu Du, a Chinese national, led a gang in the Russian city of Khabarovsk for four years (1997–2001).[13] But at the same time Russian groups moved westward. Two subsidiaries of the Moscow-based crime group Solntsevskaya operated in both Rome and Budapest, as I will show in chapter 4. As for the Japanese case, although Hill downplays the presence of the yakuza abroad, he suggests that "the presence of non-Japanese criminals in Japan is likely to become more significant in the future."[14] Thus, transplantation seems to be a real phenomenon in need of an explanation.

Factors Conducive to Transplantation

Why do mafias succeed in setting up branches in a new territory? I have organized the factors into two broad categories: supply, and local conditions relevant to demand.

SUPPLY

Migration is the explanation for mafia transplantation most often cited by the press, academics, and prosecutors.[15] Although never properly unpacked, a straightforward quantitative logic lies at the root of this theory: assuming that a given proportion of a population consists of criminals, the greater the migration of individuals from that population, the larger the number of criminals that will reach a new territory. Moreover, migration from territories of origin where there is a high proportion of mafiosi appears to carry the greatest threat of mafia transplantation.[16] Thus, the large migration from southern Italy to the United States at the end of the nineteenth century included many individuals with "the necessary skills for organizing a protection market."[17] The view that links migration to mafia transplantation can take simplistic and crude forms. Within Italy itself, the Northern League labels all southerners as a potential crime threat and has called for controls over south-north migration in order to prevent the spread of organized crime. The notion that Italian migration alone is responsible for the creation of the Italian American mafia in the United States is part and parcel of the now-discredited "alien conspiracy theory" of organized crime.[18] The presence of migrants from mafia territories, although clearly a contributing factor, is not sufficient for the establishment of new mafias, otherwise we would find mafias in every country to which southern Italians have migrated in the past.

A specific push factor for mafia transplantation in the case of Italy was the perverse policy of forcing convicted mafiosi to reside outside their area of origin as a form of punishment.[19] Based on a naive view of the mafia as a product of backward societies, forced resettlement (soggiorno obbligato) started in 1956, and was predicated on the assumption that away from their home base and immersed in the civic, law-abiding culture of the North, mafiosi from the South would abandon their old ways. Since the mid-1950s this policy has brought hard-nosed lawbreakers to the northern regions of Italy, including Lombardy, Piedmont, and Emilia-Romagna.

The mafioso-turned-state-witness Gaspare Mutolo commented that the policy of forced resettlement "has been a good thing, since it allowed us to contact other people, to discover new places, new cities."[20] The soggiorno obbligato selected for forced migration individuals with specific mafia skills, and unintentionally allowed them to expand their networks and knowledge of the world (see chapter 3).

Criminals, including members of mafia groups, are also pushed to migrate in order to escape mafia wars or police repression in their areas of origin. Such cases abound in the history of mafias. For instance, Antonio Deodati escaped from Sicily to New York City in the 1860s to save himself from a "death" sentence passed on him by fellow mafiosi (he was nonetheless murdered in Brooklyn in 1865; see chapter 5).[21] *Ivan Yakovlev*, the Russian boss in Rome, was eager to move from Moscow to Italy because he was afraid of being killed by the Solntsevskaya ruling elite (see chapter 4). Vyacheslav Kirillovich Ivan'kov, often described as the Solntsevskaya envoy to the United States tasked with creating the Russian mafia in that country, in fact left Russia in 1992 because "it became too dangerous for him there."[22] Many yakuza active in the Philippines are actually ex-members who have been expelled from their groups.[23] Georgian *vory-v-zakone*(a type of mafia boss in the Soviet Union) "migrated" to Russia whenever there was a change at the top of the Georgian Soviet Republic's political elite, since every new first secretary would try to impress Moscow by conducting purges as well as cracking down on corruption and crime.[24] Following the Rose Revolution of 2003–5, the new Georgian president launched a harsh repression of what was left of the Georgian *vory* referred to now by their Georgian-language equivalent of *kanonieri kurdebi*. A direct consequence of the repression was the escape of several leaders to Moscow (again), Spain, and other countries.[25] Similarly, Taiwan's campaigns against organized crime in 1984, 1990, and 1996 facilitated the relocation of triad bosses to China. As crime expert Ko-lin Chin aptly put it, "Even though initially they [Taiwanese triad members] had no intention of staying away from Taiwan for long, they ended up living abroad for months, or even years. . . . As many fugitives started new lives abroad, they not only became entangled in the affairs of the overseas Chinese community, but also established connections with local crime groups in the host societies" (see chapter 6).[26] Fascism's repression of the Sicilian mafia led to families emerging outside the island, such

as Tunis, and some leaders arriving on the shores of the American continent, both in New York City and Rosario (see chapter 5). A systematic study of a Camorra clan shows that out of fifty-one members, only four individuals resided abroad, in Aberdeen and Holland. All four were escaping from the Italian police.[27] Thus, a neglected aspect of globalization is at work here: repression in one corner of the world has an unintended effect on another.

The factors that I have reviewed so far are unintentional (migration, forced resettlement, and fear of punishment). Yet mafia bosses are also capable of deliberate and strategic thinking. Below I explore whether mafias sometimes act like legitimate firms and rationally decide to expand to new territories in order to exploit special business opportunities, unprompted by police repression or mafia infighting. At least in theory, mafias might be after specific resources or investment opportunities, or wish to invade a new market.[28]

Resources For a legitimate firm, the decision to open a branch abroad may be motivated by the desire to acquire a specific resource, such as a mineral or labor, at a lower cost. Resources also include intangible goods like knowledge, innovation capabilities, and management or organizational skills.[29] The motivation to open a branch abroad is predicated on the fact that the resources desired by the firm cannot be simply bought on the open market or accessed remotely.

For a mafia, resource-seeking motivations might include looking for labor, a key input factor. Is it plausible that a mafia would open a branch abroad to recruit "workers" for its operations back home? Broadly speaking, mafias hire two kinds of workers: casual and permanent. Casual workers include specialists in explosives, chemists, translators, people familiar with certain premises, and government officials. It is possible that some occasional helpers are hired from faraway lands, but it is unlikely that a mafia would open an outpost in order to do so. Such hiring is unusual. Permanent employees normally undergo an initiation ritual and work under the direct orders of the head of a group.[30] One indispensable quality for full-time workers is dependability; another is the proven ability to use violence. It follows that recruitment normally occurs within the area in which the group operates. Only by having known the recruit for many years can

a boss be confident that the newcomer is not an undercover agent.[31] The boss will also know the family relations of the aspiring member, making it easier to threaten him in the event that he decides to turn state witness. Still, at least one significant case of labor mobility exists in the history of the Italian American mafia. In the 1970s, a capo in the Bonanno New York mafia family recruited cold-blooded Sicilian killers in order to help him distribute drugs on the East Coast of the United States. At first this strategy proved highly successful and he was able to corner a significant segment of the market; but eventually the killers betrayed him and the capo was himself assassinated.[32] In this case the Bonanno family imported workers rather than employ them in a subsidiary abroad, and the source of recruitment was closely allied to the Bonanno family.

Other resources of interest to mafias include technical equipment (such as arms, hideaways, and spying technology), passports, and bank accounts. Mafias are more likely to access resources on the open market when their quality can be clearly defined, as with technical equipment, weapons, and surveillance tools. Mafia members might want to acquire foreign passports in case they need to escape quickly, open bank accounts to deposit their money, or hire the services of lawyers in a foreign country, but the group as such would not need to relocate abroad. Like ordinary firms, it is possible that mafias could hire a workforce from another territory, and then that workforce would relocate to the mafia's territory of origin. As the mobility of people and goods grows, there will be even fewer incentives for mafia groups to establish outposts in distant territories in order to acquire specific input resources.

Investments A legitimate firm might wish to reinvest the proceeds of its core activity in other businesses. Such decisions might be motivated by tax and performance incentives provided by governments, or by the desire to operate in more efficient financial systems. This type of investment-seeking location decision will be affected by new technologies, as greater integration between different markets makes it easier to invest in other countries' assets without the need to physically open a branch in the new territory.

It is harder for a mafia group than for legitimate firms to monitor remote investments. Like other firms, mafias seek to reinvest their proceeds in profitable enterprises. Mafia investments, though, are informal and often involve cash, and no recourse to the legal system exists in the event

of a dispute. Moreover, money laundering and investments in the legal economy can involve several hundred one-shot transactions between business associates of the criminal group and legitimate firms in foreign and inhospitable countries. Those tasked with undertaking these decisions enjoy a significant amount of discretion and are hard to monitor. Investments can go wrong, and the bosses back home cannot easily verify claims and reports. This situation generates specific incentives for bosses to go abroad to monitor transactions with legitimate entrepreneurs directly. For instance, the Sicilian mafia opened such an office in Rome at the beginning of the 1970s by sending Pippo Calò, the boss of the Porta Nuova family. Passing himself off as an antiques dealer, Calò invested large amounts of money, mainly in real estate, for several mafia families. In connection with his activities in Rome, he was accused of the murder of Roberto Calvi, the chair of Banco Ambrosiano. Calvi was killed in 1982 in London, allegedly because he lost funds entrusted to him by the mafia when his bank collapsed.[33] Similarly, after the Chicago outfit decided to invest some of its money into casinos in Las Vegas following the Second World War, it regularly sent an envoy to ensure that profits were "skimmed" and channeled back home to families in Chicago, Kansas City, Saint Louis, and Milwaukee. The partly fictionalized movie *Casino*(1995) recounts the exploits of one such enforcer, Anthony Spilotro.

Markets A legitimate firm might open a subsidiary in a different country in order to carry out its main activity in a new market. For mafias, the core business of the firm is control of a territory or market. Would a mafia, unprompted by police repression or mafia infighting, rationally decide to colonize a virgin territory? It is unlikely that a mafia group would undertake to invade a foreign territory already dominated by another criminal group, or that if it decided to do so, it would be successful. Thus one local factor—namely, the presence or absence of an existing group—must be one consideration in calculating the pros and cons of any colonization strategy. It is still possible that a mafia rationally decides to expand when it perceives that there are no local competitors and the opportunities are great enough to offset the considerable start-up costs of such a venture. In the course of presenting the case studies in subsequent chapters, I will evaluate whether mafias ever think in this way, or whether mafia transplantation is more likely an outcome that is not fully intended, at least at first.

In conclusion, the incentives to open outposts abroad in order to obtain resources such as labor, intelligence, and specialized equipment are few, and are set to further decrease as globalization spreads. Globalization increases labor mobility generally, and therefore a mafia probably does not need to open an outpost abroad to attract workers to its traditional area of operation. Moreover, mafias hire people they trust locally, rather than open a branch abroad to recruit workers for their home turf. To the extent that mafias seek specialized technical equipment, such as arms, globalization could increase the number of international locations from which a mafia group obtains its resources, and thus there would be no need to open a branch abroad. They can simply buy the goods on the open market. Some mafia investments might require close scrutiny and give rise to incentives to open outposts abroad to monitor investments in distant territories. Such was the reason for the mob presence in Rome and Las Vegas. Market-seeking ventures of mafia groups are unlikely to involve the takeover of territories already occupied by existing local groups, unless the local groups are particularly weak and the incentives to move there are overwhelming. More generally, I do not expect a rational decision to open a branch in order to conquer a territory in a faraway land. Transplantation is more likely the outcome of unintended consequences.

Conditions in the New Territory and the "Demand" for Mafias

Once mafiosi find themselves in the new territory, under what conditions do they succeed in becoming entrenched?

The level of generalized trust (trust in others whom we do not know) in the new land is, for some authors, an important variable that could explain the entrenchment of mafias. James Coleman has pointed out that a low level of trust reduces actors' ability to cooperate and communicate, inhibiting collective action.[34] The less that trust exists among law abiders, the less likely it is that civil society will organize to oppose the entrenchment of a mafia group. One can further predict that the lower the trust among lawbreakers, the greater their demand for protection services will be; a mafia facilitates exchanges among criminals who distrust each other by offering the enforcement of deals and promises. This line of reasoning implies that mafias are more likely to transplant successfully to regions

with little trust among law abiders and lawbreakers (each condition is independent of the other).

How is trust created? Robert Putnam's classic studies *Making Democracy Work* (1993) and *Bowling Alone: The Collapse and Revival of American Community* (2000) posit that local voluntary (nonpolitical) groups that bring people together provide private benefits to participants. In addition, he suggests that such groups can generate "social capital" that is *transferable* to society as a whole, thereby increasing the stock of generalized trust and promoting democratic values. Putnam shows that southern Italy is trapped in a long-term vicious circle of a lack of trust and civic virtue, whereas such virtue is robust in the North. Regions such as Sicily, Campania, Calabria, and Basilicata consistently score the lowest in terms of social capital, while Piedmont, Emilia, Veneto, and Lombardy score the highest. As Putnam explains, "In the most civic regions . . . citizens are actively involved in all sorts of local associations—literary guilds, local bands, hunting clubs, cooperatives and so on. They follow civic affairs avidly in the press, and they engage in politics out of programmatic conviction." By contrast, in the less civic regions such as Calabria, citizens take part in the political process because they are motivated by particularist short-term individual benefits rather than an interest in general issues. "An absence of civic associations and a paucity of local media in these latter regions mean that citizens there are rarely drawn into community affairs." Putnam traces levels of "civicness" in Italy back to medieval times and finds a remarkable stability over the centuries for which comparable data are available.[35]

Since levels of trust and civic culture are highly stable across the centuries, and organized crime is correlated with low levels of trust and social capital, Putnam's work implies that mafia transplantation to an area that traditionally experiences high levels of social capital is ceteris paribus harder to achieve. Thus, areas in northern Italy that historically have had high levels of trust and social capital along with no mafia should be more resistant to mafia attempts to immigrate and establish themselves. This view implies that high levels of trust and criminal protection are inversely related: when one is high, the other is low or absent.

Putnam's work has been criticized—most eloquently by Susan Rose-Ackerman—for failing to show a link between participation in civic associations, and the production of generalized trust and democratic values.[36] My critique is different. Moderately high levels of social capital

and civic engagement can coexist with the presence of mafia protection. Such a "service" may be welcomed by sectors of the population because it provides an advantage in a given market. Alternatively, or in addition, a demand for mafia protection emerges among those dealing in illegal commodities. This perspective suggests that civic engagement and the demand for private protection are independent of each other. If we think of private protection in a broader sense to include the enforcement of cartel agreements, the reduction of competition, and the organization of illegal markets that supply goods in high demand among a population (such as prostitution or alcohol), it is evident that criminal organizations may supply a solution welcomed by significant sectors of a society. Indeed, protectionism, though an enemy of global competition, is promoted by legal as well as illegal means—as, for example, when local governments impose restrictions on nonnative business groups and workers in order to protect entrenched local interests. Therefore, a high level of civic engagement does not in itself prevent mafia transplantation; the private protection supplied by mafias is orthogonal to social capital and civicness as defined by Putnam. In order to substantiate these suggestions, I consider territories in nontraditional mafia areas where trust and social capital are reportedly high (see chapter 3).

A key argument of this book is that the presence of a genuine demand for criminal protection, the core activity of mafias, leads to long-term transplantation. A demand for criminal protection is a critical factor that prompts both the birth of homegrown mafias and the migration of established ones. Such a demand interacts with a number of local conditions. In legal markets, the more incapable a state is of protecting its citizens and settling disputes among actors in the economy, the greater the demand for alternative sources of protection. Such demand arises because of the state's lack of competence to act as a credible third-party enforcer of agreements.

A second type of demand for protection emerges when entrepreneurs seek to sell legal commodities illegally. This might take the form of trying to wipe out competition or organize cartel agreements with mafia support. A sector of the economy that typically generates high incentives to create cartels is construction: firms compete on a local market, and the barriers to entry are relatively low. Construction cartels often emerge without the need for mafia enforcement. A small number of firms simply corner the

market. Yet a sudden explosion in the construction market would open up the market to new entrants. Incumbents might then develop a demand for protection against outsiders. Given this, construction sector booms might lead to a demand for criminal protection. Below I explore in depth two such cases, in Bardonecchia and Rosario.

On the other hand, economies that are export oriented will generate less demand for mafia protection: the mafia cannot help exporters to penetrate distant markets by harassing another entrepreneur who lives in the same place but exports to a different part of the world. For the mafia to be effective, producers must compete in the same market. On the other hand, several exporters of the same product to the same market would benefit from mafia protection. In the area north of Naples, for instance, the Nuvoletta family ensured that only certain food products, including Parmalat milk and Bauli Panettone, were carried in shops and supermarkets. The large producers from the North, such as Parmalat and Cirio, were willing to enter into direct contact with the Camorra in return for a near monopoly. Only after the police uncovered the scheme did these multinationals claim that they had been the victims of "racketeers."[37]

The demand for property rights protection in illegal markets is rife. Not only is state protection absent by definition, but state action is aimed at arresting actors in such markets and confiscating their "property" ("That's what the FBI can never understand," says Henry Hill in the book *Wiseguy*, "that what Paulie [mafia member Paul Vario] and the organization offer is protection for the kinds of guys who can't go to the cops").[38] As a consequence, illegal assets are highly vulnerable to lawful seizure and theft, and property rights are disputed to a much greater degree than in legal markets. Moreover, information about the quality of goods as well as the identities and whereabouts of the actors is particularly poor in illegal markets; entrepreneurs in these markets cannot freely advertise their good reputation, creditors disappear, informants consort with the police, and undercover agents try to pass themselves off as bona fide fellow criminals. As documented by several studies, mafias offer protection to criminals in the underworld and, in so doing, make illegal markets run more smoothly. It is thus plausible that the larger the illegal markets are, the greater the demand for protection will be. When there is a time lag between the emergence of a demand for protection and the provision of suitable local supply, the opportunity to supply mafia services may be seized by transplanted groups.

As such, the state's lack of competence in legal spheres and unwillingness to protect illegal activities leads actors to look for alternatives, and so increases the demand for mafia services. In the presence of a suitable supply, foreign groups might become entrenched in a new territory.

Other features of the new territory are related to transplantation, such as size and the presence of local protectors. For instance, ceteris paribus, the smaller the new territory or the market, the easier it is to penetrate it. As mentioned above, the construction market is vulnerable to mafia penetration. It is easier to control a construction sector populated by thirty players than one populated by three hundred, however. If a mafia tries to penetrate politics through the control of votes, it is easier to control politics if the district is small. It takes more voters to influence the election of the mayor of a large city than of a smaller one. Where local protectors, such as a mafia or fragments of the state apparatus, are present and effective, it might be next to impossible for incoming mafiosi to dislodge them. When Taiwanese triad bosses and foot soldiers were forced to flee their home country and landed in places like Thailand and Vietnam, they soon discovered that the locals controlled all the criminal markets and they had little chance of replacing them. One brother in Vietnam said that "there are also Vietnamese gangs here, but we will never get into any conflicts with them because, the bottom line is, it is their territory. It is impossible for us to be in command here."[39]

Large constituencies or markets and export-oriented economies are negatively related to a demand for mafia protection and thus transplantation, while construction booms and large illegal markets are positively related to such a demand.

Reputation, Information, and Monitoring

Let's return to the challenges to transplantation raised by Reuter and Gambetta—that is, advertising one's reputation, the collection of information, and the difficulties of monitoring agents in a distant territory. Clearly, the incoming mafiosi must be able to persuade the local population that they truly belong to a menacing established mafia (cases of individuals faking such membership have been recorded).[40] Although a difficult task, it is not impossible. Reuter himself, in a classic article on the decline of the Italian mafia in the United States, notes that Colombian drug dealers in the 1980s

managed to develop their own reputation for ruthless violence—a reputation that has become more menacing than that of the U.S. Cosa Nostra.[41] "Advertisement" in this domain might well rely on indirect strategies: newspaper investigations, popular culture, and the media unintentionally promote the name of a mafia when depicting it in movies or reporting on its activities. Gangsters indeed welcome movies about them. One producer told Italian film critic Tullio Kezich that "organized crime does not mind movies about the mafia; on the contrary it considers them with a dose of pride, as something that can shed an appealing light [on them], especially if a boss is played by a popular actor."[42] In this specific domain, aspects of globalization might be coming to the aid of the incoming mafia. One would expect that the increase in communication and the spread of media news would make it easier for a new group to signal to a wider audience its arrival in town along with its connections to a menacing homeland. Yet the mafiosi abroad still requires their audience to link them as individuals with the worldwide reputation of their groups. They therefore should be working hard at reinforcing markers such as ethnicity that associate them with the mafias of their origin. Paradoxically, mafiosi might exploit prejudices against immigrants to their own advantage.

A key resource for a mafia group is the ability to collect reliable information. Both Reuter and Gambetta suggest that a mafia working in a new territory would find it impossible to carry out this task. A tangible and long-term presence in the new territory is fundamental. But how long is "long"? It is plausible that a number of years would suffice to create a network of informants. In addition, the information to be collected need not be about complex transactions or numerous locales. It might well be about a local market in the new territory, as in the case of the construction industry in Bardonecchia (see chapter 3). To the extent that a mafia can count on migration networks in the new locale, some information will be easier to come by. Significant economic investments in the new territory by associates of the incoming mafia can also be a conduit for data gathering for a criminal group. In sum, the collection of information in the new place is not an insurmountable obstacle to transplantation, only a challenge.

A final point of skepticism about the ability of mafias to transplant indicates that agents abroad are harder to monitor. They might take risks while away, thereby increasing their chances of being arrested and the danger for the boss back home. The case of Anthony Spilotro supports this

viewpoint. While in Vegas, he started to run a burglary ring, endangering the mafia investment due to renewed police attention. The bosses back home ultimately punished him with a gruesome death. Yet the Chicago outfit did not plan to exercise territorial control in Las Vegas but simply wanted to ensure that its investments were safe. In the framework of this book, they were motivated to open a branch abroad to monitor investments. Any illegal investment raises the danger that the agent might cheat, since the principal cannot undertake it directly but instead needs to go through fronts, lawyers, bankers, and the like.

More generally, the "hard-to-monitor" argument hinges on the assumption that a mafia group, like a standard company, rationally decides to open a branch in a distant territory that is directly dependent on the homeland. A more plausible mechanism of mafia diffusion is through the unintended consequences of state action or mafia wars, as I will show below. A mafioso finds himself in the new territory because he escapes from his homeland. Once there, he will have the chance to explore local opportunities and negotiate arrangements that reduce the need for complex ways to monitor his actions by the homeland. It is unlikely that he will receive a salary from the boss back home. Rather, he will have to earn his own money by entering the local market. The group of origin may do no more than bestow a seal of approval on the existence of the outpost, which has a great deal of autonomy. The outpost abroad is not a branch of a corporation but rather a semiautonomous unit allied to the homeland. If seen in this light, the objections raised by these authors vanish.

The Key Factors in Summary

Table 2.1 presents a summary version of the factors discussed above. "Supply" refers to unintentional and intentional factors that account for the presence of the mafiosi in the new territory. They could also be thought of as "push" factors. The table includes a line for generalized population migration and another for mafiosi migration. Such latter migration can be willing or unwilling. "Willing" aims to describe whether the mafioso migration is due to intentionally seeking resources, investments, or markets. "Unwilling" refers to the soggiorno obbligato policy, mafia wars, and the attempt to escape prosecution. Among the "local conditions," I include the level of trust in the new locale (as measured by Putnam), the presence

TABLE 2.1
Factors Facilitating Mafia Transplantation

	Factors facilitating mafia transplantation
	Generalized migration Mafiosi migration (willing/unwilling)
Supply of mafiosi	
Local conditions	Level of trust/civic engagement Presence of local illegal protectors Size of locale New and/or booming markets*
Demand for mafia services	
Transplantation	

* The markets considered are construction (Bardonecchia and Rosario), drugs (Verona and China), property rights (Budapest and China), oil (Budapest), alcohol (New York City), gambling (New York City and China), and prostitution (China).

or absence of local protectors, such as an existing mafia or corrupt officials and police, and the size of the locale. By "new and booming markets," I refer to whether the economy has undergone some sudden change. For instance, a construction boom would qualify as one. Also a wholesale transition to the market economy or the sudden outlawing of alcohol consumption would create new and booming markets. I suggested above that some such factors are causally linked to others: a construction boom, the sudden outlawing of alcohol, or low levels of trust could give rise to a demand for criminal protection. Such a connection, however, is not mechanical; if actors in a given market are able to regulate the sudden changes in the market and cope, they would not develop such a demand. If the state is efficient at defining and protecting rights in a new market economy, a de-

mand for criminal protection would not arise. If the operators in the drug market are able to settle disputes without recourse to a third-party criminal enforcer, such a demand again would not emerge.

In the remainder of the book, I evaluate empirically whether the factors listed in table 2.1 have generated such a demand, and whether a foreign mafia was able to intercept such a demand and become entrenched in a faraway territory (transplantation).

Case Selection

A final word on how I selected the cases. Researching criminal organizations is a hazardous enterprise, and often chance encounters with data direct the scholar toward a particular case study. The main criterion that I have followed, however, is the "possibility principle." The said principle prescribes the inclusion of cases where the outcome of interest—in this instance, transplantation—is possible. In some of the cases included transplantation did not occur; nevertheless, it was tried. A related criterion for inclusion is variation in the "dependent" variable (transplantation). Only by presenting cases in which mafias failed to transplant as well as ones where they succeed can one hope to identify the factors that are most likely to cause transplantation. The negative cases of this study are the failed attempts of the Mazzaferro family to create an outpost in the city of Verona, in the Veneto region, in the 1980s; the Moscow-based Solntsevskaya to open a branch in Rome in the mid-1990s; and a mafia to emerge in Rosario, circa 1910–40. Foreign triads have also so far failed to establish themselves in China. In all instances these organizations tried to transplant. The two criteria combined—the possibility principle and variation in the dependent variable—led me to exclude "irrelevant" cases—namely, cases where there was no transplantation and also no indication that it was ever attempted.[43]

I have used three further criteria for selection. First, among the territories of destination, I discuss both advanced market economies and newly created ones. Variation on this dimension allows me to establish whether similar (or different) reasons account for transplantation to newly created and advanced market economies, and make it easier to generalize from my findings. Second, I include regions, among the territories of destination, where the level of interpersonal trust and civic engagement was high along

with those where it was low before the arrival of the mafia. In particular, Piedmont and Veneto are high-trust regions in Italy, while Rome, Budapest, and China have low levels of interpersonal trust. Since the level of trust in the territory of destination is a factor that I suspect might affect the ability of mafias to entrench themselves, variation in this independent variable was crucial.

Ultimately, this is a study with many variables and few cases. In order to control as much as possible for intervening variables, I have tried to match cases. For instance, the movement to Bardonecchia (Piedmont) is matched by the failed attempt of the same mafia group to move within the same part of the same country (the city of Verona in northern Italy). Although not a perfect control, we can assume that many intervening variables, such as the level of corruption and policing, are similar. At any rate, the conclusions that I reach must be considered tentative, and this work calls for more instances to be studied and compared with the ones that I cover in this book. In this field of study there is no substitute for detailed narratives and in-depth discussions of specific cases.

The `Ndrangheta in Piedmont and Veneto

The `Ndrangheta

"The `Ndrangheta is as invisible as the other side of the moon" remarked a prosecutor in Florida in the 1980s.[1] Indeed, the organization managed for a long time to remain under the radar of many police forces around the world, in part thanks to the small number of turncoats. In the same period, Tommasso Buscetta, the highest-profile Sicilian mafioso turned state witness, even suggested impishly that it might not exist as an autonomous entity.[2] Notwithstanding Buscetta, historians have documented the existence of the `Ndrangheta since the late nineteenth century, although at that time it did not yet have a name of its own. Official sources refer to Calabrian criminals as *Camorristi* and occasionally also as mafiosi. Other terms used were *Picciotteria* and, oddly, *Famiglia Montalbano*, also the title of a novel. The very word *`Ndrangheta* was first recorded only in 1909. The etymological origin is the Greek *andragathos*, meaning a brave and daring man.[3]

Another word of Greek origin, *`ndrina* ("a man who does not bend"), refers to the basic unit of the organization, and is the equivalent of the Sicilian mafia's family or *cosca*. According to the Italian Anti-Mafia Parliamentary Commission (CPA), each *`ndrina* is "autonomous on its territory and no formal authority stands above the `ndrina boss."[4] The `ndrina is usually in control of a small town or neighborhood. If more than one `ndrina operate in the same town, they form a locale. In some cases, *sotto `ndrine* have been established. A rather elaborate internal structure is

shared by most *`ndrine* and includes the boss and six lower ranks. Each rank could be further differentiated into further internal ranks.[5]

The village of San Luca on the Aspromonte Mountains in the province of Reggio Calabria is the core `Ndrangheta territory. The Sanctuary of Our Lady of Polsi (located in the San Luca district) has long been the meeting place of affiliates, and the `ndrina based in this village is granted special authority. Every new group must obtain the authorization of the San Luca family in order to operate. Former members report that "every *locale* deposits a small percentage of their illicit proceeds to the principal of San Luca in recognition of the latter's ancient supremacy."[6]

From at least the 1950s the chiefs of the `Ndrangheta have held annual meetings, fittingly called *crimini*, at the Sanctuary of Polsi between September and October (the exact date is constantly changing). Cesare Polifroni, a former member, testified that at these meetings every boss "must give an account of all the activities carried out during the year and of all the most important events taking place in his territory such as kidnappings, homicides, etc."[7] The *capo crimine* who is elected every year, is in charge of convening the meeting, but far from being "the boss of the bosses," actually he has little authority to interfere in family feuds or control the level of interfamily violence. The `Ndrangheta equivalent of the Apalachin meeting took place in October 1969, when the police raided the gathering and captured more than seventy *`Ndranghetisti*—although many more managed to escape. Allegedly, the purpose of the meeting was to suggest a unified command structure of the `Ndrangheta and support a right-wing conspiracy to take over the Italian state. Both plans failed.[8]

Bosses from outside Calabria, from as far away as Canada and Australia, regularly attend the fall meetings at the Sanctuary of Polsi—an indication that the `ndrine around the world perceive themselves as being part of the same collective entity.[9] Nonetheless, and as in the case of other mafias, separate units have often been at war with one another. For instance, in Siderno, a town on the Ionic coast, the theft of some guns belonging to one of the family chiefs led to 34 people being killed in a "war" that lasted from 1987 to 1991. One conflict between two `ndrine in Reggio Calabria claimed hundreds of lives. Mafia killings in Calabria took the lives of 680 people during 1986–91 alone—a figure that approximates the number of deaths in civil wars.[10] From 1991, attempts have been made to create a Sicilian mafia-style regional commission but they have not yet succeeded,

although loose mechanisms of communication, coordination, and dispute settlement have existed since the end of the nineteenth century.[11]

The `Ndrangheta is ultimately a loose confederation of mafia families, most of which (eighty-six) operate in the province of Reggio Calabria in southern Calabria.[12] This mafia has systematically forced local entrepreneurs to pay protection money, corrupted officials, and penetrated politics.[13] Politicians have been threatened, wounded, and killed, while bosses have successfully stood in local elections. In the 1990s, the Italian government disbanded eighteen city councils due to the `Ndrangheta's ability to pervert local electoral processes.[14] In 2007 killers from San Luca, this mafia's stronghold, murdered six people outside an Italian restaurant in Duisburg, in northwestern Germany, bringing the ruthless nature and international reach of the organization home to the European public.[15]

The key difference between the `Ndrangheta and mafias from Sicily, the United States, Russia, Hong Kong, and Taiwan is the role of kin. While other mafias try to minimize the number of blood relatives accepted into each family, within the `Ndrangheta blood family and membership of the crime family overlap. By and large, the `ndrine consist of men belonging to the same family lineage. An antimafia prosecutor in Reggio Calabria, Salvatore Boemi, maintains that "one becomes a member by the simple fact of being born into a mafia family," although other reasons might attract a young man to seek membership, and nonkin can also be admitted.[16] A former member, Pasquale Barreca, confirms that "in most cases one becomes `ndranghetista through family links."[17] Marriages help to cement relations within each `ndrina and expand membership. As a result, a few blood families constitute each group, and for this reason "a high number of people with the same last name often end up being prosecuted for membership of a given `ndrina."[18] Indeed, since there is no limit to the membership of a single unit, bosses try to maximize the number of descendants.[19]

The kinship link has meant that the `Ndrangheta has experienced significantly fewer defections (*pentiti*) than the Sicilian mafia, as shown in table 3.1, since turning oneself in to the police or informing on partners in crime amounts to informing on one's own extended family.[20] The same applies to the Neapolitan Camorra, which has an organizational structure akin to the `Ndrangheta.[21]

The coincidence of blood and mafia family also seems to have helped the `Ndrangheta expand beyond its traditional territory—a dynamic suggested

TABLE 3.1
Membership of Mafia Groups, Number of Pentiti (Mafiosi Who Have Turned State's Witness) per Group, and Pentiti as Percentage of Membership

	*Membership**	*Pentiti (1995 data)*	*Pentiti 1995 as percentage of membership*
Cosa Nostra	5,487 (1995)	381	6.9
`Ndrangheta	5,000 (1994)	133	2.6
Camorra	6,700 (1993)	192	2.8
Total	17,187	706	4.1

* Date of estimate in parentheses.
Sources: For the membership of Cosa Nostra and `Ndrangheta, see the official data quoted in Paoli 2003, 26, 30; for Camorra, see CPA 1993a; for the number of pentiti, see CD 2000.

by the authors of one of Italy's parliamentary reports on this mafia: "The familial bond has not only worked as a shield to protect secrets and enhance security, but also helped to maintain identity in the territory of origin and reproduce it in territories where the family has migrated."[22] The `Ndrangheta has clearly demonstrated a remarkable ability to establish branches abroad. `Ndrine are reported to be operating in northern Italy, Germany, Belgium, Holland, France, Eastern Europe, the United States, Canada, and Australia.[23] According to the Anti-Mafia Parliamentary Commission, the dependency of the subsidiary groups is significant: a subsidiary "is an outpost of the original cosca and depends on it to function."[24] Still, the activities of these subsidiaries vary, and more research is necessary to detail the relations between groups. In 2000, prosecutors pointed out that Germany, Eastern Europe, and Australia were areas where the `Ndrangheta invested the proceeds of its illegal activities heavily rather than aspiring to establish control over territory.[25] Yet there have been no in-depth studies of the `Ndrangheta's transplantation into new territories. I now turn to such a case, in the town of Bardonecchia in northern Italy.

The `Ndrangheta in the Val Susa Valley, Piedmont

One has to travel more than fourteen hundred kilometers from Calabria to reach the valleys outside Turin at the center of the story of the `Ndrangheta taking root in Piedmont. The town of Bardonecchia (three

FIGURE 3.1 Map of Italy

thousand inhabitants) lies in the Val Susa Valley, the most western part of Italy, bordering France. Bardonecchia has throughout its history been a transit zone, with many armies, traders, and smugglers passing through the tortuous mountain crossings of the Cottian Alps (Alpes Cottiennes). In the mid-nineteenth century, the Piedmontese government gave the order to start work on a railway line to connect Turin to the (now-French) city

of Modane, running under the Frejus tunnel and through Bardonecchia. The Frejus railway line, completed in 1871, gave a massive impetus at the end of the nineteenth century to the town's tourist industry, and members of the aristocracy and upper classes from Turin and Genoa began building pleasant summer villas in the art nouveau style. By the beginning of the twentieth century winter sports had developed, and in 1908 a skiing club was founded in Bardonecchia. Local histories also recall the exploits of the two Norwegian brothers, Harald and Trigwe Smith, who in 1911 broke the world record for trampoline jumping with a forty-four-meters-long jump. The trampoline had been constructed in an area that was to be named after the Smith brothers, Campo Smith. The land was given to the city by one of those wealthy families that had patronized Bardonecchia at the turn of the twentieth century, with the explicit provision that it should be made into a public park and remain so in perpetuity. Eighty-five years later, the same area had acquired immense real estate value, and was at the center of a major scandal involving local officials, construction companies, and the Mazzaferro clan of the `Ndrangheta. The scandal led to the mayor being arrested, and the city council was disbanded for "mafia penetration"—the first instance of this kind in a city outside the south of Italy (the mayor was eventually acquitted).[26] The data I present below suggest that the `Ndrangheta was best placed to exploit the lucrative opportunities in the construction business in the Val Susa Valley and in particular Bardonecchia in the 1960s.

According to established theories of social capital, Piedmont—one of the most industrialized areas of the country and home to the Fiat car manufacturing company—is a most unlikely territory for a mafia to take root. In contrast to the vicious circle of low interpersonal trust and unresponsive local institutions that is typical of southern regions, Piedmont scores among the most "civic" regions in the country, with a high level of interpersonal trust and highly effective local institutions, as measured by Robert Putnam's Civic Community Index. Putnam's historical index of "civic traditions" for the period 1860–1920 has Piedmont scoring even more favorably—second only to Emilia Romagna—as the most civic region of Italy.[27]

Let us now turn to immigration from high mafia regions of the country. Could this be the factor that explains mafia transplantation in the Val Susa Valley? To be sure, since the 1950s Piedmont has experienced significant

flows of immigrants, which in turn have changed its ethnic composition dramatically. Between 1951 and 1961, 440,040 immigrants moved to Turin (the largest city in the region), increasing its population by 42 percent. The share of the population born outside the region more than doubled from 1951 to 1971. It should be noted, however, that other cities, such as Rome and Milan, also experienced dramatic increases in population, yet did not succumb to mafia entrenchment. The data in table 3.2 show that Rome had higher immigration from "mafia regions" than Turin in the 1950s and 1960s, and a similar level of immigrants in the 1970s and 1980s. And yet no mafia became entrenched in Rome.[28] (A potentially revealing parallel with Bardonecchia is the small town of Buccinasco, outside Milan, where the `Ndrangheta appears to be entrenched and to control the construction sector).[29] Migration is not the whole story.

In chapter 2, I drew a distinction between generalized patterns of migration and the migration of specific individuals who belonged to a mafia group. The presence of even a small number of the latter can be highly significant because these are specialized criminals, well equipped to set up criminal groups.

Because of the policy of soggiorno obbligato, we know how many people had been forced by court orders to reside in the region. In the period 1961–72, fifty-four individuals were ordered by the courts to resettle in Turin Province. Compared with other regions, however, Piedmont experienced only an average number of such forced migrations of specialized criminals. For instance, 15 percent of the criminals who were sentenced under the soggiorno obbligato policy relocated to Lombardy, 10 percent to Emilia Romagna, 9 percent to Tuscany, and 11 percent to Piedmont. Furthermore, Piedmont's provinces of Cuneo, Asti, and Alessandria likewise experienced an influx of hardened criminals in the period 1961–72 (respectively, sixty-three, thirty-six, and fifty-four individuals), but mafias did not become entrenched there.[30] Thus, no direct link exists between soggiorno obbligato and mafia formation.

I now turn to a discussion of the local conditions that existed in this part of Piedmont, starting with a look at the construction sector. Between 1950 and 1959, this sector of the economy was virtually monopolized by three local companies that had roughly 50 percent of the market between them, as measured by the number of licenses that they obtained to build new homes in the town (table 3.3).

Table 3.2

Regions of Birth for Residents of Turin, Milan, Rome, and Verona Provinces, 1951, 1961, 1971, and 1981 (%)

1	*2*	*3*	*4*	*5*	*6*
Census Year	*Province*	*Percentage of residents born within the region*	*Percentage of residents born outside the region*	*Percentage of residents born in Sicily, Campania, and Calabria*	*Percentage of residents born in Calabria*
1951					
	Turin	80.3	17.1	2.4	0.5
	Milan	79.3	18.9	2.2	0.3
	Rome	67.0	30.6	7.4	1.7
	Verona	93.2	5.6	0.5	0.1
1961					
	Turin	68.7	28.8	6.2	1.9
	Milan	72.0	26.1	4.3	1.0
	Rome	64.4	33.3	8.9	2.4
	Verona	91.1	7.6	0.9	0.1
1971					
	Turin	60.8	36.7	12.2	3.7
	Milan	66.2	31.8	8.8	2.3
	Rome	64.1	33.0	9.8	2.6
	Verona	89.9	8.6	1.2	0.2
1981					
	Turin	63.6	34.1	12.8	4.0
	Milan	68.1	29.8	9.6	2.5
	Rome	69.4	27.9	7.1	2.3
	Verona	88.4	10.1	1.7	0.4

Notes: Columns 3 and 4 do not sum to one hundred because individuals born outside Italy have been excluded. The province (provincia) is an official administrative unit and includes territories beyond the city limits.
Sources: Data based on ISTAT 1951, 1961, 1971, 1981.

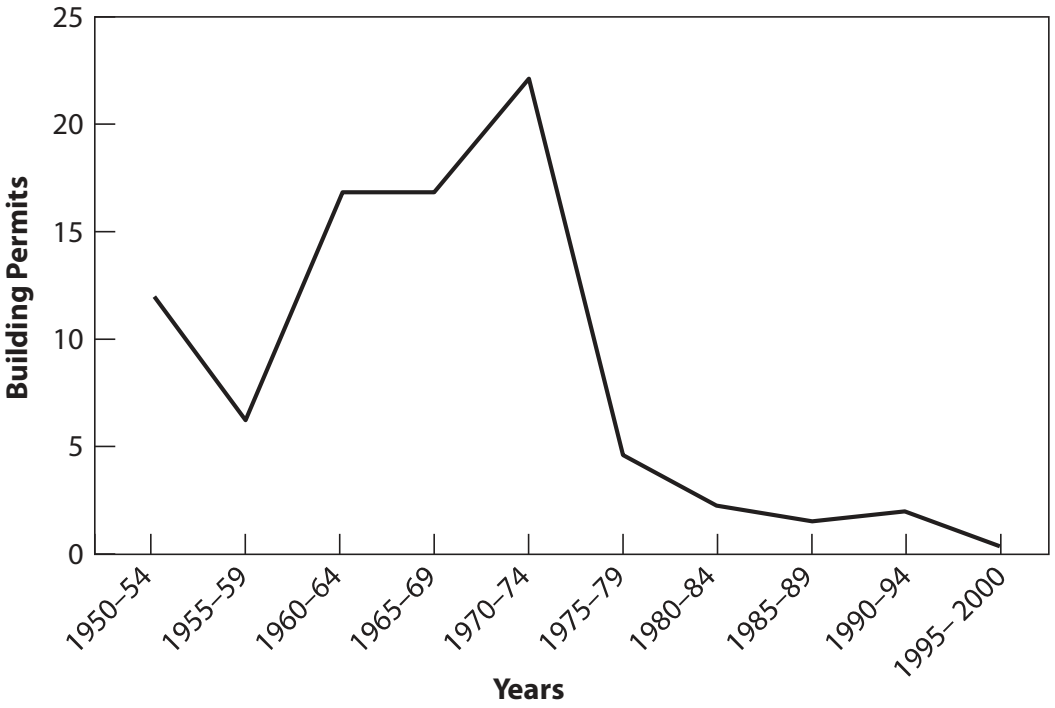


FIGURE 3.2 Number of licenses to build new dwellings, city of Bardonecchia, 1950–2000

As a consequence of the expansion of tourism in the early 1960s, a strong demand for housing developed. During a period of fifteen months in 1967 and 1968, some eighty thousand new dwellings were built in the Val Susa Valley.[31] Figure 3.2 gives a quantitative, albeit partial, picture of this trend. Like table 3.3, figure 3.2 is based on data about legally obtained licenses to build new residential dwellings issued in the period 1950–2000. These data were collected in the archives of the city of Bardonecchia and had never been examined previously. Typically, each license refers to a major construction project, since it was common for a single application to be made for the construction of one building (or sometimes two) containing a minimum of eight flats and a maximum of fifty.

The market peaked between 1960 and 1974. (In the same period, a new highway and the Frejus tunnel to France worth some 170 billion lira—the equivalent of approximately US$275,000,000 in 1971 dollars—were under construction.)[32] In the period 1985–94, a further 1,300 dwellings were built—a total of 282,000 cubic meters of construction worth 500 billion lira, or approximately US$310,000,000 in 1994 dollars.[33]

The arrival of new actors in the market is partially captured by the data on building licenses that I collected in Bardonecchia. Table 3.3 gives the

TABLE 3.3
Percentage Shares of Licenses Obtained by Four Firms to Build New Dwellings, Bardonecchia, 1950–79

Firm/five-year period	*1950–54*	*55–59*	*60–64*	*65–69*	*70–74*	*75–79*
Gibello	28.0	12.0	15.8	1.4	7.6	5.9
Carisio and Pesando	14.0	20.0	10.5	5.6	1.8	5.9
Patané and Raitieri	0	0	7.9	13.9	6.3	5.9
Zedda Aldo and Iginio	4.0	16.0	18.4	1.4	0	0
Total	46	48	52.6	22.3	15.7	17.7

Sources: Data collected in Ufficio Licenze Edilizie, city of Bardonecchia.

percentage of the market share for the four biggest companies operating in Bardonecchia between 1950 and 1979. In the 1960s a new firm, Patané and Raiteri, energetically entered the market and obtained 8 percent of all the licenses granted in the period 1960–64. Zedda Aldo and Iginio, one of the original firms that had been operating in Bardonecchia since at least the 1950s, saw its share of licenses fall in the period 1965–69; by 1970 it was out of the market. Overall, the market expanded, and the top four companies accounted for only 22.3 percent of the sector between 1965 and 1969, and even less in the next two periods. Rather mysterious *immobiliari* (literally "real estate companies") appeared and disappeared frequently from the 1960s onward, but when present, they were involved in major works such as Immobiliare Patrizia, which gained 5 percent of the market in 1970–74. Another new company gained almost 9 percent in the same period. Both disappeared in the next period.

The sudden expansion of the construction market had two key consequences: local construction companies did not have a large enough workforce to meet the new demand, and new firms entered the market. Some construction firms in the Val Susa and nearby Canavese valleys therefore turned to "fixers" who supplied immigrant workers, typically with little education and unable to find employment in large companies like Fiat. Many of the new immigrants lived in appalling conditions in Turin. These poorly qualified and nonunionized workers accepted short-term, temporary employment and low salaries, and worked without accident insurance coverage. Several firms welcomed the possibility of hiring cheap labor

[162.10.217.184] Project MUSE (2026-06-15 01:44 GMT) University of Queensland

in order to save on mandatory health contributions and safety costs, and more generally to bypass trade union controls. Moreover, by hiring the workforce indirectly, the firms avoided having to pay transfer, catering, and accommodation costs.[34] New construction companies also entered the market at the suggestion of the Calabresi who had been residing in the valley under the soggiorno obbligato policy. These new firms, too, employed an illegal workforce and turned for protection to the Calabrese mafia. Many residents were able to sell their plots of lands at considerably high prices to the constructors.[35]

Mario Corino, the mayor of Bardonecchia in the 1970s and a fierce antimafia campaigner, summarizes the situation in the town as follows:

> I have been active in politics for 40 years as a member of the Christian Democracy Party. I was the elected mayor of Bardonecchia from December 1972 until 1978. Since 1990, I have been the Leader of the Opposition in the City Council. As early as the 1960s I realised that, for the good of the city, we first had to study the mafia phenomenon, and then to make it clear that we did not condone it. Once my position became known, I found myself the object of night-time displays of aggression and was in a constant state of fear for my life. . . . During my term as mayor of Bardonecchia, my position became even more delicate. The mafia were a long-term fixture (it was pointless trying to deny it) and I would have to choose one side or the other. I therefore made the decision that it was my duty to fight this phenomenon, which I considered to be unacceptable. In particular, those years saw the emergence of labor racketeering. When I became mayor, I discovered that more than 72 construction sites had been opened in Bardonecchia, in which a number of workers who had come from the south, and especially from the Gioiosa Ionica area [Calabria], lived, literally "camped out" in extremely unhygienic conditions. Many of them had criminal records and weren't legally allowed to work.
>
> The managers of these construction sites gave me no guarantees as to either public order or the working and living conditions of those who worked on them. Independently of any investigations I was making, the Work Inspector also decided to carry out checks on the sites to ascertain the position of these people. However, they

> were usually forewarned of the Inspector's arrival, and nowhere to be found. It was all extremely and uncomfortably illegal. Faced with this problem, I tried to confront it by involving the Trade Unions Associations as well, and together we obtained an audience with the Anti-Mafia Commission. Following our audience, a delegation presided over by MP La Torre [later murdered by the Sicilian mafia in Palermo in April 1982] began various investigations into, and checks on, these sites to verify what we had said. This was, however, just one part of a wider situation which was endangering the safety of the city.[36]

The current mayor of Bardonecchia has a rather more positive outlook on the same events:

> My view is that these individuals [originating in Calabria] entered the construction sector using the carrot rather more than the stick. One must recall that there was a significant expansion in the market in the 1970s, especially an increase in second homes and homes for tourists. Local entrepreneurs often were short of labor, and these people delivered it. Thus, they performed a service for the local economy. They brought to Bardonecchia some unqualified, as well as qualified, workers, and found them employment.[37]

Some firms and workers that had not been hired through the racket were intimidated, and eventually forced to exit the market.[38] As the racket expanded, more local firms started to hire illegal workers. The final outcome was that a number of firms—some local, and some newly arrived from Calabria—came to rely on workers supplied by the Calabresi and employed them illegally. In all, the racket was beneficial to both nonunionized immigrant workers and construction companies (a phone intercept testifies to workers' support for the main fixer: "The Calabresi respect him because he finds them work").[39] Such an equilibrium, however, meant that workers could not turn to trade unions in the event of disputes with employers, and employers could not turn to legitimate sources of protection in the event of disputes with this vast contingent of workers. A demand thus emerged for an alternative, nonstate source of protection. Entry into this market was policed by the mafia, which also oversaw

Mario Corino (1929–2010), the primary school teacher who became the mayor of Bardonecchia in 1973 and took on the `Ndrangheta at great personal costs. He is now a largely forgotten figure in the valleys that he loved so much and an unsung hero of the fight against organized crime in Italy. Photo credit: *La Luna Nuova.*

employer-employee relations and used violence to achieve control of the construction industry.

A spate of cases of intimidation led to an investigation by the Anti-Mafia Parliamentary Commission, which first visited the area in 1974, as recalled by Mayor Corino above. The investigation recorded "widespread intimidation, improper allocation of workloads, exploitation, improper salary reductions, and racketeering," and estimated that 70 to 80 percent of the labor force in Bardonecchia was hired through this racket.[40] In one instance, a group of mafia-backed Calabresi workers showed up fully armed at a construction site, and forced the bricklayers to quit their jobs then and there. The firm that had (legally) hired the bricklayers was forced out of

Bardonecchia.[41] It was not uncommon for construction sites to be set on fire.[42] In 1970, a worker at a building site was killed with a *lupara* (sawed-off shotgun), and his body was found in a nearby town.[43] In 1975, Mario Ceretto, a Cuorgnè developer, was kidnapped and murdered. A former `ndranghetista testified that the man had been targeted because he was a competitor in the construction business.[44] When in 1976 two thieves were caught trying to steal from a construction site, they were tortured for several hours and one of them became paralyzed in both legs as a result.[45]

The main organizers of labor racketeering in Bardonecchia were two Calabresi who had moved there as a consequence of the soggiorno obbligato policy: Rocco Lo Presti and his cousin Francesco (Ciccio) Mazzaferro. Both came from the town of Gioiosa Ionica and were members of the Mazzaferro clan.[46] Lo Presti, a stocky young man with a sharp look and pitch-dark hair, had moved to Bardonecchia from Calabria in 1952. By the time of the construction boom in the 1960s, Lo Presti had become the main illicit supplier of cheap labor to the area and had called in construction companies from Calabria. He also established several firms of his own and obtained unlawful subcontracts, especially in the area of plastering and framing. A Turin-based construction entrepreneur testified to the following:

> Everybody knew that one could work in the construction business in Bardonecchia only after having obtained Lo Presti's approval. One could obtain such approval only if introduced by somebody from Calabria, and by paying up. I recall what happened to me in 1979: at the time, I wanted to obtain the contract to build sewerage in Bardonecchia, but I was told that I needed Lo Presti's approval. Thus I obtained an introductory note for Lo Presti. Eventually, I did not bid for the contract, because I was told that another company was supposed to win.[47]

By the early 1970s, Lo Presti had been convicted three times by the court of Turin for a variety of crimes, including "violation of the law on hiring workers and workers' protection." He was charged with—and acquitted of—murder (1982), fencing (1987), and extortion and mafia activities (1995 and 1999). It was not until 2002 that he was found guilty of engaging in mafia activities and sentenced to six and a half years in prison. Recently, he

was serving his sentence in a private clinic. On January 22, 2009, he was confined to bed, hardly able to talk and fighting a degenerative form of diabetes, when he was ordered to move from the clinic to the convicts' wing of the Turin Molinette hospital. After the officers read the removal order to Lo Presti forcing him to serve his remaining sentence in prison, he shook their hands and whispered, "I follow you." He died the next day.[48]

Lo Presti's associate Mazzaferro was found guilty in Calabria in the early 1970s of heading a mafia organization that exercised a monopoly over transportation in the area of Gioiosa Ionica. As a consequence of this verdict, the court ordered him to reside outside his region of origin, and he moved to Bardonecchia in 1972. There he started a transport company servicing construction sites and obtained several contracts related to the construction of the Frejus tunnel. The then mayor of Bardonecchia recalls the arrival of Mazzaferro in town in 1972:

> It was around this time that a number of people who were linked to mafia families such as the Mazzaferros were sent to the Bardonecchia area. When they arrived in Bardonecchia, the Mazzaferro family member would come into my office and say, "You have received instructions from the Locri Tribunal to find me a job and somewhere to live. But don't worry about it: I will find them on my own." And indeed, it was not long before an excavation company (with a never-ending supply of trucks) sprang up that effectively monopolized the market in that area.[49]

In fact, a Turin court found that Mazzaferro had acquired these contracts "through the use of force and intimidation."[50] Throughout the 1980s he was charged with a variety of offenses in three regions—Piedmont, Calabria, and Sicily. In 1987, he was found guilty of being the boss of a "mafia group" based in Piedmont that was involved in several crimes, including drug trafficking and illegal money lending.[51]

The pattern described above is virtually identical to that in the neighboring Canavese Valley, where two individuals of Calabrese origin, who had migrated to Cuorgnè in 1972 and 1963, undertook activities in the construction industry similar to those of Lo Presti and Mazzaferro. The Turin court accused them of having created a mafia group.[52] By the mid-

1970s, entry into the construction industry in the two valleys (Val Susa and Canavese) was thus completely controlled by the `Ndrangheta.[53]

The mafia's control of labor and the overall construction industry soon evolved into a wider protection system. A city council employee is known to have handed over Lo Presti's business card to people applying for business licenses in the area. In one case he was heard saying, "You should get in touch with Lo Presti in order to avoid problems." Inspectors sent by the prefect of Turin noted that "in Bardonecchia, everybody assumes that it is necessary to obtain Lo Presti's endorsement in order to engage in any commercial activity."[54] Another telling instance is narrated by a member-to-be of the `Ndrangheta (who then turned state witness). In 1987, this man had started a fight at a disco because the bouncer would not allow a friend of his to enter. Shortly after the incident, "Lo Presti got in touch with me, and asked for an explanation of what had happened, because the disco was *under his protection* At that time, I was not yet a member of the Belfiore family. I explained myself and he agreed with my reasons and let me alone."[55]

Violence now extended beyond the construction industry. Lo Presti was charged by the police with ordering the assault of and inflicting grievous bodily harm on a local politician (and future mayor) in 1963.[56] The first "mafia murder" in Bardonecchia took place in 1969, when Lo Presti's brother-in-law killed a man.[57] In Cuorgnè, a Calabrese who had been forced to relocate to the town came into conflict with Lo Presti and Mazzaferro, and was murdered in 1972.[58] Between 1970 and 1983, twenty-four people originally from Calabria were killed in Turin Province (which includes Bardonecchia and Cuorgnè), while Turin's Procurator Office recorded forty-four mafia murders.[59] The most high-profile murder was that of Bruno Caccia, the chief public prosecutor of Turin, who was gunned down by members of the `Ndrangheta, among them Mimmo Belfiore, the brother of a developer from Calabria operating in Bardonecchia and an associate of Lo Presti.[60] According to a police investigation, Lo Presti received a phone call on the day of Caccia's murder allegedly saying, "Here is your birthday present" (Caccia had investigated Lo Presti several times; no one suggested that Lo Presti was directly involved in this murder).[61] Violence continued steadily throughout the 1980s and 1990s.[62]

The judicial system and the police also felt the full weight of mafia pressure, and ominous mafia messages were sent to local officials. In 1990

Lo Presti threatened a police officer, proving that he was aware of the secret investigations directed at him. In 1991, another officer was suddenly transferred to high-density mafia territory in Calabria after having written an investigative report on Lo Presti. In 2000, the carabinieri station chief was charged with favoring criminal suspects but was later acquitted. The ruling acknowledged that he was conducting "friendly and improper relations" with Lo Presti. Several officers were also removed.[63] A woman who had testified against Lo Presti in the pretrial phase in 1999 later refused to confirm her statement at the trial, explaining in tears that she felt threatened and scared.[64] A solicitor who was a member of the town committee that dealt with building applications suggested an increase in the environmental fee (*onere di urbanizzazione*) to be paid by a construction company. When he returned home, he found a large knife stuck in his video-recorder. He immediately resigned, citing "health reasons."[65] Another "unreasonable" solicitor hired by the city council had the door of his house burned.[66]

To what extent did the high level of interpersonal trust and the potential for collective action function as a barrier to mafia entrenchment, as hypothesized in chapter 2? At first local politicians and trade unions resisted the mafia. Corino, the mayor of Bardonecchia between 1972 and 1978, and later an opposition politician, openly denounced the presence of the mafia in the town and rejected its offer of electoral support (he had been physically assaulted in 1963).[67]

The Turin section of the Construction Workers' Union alerted the authorities at its annual conference in Bardonecchia in 1972. In only one of sixty building sites were workers able to elect delegates to the conference, and only twenty people attended an antimafia trade union rally in Bardonecchia. Trade union officials were directly intimidated by phone in advance of their tour of the building sites in Bardonecchia and, once there, found that workers did not want to speak to them.[68]

The reaction of civil society was not sufficient to prevent the mafia from becoming entrenched. The `Ndrangheta was able to forge a vast social constituency among both migrant workers, who generally remained grateful for even illegal employment, and employers. The mafiosi extended their protection to other spheres of the social life of immigrant workers, who were often ostracized by the native population. Shrewdly, the mafiosi also offered protection to Piedmontese residents by punishing those Calabresi

residents who misbehaved. For instance, they punished Calabresi who offended local women outside bars and nightclubs.[69] Their territorial control allowed the group to branch out and protect other criminal businesses, including arms trafficking, drug dealing, and money laundering. For example, a laboratory producing ecstasy tablets was found in Val Susa in 1994.[70] Ominous signs of the expansion of this mafia group were also highlighted by an investigation in the late 1990s into racketeering by construction companies in nearby towns.[71]

The step from a successful protection racket to the penetration of local politics was a short one. The mayor of Bardonecchia discovered that, by the time of the 1971 census, some three hundred people all originating from the area around Lo Presti's birthplace in Calabria had recently registered as residents in Bardonecchia. This number amounted to almost the entire increase in population since the previous census. As the voters numbered some fifteen to sixteen hundred adults, the newly registered residents could have accounted for up to 19 percent of the electorate (it is not known whether all the new residents were of voting age, although the mayor seemed to think so).[72] Lo Presti boasted in a phone call of controlling five hundred votes and influencing elections to the point where the majority of the city councillors were in his pocket.[73] He tells a candidate in another phone conversation: "We have never lost [an election]."[74] To a local paper he declares: "No administration [in Bardonecchia] is elected without the support of the southerners [*meridionali*]. I can tell you that I do not need to tell my friends how they should vote. They know my ideas and, if they love me, they know for whom they should vote."[75]

In 1975, the Turin court noted that a power struggle was under way between the incumbent mayor (Corino) and the Calabrese clan of Lo Presti. In 1979, a new administration was elected that was more favorable toward the Calabresi. Lo Presti himself declared, "Some days ago, [the new mayor] asked for help, and I helped."[76] In effect, the political coalition that won the elections in 1979 has been reelected ever since. A report produced for the prefect of Turin notes that in 1988, the mayor was voted for unanimously by both the winning coalition and the opposition councillors (mayors were at the time elected by the city council).

In 1994, Bardonecchia hit the national headlines. The mayor and other councillors were arrested for their involvement in the illicit allocation of construction permits (*speculazione edilizia*), unjustified variations to plan-

ning decisions, and undercharging for and underselling valuable land (it should be stressed that they were later acquitted at the appellate stage and had been compensated by the Italian state for the judicial error). The father of the mayor appears in the license records above. The land in question is Campo Smith, where the Smith brothers established the world record for trampoline jumping in 1911. In essence, the case involved underselling a valuable green area to a developer controlled by Lo Presti and then granting him permission to develop it. The land, estimated to be worth 1.6 billion liras in 1995, was sold for 17 million liras. The overall value of the development was later estimated to be 90 billion liras by the authorities investigating the case. The developers and contractors entrusted with the work included individuals sentenced for violent crimes and drug trafficking rather than bona fide professionals.[77]

This situation resulted in an unprecedented move for a town in northern or central Italy: in 1995 the president of Italy suspended the democratic process and disbanded the city council because of "mafia penetration."[78] Nonetheless, in the 1996 election the ticket that had supported the disgraced mayor campaigned for "continuity" and obtained almost 70 percent of the votes. Both the left-wing Partito Democratico della Sinistra and the right-wing parties supported this ticket, while the leader of the opposition reported pressure on one of their candidates during the electoral campaign. The 1996 administration included four individuals (among them the new mayor) who had served in the disbanded 1995 administration and had been under investigation. The 2001 administration was also a political heir of the disbanded 1995 local government; it included two individuals who had served in the 1995 administration and seven who had served in the 1996 administration. Despite presidential intervention, there was clear political continuity between these administrations.[79]

As in other mafia territories, Bardonecchia saw the emergence of a code of silence (*omerta*). Police officers and investigators "found among the population a very low propensity to help the authorities in their investigation."[80] In 1994, when the elected officer with the tourism portfolio was asked about his plans to keep the mafia out of local politics, he answered, "Our job is to manage local affairs; police officers (and there are plenty of them in town) should worry about the mafia."[81] Similarly the mayor, charged with being involved with the mafia, and son of the owner of the construction company, declared that "unlike my colleagues,

I don't play the policeman," and "we should be grateful to the soggiorno obbligato policy, which brought to our town people like Lo Presti and Mazzaferro."[82] After the 1996 elections the newly elected mayor stated, "We are cooperating with law enforcement to clarify what went on in the past, but, believe me, in town nothing ever went on, there were no connections between local politics and the mafia (assuming that the latter ever existed)."[83] As late as 2001, the mayor was still demanding a "public apology" from the state for disbanding the city council in 1995.[84] The mayor elected in 2001, in contrast, established links between his office and antimafia campaigners based in Turin and was supportive of the present study, although he belonged to the same political faction as the mayor who was under investigation, and considered the 1995 suspension of the city council futile and wrong.[85] The passing away of Mario Corino, the antimafia mayor of Bardonecchia, on February 2, 2010, went virtually unnoticed. Contrary to the extensive press received by Lo Presti for his death (including a full page in the national paper *La Stampa*), Corino's death elicited only two short articles in news bulletins with a local circulation in the Val Susa Valley. One such piece did not mention his efforts against crime and described him as a difficult man who, "for good or for bad," had an impact on his community. His courage went unsung.[86]

Collective action was now working in the opposite direction to virtuous social engagement, with people being mobilized in order to support mafia-tainted politicians. The parish priest of Bardonecchia organized a four-hundred-person march in support of the disgraced mayor, with the endorsement of the bishop, who himself went on record as saying, "I would deny the presence of the mafia in this area."[87] Both clergymen were later interviewed by the investigating magistrates about their roles in the march and claimed that they were simply supporting a group of parishioners who had "spontaneously" organized the rally themselves.[88] A march against mafia penetration into the North, organized by the Northern League in the town on May 27, 1995, failed to attract any support whatsoever, according to a police report from June ("indeed, the population even avoided being seen anywhere near the site of the march").[89] No other political party organized rallies of this kind. After the dismissal in 1995 of the local administration, *La Stampa* interviewed a number of casually selected residents and long-time vacationers; the former expressed their

support for the mayor, while the latter favored the presidential measure, indicating some local support for the criminal state of affairs.[90]

Was social capital depleted as a consequence of the mafia penetration, as predicted by Putnam's work? If one measures social capital as voting in referenda and the European elections—where the constituency covers the whole of northern Italy and thus the link with a specific candidate is rather loose—the answer is negative. For instance, in 1979, 85.13 percent of the electorate voted in the European elections, virtually identical to the turn out in Turin Province (87.09 percent) and the northwest electoral constituency (88.75 percent). Similarly, in the last referendum (2009), although the turnout in Bardonecchia (25.52 percent) was lower than in Turin Province (36.87 percent), it was higher than in other Piedmontese provinces, such as Asti (17.78 percent), Cuneo (23.92 percent), and Verbano-Cusio-Ossola (15.46 percent).[91] Mafia presence does not seem to have led to a drop in civic engagement as measured by electoral turnout.

Connections exist between the homeland and the groups operating in Piedmont. In order to gain entry into the Bardonecchia `ndrina, a would-be member had to travel back to Calabria to undergo the initiation ritual.[92] This suggests that the mafia of Bardonecchia is a branch of the Mazzaferro family rather than an independent entity. Other evidence of connections exists. Piedmontese clans are expected to assist fugitives from Calabria, support other members imprisoned in the region, distribute drugs, and more generally invest capital from Calabria in the legal economy.[93] Construction companies in the two valleys—Val Susa and Canavese—have been found guilty of laundering drug money from Calabria, with the help of local professionals.[94] ("It is easier to launder money through a construction project," maintains a police investigator who has worked on Bardonecchia extensively, "than to invest it in immovable property, as there are many expenses, many of which can be settled informally, without issuing official invoices.")[95] Giuseppe Ursino, the cousin of the Ursini-Scali family boss based in Gioiosa Ionica and Lo Presti's nephew, was arrested in Bardonecchia in 1993, along with another fifteen Calabresi who had settled in the Turin area.[96]

Other mafias have also made an appearance in Bardonecchia. In the 1970s, some members of the Sicilian and U.S. mafias tried to enter the construction industry—in particular members of the Gambino and

Spatola families—but they were eventually dissuaded by the `Ndrangheta and left town, according to confidential police reports. A summit involving Calabrese, Italian American, and Sicilian mafiosi was to take place in the town in 1975, but it was canceled at the last minute, possibly because it was known that the police would have raided it. Still, contacts with the U.S. Gambino family and the local `Ndrangheta continued, and relationships remained friendly. In the 1990s, Sicilian fugitives passed through town and a boss, Salvatore Inzerillo, resided there for a few months. An as-yet-unpublished piece of evidence alleges that Totò Riina, the so-called boss of bosses of the Sicilian mafia, visited Bardonecchia as he was interested in investing money in construction. He disappeared before he could be arrested and remained a fugitive for several more years.[97]

To conclude, the story of the `Ndrangheta in the Val Susa Valley is closely linked to the expansion of construction in the 1960s, which brought significant profits to a vast part of the population. Local firms could not meet the demand for new homes and started to hire illegally, through Calabresi fixers, unemployed immigrants who had moved to Turin. New firms from Calabria also entered the market at the suggestion of Calabresi who had found themselves in Bardonecchia due to the soggiorno obbligato policy or had simply started to work in the construction sector. Neither this large workforce nor its employers could turn to the state to settle any disputes that might have emerged. Moreover, the Calabresi involved in the labor racket began to offer criminal protection to both workers and employers as well as enforce a cartel of market incumbents. Violence was used to force some firms out of the booming construction sector. Over time, individuals who were favorable toward the mafia penetrated politics. Initial high levels of trust did not prevent transplantation. It is hard to tell whether trust was depleted as a consequence of the arrival of the mafia, but surely civic engagement (as measured by voting in referenda and the European elections) remained high. Portions of civil society even mobilized in support of mafia activities.

To fully understand why the `Ndrangheta succeeded in becoming entrenched in Bardonecchia, one needs to compare this case to another instance where the `Ndrangheta tried but failed. To find a comparable city is a challenge. First, the city in question must be in a part of the country

that is as similar as possible to Bardonecchia in as many ways as possible (so that we can discount them) while at the same time having been subject to such an attempt. An added complication is that, typically, information on failed cases is harder to come by.

The `Ndrangheta in Verona

The journey from Reggio Calabria to Verona is almost as long as the one to Bardonecchia, and the Northern city could not be more different from the one in Calabria. Instead, Verona and the Veneto region share many features with Turin and Piedmont. Putnam's Civic Community Index puts Veneto—like Piedmont—among the most civic regions of Italy. Verona sports an array of positive indicators, such as the highest gross domestic product and highest disposable income in Veneto, virtually full employment, high levels of cultural consumption, and one of the lowest crime rates in Italy.[98] It is world famous for the opera season at L'Arena running every year from June to August, and for the setting of the doomed love story *Romeo and Juliet* In a street just off the main square, Piazza delle Erbe, stands a house falsely claiming to be Juliet's home. A short passageway covered with slips of paper containing love pledges leads to a narrow and always-crowded courtyard. Above one's head towers Juliet's balcony, while a bronze statue of William Shakespeare's heroine occupies the center of the paved *cortile*, one breast shining indecently as a result of the thousands of hands that have touched it for luck.

And yet Verona is a city that does not live in the past. The economic structure of the district changed after the Second World War from being mostly agricultural and based on sharecropping to being export-led, competing successfully in international markets for goods that require a high level of craft and skill, such as wooden furniture, footwear, engineering, wine, confectionery, and graphic design.[99] Pino Arlacchi and Roger Lewis, the authors of a study on drug consumption in Verona, describe the city as a tight-knit community where informal social control is exercised by "the bar owner, the newsagent, the teacher, the priest, the doorman, parents, and women talking on their door steps."[100]

Verona's population grew dramatically in the period 1951–81 as a result of immigration. Between 1951 and 1961 the net population increased from

185,482 to 215,733, with immigrants making up 34 percent of the total population by 1961.[101] Overall, in the period 1951–71, the population of the city grew by 29.2 percent (slightly more than the figure for northeastern Italy, which was 27.2 percent in the same period). Despite the rise in population, however, the demographic makeup of Verona did not change as it did in Turin. As shown in table 3.2, more than 93 percent of the 1951 population was born in the city or the Veneto region, 13 percentage points more than the equivalent figure for Turin. Still, the divergence between Verona and the other cities discussed above is even more striking in the succeeding decades. In the 1961 census, Turin, Milan, and Rome had between 26 and 33 percent of people born outside the region, while Verona had just 7.6 percent. By the 1981 census, Verona had almost 90 percent of residents born in the same region, roughly 20 percentage points more than in Milan and Rome, and 30 percentage points more than in Turin. Throughout the period covered in table 3.2, the number of residents originating from Calabria, Sicily, and Campania was negligible.

Where did the new residents of Verona come from? In contrast to the pattern experienced in Turin, Milan, and Rome, the new residents of Verona came from the surrounding region and mainly consisted of agricultural workers seeking better employment in the local factories. These immigrants managed to find employment in local industries. At this time there was a net increase in the supply of jobs relative to demand, and the rate of unemployment remained low and also considerably lower than the Italian average.[102]

As in the case of Piedmont, several members of `Ndrangheta families had been forced to resettle in Verona during the 1960s and 1970s through the same soggiorno obbligato policy described above.[103] In the period 1965–74, some one hundred people moved to the province for this reason. Not all of them had been found guilty of mafia crimes. For instance, in February 1974, out of sixteen such felons residing in Verona, only four had been found guilty of mafia-related crimes in the South.[104] Another source of people trained in the use of violence and specific to Verona was the vast contingent of neofascists, who over the years had been involved in, and charged with, several violent crimes. In particular, the neofascist Ordine Nuovo was founded in Verona, while most members of the Rosa dei Venti and the Nuclei Armati Rivoluzionari, two other extreme right-wing groups, lived in Verona. Veronese neofascists were questioned and

investigated in connection with the bomb placed in Brescia in May 1974 that killed eight people and injured more than a hundred.[105]

The only significant illegal market in Verona in this period was that for drug consumption and trafficking. Some 10 percent of young people used drugs regularly. According to police estimates, roughly eight thousand people were habitual consumers in the late 1970s.[106] Consumption and trading were rather open, involving local youths influenced by the revolution in personal behavior of the late 1960s. In 1974, police raided an apartment where teenagers openly smoked and traded hashish (it was reoccupied shortly afterward). Most business occurred in Piazza dei Signori and Piazza delle Erbe, both central city squares not far from Juliet's balcony.[107] Arlacchi and Lewis estimate that up to 60 percent of those involved in heroin use and trafficking in Verona at that time were educated, self-employed proprietors, or managers of small businesses, and came from relatively well-off families. In other words, operators in the market belonged to the same social milieu that had given rise to a flourishing economy, and adopted the same norms of fair dealing and commercial practices that characterized the legal sectors of the economy. Transactions in the illicit drug market took place according to shared rules of fair bargaining, and punishment took the form of exclusion from future exchanges as well as refusal to offer credit and discounts. In addition, a significant level of barter and individualized exchange took place, and no third-party mechanism to punish defectors existed. Most of the arrests of both consumers and local traffickers were for direct violations of drug laws rather than violent crimes connected to the drug trade, and most of those arrested were sent to prison only once rather than being repeat offenders.[108]

Operators in the drug market seemed able to satisfy the growing demand. At first, supplies of morphine and heroin arrived in the city with users who had visited Bangladesh and Pakistan in the early 1970s. In a matter of a few years (1974–75), individual consumers, small-time local traffickers, and consumers' cooperatives started to buy heroin that came from southeast Asia via Amsterdam and Munich, and from the Middle East via Yugoslavia. Over the following years the quality of the product increased, as did the sources of supply (between fifty and eighty kilograms were sold monthly in the city, according to police estimates).[109] A Communist Party official at the time and antidrug activist, Dino Facchini, recalls an aspect of the heroin transportation routes into the city:

> A significant element facilitating drug trafficking was the Interporto terminal. The terminal provides infrastructure for freight activity, making available multiple modes of transport. In essence, it means that goods may arrive by different means—say, by rail—and then be loaded onto trucks. The Interporto is located at intersection of the Brenner (north-south) and Serenissima (east-west) turnpikes, and is directly connected to the Verona airport. There is also a customs office. More than four hundred companies have offices there, and it employs some four thousand people. I know this well because I served for several years on the board of the Interporto [board members are political appointees]. Thus, the heroin was arriving from Eastern Europe by truck and by rail, was going through the terminal, and then entered the rest of the Italian market.[110]

Suddenly, Verona found itself at the center of an international drug route, and its heroin, the so-called La Veronese, acquired a national reputation as cheaper and purer than many other variants. Local consumers introduced trusted outsiders—especially consumers based in the surrounding towns—to sellers, and the market gradually spread to the rural areas.[111] As this illegal market was expanding, the number of people under eighteen years of age charged with drug-related offenses actually dropped in the period 1970–87.[112] Prior to the arrival of the Calabresi, violent conflict was virtually absent, as evidenced by the data on murders: the rate in Verona city was lower than the average of the Veneto region, and six times lower than the national average.[113]

A colorful character from this time is a young local lad, thin with pock-marked cheeks, best known by his nickname, "Gengiva" (Gum). He is credited with having introduced considerable quantities of heroin into the city over a twenty-year period. A carpenter by trade, he started his career—after a brief spell as a bank robber—with other like-minded locals, also known by their nicknames, such as "Camay," "Gancio" (Hook), "Bistecca" (Steak), "Gamba" (Leg), "Perry," "Elio il bello," and "Volante d'oro" (Golden Wheel). In his time, Verona came to be known as "the Bangkok of Italy," and the long line of cars visiting the city from all over northern Italy to buy heroin was dubbed "the Ho Chi Minh Trail."[114]

In the 1970s, the Calabresi in town decided to muscle into the legal and illegal markets. As early as 1973, they began trying to extract money

from legal entrepreneurs. For instance, in early January 1974, in the city of Ronco, near Verona, several prominent entrepreneurs and politicians received threats and demands for money.[115] In the eastern and southern parts of the province of Verona, home to successful export-oriented furniture makers, police uncovered extensive extortion. Some one hundred thefts of trucks carrying furniture reportedly took place in 1973 alone. The Calabresi claimed that they could offer protection against such occurrences.[116] Violence and crime increased in this period, with businesspeople in particular experiencing a rise in intimidation, robberies, and homicides.[117] Answering a confidential survey administered to two hundred local entrepreneurs, 38.2 percent of the respondents stated that extortion was "common," 9.3 percent stated that it was "all-embracing," while 45 percent declared it was "limited." Only 4.6 percent answered that the phenomenon did not exist in Verona.[118]

The Calabresi also tried to gain control of the drug market by using violence against existing traders and establishing direct links with suppliers. Six murders connected to disputes in the drug market took place in rapid succession. One of the victims was murdered mafia style (*incaprettare*). This involved tying his hands and feet behind his back with a rope that also went around his neck; death came as a result of self-inflicted strangulation.[119] The large drug suppliers whom the Calabresi contacted (Sicilian mafiosi and Turkish heroin suppliers) demanded payment in cash on consignment. Since the Calabresi faced a chronic shortage of funds, they decided to raise capital by kidnapping wealthy Veronesi for ransom, relying on their region of origin for hiding places. Ten Veronesi were kidnapped between 1974 and 1978.[120]

The key organizer of the transplantation attempt was Cosimo Ierinò, a prominent member of the Mazzaferro clan, born in Gioiosa Ionica, the Calabrian hometown of Lo Presti. Like Lo Presti, he was related to the Mazzaferro, having married the sister of Vincenzo and Giuseppe Mazzaferro. In a curious twist, Ierinò disappeared from Verona for a while and surfaced in Bardonecchia. Other prominent individuals involved were two sets of brothers—the Corsaro and Camera brothers.[121] The group recruited local petty criminals and neofascist activists in an attempt to create a protection racket and control the lucrative drug trade. They planned to establish a system of concessions whereby a set of local criminals (thieves, con artists, extortionists, pimps, and smugglers) would be identified and put in charge

of a given territory, encouraged to extract protection payments from local businesspeople, and forced to hand over a portion of their earnings to the Calabresi. The Calabresi, in turn, would offer services such as dispute settlement, refuge and hiding places for people and illegal goods, and the intimidation of political and law officials. As part of this strategy, they started to hand out bribes to local law enforcement and party functionaries.[122]

A clear attempt to penetrate politics is also on record. Several drug dealers and other individuals from Calabria became card-carrying members of the tiny Partito Social Democratico Italiano. Shortly thereafter they were elected to positions of responsibility within the party. Reputedly, the local party leader, also from Calabria, was supporting them. Their acceptance into the party and rapid rise through the ranks generated internal opposition, resignations, emergency meetings, and alarm in the city.[123]

Violence spread beyond the drug market. The highest-profile murder at this time was that of Fabio Maritati, the son of a police officer, possibly a case of mistaken identity (the real target was his father), on December 21, 1979. The murder was related to Maritati's investigations into truck thefts (he was with the transport police). At the trial, it transpired that another police officer had helped the killers.[124]

As in the case of Bardonecchia, civil society was quick to mobilize against outside criminal elements. At the forefront of this grassroots movement were the Catholic church, the local chapter of the Italian Communist Party, and the newly created Association of Concerned Families against Drugs.[125] A large rally against drugs and organized crime took place in December 1980, and some ten thousand people signed a petition to the same effect in 1981.[126] At the instigation of the Communist Party, an even larger and televised march of protest, attended by the speaker of the House of Representatives, was organized for October 1982.[127] All local political leaders (with the exception of the neofascist Movimento Sociale Italiano) denounced drug dealing, and resolutions were passed in the city and provincial councils in support of the fight against organized crime.[128] The local paper, *L'Arena di Verona*, rallied behind the efforts to free the city from these criminals, and ran several features openly opposing the presence of the Calabresi in town, often using bigoted language.[129]

Local campaigners were targeted and violence was used against them. On December 8, 1980, the editor of *L'Arena di Verona* was the victim of an attempt on his life.[130] Members of the Association of Concerned Fami-

lies, a priest, and Communist activists were all threatened, affronted, and physically attacked.[131] In contrast to the outcome in Bardonecchia, however, the concerted pressure of civil society on both the police and judiciary yielded tangible results—namely, the removal of officials and politicians who had accepted bribes from the mafia.[132] The attempted penetration of the Partito Social Democratico Italiano was short-lived. Unable to control a significant share of votes in a city much larger than Bardonecchia, the Calabresi were unable to influence the outcome of elections.

By the mid-1980s, the long-term plan of establishing a protection racket and controlling the drug market in Verona had failed. Ierinò, for instance, resumed his activities in Calabria and was eventually arrested in 1995. In the meantime, the drug market continued to flourish according to the rules of fair bargaining and reciprocity described above, and was being run by entrepreneurs beyond suspicion.[133] For example, in February 1988, the police intercepted eighty-five kilos of pure heroin, with a street value of 150 billion liras (or US$128,000,000). The masterminds of the traffic were a former postal worker, a wine producer, and the owner of a livery stable. An in-depth newspaper investigation concluded in 1988:

> Going over the occupations of those arrested for drug trafficking, one often comes across hairdressers, manicurists, small entrepreneurs, pasta makers, bar owners, door-to-door salesmen, individuals with regular jobs. And entire families, spanning from grandfathers to grandchildren. Reportedly, a couple of years ago local entrepreneurs even formed an investment company to collect funds to invest in the heroin traffic, with a 30 percent guaranteed return.[134]

For his part, Gengiva returned to drug trafficking in Verona. In 1988, the police found some eighty kilos of heroin in one of his villas. In 1994, he realized that his luck had run out—a police officer who had helped him throughout had just been arrested for favoring criminals—and flipped, revealing the ins and outs of the local drug market. Courtesy of a local veteran crime correspondent, I met Gengiva in 2005. Excessive drug and alcohol consumption had taken their toll on his health. He was spending most of his days sitting at a central café, just opposite the Arena, not far from Piazza delle Erbe. Gaunt, with darkened teeth and scant hair, he wore dark glasses and was dressed smartly. He willingly recounted some details

of his previous life, but mainly evoked for me the many places that he had visited in the Far East and the many properties that he had acquired. Gengiva had also grown wiser. In heavy Veronese dialect, he said that it is not worthwhile misbehaving in life, as you will pay for it in the end. Frail and ailing, he died in 2008, at age fifty-three.[135]

A combination of factors accounts for the Calabresi failure at transplantation. First, the new immigrants found official employment in the local industries. In the legal markets, extortion was directed at export-oriented firms that were not in direct competition with each other. In contrast to the case of Bardonecchia, employers would not benefit from the creation of a cartel of a few locally based firms to exploit a local market, since they were mainly exporting their goods to diverse markets in northern Europe and the United States. The service offered by the Calabresi turned out to be purely extortionary. Collective action, fostered by an active civil society, thereby became more effective than in Bardonecchia.

One would expect that the expanding drug market in Verona shared key features with the expanding construction market in Bardonecchia, giving rise in both instances to a demand for mafia-type protection. Furthermore, the drug market was illegal, thus there were no legal competitors who could have stepped in. And yet the Calabresi failed to control the market. There are at least three key differences between the two cases. First, in Verona the dealers had emerged from the same local milieu as the consumers, felt a common connection to the radical behavioral revolution of the 1960s, knew each other well, and relied initially on trust but then, as the number of market actors grew, rules of fair bargaining and cooperation in their exchanges. They did not need a third-party enforcer of deals. The makeup of the market actors is markedly different from the poorly educated and unemployed immigrant workers living in squalor in Turin and needing the Calabrese fixer to find employment.

Second, in Verona—as in other instances—the mafia found it impossible to create bottlenecks to channel the supply of drugs into the city.[136] The Calabresi could not offer local dealers access to particularly attractive new sources of supply, as Turkish and Sicilian mafiosi did not enter into exclusive deals with one distributor. In Bardonecchia, by contrast, construction firms arrived from Calabria to offer employment to the immigrant workers.

Third, dealing in drugs is not an activity tied to a fixed place, as in the case of construction. Construction sites provide a focus for violence, as did bars during Prohibition in the United States.[137] The Veronesi were able to elude mafia attempts at controlling their activity, moving distribution to different areas while continuing to sell to customers with whom they had developed long-term relations of cooperation. Local dealers did not need or demand Calabresi protection in the illegal market.

Conclusions

In light of the different outcomes of the `Ndrangheta attempts at transplantation in the two regions, I can draw some general considerations. Table 3.4 summarizes the key factors that the two cases share and those that distinguish them (it also includes columns that will be filled as I cover the other cases in this book).

Supply Immigration impacted the two locales differently. Verona experienced significant arrivals, like Turin, Rome, and Milan, but in contrast to the case of Turin, immigrants found employment in the expanding local economy. No pocket of poorly housed immigrants far away from their structures of support existed in Verona at this time. A second difference is that immigrants were from the region of Veneto, rather than from the South.

The comparison between Bardonecchia and Verona reveals that in both cases, mafiosi from Calabria were forced to resettle in these regions, but only in Bardonecchia did they succeed in realizing their long-term criminal goals. Moreover, other parts of Piedmont and northern Italy experienced an influx of a similar or higher number of individuals forced to migrate due to the soggiorno policy, yet mafias did not emerge everywhere. A supply of specialized criminals (as distinct from generalized migration) is not enough to produce successful transplantation. As for ex ante motivations to expand, I found no evidence that the incoming mafiosi arrived in order to obtain special resources, invest in the local economy, or colonize a new market. Mafiosi did invest *after* they had been forced to migrate there, but this was not the reason that they migrated.

Local conditions A high level of interpersonal trust and civic engagement is present in both cities. It is hard to tell conclusively whether trust was

Table 3.4

Factors Facilitating Mafia Transplantation, Bardonecchia and Verona

Factors facilitating mafia transplantation/cases	*Bardonecchia*	*Verona*	*Budapest*	*Rome*	*New York City (1910–30)*	*Rosario (1910–30)*	*Shenzhen/ Guangzhou*
Generalized migration	Yes	No					
Mafiosi migration (willing/unwilling)	Yes (unwilling)	Yes (unwilling)					
Supply of mafiosi	Yes	Yes					
Local conditions							
Level of trust/civic engagement	High	High					
Presence of local illegal protectors	No	No					
Size of locale	Small	Large					
New and/or booming markets*	Yes	Yes					
Demand for mafia services	Yes	No					
Transplantation	Yes	No					

* The markets considered are construction (Bardonecchia and Rosario), drugs (Verona and China), property rights (Budapest and China), oil (Budapest), alcohol (New York City), gambling (New York City and China), and prostitution (China).

depleted as a consequence of the success of the `Ndrangheta in Bardonecchia. Surely, voting in referenda and the European elections (where the constituency covers the entirety of northern Italy) continued to be high, and mobilization took place in order to defend the mafia rather than oppose it.

One might ask if the effectiveness of law enforcement could account for the diverging outcomes. There is no evidence that the police and judiciary were less efficient in Turin Province than in Verona. In both cases, I found instances of occasional corruption within law enforcement. Indeed, in the case of Verona, a corrupt police officer was behind the murder of a colleague who was investigating cargo thefts. The judiciary in both locales put pressure on the mafia, instructing several trials since the 1970s. (As for the existence of local protectors, no homegrown mafia existed in either Bardonecchia or Verona, unlike cases that I will explore later in this book.)

Verona is a significantly bigger city than Bardonecchia. The penetration of politics is, ceteris paribus, easier the smaller the locale. According to his own estimate, Lo Presti controlled five hundred votes in the Piedmontese town. That portfolio of votes was enough to elect a sizable section of the city council. The same five hundred votes would have had a less dramatic impact in Verona, where the Communist Party alone could count on fifteen thousand card-carrying members. The structure of the economy also differed. Verona was an export-oriented economy, and thus we would expect it to be less susceptible to mafia efforts to offer services of cartelization. The Bardonecchia economy experienced an economic boom in a local market, where mafia services aimed at reducing competition would have benefited market incumbents in significant sectors (see the "new and booming market" condition in table 3.4).

In short, a combination of factors account for the outcome in the Piedmontese town—that is, large-scale migration from outside the region combined with illegal employment in a localized booming market of a small town and the presence of a small supply of `Ndranghetisti forced to reside there. The migrant workers accepted illegal employment, and thereby deprived themselves of trade union and more generally state-sponsored protection. If they had acted differently, they would have remained unemployed. Construction firms benefited from the muscle offered by the `Ndrangheta in pushing out competitors. A demand for criminal protection allowed the `Ndrangheta Mazzaferro clan to offer its services and

entrench itself in a faraway territory. Contrary to what some authors might have predicted, the levels of trust and social capital among the population at large did not in themselves prevent transplantation.

A booming illegal market does not always generate a demand for criminal protection. In Verona a mafia failed to take root in a large illegal market, where by definition traders cannot turn to the state in case of disputes. This reflects a combination of three factors. First, traders and consumers knew each other, and had entered into long-term relations of cooperation. A third-party enforcer of deals was not necessary; a customer who defected simply would not be served the next time around. Second, the Calabresi had no particular connection to drug suppliers and could not force local dealers to use their sources. Third, selling drugs is a more mobile type of economic activity than erecting a high-rise building. To the extent that the Calabresi tried to force dealers operating in a given area to hand over a cut to them, the latter would simply have moved elsewhere.

Let me offer a final word on the relationship between the outpost and homeland in Bardonecchia. There is no evidence that the Calabrese bosses were paying a salary to Lo Presti or other mafiosi in Bardonecchia. However, the outpost was not fully independent, as indicated by the fact that it did not have the power to carry out initiation rituals. New recruits had to travel back to the homeland to join the organization. What accounts for this relatively close relationship? The explanation lies in the pre-eminence of money-laundering: Calabrese firms operating in Bardonecchia were a conduit for investing money obtained by the `Ndrangheta in Calabria. Since capital was coming directly from the cosca in Calabria, the group of origin retained a relatively strong connection with the outpost.

FOUR

The Russian Mafia in Rome and Budapest

The Solntsevskaya

Solntsevo is a rundown, working-class district of Moscow, located in the western and southwestern parts of the city. Lying outside the MKAD, Moscow's equivalent of Washington's Beltway or London's M25, the inhabitants of central Moscow would never venture into this depressed zone of the outer city, and many would not even consider it part of the Russian capital.[1] The intrepid traveler who still wants to visit Solntsevo must spend no less than an hour on the orange metro line that leaves from the center of town and then, once they have reached the end of the line, board a city bus. The area used to host a pleasant spread of dachas until the Soviet authorities decided to construct several impersonal high-rise buildings. Possibly in recognition of the fact that skyscrapers obscure the sun, the district was named after the Russian word for sun (*solntse*) when it was officially established in 1938. As in other instances where the object does not fit the moniker, the English rendering of Solntsevo is Sunnyside.

This district has given its name to arguably the mightiest organized crime group to emerge from the wreckage of the Soviet Union, often referred to as the "Solntsevo fraternity" (*Solntsevskaya bratva*). The founder of the fraternity, allegedly, is Sergei Mikhailov, a respected businessperson and patron of the Orthodox Church. Nowadays, you can see pictures of him wearing a tweed jacket and tie, perfectly shaved and groomed, with serious yet quizzing eyes glaring into the camera. He was born into a modest working-class family in February 1958 and raised in Solntsevo. As a young

Five-story apartment houses on Glavmosstroy Street, Solntsevo, Moscow. Photo credit: Artem Kostyukovsky.

man, Mikhailov trained to be a maître d'hôtel at the Sovietskaya Hotel in central Moscow while cultivating his other passion: wrestling. In 1984, he was found guilty of insurance fraud (he stole his own motorbike) and spent several months in custody. After receiving a conditional jail sentence, he returned to Solntsevo, and started setting up sports clubs and organizations to which he recruited the tough, unemployed, and aggressive young men living in the district.[2] He joined forces with a former prison inmate, Victor Averin, to create his own gang, and named it after the district. It was only with the spread of the new post-Soviet market freedom that the Solntsevskaya became a significant player in the Russian underworld. In order to fend off a major challenge from Chechen groups, Mikhailov joined forces in 1989 with Sergei Timofeev. Nicknamed "Sil'vestr" after Sylvester Stallone for his muscular build, Timofeev was the leader of the Orekhovskaya gang comprising mainly young sportsmen and wrestlers. By the mid-1990s, the Solntsevo had grown in strength. A Federal Bureau of Investigation (FBI) report in 1995 described it as the most powerful

[162.10.217.184] Project MUSE (2026-06-15 01:44 GMT) University of Queensland

Sergei Anatol'evich Mikhailov (b. 1958), the founder, allegedly, of the Solntsevskaya bratva in Moscow. He is now a respected businessperson and patron of the Russian Orthodox Church. Photo credit: News Agency Thompson Reuters.

Eurasian organized crime group in the world in terms of wealth, influence, and financial control.[3] The core of its business was protection, or what in Russian is termed "roof" (*krysha*).[4]

Estimates of the size of the brotherhood (possibly exaggerated) range from five to nine thousand members. The group comprises no fewer than ten semiautonomous brigades (*brigady*), which operate under the umbrella name of Solntsevskaya. The Russian police claim that it controls various banks along with about a hundred small and medium-size enterprises. Although little is known of the inner workings of the group, former members have claimed that the organization is governed by a council of twelve individuals, who meet regularly in different parts of the world, often disguising their meetings as festive occasions. The Solntsevskaya maintains a common fund (*obshchak*), which is reinvested into the legal economy through a number of banks that work for the organization, with members

of the organization's council overseeing the investment decisions. At one point in its history, this mafia set foot on the Italian peninsula.

The Solntsevskaya in Italy

Fano is a sleepy beach resort on the Adriatic Sea, in the Italian region of Marche, a few kilometers from the more prestigious cities of Pesaro and Urbino. Among its few historical claims to fame is having been invaded by Cesare Borgia, the man who tried to create a state of his own in central Italy in the late fifteenth century and was the main subject of Niccolò Machiavelli's *e Prince* The city was bombed heavily during the Second World War by Allied troops, while the Nazis destroyed its historical towers and bridges (the Gothic Line stopped here). The center of the town still retains its pleasant character, with the spread of cafés and hangers-on one would expect on a warm day in a town in this part of the world. Besides tourism and small-scale fishing, family-run firms producing shoes, hosiery, furniture, and home furnishings abound, frequently supplying their products to big European brands. Professors at the local university contend that a special "Marche model" of economic development characterizes the area.

Fano is also where two mobsters, Monya Elson and Yossiff Roizis, had come to live in the 1980s and 1990s. Their arrest in 1995 started a chain of events that led to several investigations in the United States and Italy, revealing the presence of the Solntsevskaya in Rome. Monya Elson, a native of the Jewish ghetto in Chisinau (Kishinev), the capital of Moldova, had migrated to New York City in 1978, claiming Jewish preferential status. When he arrived in the United States, he continued to exploit his Jewish identity. He would dress up as an Orthodox Jew and, with an accomplice, walk into a jewelry shop, asking to see expensive diamond stones. While his accomplice blathered in Yiddish, distracting the shop owner, Elson, sporting a paste-on beard, side curls, long black coat, and black hat, switched the diamonds with cubic zirconia. He soon graduated to more serious crimes, including extortion and murder. His rise in the Russian underworld brought him into contact and then conflict with a prominent Russian drug dealer, and then with Viacheslav Ivan'kov, nicknamed "Yaponchik," the Solntsevskaya boss who had escaped to New York.[5] In order to avoid being murdered, he fled to Fano, where a Ukrainian with a U.S. passport, Yossif Aronovich Roizis, had been living since the mid-

Pallbearers carrying entrepreneur and *vor-v-zakone* Vyacheslav Ivan'kov aka Yaponchik's casket to his grave in the prestigious Vagankovskoye Cemetery, Moscow, on October 13, 2009. Photo credit: RIA Novosti News Agency.

1980s. Roizis had started an import-export business of furniture between Italy, Brooklyn, and Russia. Allegedly, Roizis and Elson had met in Budapest at a gathering of associates of the Solntsevskaya.

The Italian police were keeping an eye on Roizis, who had previously been charged with drug offenses (but never convicted) and was receiving money from exotic locations, including New York and Russia, into his account at the Banca Popolare dell'Adriatico di Pesaro, not quite a renowned investment establishment. The U.S. institution at the center of the unexplained money transfers to Roizis was the Bank of New York, eventually the subject of an investigation that made headlines around the world in the late 1990s when two Russian émigrés working at the bank—one was a vice president— illegally moved more than US$7 billion via hundreds of wires. Nine people were eventually prosecuted.[6] At the same time, Elson was wanted in New York for murder and, at the prompting of the FBI, the

Sharply dressed mourners entering the church for Ivankov's funeral. Photo credit: RIA Novosti News Agency.

Italian police closed in. In the early hours of March 8, 1995, they stormed through the door of Roizis's apartment and arrested the two men.

Shortly after his arrest, Roizis began to cooperate with the authorities. In a startling development, he informed them that, in a small seaside resort just outside Rome, a prominent member of the governing body of the Solntsevskaya, *Ivan Yakovlev,* had been in residence since October 1994 (some documents relating Yakovlev to Elson were found in Roizis's apartment). A special unit of the Italian police was quickly assembled and started an undercover investigation of this cell of the Solntsevskaya in Rome, lasting three years (1995–97) and resulting in a three-volume report that was to be used during the trial. The document contains hundreds of pages of transcripts of telephone conversations between Italian and Russian criminals, checks on money transfers, international financial operations involving banks in London, Budapest, Vienna, New York, and Rome, property speculations in Italy, and individual files on some forty-five people. For each individual, the file contains information concerning

their various aliases, passport details, residencies, travels, ownership of real estate, and information collected from other police forces. These people include members of parliament in both Italy and Russia, political leaders in Russia such as a governor, lawyers, executives of various banks in Rome, Moscow, and Saint Petersburg, a general of the Italian army, the former deputy head of one of Italy's oil and gas concerns, former KGB officers, a colonel in the North Korean army, the Russian government's undersecretary of state for energy, police officers, and embassy staff in Rome. The companies involved include car and computer manufacturers as well as Russian oil companies. This source paints an elaborate picture of the operations and objectives of the group.

The end point of this investigation was October 1996, a few weeks after the murder narrated in the introduction of this book, when Sergeev, a business associate of Yakovlev, also operating in Rome, was gunned down in Moscow. The Italian police wrapped up the investigation and sent the results to the prosecutor. The main players were subsequently arrested. It transpired at the trial that the police did not have the correct authorization to collect evidence, especially wiretapping evidence. This technicality prevented the prosecutors from using the material that had been collected, and the court case collapsed.[7] The Russian protagonists of this story were nevertheless expelled from Italy and later resurfaced in Moscow. Thus the reader must remember that the people discussed here have not been convicted of any crime in Italy. In order to protect their identity, all names have been changed. Some place names have also been changed.

As for chapter 3, I start by reviewing whether Rome was ever a destination for Russian immigrants. During the 1970s, the Italian capital was a transit zone for Russians of Jewish origin on their way to the United States.[8] At this late juncture in the Cold War the Soviet leader, Leonid Brezhnev, sought to improve links with the West, in particular the United States. In a move bitterly opposed by U.S. president Richard Nixon and U.S. secretary of state Henry Kissinger, the U.S. Democratic senator Henry Jackson succeeded in linking the status of "most-favored nation" to the issue of Jewish immigration. In 1975, U.S. president Gerald Ford signed the Jackson-Vanik Amendment into law. Brezhnev obliged the senator and started to allow a number of Russian Jews to emigrate.[9] In a hideous twist,

the Soviet government made sure that its worst criminals were among the "Jews" allowed out of the country. The route that the migrants took was rather complex. Normally, they would go to Vienna and then be moved to other distribution centers. One such transit camp was located in Ladispoli, a town thirty kilometers from Rome on the Via Aurelia, the highway built originally in Roman times that links the Italian capital to Pisa, now known also as Strada Statale 1. The camp was run by the Lubavitch movement and the American Jewish Joint Distribution Committee. While in Rome, the Russians applied for a visa to the United States.

In the late 1970s and 1980s, there were several thousand Russians in the Ladispoli camp at any one time.[10] Exasperated by the long delays, they organized protests directed at the U.S. embassy. They also ventured out of the camp and engaged in small commerce. Once a week, the camp residents would go to Rome, squeezing on to the local buses and converging on Vittorio Square in the Esquilino neighborhood, not far from the railway station, and on Sundays they would go to Porta Portese. Throughout the 1980s, the famous Porta Portese flea market had a so-called Russian area (*la zona dei Russi*), where refugees would sell objects smuggled out of the Soviet Union. The area has since been taken over by Chinese sellers.

Monya Elson was one of those Russian Jews who transited through Ladispoli in 1978, after a brief spell in Vienna, equipped with a visa for entry into Israel. He was in the town for three months where—in his free time—he pick-pocketed the locals in order to buy designer clothes for his wife and daughters.[11] A newspaper investigation dated 1977 confirms that Italians were exasperated by the petty crime undertaken by some of the refugees and records instances of racist slurs directed at them.[12] Camps such as the one in Ladispoli proved to be excellent recruiting grounds and networking centers, where gangsters on their way to Brighton Beach met gangsters bound for Antwerp, Brussels, or London. Once they arrived at their new destination, they had a ready-made set of friends to whom they could turn for advice as well as an international network.[13] By 1991, the United States stopped awarding the status of refugee to Russian Jews, who could now apply to move to the United States directly from Moscow. This type of migration left virtually no trace in Rome, but the physical proximity of so many criminals had far-reaching consequences, never recognized at the time.[14]

The post–Cold War phase of Russian migration to Rome involved few individuals. Immigrants residing in the city in 1997 numbered no more than 800 in a city of more than 2.5 million people. The following years saw a similarly low number of arrivals to the Eternal City. For instance, in 2005 no more than 1,000 Russians were registered in Rome, fewer than the numbers of some 40 other nationalities, suggesting a rather stable trend. What they had in common with the earlier migration is that they, along with other East European immigrants, chose to live in the small towns off the Via Aurelia, where housing is cheap. In fact, when Yakovlev arrived in Italy he moved to *Margherita Laziale* (population just over 14,000, according to official 1995 data), a town not far from Ladispoli, with few Russian residents.[15] He rented a large villa tucked away on a side street, and lived there with his wife, two sons, and a rottweiler.

Yakovlev was a senior figure in the Solntsevskaya, regularly invited to attend the Supreme Council of the organization, such as the one that took place in November 1993 in Miami with the other eleven bosses. Born in the Russian Far East and a guest of Soviet prisons in the 1970s, Yakovlev was running a crew attached to this crime group in Moscow. Most crucially, he had been a close ally of Timofeev, who was gunned down in September 1994 together with one of his lieutenants (a man called Kruglov).[16] Indeed, one of the most trusted associates of Yakovlev in Rome had worked as Timofeev's driver for several years. A war was clearly under way among the high echelons of the organization. A well-built man with short graying hair and blue sullen eyes glaring at the camera for his passport photo, Yakovlev had a choice: stay in Moscow and fight, or send a strong signal of neutrality toward the winning faction. As is often the case in the criminal world, the decision to move away could be such a signal. Remarkably, Yakovlev and his entire crew surfaced in Rome a little more than a month after the death of Sil'vestr. According to conversations intercepted while already in Italy, Sil'vestr's supporters were afraid to meet the same fate as their old leader. *Fedya Sidelnikov*, speaking from Moscow where he planned to attend the funeral of a man gunned down in the war, tells Yakovlev, "They will kill all Seriozha's people." "For instance, they have just killed [XXX], who had done nothing and nobody knows why he ended up dead. . . . Even the police says that if all the followers of Sil'vestr (the *Silvestrovskie*) die, there will be peace."[17] In a rare display of criminal bonding,

Yakovlev's interlocutor, against the advice of the boss, states that he wants to attend XXX's funeral, even if it might be dangerous: "I have to go, he was a true friend and a cell mate."[18] In a subsequent conversation, the boss discusses a newspaper report claiming that he "had escaped from [the Far East] and was hiding in Italy." He wonders why such a piece of news had appeared: "Is this a message? Do they still want to kill me?" As for his standing in the Moscow underworld, the wife of the boss tells her son: "I think Ivan is worth nothing nowadays in Moscow." Thus, mafia internal squabbles are at the origins of Yakovlev's presence in Rome.[19]

Although Italy did not have a significant Russian population, it did have the largest Communist Party in Europe (though the party was never in government). Some of the party faithful had married Soviet citizens and spoke some Russian. Crucially, one of Yakovlev's future Italian accomplices had worked for several years at the party headquarters in Rome and had a Russian wife.[20] This is a background factor that eventually facilitated Yakovlev's work in Rome. A view that emerges among the group members is that Italy was an easy country to move to. "Here [in Italy] you can do whatever you want, it is not Europe," quips a longtime collaborator of the boss.[21]

Yakovlev already knew at least two Russians in Italy. Boris Sergeev, who was to become central to Yakovlev's operation in Italy, was a businessperson with contacts with the Solntsevskaya who dealt in oil products originating in Chechnya and had been involved in some money-laundering operations while living in Vienna. He moved near to another town on the Lazio seaside in the early 1990s and set up a number of companies located at an address in Rome where Yakovlev's firms would come to be registered. As narrated in the introduction, he was ultimately murdered in Moscow in 1996. Another collaborator of Yakovlev's, *Bogdanovich*, had relocated to Italy before Yakovlev, in 1991, and lived in Ladispoli. A small-time crook, Bogdanovich spoke Italian and would become a trusted gofer of the boss.[22]

Among the Russians who moved to Italy with Yakovlev were *Sidelnikov* and his wife. Yakovlev's closest and most trusted associate, he had been a bodyguard of the Solntsevskaya founder and first leader. His wife, *Raisa Artamova*, was managing the common fund ("the pot") in Italy for the group.[23] Yakovlev's crew, which remained based in Moscow, included *Rostovtsev*, a former KGB officer who was fluent in Italian and had close contacts with the Italian embassy in Moscow as well as with the political elite

in Russia, and had been collaborating with Yakovlev for eight years; he was involved in arranging visas and passports as well as trips to Moscow by Italian contacts of Yakovlev. *Vlasik*, also based in Russia, was a businessperson who had worked for Yakovlev as the "clean face" of the organization and was a financial wizard. Eventually he was killed.[24]

A key local helper was *Giorgio Facchini*, a former low-level official at the Rome headquarters of the Italian Communist Party who was married to a Russian, *Alina Kamenskaya* At the time of his employment in the Communist Party bureaucracy, Facchini organized trips and cultural exchanges between Italy and the USSR. After being dismissed by the party in the mid-1980s, he continued to be involved in tourism and cultural exchanges throughout the 1990s. Another critical player in Yakovlev's Italian crew was *Giovanni Pepe*, Facchini's assistant. Finally, mention should be made of *Riccardo Brenno*, former manager of a sizeable Italian company. He emerged as the most high-profile Italian involved with the group—a man whose connections extended to the highest echelons of the business and political elite of the country. Table A4.1 in the appendix to this chapter summarizes some characteristics of the main players.[25]

Was there a sudden expansion of either legal or illegal markets at this point in Margherita Laziale or Rome more generally, like in Bardonecchia and Verona? I found no evidence of this. The construction boom had taken place in the 1950s and 1960s in the seaside town, and no new significant construction was under way in the 1990s. As for illegal markets in Rome, prostitution and drug trafficking were dominated by, respectively, Nigerians and Brazilians, and local Italian gangs.[26]

What, then, did Yakovlev do in Margherita Laziale? In order to answer this question, I embarked on a systematic content analysis of all the segments of conversations intercepted by the police (a "segment of conversation" is a fragment of a conversation that has a meaningful beginning and end). After coding each segment, I decided to divide the topics of conversation into four main categories: investments in the legal economy, the acquisition of resources, protection activities, and maintaining internal order. "Investments in the economy" refer to attempts to reinvest the proceeds originating from the Solntsevskaya core activity in Russia in a variety of other businesses. "Resource acquisition" refers to the acquisition of specific input resources to run the group, such as information, equipment,

TABLE 4.1
Distribution of Tasks Discussed in Segments of Conversations

	Tasks by segment of conversations	
Tasks	*Frequency*	*Percent*
Investments in the economy (E)	620	52.2
Resource acquisition (RA)	262	22.1
Maintaining internal order (MIO)	235	19.8
Protection activities (PA)	67	5.6
Total	1,184	99.7
Other	3	0.3
Total	1,187	100.0

or labor. "Protection activities" refer to efforts to control markets and offer criminal protection. Finally, "maintaining internal order" refers to the activities of monitoring, intimidation, and punishment of both local fixers and Russian members.

Table 4.1 presents the data. Slightly over half of the segments of the conversations concern investments in the economy. Resource acquisition and maintaining internal order are the next two most important tasks discussed, while discussions of protection activities come last.

Let's now turn to what appears to be the main task undertaken by the group in Rome: investing money in the legal economy. A significant amount of time, scheming, and traveling was devoted to identifying investment opportunities, mainly in Italy, and exporting goods to Russia. The source of the money to be used in these ventures was clearly Russia. The most basic money laundering technique was to set up a vast network of individuals traveling from Russia to Italy carrying cash. Yakovlev and his associates would take the money, buy the products, and send them back. The Italian police point out that the system may appear rudimentary and of little consequence, but in fact it is used by various Russian criminal organizations, and may involve thousands of people and the transfer of hundreds of millions of dollars.[27] A more sophisticated system to introduce money into the Italian economy was through bank transfers to various companies—all

based at the same address in Rome—that had been set up by Yakovlev's associates in Italy. Money laundering occurred through Russian and, outside Russia, mainly Austrian banks connected with the Solntsevskaya.[28]

The money coming from Russia was invested in a vast array of import-export ventures. The Russian actors in this story, in particular Yakovlev, contacted hundreds of Italian companies and businesspeople, offering to buy their products. The police file records no fewer than a hundred such deals. The deals ranged from purchasing sparkling wine to buying frozen meat, wood, furniture, wheat, steel, pharmaceutical products, Olivetti computers, food products (including fish), Armani suits, works of art, gold, helicopters, and antennas. The Russians had plans to buy a fishery in Tuscany—a scheme that failed. From Italy they also negotiated the establishment of a gambling boat in Korea, another failed venture, and the purchase of goods in Venezuela. The group controlled a small arms shop in Moscow and arranged for several shipments of firearms to be sold there. The Russians seemed to be indiscriminate in their import activities. Normally, they would make an appointment with the firm in question, often pay in cash, and arrange for the delivery of the goods to Russia.

The highest-profile Italian businessperson who worked with Yakovlev was Brenno. The boss said about him:

> Brenno is the former deputy head of [an important Italian company]. He had some problems with the law, but now he is a free man. . . . He was sentenced to four years, but he lives at home, he works, he is all right. Whatever happens, he can fix everything with a phone call in every part of the world. I know him very well, and he has many friends, all Andreotti people.

When he traveled to Moscow to negotiate import-export deals for the group, Brenno was given the royal treatment. The boss ordered a Russian Duma member to be Brenno's chaperone in the Russian capital: "[He] is coming Sunday. Go get him at the airport, take good care of him, take him to the best restaurants, champagne, obviously. Give him an armed escort and a 'cow' for the night. You will see, he is a very serious man. [Prime Minister Viktor S.] Chernomyrdin was keeping his head down when they met."[29]

Some of the transactions were wholly illegal in nature. One significant activity was the illegal export of oil from Russia to various countries, including Italy.[30] The group was also involved in a scam for which the Russians are well known: the attempt to sell radioactive material, especially so-called red mercury, on the international black market. Such a product did not exist, at least in the form described to the prospective buyers. A member of the North Korean army fell for the trick, and several conversations refer to this sale.[31]

The common feature of these ventures was that the money used to pay Italian suppliers came from criminal activities outside Italy, in breach of Italian law. From several conversations it transpires that the money being imported illegally into Italy, and more generally at the disposal of Yakovlev for investment in the legal economy, was the fruit not only of the criminal activities of Yakovlev's crew in Moscow. For instance, in one conversation Yakovlev referred to other Russian criminal groups as having contributed money to the rather significant investment in a fishery. Similarly, it emerged that the money entrusted to a Russian businessperson close to the group, Vlasik, to invest in Korea, belonged to at least three different groups: "In this thing [business venture], there is money invested belonging to people from Magadan to Moscow. We must put Vlasik immediately on trial."[32]

In order to carry out their business deals, the Russians, sometimes with their Italian helpers, traveled extensively through northern and central Italy and stayed in hotels in Lombardy, Veneto, Marche, Piedmont, Tuscany, and Emilia Romagna. They also went to Switzerland several times. Among these trips, some were to Pesaro and the Fano area to negotiate the purchase of furniture using some of the contacts of Elson and Roizis.

While Yakovlev was investing money originating in several groups in Russia, these gangs' representatives traveled regularly to Italy to inspect their investments, to the point that Yakovlev decided to rent a house for his guests. Visitors included members of the Izmailovo and the Kurgan mafia groups along with leaders of other Russian mobs. When they came, Yakovlev made sure they were provided with prostitutes, often Russians. One of his helpers said on the phone, "I am on my way to Venice to bring prostitutes to our guests, because our friends cannot stay without hookers a single day!" Another pastime was attending sporting events, such as the

final of the Champions League between Juventus and Ajax in May 1996, or a Davis Cup match between Russia and Italy, also in 1996. On that occasion, the group was partying with one of the Russian players, allegedly providing him with illegal substances.

Yakovlev devoted almost 50 percent of his conversations to investments in the economy, and Sergeev, Yakovlev's business partner who was later killed, devoted 67 percent of his conversations to this task. In contrast, Sidelnikov, Yakovlev's enforcer, hardly spoke about this item. Sixty-two and 97 percent of the time Pepe, the Italian fixer, and Brenno, respectively, dealt with investments in the economy. Another indicator of whether the activity was directed at Italy or Russia is the country of origin and country of destination of the call. Seventy-five percent of the calls originated in Italy, while Russia was the country of origin for 16 percent of the calls. Italy received 65.5 percent of the calls, and Russia got 23.5 percent. This suggests that most of the talking was done within Italy, with some significant conversations made to and from Russia, since goods were eventually going to reach that country.

These data point to a rudimentary division of labor within the group, with some actors, such as Brenno, almost exclusively dedicated to helping the group fulfill the aim of finding investment opportunities, while others, as we will see below, were more evenly spread across the tasks they discussed. A third subgroup focused exclusively on other tasks.

To what extent were the Russians in Rome to acquire input resources for their operations in Russia? Some authors discussed in chapter 2 suggested that one effect of globalization for legitimate firms is to open outposts abroad in order to acquire resources that are not easily movable, such as minerals, or labor. Intangibles such as knowledge, innovation capabilities, and management or organizational skills are also among the resources being sought. For illegal firms, resource seeking could refer to intelligence and information, labor, and technical equipment like arms, hideaways, and spying technology. Did Yakovlev go to Rome to acquire resources to use for his Russian operations? Once I had read the content of the conversations relating to this task, I discovered that the actors were referring to resources that were instrumental in running the crew *in Italy*rather than input resources for the group back in Russia. The group spent a lot of time

trying to open bank accounts, and to obtain Italian citizenship through fictitious marriages, forged drivers' licenses, and guns. In order to achieve these aims, they engaged in the corruption of local officials.[33]

At least nine fictitious marriages involved key members of the group. The local fixers for the group would find Italians willing to marry Russian nationals for a sum varying between US$15,000 and US$20,000. For instance, both Yakovlev and his wife married Italian citizens, although they continued to live together.[34] The few guns that the group used were smuggled into Italy by some of the female members. These guns were for their own personal use rather than for sale on the Italian market, and came from Russia; they were not a resource acquired in Italy for the Russian operation.

Overall, 22 percent of all conversation segments were devoted to resource acquisition. The Italian fixers of the group and Bogdanovich, the close collaborator of Yakovlev who spoke Italian and had been in Margherita Laziale since 1990, were those mostly involved in conversations about resource acquisitions, well above the overall average (with Bogdanovich at 55 percent, Facchini at 52 percent, Facchini's Russian-speaking wife at 45 percent, and Pepe at 23 percent). The keeper of the common fund spoke mainly about maintaining internal order (62 percent), but her second most important task was resource acquisition (31 percent). The boss was well below the average, with 11.2 percent, while Sergeev was near the average, with 19 percent. Some 80 percent of conversations that had resource acquisition as their main topic were made *within* Italy, and only 16 percent between Italy and Russia.

The key aspect of resource acquisition is that resources were used to ensure the group functioned properly in Italy instead of being invested in operations in Russia. This is contrary to the view that mafias open outposts abroad in order to take advantage of attractive labor or raw material markets. The data show that a rudimentary division of labor emerged, with the Italian fixers and a Russian go-between involved in acquiring resources, while the "enforcers" and "businesspeople" scored quite low or very low on this measure. As one would expect, most of the conversations were within Italy because the resources to be acquired were in Italy.

Since protection racketeering is the Solntsevskaya's core business, we should expect the group to engage in such activity if its motivation for migrating to Italy were to expand its core activity (the market-seeking motivation dis-

cussed in chapter 2, pp. 20–21). To the contrary, none of the recorded conversations referred to protection activities in Italy. They instead offered a fascinating insight into racketeering in Moscow and, to a lesser extent, other cities such as Prague. The calls were frequently prompted by a delay in payments or interference from other racketeers. For instance, the boss threatened the owner of a shop in Moscow who was late with a payment of US$25,000. In another case, a Moscow wholesale dealer of food products—under Yakovlev's protection (to whom he paid US$200,000 a month)—was being harassed by some officials who had requested a million rubles. Clearly his protection was far from tightly sealed, and naturally the boss was worried by this attempt to harass one of his protégés. In a similar situation, in July 1996, the boss received a call from Prague; the caller explained that he had been harassed by certain "gypsies" who were demanding protection money from him. The man in Prague recounted that when asked who his protector (*vor-v-zakone*) was, he named Yakovlev. Tellingly, the Czech gypsies replied that such a protector should be there to look after his associate rather than remaining several thousand kilometers away. (As Machiavelli taught us, the prince has to reside among his people.) The boss at the other end of the telephone line was duly cross.[35]

No conversation referred to any attempt to create a protection racket in Italy. The only information recorded by the police on this dimension was a criminal charge brought against Bogdanovich in 1991, three years before the arrival of Yakovlev in Rome. Bogdanovich was briefly arrested for attempting to extort money from two other individuals from the former Soviet Union. The case collapsed in court, and Bogdanovich was acquitted.

The two actors who were most involved in discussing protection activities were Yakovlev (14 percent) and Sidelnikov (22 percent), well above the 6 percent average for the group. Also, most of the calls were between Italy and Russia (83 percent), and only one call was within Italy, suggesting that the activity in question was located outside Italy, and the Russians in Rome needed to call home to manage this aspect of their criminal activities.

Any crime boss has the task of maintaining internal order, ensuring that his underlings do not disobey or report him to the authorities, and more generally that members of his crew do not cheat. The mere threat of violence should be sufficient to ensure compliance. This was the case with *Marco Ferrari*, a Roman petty criminal, who had "misbehaved" and even

threatened to report Yakovlev to the police unless the boss repaid some money he owed him. The reaction of the Russian criminal and his deputy was swift: they scared him to the point that Ferrari recanted and apologized profusely. Ferrari was then eased out of the organization rather than physically punished, possibly because such punishment would have attracted the attention of the Italian police.[36]

One would imagine that the ability of such a powerful organization as the Solntsevskaya to inspire fear and obtain compliance would be sufficient to ensure obedience from its accomplices. Yet mafia-type criminal organizations might have to use more violence than one would expect. Vlasik, a Russian in his mid-forties with a mild stutter, had been entrusted by Yakovlev with a considerable sum to invest in a deal in Korea. It transpired that the money originated in several Russian groups, not just from Yakovlev's own crew.[37] Although Vlasik must have known the risk that he was taking, he embezzled the funds and tried to disappear. "It is a bloody pain to think that among us only Vlasik is able to carry out financial operations," notes the boss. "And that is why he takes advantage of us—retorts his interlocutor,—but I will show him what a badly beaten up guy looks like and make him understand that he will be next."[38] Vlasik was eventually tracked down in Korea and escorted back to Italy, where he was held in captivity and tortured for some weeks. Later he was put on a plane to Moscow, accompanied by a "jailer." While in Russia, Vlasik managed to escape and gave himself up to the police. The punishment was only delayed; he was later killed.[39]

Twenty percent of the conversations dealt with internal order. The upper echelon of the group had more conversations about this topic than average: Yakovlev had a value of 28 percent, while Yakovlev's two enforcers had values of around 45 percent (with Sidelnikov at 44 percent, and Vladimir Sidorov at 45 percent). Most remarkably, it transpires that women were directly involved in discussing issues related to maintaining internal order. For instance, Yakovlev's wife, Marina (with a value of 53.3 percent), directly threatened Ferrari, whose wife was Russian, for disobeying Yakovlev ("we will chop your head off"). Ferrari's wife calls back, begging for forgiveness, admitting that they had been wrong and one needs to pay respect to the boss, "because he has been in prison for 15 years." Alina Kamenskaya (38 percent), the wife of Italian fixer Facchini, on several occasions advocated appropriate punishments for those who had misbehaved

toward Yakovlev.[40] Artamova, the keeper of the common fund, engaged in many conversations related to maintaining internal order (62 percent). The women around Sergeev, who would be killed in 1996, also spent a considerable amount of time talking about internal order. Kostina, his "official" Italian wife who worked as his interpreter and overall helper in Italy, had a value of 58 percent, while Sergeev's real wife, Nadia, with whom he lived, had a value of 33.3 percent.

On the whole, severe acts of violence were rarely carried out in Italy, and murders were committed only in Russia. This suggests that the group did not want to attract the attention of the police in Italy.

Figure 4.5 presents the tasks discussed in all the conversations over almost a year—from January 1996, when the Italian police started systematic phone intercepts, to October 1996, when Sergeev was killed. The only correlation that is statistically significant is between resource acquisition and investments in the economy (r 0.758, p 0.011, N 10). That is, discussions of investment opportunities in the economy covary with discussions of acquisition of resources, suggesting a relation between the two sets of tasks. This further confirms that discussions on resource acquisition were closely connected to those about money laundering and illegal investments in the Italian economy. In contrast, references to protection racketeering do not seem to be cyclic and are unrelated to other tasks. As mentioned above, racketeering was carried out in Russia by members of the group—a task unrelated to their presence in Italy.

As in other cases discussed in this book, a prominent mafioso reached a faraway land as the product of an unintended consequence; a war in Moscow pushed Yakovlev to Rome. He withdrew from the conflict at the price of losing some control over his racket at home. While in the Italian capital, he maintained contacts with the new leadership and helped them invest some of their money in the West (recall that in the mid-1990s the Russian banking system was under severe strain, the ruble was not a safe currency, and Russia defaulted on international loans in August 1998).[41] Thus, the activities of the Italian outpost were squarely in the realm of investment seeking although one cannot state that this was the motivation to open the outpost.

The organization was not looking for any particular resource to use in running its core business in Russia of protection racketeering or even

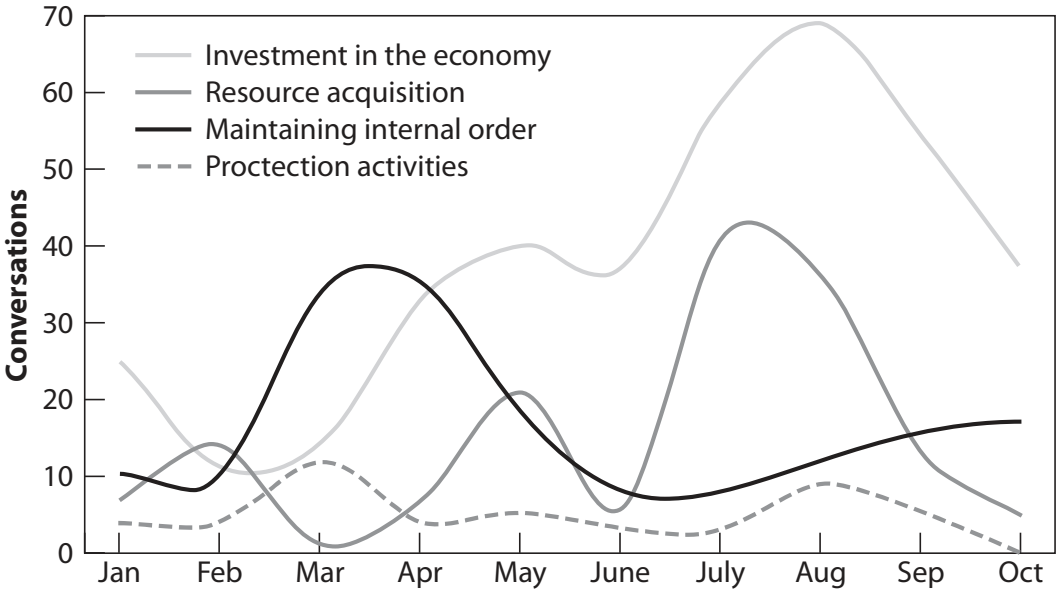


FIGURE 4.1 Tasks discussed in conversations, January to October 1996

related businesses, such as prostitution or drug trafficking. Nor was Italy a place where a firm-owned subsidiary could act as a conduit for valuable local knowledge to be used in Russia. Again, this marks a departure from the behavior of legitimate firms taking advantage of globalization.

The organization was not planning to enter the market of any rival organization. In one of his conversations, the boss made it clear that the Italian capital had been selected because it harbored no major criminal organizations, such as the Sicilian mafia.[42] Indeed, if market expansion had been a motivation, violence would have ensued, while the Italian outpost was careful to avoid drawing any attention to itself. The group had been able to evade the notice of the police in Rome. Only a tip-off from the Russian mobster arrested in Fano alerted the authorities to the existence of such an entity in Rome.[43]

Yakovlev would at the same time invest money originating from several Russian groups in the legal economy while continuing to run his protection rackets in Russia. This explains why a proportion of the conversations of the Russians in Italy involved matters related to the racketeering activities of Yakovlev back in Russia.

Clear signs of the internal division of labor emerge. Besides the boss, the only official role in the group is that of Artamova, who controlled the group's budget. But an informal structure becomes evident from the patterns of the

conversations. Some of the Russian enforcers who had joined Yakovlev in Italy were mainly involved in (talking about) enforcing internal order within the group and protection racketeering back home. Women were highly involved in conversations over internal matters, including punishment. As one would expect, Italians with a local knowledge of Rome mainly helped in acquiring resources for the group to operate in Italy. Italians also were relatively more concerned with investments in the economy, as the group was dealing with Italian entrepreneurs. The boss was heavily involved in most tasks (with the exception of resource acquisition), but especially in overseeing investment decisions and reporting back to Russia. In a separate paper, I explore further issues related to the internal division of labor through the use of correspondence and social network analyses.[44]

How did Yakovlev's Italian adventure end? The entire crew, including guests from Moscow, was celebrating the birthday of the boss in a posh resort in early 1997. They had booked an entire floor of the most expensive hotel in town. The guests had arrived with several thousand U.S. dollars each, as birthday gifts for the boss. The only object of value to be put in the hotel's safe, however, was a precious Russian Orthodox bible. Yakovlev kept his boys (*rebyata*) on a short leash; he made them go to bed at 6:00 p.m. but forced them to get up at 3:00 a.m. to engage in endless discussions, while his crew was half asleep and half drunk. It is possible that Yakovlev was about to perform an initiation ritual for a new member, since a black cloth with verses in old Russian engraved in gold and scrolls containing Russian Orthodox prayers were later found in his rooms.

Several officers disguised as waiters and hotel staff observed the group for a few days. When the order arrived, in the early hours of the morning, they made the arrests. The entire operation took no longer than five minutes, without disrupting the wealthy clientele's sleep. After his arrest, the boss made a point of paying the bill in full, in cash. The next day his photos were all over the papers. Italian readers could see a man with cropped white hair, a tattoo in the hollow of his right hand, waving his fingers at the cameras, his eyes screaming with rage, furious yet nonplussed by the arrest.

The story presented here involves the most powerful mafia group operating in Russia at the time, and implicates a vast section of the Italian political and administrative class. And yet the group failed to take root

in the country where it had chosen to relocate. After the arrest of the key players and their repatriation to Russia, the police and prosecutors told me that the group had left no traces in Rome.[45] Organized crime is not always successfully transplanted in a different territory. In some cases, it is enough to eliminate a few central actors to disband a network. As the group did not offer any particular service to the local criminal markets, no demand for it existed and no other group replaced it. The failure of transplantation does not mean that the crime group is weak in its territory of origin, though. After being rebuffed in Rome, Yakovlev and his crew returned home and continued their activities there. In the home country, this mafia group still extracts protection money and governs a territory.

The Solntsevskaya in Hungary

The story of the Solntsevskaya penetration of Hungarian society revolves around a Ukrainian-born businessman, Semën Yudkovich Mogilevich, who moved to Budapest in 1991 and was arrested in 2008. Mogilevich, who is bald, weighs some three hundred pounds, and is a chain smoker ("Davidov's cigarettes"), holds a degree in economics from Lvov University. He came to international attention when the FBI accused him of involvement in the Bank of New York scandal mentioned previously (p. 70). He had solid connections with the Solntsevskaya's leaders, Mikhailov and Averin, who had both chosen Budapest as the site of one of their residences in Eastern Europe.[46] Were they part of a larger migration of ordinary Russians—and possibly Ukrainians—to Hungary? Between 1990 and 2005, Russian and Ukrainian nationals never reach 1 percent of the total population. Romanians, Serbians, Germans, and Polish nationals are all more numerous, and significantly so (See table A4.2 in the appendix to this chapter).

On the other hand, the police claim that specialized criminals from Russia were in quite good number following the early 1990s. It appears that the initial presence of a 'supply' of Russian criminals in Hungary was due to an accident of history, namely the vast contingent of Red Army soldiers and security officials stationed in the country. Reportedly, more than 1,000 Russians deserted the Red Army just before they were due to return home in 1991, and many of them went on to set up crime groups. In 1998 the police estimated that "200 criminal gangs, mostly Russian controlled, have established themselves in the country, with a couple of

dozen dominating."[47] According to U.S. and Hungarian officials, many of the criminal bosses had a background in the KGB and the Soviet army.[48]

Contrary to the situation in Rome, at the time of the Solntsevskaya attempts to move into Budapest, the country as a whole was undergoing a transition from a state-planned to a market economy. Hungary had begun restructuring state-owned enterprises before the end of the Communist regime, and by 1985 two-thirds of all state enterprises had been granted self-governance through enterprise councils. By the end of the 1990s, between 80 and 85 percent of the gross domestic product (GDP) was privately owned. The emerging market economy could also rely on laws and regulations that had been in place even during the Communist regime. A commercial code, never formally repealed during the Communist period, had existed since before the Second World War, in turn based on a law passed in 1875. Moreover, reforms that began as early as 1968 and continued, with interruptions, up to 1988 had reduced the role of the state in the economy and given greater autonomy to enterprises. The Act on Business Organizations of 1988 consolidated previously fragmented corporate law and was amended throughout the 1990s to reflect the changing commercial environment.[49]

The transition to the market led to a significant expansion of the economy. The value of the GDP at 2006 prices went from 2,498.3 billion Hungarian forints in 1991 to 23,795.3 billion forints in 2006. The real wage index (1990 100.0) grew from 93 in 1991 to 121.7 in 2007.[50]

Still, the Hungarian transition has not been entirely free of problems. Hungary underwent what scholars have labeled "spontaneous (or informal) privatization," led by managers who were able to acquire stakes in state companies in the absence of legislation that fully protected shareholders or clearly defined property rights. László Urbán, an economist, writes that "informal privatization ranges on a scale from outright theft of potentially useful physical assets of a SOE [state-owned enterprise] through different forms of simple corruption to more sophisticated appropriation of assets through the creation of new corporations."[51]

Notwithstanding the relatively probusiness atmosphere of Hungary during its socialist period, a fully developed legal framework was not yet in place by the time the transition got under way. Writing in the late 1990s, György Csáki and Gábor Karsai point out that

> there are several legal and institutional problems that hinder the effective operation of Hungarian enterprises. Certain laws and modifications (for example the reform of the real estate law and the contract law) are still lacking. Conceptually, the majority of existing economic regulations is not sufficiently developed and includes a number of internal contradictions as well as contradictions with other laws.[52]

The state apparatus proved slow and ineffective in servicing the new market players. The real estate register was inaccurate and outdated, and the process of company registration was slow. In the early 1990s, the poorly computerized Hungarian real estate registers was inadequate to deal with the demands for the production and modification of information. Throughout the 1990s' boom in company creation, company registration faced the same challenge. Thus, Csáki and Karsai observe, "There is no up-to-date company data with respect to the assets and financial position of market players. The problems caused by overloading, as well as by the widening circle of corruption and other abuses, only make matters worse."[53]

Such inefficiencies decreased public confidence in the legal system, and economic crimes increased. In the 1990s tax avoidance became widespread, and the breaching of contracts, value-added tax fraud, and false bankruptcy petitions were considered minor transgressions.[54] According to a survey conducted in 1998, some 80 percent of the respondents agreed that "in order to get by, it was necessary to break the rules."[55] As crime against property increased significantly during the transition, the criminal justice system proved to be, in the view of Csáki and Karsai, "almost entirely powerless in the face of the spread of economic criminality," and the capacity of the civil law courts was "not satisfactory."[56]

Court proceedings were "lengthy," and delays in the pronouncements of verdicts were "frequent," making the execution of verdicts "often impossible."[57] The introduction in 1994 of an act meant to speed up the execution of court orders did not change matters much; the only major change was the increased costs of and payments to the private executors.[58] Police corruption has also been described as "pervasive."[59] Not surprisingly, the level of the informal economy was vast, at approximately 31 percent of GDP in 1994.[60]

Has the imperfect transition to the market economy generated a demand for criminal protection? Géza Katona, former chief of the Investigation

Department of the National Police, links the initial shortcomings of the Hungarian transition to a market economy to the rise in the demand for mafia-related activities, in a lucid analysis that is worth quoting at length:

> A new arena has been created by organized crime during the 1990s: the so-called violence industry. It is quite normal for a newly established market economy to face serious capital shortages. The financial foundations of the private enterprises are usually very shaky and unstable. In such a situation the role of the state in the enforcement of private law becomes extremely important. The court's rapid, reliable, and effective enforcement of contracts, bankruptcy, and debt collection are crucial for the new economic actors. In this respect, the Hungarian state has miserably failed in the last few years. Civil law cases drag on for years, and the enforcement of judicial decisions is unreliable. The state has failed to establish a well-functioning legal and institutional system, to set up an effective legal framework for the private economy, or to pass an effective law on bankruptcy. . . . [It] has also failed to create and administer a reliable system for registering real property. This negligence has created a paradise for those who make use of others' well-meaning, law-abiding behavior. It is not surprising that businessmen, some law-abiding and others not, try to defend themselves and find other non-legal or semi-legal ways to defend their interests, without legal support from the state. The defects of state law enforcement have opened the field to organized crime, and their "violence" organizations have simply taken control of this area.[61]

Katona concludes by pointing out that organized crime has played a major role in the area of the extrajudicial settlement of disputes; indeed, it has virtually "taken over" this sphere.

Katona identifies a second area of opportunity for criminal organizations to control a market: the oil sector. After 1989, the former state oil trade monopoly ceased to exist while new regulations for the oil sector were still absent. Virtually anyone could establish a firm to sell oil, since the state failed to screen firms seeking official registration; meanwhile, due to the departure of the Soviet troops, vast storage facilities had become available. At the same time, the Hungarian government, in an effort to shield farmers and the poor from the full impact of high inflation and

rising heating bills, introduced a dual-price system for heating and diesel oil. One side effect was the creation of artificial opportunities for money-making operations.[62]

In contrast to the virtual absence of mafia-related violence in Rome, the level of such brutality was high in Hungary. The *Washington Post* reported on December 21, 1998 that

> by 1996, violence began to spill onto the streets here. The Hungarian police have recorded 140 mob-related bombings, grenade attacks and killings since 1991, most in recent years. In November 1996, alleged mob leader Jozsef Prisztas was gunned down and killed on a Budapest street. In August 1997, shots were fired into a disco, wounding one woman. Last February [1998], a business magnate with alleged mob ties was assassinated with an automatic weapon as he sat in his car at a traffic light. A grenade was hurled at a bar the following month. And in June, shots were fired into a shop, injuring one person. Mobsters killing mobsters, however, engendered a certain so-what attitude among the public, officials said.[63]

Between 1991 and 1998, there were more than 100 gangland murders and 170 explosions in Hungary.[64]

An oblique reference to the Solntsevskaya appeared in the *Boston Globe* on November 29, 1998, which reported on a "Russian-speaking gang believed to be the most powerful and dangerous in Hungary." The article continued: "This mob, law enforcement sources said, has a presence in the United States."[65] I now turn more specifically to the activities of this group in Budapest.

Through Mogilevich, the Solntsevskaya created an intricate network of companies and factories in Hungary, laundering and investing a significant amount of money in the legal economy, mainly in arms production and the oil business. In 1995 Mogilevich bought Magnex 2000 (a magnet manufacturer in Budapest), the Army Co-op (a mortar and antiaircraft gun factory), Balchug (a firm that produces and sells office furniture), and Digep General Machine Works (an artillery shell, mortar, and fire equipment manufacturer). Mogilevich had been involved in the oil business since the 1980s, creating Arbat International, a petroleum export-import

company of which he owned 50 percent (the other shareholders were Ivan'kov, Mikhailov, and Averin), and Arigon Ltd., which sold oil products to the Ukrainian railway administration and was allegedly managed by Mikhailov's wife. Most recently he has been connected to Eural Trans Gas, an obscure Hungarian company holding a contract with Gazprom to provide gas from Turkmenistan to Ukraine.[66]

The Solntsevskaya did not limit itself to investment in the legal economy but tried to defraud the Hungarian government and push competitors out of the oil market. In short, the government had passed a law subsidizing some gas consumption for home use, creating opportunities to arbitrage between the subsidized price and the market one. Several loopholes in the law made it easier for criminal elements to enter this market.[67] Some believe that the loophole might have been intentional. According to one view, the Hungarian secret services were also players in this market, exploiting the opportunity generated by this law in order to buy arms to help the Croatians in their war against Serbia during the Yugoslavian conflict in the 1990s. Although I have no way to confirm this interpretation, it is well known that Croatia armed itself in the lead-up to the war and that some weapons came from Hungary. Belgrade amassed evidence that Croatia's defense minister was importing arms from warehouses in Hungary.[68] In any case, the unintended consequences of a well-meaning policy that created easy opportunities to defraud the state and enforce criminal monopolies over supplies of oil constituted a second crucial factor fostering the growth of Russian groups in Hungary. It is widely believed that the warfare within the Hungarian underworld, which took place in the 1990s, and involved both Russian and Hungarian groups, was due to conflict over how to allocate lucrative state oil and gas contracts.[69] According to a BBC documentary on Mogilevich's activities, Zoltán Seres, one of his Hungarian partners, was "the victim of the Russian-Hungarian turf wars which have followed the oil rackets."[70] A businessperson involved in oil fraud, Tamás Boros, said during confessions made to the police in February 1997 and May 1998 that "company owners who had not imported oil through the Russian Mafia boss Semyon Mogilevich were threatened and blackmailed."[71] Boros was killed, together with three other victims, in a car bomb explosion in central Budapest in early July 1998.[72]

The Solntsevskaya has expanded beyond the oil business, runs protection rackets and prostitution rings in Budapest, and has tortured and

murdered local opponents.[73] (Averin is suspected by the Hungarian police of the murder of a man in Budapest, Andrey Mochin. Also, he allegedly acted as an intermediary in the kidnapping of another man, Abner Kandov.) According to police sources cited by *Népszava*in 1998, a Hungarian daily, some eight hundred companies in Hungary have direct links to the underworld.[74] Although it is hard to discern the exact nature of the relationship between these firms and the underworld, mafia groups typically offer criminal protection to firms that cannot turn to the state. Partial evidence of this was revealed at the "bomb factory" trial of former Stasi agent Dietmar Clodo.[75] At the trial, several defendants named Leonid Goldstein Steigura as the second-in-command of Mogilevich's operation in Budapest and the real owner of the bomb-making facility run by Clodo. More importantly, a killer for the group, Nándor Erdélyi, claimed that criminals in Budapest had to pay a 50 percent "fee" to Steigura in order to be allowed to operate.[76] Furthermore, at the same trial it emerged that Steigura had planned Mogilevich's murder, possibly in an attempt to increase the autonomy of the group from the original, Moscow-based mafia.

Additional evidence of the ability of this Russian crime group to impose its protection on traders based in Hungary came to light in November 2003, when four men were arrested by the police with the FBI's help. They were charged with having forced their protection on as many as a thousand small businesspeople and shop owners, for a total income of some US$10 million. Police claim that the leader of the group, a Ukrainian Israeli Greek citizen, was working for Mogilevich.[77] As recently as March 2007, officials in Hungary believed that Russian-speaking groups were well entrenched in the country. The 2006 yearly report of Hungary's National Security Authority states that "it is still the case that Hungarian and Russian-speaking organized crime groups are the dominant forces in Hungary." Among other sectors, Russian organized crime groups are entering Hungary's booming construction material trade, the report says.[78]

Although the evidence is sketchy, it appears that the Solntsevskaya and Russian criminal groups more generally have established themselves in Hungary—contrary to the outcome that we observed in Rome. The Russian mafia is simultaneously trying to exercise a monopoly over certain

[162.10.217.184] Project MUSE (2026-06-15 01:44 GMT) University of Queensland

sectors of the economy, such as the oil business, and offering criminal protection to both businesspeople in the gray economy and criminal entrepreneurs. It has penetrated into the economy and has sustained its activity for a long period of time.

Conclusions

The comparison between Rome and Budapest allows us to identify key factors at work in Mafia transplantation (table 4.2).

A number of elements are shared by both cases, suggesting that they do not explain the divergent outcome. In both cases generalized migration from Russia was negligent. Also, Russian mafosi were in Rome and Budapest due to forced migration (Rome) or accident (past Soviet presence). The crucial difference between Rome and Budapest was the presence in the latter of new and booming markets (legal and illegal) that were not adequately protected by state institutions, thereby generating a demand for nonstate forms of protection. This is the key variable that leads to long-term entrenchment.

The emergence of vast market opportunities unregulated and unprotected by the state offers incentives for mafiosi from different territories to exploit local opportunities by offering criminal protection. Hungary experienced both the inability of the state to clearly define and protect property rights, and the presence of lucrative opportunities to obtain selective access to valuable markets, such as oil and gas, through the use of violence (Bardonecchia experienced only the latter, lucrative opportunities in the construction business). This concatenation of factors increases the likelihood of mafia transplantation. Such a conclusion goes against supply-side explanations of both the origin and diffusion of mafias—that is, against the idea that the presence of a supply of criminally minded people is sufficient for a mafia to develop in a new territory. If mafiosi exist in an area where no significant unprotected market exists, I contend that they will simply be unemployed mafia enforcers.

The Hungarian case indicates that circumstances conducive to mafia transplantation can be the product of state failures to equip a country fast enough with the institutional features of a market economy, such as a well-functioning legal system as well as clearly defined and enforced property

Table 4.2
Factors Facilitating Mafia Transplantation, Bardonecchia, Verona, Budapest, and Rome

Factors facilitating mafia transplantation/cases	*Bardonecchia*	*Verona*	*Budapest*	*Rome*	*New York City (1910–30)*	*Rosario (1910–30)*	*Shenzhen/ Guangzhou*
Generalized migration	Yes	No	No	No			
Mafiosi migration (willing/unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)			
Supply of mafiosi	Yes	Yes	Yes	Yes			
Local conditions							
Level of trust/civic engagement	High	High	Low	Low			
Presence of local illegal protectors	No	No	No	No			
Size of locale	Small	Large	Large	Large			
New and/or booming markets*	Yes	Yes	Yes	No			
Demand for mafia services	Yes	No	Yes	No			
Transplantation	Yes	No	Yes	No			

* The markets considered are construction (Bardonecchia and Rosario), drugs (Verona and China), property rights (Budapest and China), oil (Budapest), alcohol (New York City), gambling (New York City and China), and prostitution (China).

rights. The unintended results of a well-meaning policy that created easy opportunities to defraud the state and enforce criminal monopolies over supplies of oil constituted a second crucial factor fostering the move of Russian groups to Hungary.

Still, the Italian authorities have reason to worry about the ease with which Russians were able to launder money in the country. Italy has rather inflexible instruments to deal with this crime. Whenever financial authorities come across irregularities and suspicious activities, they can only initiate a superficial investigation and then turn the evidence over to a prosecutor's office, where thousands of similar files await the attention of the judiciary.[79] The jurisdiction over financial crimes in Italy belongs almost entirely to the criminal prosecutor, and both financial institutions and prosecutors have to uphold the *segreto istruttoria* the duty to keep the identities of persons under investigation secret. This provision stops the authorities from exposing businesses that engage in sharp practices or become conduits of money laundering, hence eliminating reputational sanctions. Other jurisdictions (such as the United Kingdom) allow the financial authorities to conduct parallel investigations, which turn out to be faster, and also involve civil sanctions and incentives for collaboration on the part of the businesses involved. As the cases of Bardonecchia and Budapest show, it might well be that criminal markets open up while a foreign mafia is residing in the new territory and engaging in money-laundering activities. At that point, conditions conducive to long-term entrenchment would obtain.

Appendix

wiretap records

The police investigation into the Solntsevskaya crime group started in 1995 and lasted three years, from 1995 to 1997. By January 1996, the police were consistently listening in on twenty-four phone lines (cell phones and terrestrial lines). A total of nineteen people used such lines. The protagonists of this story talk about incriminating matters on the phone, including the use of violence and torture along with the murders that they plot and later carry out. If they had talked strategically on the phone, we would expect them not to reveal so much and to omit information that under any legislation could result in a lengthy sentence. Furthermore,

the police validated the content of some conversations by tailing several individuals and checking their movements within Italy as well as to and from Italy.

For the purpose of this chapter, I have carried out a systematic content analysis of the conversations that were recorded by the police in order to establish the topics discussed and the tasks undertaken by the group in Rome. With the assistance of Paolo Campana, I created a file with all the conversations recorded by the police for the period 1995–96. For each conversation, we coded the topics discussed (each conversation could include several topics). The total number of topics for all conversations comes to sixty-nine. We also identified the task that the actors were discussing. Drawing on the theoretical discussion outlined in chapter 2, we identified four tasks: resource acquisition, investment in the economy, involvement in protection rackets, and maintaining internal order. Taken together, these tasks cover all the conversation segments, save for three (see table 4.1). Most of the conversations (97.5 percent) took place without an interpreter between the two speakers.

We made several decisions regarding these data. The conversations are informal, and jargon is often used. The informal nature of the conversations implies that hidden meanings are transmitted. An automatic form of coding, such as counting words, would not register such meanings. Hence, we decided to read and code each conversation manually. We also coded segments of conversation. A segment of conversation, as noted earlier, is a fragment of a conversation that has a meaningful beginning and end. In order to reduce coder bias, we undertook intercoder reliability tests for the tasks, which resulted in a high and statistically significant correlation coefficient between the two coders. (The two coders read a sample of the conversations [N 20], identified the tasks and topics, and checked the level of intercoder reliability. The correlation coefficient between the two coders resulted in 0.95, p 0.001.) This degree of concordance enhances our confidence in the reliability of the results.

Third, while studying the files, we decided to use only the conversations from January 1996 to October 1996 (N 758). This is because the wiretapping started in earnest in January (only two conversations were recorded in 1995). In December 1995, phone lines and cell phone numbers were still being put under surveillance, and the police recorded few

conversations.[80] The end point is late October 1996, a few weeks after Sergeev was killed.

We also coded quantitative information on the group and extracted network data. The police intercepted no fewer than 164 individuals over the period of the investigation. Of the 164 individuals involved in criminal conversations, 115 (more than 70 percent) were men, and the overwhelming majority were either Italian (50 people, or 30 percent) or born in the former Soviet Union (107 people, or 65 percent). Additional nationalities were Polish (2) and Korean (2); the nationality of 3 individuals is unknown. The place of birth, however, may be a poor indication of where the actors actually operated at the time of this investigation. We could reconstruct this type of information for 161 of the 164 actors. These data confirm that most of the individuals operated in either Rome (47.6 percent) or Moscow (20.5 percent). The median year of birth is 1957 (thirty-nine years old in 1996). This suggests that the group was made up of rather experienced individuals—an age profile similar to the Sicilian mafia.[81]

We created three network data sets: a global network of 164 actors; a directed global network where we recorded who initiated the call (as we could not find this information for all calls, this data set contains only 138 actors); and a longitudinal directed network, which includes 138 actors, with the direction of the call split at three points in time (I–III/96, IV–VI/96, and VII–IX/96). Finally, we matched several attributes (gender, language(s) spoken, nationality, and tasks) to the actors by creating an attribute file. In a series of future journal articles, we will present the results of this more sophisticated analysis.

Table A4.2 shows official data from the population censuses on foreign residents in Hungary since 1990 as a percentage of the total population. The data in the first column refer to people whose mother tongue is other than Hungarian.

The data in table A4.2 suggest that many other groups besides Russians and Ukrainians have settled in Hungary, and that their numbers are negligible compared with the total population. In 1991 almost 40,000 people spoke German as their mother tongue, or some 0.3 percent of the total population. Other languages more widely spoken than Russian and Ukrainian were Croatian (17,577 people), Slovakian (12,745), and Roma-

TABLE A4.1
Summary Characteristics of Key Players, Russian Mafia in Rome

Name (changed)	*Nationality*	*Background*	*Function*
Yakovlev, Ivan	Russian	Crime	Boss
Pepe, Giovanni	Italian	Journalism	Local fixer
Sergeev, Boris	Russian	Business/crime	Russian businessperson close to the Solntsevskaya, murdered in 1996
Bogdanovich, Oleg	Russian	Crime	Boss's bodyguard and gofer
Facchini, Giorgio	Italian	Politics	Local fixer
Sergeeva, Nadia	Russian		Sergeev's wife
Kamenskaya, Alina	Russian		Facchini's wife
Brenno, Riccardo	Italian	Business	Business associate of the group
Kamenskii, Vadim	Russian		Facchini's son
Artamova, Raisa	Russian		Sidelnikov's wife, keeper of the common fund
Pepe, Elena	Italian		Pepe's wife
Sidelnikov, Fedya	Russian	Crime	Boss's right-hand man
Yakovleva, Marina	Russian		Boss's wife
Sidorov, Vladimir	Russian	Crime	Boss's right-hand man
Kostina, Sonya	Russian		Sergeev's Italian wife
Sergeev, Denis	Russian		Sergeev's son
Rostovtsev	Russian	KGB	Based in Moscow, keeps contacts with Italian embassy and the political elite in Russia
Vlasik	Russian	Business	Business partner, murdered in 1996
Sergeeva, Ekaterina	Russian		Sergeev's daughter
Manin	Russian	Politics	Russian politician
Yakovlev, Alex	Russian		Boss's son
Ferrari, Marco	Italian	Petty crime	Associate of the group
Rossi, Donatella	Italian		Office secretary

nian (8,730). Polish (3,788) is just below the level of Russian. According to the 1995 data column, Romania, Serbia, Germany, and Poland all have more nationals in Hungary than the Ukraine, and the number of Russians is negligible. In 1995, Ukrainians accounted for 0.034 percent of the entire population. If we add the Russians, the combined percentage amounted to 0.036 percent in 1995.

Table A4.2

Total Population and Foreign Citizens Residing in Hungary by Country, 1990–2005

	*1990**	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2005*
Total population		10,245,677	10,212,300	10,174,442			10,138,844	10,006,835
Romania	8,730	68,439	65,705	61,579	62,130	57,357	57,343	41,561
Serbia and Montenegro	2953	15,297	16,173	15,449	14,250	15,223	15,571	12,664
Ukraine	674	3,501	4,432	5,625	7,184	9,898	11,016	8,947
Germany	37,511	7,427	7,802	8,277	8,985	9,396	9,631	7,493
Poland	3,788	4,628	4,521	4,297	4,471	4,386	4,144	2,279
Russia	3,902	277	1,124	1,708	2,502	2,809	3,002	1,893
Slovakia	12,745	231	461	600	968	1,571	1,717	1,576
Croatia	17,577	305	532	688	929	1069	1,162	917
Austria	***	616	694	872	1,031	990	1,053	694
China	204	3,469	4,276	6639	7,809	8,306	8,861	5,819
United States	410**	1,700	2,008	2,420	2,835	3,132	3,261	1,636
Africa	229	2,081	2,210	2,488	2,659	2,594	2,559	1,233
Australia and Oceania	**	573	717	734	750	812	779	507
Total foreign****		138,101	139,954	142,506	148,263	150,245	153,125	110,028
Total population	10,381,959	10,245,677	10,212,300	10,174,442			10,138,844	10,006,835

Notes: * Data refer to people who declare that they speak a given language as their mother tongue

** People who give English as their mother tongue; for 1990, Australians are counted under the United States.

*** Austrian nationals are counted as German speakers in this column.

**** Total includes more countries than those listed in the table.

Sources: Központi Statisztikai Hivatal (Central Statistics Office), available at http://portal.ksh.hu/pls/ksh/docs/eng/xstadat/xstadat_annual/tabl1_06iea.html; http://www.nepszamlalas.hu/eng/volumes/06/00/tabeng/1/prnt01_11_0.html.

FIVE

Lessons from the Past: Sicilian Mafiosi in New York City and Rosario, circa 1880–1940

A tough young man with neither prospects nor any intention of working in the sulfur mines or fields of his hometown, Siculiana, in the Agrigento Province of Italy, Nick Gentile—also known as Zu Cola (1885–unknown) and author of the first insider's account of the American mafia—preferred to try his luck abroad. A well-oiled network allowed him to reach the United States and land in New York City in 1903 at the age of eighteen, with an address in hand, 91 Elizabeth Street, in one of the city's Sicilian colonies. His U.S. contact, who directed immigrants from Siculiana and the nearby villages to their place of employment, sent Gentile to do railroad construction in Kansas City, a six-day train journey from New York. In a few years, Gentile did away with his work clothes, sporting expensive suits and darting scowling eyes in the pictures that survived.[1] A fellow Sicilian, Gaetano Pendino, from Alessandria della Rocca, a small town some forty kilometers from Siculiana, chose instead to migrate to Argentina, where he arrived in 1888 at the age of thirty-five. After working as a bricklayer and builder, he eventually established himself as the boss of the mafia in Rosario. This mafia, however, lasted only a relatively short period of time. Scholars who link the emergence of the mafia in New York City to Italian migration ignore the fact that in the same period many Italians, including those of a criminal bent, migrated to several other destinations. Yet not everywhere Italians went did a stable and long-lasting criminal organization with features similar to the Sicilian Cosa Nostra emerge. After sketching the contours

of the mafia in Sicily in the nineteenth century, this chapter outlines the parallel history of Italian migration and mafia activities in New York City and Rosario, and offers an analytic account of the diverging outcomes.

The Mafia in Sicily

The first clear sign that a Mafia existed in Sicily dates from the 1830s. In 1838, the procurator general of Trapani wrote that "in many villages, there exist fellowships [*unioni*] or fraternities" led by a boss. Each fraternity had a common fund, and the members included ordinary people, landowners, and even priests. One service that they performed was to retrieve stolen property, in particular cattle. The official perceptively dubbed the societies "small governments within the government," suggesting that by this time they were already an established extralegal form of governance, in competition with the state.[2]

After unification (1861), the "Southern Question" became a burning political issue for the new Italy. The government struggled to impose the rule of law on Sicily, where insecurity and "banditism" were rife, and it feared rebellions and secessionist movements inspired by the defeated Bourbons and the Catholic church. Dissatisfied with an official report on the state of affairs in the island, a twenty-nine-year-old Tuscan aristocrat, Leopoldo Franchetti, set out for Sicily in 1876 to undertake independent research on the *Condizioni politiche ed amministrative della Sicilia* Franchetti's study ranks among the classics of nineteenth-century social science, on par with Alexis de Tocqueville's *Democracy in America* Among his numerous insights, he wrote that members of the mafia belonged to all classes and occupations, including the middle class, and were autonomous from other social and political entities, such as the state. He also suggested that the mafia's single most important activity was ensuring selective access to key resources, in a context where the state was unable to offer fair and universal rules. More specifically, Franchetti documented the existence of cartels among producers backed by the mafia. In one case, a society of millers (*la società dei Mulini*) was said by Franchetti to be under the protection of "powerful Mafiosi." Members of the society kept the price of flour artificially high, and the capo mafia ensured that everybody followed the agreement and did not free ride on fellow society members by producing more than the agreed-on quota.[3]

FIGURE 5.1 Map of Sicily

By the end of the nineteenth century, some organizational features of this secret fraternity had been identified. A book published in 1886 and based on police documents dating back to 1860 describes in detail the structure of some early *cosche* (individual, autonomous "families"), the division of territory, and the mechanisms of coordination among them. Rather than a single giant organization stretching across the entire island, the mafia was composed of cosche, located in western Sicily, who recognized each others' right to exist, and had devised means to coordinate activities and settle interfamily disputes. A police report compiled in 1898 and 1900, the *Rapporto Sangiorgi*, names eight mafia families operating in Palermo and the nearby villages at the time. It identifies the bosses and the underbosses, and includes personal details on many of the rank-and-file members. The document recounts the initiation ritual, code of behavior, and many markets that the mafiosi had penetrated, and confirms that a coordinating body linked the cosche of Palermo to those operating on the city's outskirts. According to the report, some 218

individuals had joined this society. Scholars often marvel at the striking continuity of the mafia's organizational structure from its origin in the first part of the nineteenth century to the time of the revelations during the Maxi trial in the 1980s.[4]

From the mid-nineteenth century, many Sicilians, including members of the mafia, were on the move. In the remainder of this chapter, I will trace their migration to New York City and Rosario, Argentina. Most crucially, only in the North American city did a mafia that resembled the Sicilian one emerge. Below, I explain why.

The Italian American Mafia in New York City

New York City was a key destination for the first wave of European immigrants— mostly Irish and Germans—who arrived in the 1840s, in the wake of the potato famine in Ireland. Jews from Eastern Europe landed in the 1880s, while most of the Italians reached their new *patria* in the period between 1876 and 1915. The number of Italians in New York City rose from just over 12,000 in 1880 to just over 145,000 in 1900 (see table A5.1). By 1910, immigrants and first-generation Italian Americans accounted for 500,000 New Yorkers—a tenth of the city's population. When the First World War broke out, 370,000 Italians lived in New York City.[5] Between 1876 and 1930, some 80 percent of Italian migrants to the United States had originated from southern Italy (see table 5.3 below). Italians reached New York City within a short time span and arrived relatively late in the city's own development, when other ethnic groups had already established themselves. The majority of them joined the unskilled labor force.[6]

Nested within the flow of Italians to New York City were people who had mafia skills and had been initiated into cosche back home. Many were running from the reach of state organs. For instance, Ignazio Lupo became embroiled in a dispute in his store in Palermo in 1898, which ended with Lupo murdering a man. He went into hiding and, on the advice of his parents, fled Italy, reaching New York, where he joined a gang of counterfeiters headed by Giuseppe Morello (see below). Similarly Joseph Bonanno narrates that his father, a man of honor back in their hometown of Castellammare del Golfo, moved to Brooklyn in 1908 in order to avoid prosecution (later returning to Sicily in 1911). The same applies to Giuseppe Joe Masseria, who apparently fled his hometown to avoid murder charges.[7]

Some mafiosi were running away from other mafiosi. The corpse of Antonio Deodati, a Sicilian counterfeiter, was found in 1865 in the woods near Greenwood Cemetery, Brooklyn, having suffered pistol shots to the head. Italian authorities, in a report cited by the *Times*(London), on June 21, 1875, claimed that Deodati had fled to New York City in order to escape a mafia feud, but was "overtaken by an assassin, especially sent out after him, and horribly murdered."[8]

One political development prompting some mafiosi to run off to the United States was Benito Mussolini's accession to power in 1922. In October 1925, Mussolini appointed Cesare Mori as a special prefect to Palermo, giving him vast police powers and an army of elite agents to eradicate the "honored society." Dubbed the "Iron Prefect," and aided by some landowners and businesspeople, Mori rounded up and imprisoned scores of clan bosses as well as innocent bystanders. Bonanno—the future boss of the Bonanno family in New York City—writes in his autobiography that in 1924,

> a tempest would tatter my sails and toss my ship in unknown waters. Now undisputedly in control of the national government, Mussolini sought to eradicate all dissent and to install a totalitarian regime. . . . Men of my Tradition reviled Mussolini, once he showed his true colors, ... [and] were imprisoned in droves, often on the flimsiest charges. They were tried and sentenced with utter disregard for their civil liberties.[9]

In fact, mafiosi were far less antifascist at first, and even planned to support a fascist party list in the 1924 elections.[10] By late 1925, though, Mori's policies had begun to have some effect and forced many mafia members to escape. Antonio Calderone (b. 1935), the Catania underboss, writes in his memoirs: "There was nearly no mafia left after the war. Sicilian families had been shut down by prefect Mori."[11] Some of Calderone's relatives escaped to Tunis, where by the 1930s a mafia outpost was fully operational.[12] The boss of Tommaso Buscetta's family in Palermo took shelter in France instead. Bonanno explains that "many [men of my tradition] were forced to flee to America" as a consequence of Mori's action in Sicily.[13] David Chandler, in his book *e Criminal Brotherhoods*, suggests that no less than five hundred mafiosi escaped Mussolini's regime

by immigrating to the United States, although such a figure is most likely an exaggeration.[14] In conclusion, a contingent of Sicilian mafiosi was present in North America.

Protective Umbrellas

Did Sicilian mafiosi find in New York City a land rich in criminal opportunities that would allow them to re-create the control of markets and territories they had in their homeland? I now turn to a brief description of New York City, and the opportunities to control markets and enforce protection rackets. In the mid-nineteenth century, the city was already one of the world's greatest metropolises. By 1860, it handled two-thirds of all U.S. imports and one-third of its export trade, and ranked first in the country in all but seven items of exportable goods.[15] In transportation links and banking, New York towered over the rest of the country. By 1890, its population was almost double the 1860 figure. Manhattan dominated the women's and men's clothing trade, and ranked first nationally in the number of factories, their capital valuation, gross domestic product, and number of employees. A great deal of its economic achievements depended on the continuing availability of cheap immigrant and nonunionized labor working in appalling conditions.[16]

The new wave of Italian and Jewish immigrants in the 1880s settled near their compatriots, mainly in the low-rent, run-down areas of the Lower East Side (their arrival encouraged the Irish and German residents to leave). In the Fifth Ward Neapolitans lived mainly on Mulberry Street, while the Genoese and Sicilians settled, respectively, on Baxter and Elizabeth Streets. Northern Italians were to be found in the Eighth or Fifteenth Wards west of Broadway.[17] The Italian neighborhood of Five Points was "at the time perhaps the worst slum in the world."[18] The West Twenties (starting around West Twenty-third Street) was the hub for gambling dens, brothels, and late-night saloons. A police captain labeled this area the "Tenderloin," while a less-endearing name, "Satan's Circle," originated with enraged preachers. In a lengthy article published in 1909, *McClure Magazine* called Satan's Circle "the recognized metropolis of American criminals."[19] Vice also flourished somewhat south of the Tenderloin, in the Battery, Five Points, and Bowery, close to where the Italians lived.[20]

The illegal markets of sex and gambling were sizable. In 1897, New York had some 30,000 public prostitutes. By 1900, there were more than 250 brothels in Satan's Circle, and over a thousand poolrooms and card rooms in Manhattan. These services were illegal, but who was protecting them? The most profitable illegal markets since the mid-nineteenth century in the city were protected by an alliance of corrupt politicians and police officers. This was the time when "political machines" dominated U.S. cities—a system that ensured the distribution of jobs and favors in exchange for votes. The most influential organization in New York City was the Society of Tammany, the Democratic political club on East Fourteenth Street. In each election ward, a "captain" was responsible for making sure that votes would flow toward Tammany's candidates. Often, the captain employed gangs of petty criminals who would vote more than once (they were known as "repeaters"). In exchange, the captain ensured that jobs, contracts, and permits were handed out to the politically well connected, although the ward captain frequently provided genuine help to the newly arrived destitute residents. Yet merit was hardly a concern for appointing somebody to public office: often people with a criminal record were selected to work as court clerks, while judges and prosecutors routinely accepted bribes. Between 1886 and 1902, Tammany was headed by a former street brawler and petty gangster who had been tried for murder.[21]

Police recruitment was in the hands of ward leaders and activists, who would recommend a potential recruit directly to police commissioners, bypassing the uncertain and demanding application to the Civil Service Board, an independent body that appointed officers on merit. During the last decade of the nineteenth century, individuals following the former route had a nine-in-ten chance of being successful, while those applying through the latter had a one-in-eight chance. Not only did recruits have to be connected to local politicians but they also had to pay in the region of $250 to $300 (a full year's pay was $600) to join, and substantially more to be promoted (a captaincy cost somewhere between $12,000 and $15,000).[22]

"Big Tim" Sullivan (1862–1913) was at various points district leader of the wards that comprised the Five Points and Satan's Circle. As historian Mike Dash has vividly shown, the Democratic machine led by Sullivan not only manipulated polls but also enforced a strict protection racket,

collecting money from saloons, brothels, and gambling establishments in exchange for protection from law enforcement. Sullivan used new immigrants, including Italians, as enforcers for his get-the-vote operations, but racketeering was done by the political-police alliance. Police officers on the ground extracted payments and kicked a portion of their take "up" to senior officers and their political allies. In other parts of the city, "clubbers" also helped employers keep peace with labor, and ensured that workers would be intimidated and harassed when going on strike and marching through the city. Arrests were often arbitrary and a source of graft; it was common practice for police on the beat to arrest people and have them locked up at the nearest station house. The charge would then be dropped, and the bail money went into the pocket of the arresting officer, their precinct captain, and the bondsperson (in 1909, 262,000 arrests had been made in New York City, compared to 111,000 in London, despite its larger population). Corruption was so widespread that officers would not bother to investigate robberies unless the victim offered a reward. Thieves were permitted to operate within carefully defined territories on the condition that they handed back the proceeds of certain robberies on demand, so that the police officer could claim to have recovered the stolen merchandise. On the other hand, owners of brothels and gambling dives obtained a degree of safety for their money. Police Commissioner William McAdoo observed: "A corrupt police captain doesn't have to force payments. They will thrust money upon him and those under him. These men and women feel that when they pay their money they are going to be protected."[23]

A damning investigation into the system of graft in the state Senate—the Lexow Committee of 1894–95—set in motion some key reforms. Building on the committee report, the city administration reduced discretion for recruitment into the police force, bringing to an end the practice of paying a fee to join. To a degree, this reform reduced the intimate ties between the police and politicians, but it was not enough to stop the grafting. Freed from their political overlords, the New York police simply began to keep the income from corruption for themselves. According to the *New York Times*' calculations published in 1900, the owners of the city's largest gambling clubs paid as much as $12,000 a year for protection; smaller operators were required to part with nearly $2,000; poolrooms stayed open in exchange for $300 a month and craps games for $150. Millions were handed over to the police every year, in "taxes" that were—according to

the newspaper—as fixed in size and regularity as the "laws of Medes and Persians."[24] Similarly, brothel owners paid heavily for police protection, and, if they failed to do so, found themselves mercilessly raided.[25]

By 1910, a combination of effective reforms and a few driven individuals led to the virtual end of grand graft. The reformist district attorney, William Travers Jerome (a cousin of Winston Churchill who had worked for the Lexow Committee), joined forces with the mayor, Judge William Jay Gaynor, elected in 1910, to enact and see through far-reaching reforms. First, the mayor appointed a like-minded police commissioner, Rhinelander Waldo. He went on to put an end to arbitrary arrests by the police; for trivial matters, police officers now were to issue a simple summon, otherwise every arrest was to be based on legal evidence and the suspect was to be taken before a magistrate on the day of the arrest. The aim was to dry up a major source of bribes for the arresting officer and precinct captain. Gaynor encouraged the prosecution of police officers who raided premises without the proper warrant and advised gamblers that they should resist arrest if the police did not show the correct paperwork. Then, observing that the New York Police Department regularly broke up strikes as well as dispersed meetings organized by socialists and anarchists, he instructed officers to protect pickets and marchers, so long as the protesters obeyed the law. This was at a time when militancy was on the rise. For instance, in 1909, some seventy thousand "shirtwaist" women had gone on a strike led by Clara Lemlich. Gaynor's biographer writes: "During 1910 immigrant workers . . . fought out a long, bitter strike, and Gaynor kept the police, who before notoriously sided with the employers, out of the dispute."[26] These measures worked. By the end of 1910, arrests had fallen by one-third, police behavior had noticeably improved, and some of the force's most unrepentant grafters had been summarily dismissed. In addition, trade union activities were growing.[27]

Mayor Gaynor went further: he centralized policing, so that officers on the beat did not have the power to raid establishments. Police officers made a lot of money by threatening to shut down bars and taverns that violated Sunday closing laws (there were nine thousand saloons and eighteen hundred hotels serving liquor in New York). For a bribe, the officers could be persuaded to look the other way. The mayor's solution was twofold: first, he called the Liquor Dealers' Association and ordered its members to stop paying protection money. He then issued

William Jay Gaynor (1848–1913), mayor of New York City (1910–13), hit by a bullet. Source: Frederic Lewis, photographer/Hutton Archive/Getty Images.

instructions ordering police officers to stop entering licensed premises or speaking to their owners. Detectives were forbidden to make on-the-spot arrests or report violations of the law to their captain. Rather, they were to file an affidavit for each violation with the district attorney, where intelligence would be collated and indictments prepared. Remarkably, the

plan worked. Violations of the Sunday closing law fell to a mere handful within two weeks. By the beginning of 1911 saloon graft had been practically wiped out for the first time in living memory. One bartender, who had worked thirty-five years in the New York liquor trade, marveled that he had never known a time "when the laws were so nearly enforced in their intent as they are today. Mayor Gaynor has done away with the collector who used to come around from 'the man higher up.'"[28] The city newspapers were effusive in their praise.[29]

The mayor applied the same logic to the policing of gambling and prostitution. Until then, the suppression of vice had been the responsibility of New York's fifty or so precinct captains, each of whom would gather intelligence and order raids in their own district. The mayor transferred responsibility for policing brothels and gaming clubs to headquarters, forbidding precinct cops from mounting raids and opening up the possibility of gathering intelligence from all five boroughs. Thus, corrupt captains could no longer offer ironclad protection. Gaynor hoped that this would make it easier to curb graft as well as deal with the most influential madams and gamblers, some of whom controlled premises all over the city.[30]

Such innovations were complemented by the creation of special police squads, based at the headquarters and reporting directly to the commissioner. These squads would conduct raids that had hitherto been carried out at the precinct level and—properly led and supplied with detailed information—might well succeed in closing down establishments that had enjoyed police protection. Most of the targets for the raids were selected by the police commissioner or mayor, acting in response to tip-offs received from members of the public who were—it seems more than likely—in many cases rivals of the gamblers on whom they informed. This system made it virtually impossible for unscrupulous officers, bent on continuing to extort gambling dens and brothels, to offer effective protection, as they had no power to stop raids or be informed beforehand that a raid was being set up. Further reforms to reduce waste and improve accounting practices were introduced by Gaynor's successor, elected in 1914.[31]

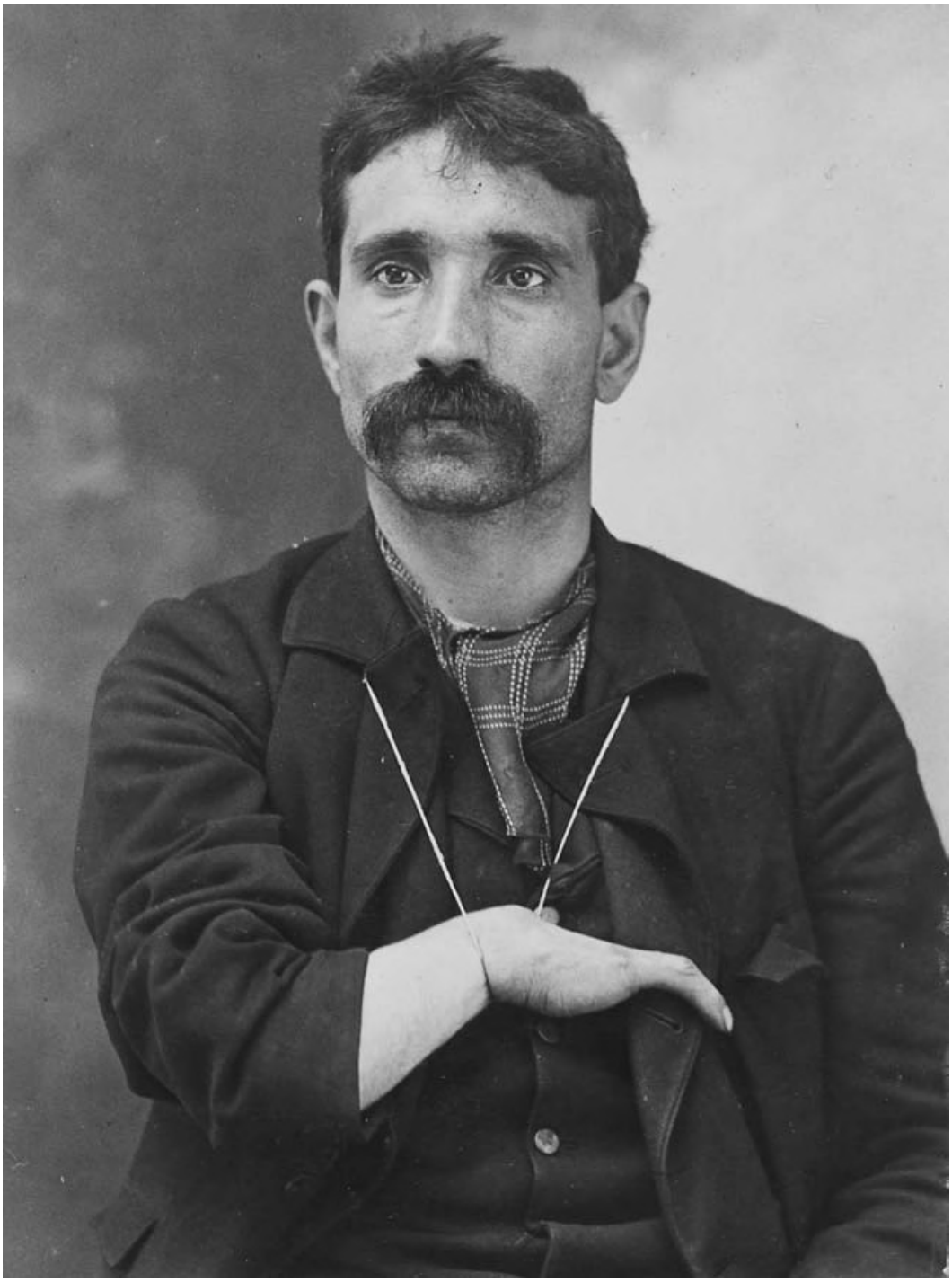
Early Italian Criminality

At first, Sicilians with a criminal inclination, and even members of Sicilian cosche, did not embark on activities that indicated an ability to control markets or specialize in protection, contrary to what they did in Sicily.

In other words, there might have been mafiosi, but there was as yet no mafia because the police was performing this function. For instance, Italians were involved in counterfeiting from at least the 1860s. One gang of counterfeiters, all originating from Messina, was exposed in 1865 in connection with the Deodati murder. Another significant murder connected to this trade—that of Antonio Flaccomio, who was stabbed to death in 1888 at the corner of St. Marks Place and Third Avenue by a counterfeiter named Carlo Quatertaro—led Chief Inspector Thomas Byrnes to declare that Sicilians "banded together in a secret society known as the Mafia" were the culprits.[32] Morello (1867–1930) and his brother-in-law, Lupo, led one prominent counterfeiting gang based in East Harlem. The forgeries were manufactured in upstate New York. Morello and Lupo then sold them to wholesalers at thirty to forty cents on the dollar for distribution throughout the country. By 1899, Morello was an influential figure in East Harlem, along with his brothers Tony and Vincent and their half-brother Ciro Terranova. Counterfeiting generated great alarm among U.S. authorities, since it was undermining confidence in the currency, and significant resources were devoted to stopping it. These efforts were successful, and by 1910 massive police repression led to the virtual death of this criminal activity. The participants themselves understood that the costs of engaging in this trade were high. As late as 1963, novices taking the mafia ritual oath in New York were still required to promise not to take part in counterfeiting.[33]

Italians were also stealing horses at the turn of the twentieth century in New York City. In 1908, more than a hundred complaints reached police headquarters from people whose horses and wagons had disappeared, causing insurance rates to rise. A year later, a network was discovered, "working on a scale unknown even in the days of 'horse lifting' in the West," the *New York Times* reported in October 1909.[34] The stolen animals were taken to a stable where they were kept before being sold. The police identified 334–337 East 108th Street, in Italian Harlem, as the hub of the ring. And yet there were no territorial disputes between different gangs of horse thieves, and in any case the business died when motorized public transport and automobile usage increased.[35]

At the turn of the century, a crude technique of random extortion known as "Black Hand" came to define the perception of southern Italian immigrants in the mind of the U.S. public. The standard Black Hand



Giuseppe Morello (1867–1930), a prominent counterfeiter in New York City. Photo credit: David Critchley.

crime consisted of sending a letter to businesspeople and shopkeepers in Italian neighborhoods warning them of dire consequences if they failed to pay up. Invariably, the picture of a black hand fringed by a knife and skull was imprinted on each letter. The Black Handers did not attempt to control markets, territory, or even the name Black Hand, although some gangs formed and celebrated rituals. Soon, every crime committed by Italians was credited to the Black Hand, and press excitement encouraged both the real practice and the emergence of fakes. Continued press coverage led to more and more letters being sent. The Black Hand brand proliferated in several U.S. cities, but it did not correspond to any specific organization. Eventually it died out, perhaps for lack of a connection to a specific mob able to prevent other lesser entities from using the same logo (Black Hand); when inefficient groups used the label, victims realized that they could safely avoid paying. [36]

In conclusion, before Gaynor's reforms, Italians were involved in a variety of crimes—counterfeiting, horse theft, and crude extortion—but they had not yet managed to reproduce the control of markets and territories typical of Sicily in New York City.

The Birth of the Mafia

Paradoxically, the end of widespread police corruption instigated by Gaynor's reforms and more generally by the Progressive movement led to the birth of the mafia. Police reform had left a void to be filled by new actors. As policing was being centralized, an organization able to coordinate illegal activities was much needed. For instance, a mafia could prevent rival gamblers from informing on each other and enforce an informal license system. It could put pressure on local police officers on the beat not to pass information to headquarters. Around this time, Italians started to protect brothels and gambling establishments. In a few years, Lucky Luciano would be indicted for controlling no less than eighty brothels in Manhattan. The protection that Gaynor's reforms afforded to trade unions led some employers to turn to mafiosi rather than corrupt police officers. The former leader of the notorious Five Points Gang, the Italian Paul Kelly (Paolo Vaccarelli), moved into labor racketeering at this time. Some workers too turned to extralegal help. In 1913, an Italian gang that had been implicated in crude Black Hand extortion offered its violent ser-

vices to workers (not employers, in this case) in the garment industry. Mafiosi rather quickly started to offer their services to market operators who wanted to keep some competitors out of a given industry or expel troublesome insiders, and enforce cartels among a limited amount of producers, as they did in the case of millers in Sicily I discussed at the beginning of this chapter. Gaetano "Tom" Reina (the future boss of the Lucchese family), Tommaso Gagliano (also a future boss in the same family), and Jack Dragna were implicated in the murder of a poultry dealer in 1914, Barnet Baff. The dealer had volunteered information to the district attorney's office on a cartel of eighty-seven other dealers. Industry insiders who wanted to punish the defector had orchestrated the murder. Italians infiltrated other industries, such as barbershops, the garment industry, and the docks. Over the subsequent decade, they continued to organize cartels, such as the Bronx lathing and plastering industry, the fiefdom of the Lucchese family since at least 1928. Although some Italian criminals could be found operating in illegal markets at the apex of Tammany, they typically were not the protectors, but rather the operators of brothels and shady saloons. It was only after the reforms described above that their role changed.[37]

A major impetus to the expansion of the Italian American mafia was the creation of yet another vast illegal and unprotected market. Legislation intended to prohibit the "manufacture, sale, or transportation of intoxicating liquor" culminated in the approval by the U.S. Congress of the Eighteenth Amendment to the Constitution in January 1919. By the end of 1919, thirty-six states had ratified the amendment. Prohibition and its enforcement machinery, the Volstead Act, came into effect at midnight on January 16, 1920. This "noble experiment" (in the words of President Herbert Hoover) was part of the same Progressive movement that had succeeded in reducing grand graft and police corruption in the first decade of the twentieth century.[38]

An illegal market estimated to be worth some two billion dollars a year was born overnight.[39] The bulk of the alcohol that reached consumers was either produced abroad and smuggled into the country (the so-called high seas or rum-running operations), or produced illegally in the United States and transported on land. As a rule, higher-quality merchandise was produced abroad while domestic producers manufactured the cheaper-grade liquor.[40]

Those who imported liquor from abroad formed international networks of cooperation. The Canadian-U.S. border (some thousand miles long) was one point of entry for land smuggling operations. Thus, several U.S. traffickers teamed up with Canadian distillery conglomerates and liquor distributors. Another method of getting the goods to the East Coast market was by means of ocean vessels anchored offshore in international waters, on "Rum Row," as the stretch of coast on Long Island and northern New Jersey came to be known. The ships would sell their cargo to the owners of high-speed "feeder" boats, who would then bring the merchandise to beaches on Long Island and northern New Jersey.[41]

The alcohol coming in from Rum Row would be loaded onto trucks and sent to depots located in Manhattan. The market was fraught with dangers. Hijackers of vessels were a serious problem for sailors bringing cargo from abroad. Herbert Asbury (the author of *Gangs of New York*) recalls in his 1950 study of Prohibition that "these seagoing hijackers, in fast boats, swarmed along the Row and robbed everybody they could catch and overpower. They prayed principally on the small craft, some of which carried huge sums of money, jumping them if possible on their way out to the Row."[42] Alastair Moray, a Scottish rumrunner with literary aspirations who kept a diary of his years in this business, concurs: "There is a good deal of what is known as 'hi-jacking,' inshore and out here too; in plain English, 'highway robbery.'"[43] Most of the sailors were armed with revolvers, rifles, and the occasional machine guns, and would not dare to go on deck unarmed during the night. Bill McCoy, possibly the best-known captain on Rum Row, aimed machine guns and rifles at any unknown boat that approached his ship, and allowed only one person aboard at a time.[44]

The route from the Long Island beaches to the City was also dangerous. Hijackers would regularly stop the trucks, hold up the drivers, and steal the cases. A man known as Big Eddie led a notorious gang of hijackers. "The New York police," writes Asbury, "said that he and his gang hijacked many truckloads of liquors on the roads of Nassau and Suffolk counties, the principal highways into New York from the lower end of Long Island."[45]

Jewish and Italian gangsters—such as Arnold Rothstein, possibly the most enterprising bootlegger on Rum Row—took it on themselves to offer two services to this market: the protection of truckloads, and a place where

buyers could meet sellers. Luciano and Frank Costello together with Rothstein created squads to protect the procession of vehicles carrying liquor on the way to the warehouses. Each truck had a driver up front and two armed guards in the back, ready to fire if attacked. The recruits for this job were Italian and Jewish youths from the Lower East Side.[46]

Early Italian mafiosi were also responsible for the creation of the equivalent of a Stock Exchange for booze, the so-called curb exchanges (after the name of the New York Stock Exchange, originally called the Curb Exchange), where bootleggers met buyers. The first curb exchange emerged in September 1920 in the area bounded by Canal, Bowery, Prince, and Mulberry Streets, right in the middle of a territory controlled by Joe "the Boss" Masseria (see below) and just a block away from police headquarters. Bootleggers and buyers met almost every night from 9:00 p.m. to 1:00 a.m. to deal cases of rye whiskey, Scotch whiskey imported from England, bourbon, Canadian scotch, Canadian rye, domestic Gordon's gin, Burnett's bonded gin, Italian vermouth, French vermouth, and Dubonnet (the list is courtesy of the local police).[47]

In order to avoid police detection, a slightly different meeting place was selected every night. The curb traders, writes the *New York Times*, met in "yards of tenement houses, usually in the rear of saloons."[48] The products, continues the *New York Times* article, "were sold by purveyors on the 'curb,' either in single cases or by the load. While the sales were effected on the 'market,' . . . the liquor itself was not handled at the 'curb,' but was obtained on orders at various rendezvous in different parts of the city, and in New Jersey, Long Island, and Connecticut points."[49] For instance, on March 20, 1921, the police raided a garage at 144 Mulberry Street. About one hundred people ("recognized by the agents as bootleggers") were gathered there, but only samples of liquor were seized.[50]

Curb trading was more efficient than the system employed previously. In the previous system, all liquor was stored in cellars and tenement apartments, so it was easy for the police to spot the trucks coming and going, and thus arrest the drivers. Now, the liquor was hidden out of the city and directly dispatched to the buyers. "The brokers," officials told the *New York Times*, "do not handle any liquor themselves, nor is any money displayed on the market, . . . so [officers] have difficulties in getting any evidence."[51] Most significantly, these individuals were private protectors independent of bootleggers and restaurateurs. An informant told the *New*

York Times that "a considerable number of them were agents, who received commissions both from the bootleggers and the purchasers." These individuals were tasked not only with providing physical protection but also ensured that promises made on the curb were kept. The strong-arm men were local youths from the Italian neighborhood: "The sudden prosperity of some of these agents has been the source of considerable comment on the part of the police and residents of this bootlegging zone. All are young men whose homes are in nearby tenements."[52] This segment of the market was not run as a cartel of the suppliers (the bootleggers) and consumers (the saloon keepers) but rather the mafia offered a universal service to both the sellers and buyers. It was more profitable for the mafia to be paid a fee by all market participants than to force some out.

Curb exchanges were not limited to lower Manhattan. A "whiskey curb exchange" was reported to be operating in New Jersey already in November 1920. When police started to raid the curb exchange in Little Italy, the market moved uptown, and Prohibition officials admitted that "it is increasing its operations. . . . The new curb is said to be on Fortieth Street, near Broadway, and most of the 'brokers' who did business in the old market, on Mulberry Bend, have shifted their activities."[53]

Masseria, who was to become the head of the most influential New York syndicate in the 1920s, lived above a saloon on Forsyth Street, right in the curb exchange area. His early criminal career included extortion, kidnapping, and burglary. Together with associate Tommy Pennochio, Masseria was the organizer of this portion of the market, independently from both the bootleggers and buyers of liquor. Another significant player in the curb exchange was Salvatore Sabella, who had worked and had been arrested at the curb exchange. The boss of an existing Italian group, Salvatore D'Aquila, wanted a cut from this business. One famed street battle erupted on May 8, 1922, within a block of the police headquarters in the curb exchange territory, between D'Aquila and Masseria men. The struggle between the Masseria and D'Aquila families ended when, on August 11, 1922, D'Aquila's main killer was assassinated by Masseria. At this stage, Masseria gained considerable prestige and started to undermine D'Aquila both in New York and other cities. Eventually D'Aquila himself was gunned down, beside his car, on October 10, 1928, after driving his wife and children from the Bronx to consult a doctor. Following his death, the D'Aquila family would ally with Masseria.[54]

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Mafia historian David Critchley notes that Masseria's role in the curb exchange market enabled him to expand "from his lower east side territory and secured a lock on an important portion of the Italian-American underworld extending from Brooklyn to the Bronx, operating primarily through Salvatore Lucanio and West Side-based Vito Genovese."[55] Bonanno, an enemy of Masseria, concurs that, at the height of Prohibition, Joe the Boss was the dominant leader.

By 1928, the Coast Guard had grown more effective at intercepting this illegal traffic at sea. A series of treaties with other countries also allowed the Coast Guard to search and seize within one hour's running distance of the U.S. coast, while its fleet was greatly improved by 1928. Rum Row had declined in importance by this time as a source of imported liquor.[56] Local booze producers flourished as a result of such decline. Italians were quick to enter this section of the market as well. Salvatore Maranzano, the mafioso who would fight the Castellammare War against Masseria in 1930 for control of the Italian American mafia, came to prominence by protecting illegal distilleries. Already a mafioso of consequence in Sicily, born in 1886, he arrived in New York most likely in 1925 via Canada. He entered the Schiro family and soon took control of the *borgata*(the word borgata is equivalent to cosca, although it is normally used to refer to U.S. mafia groups only). Maranzano had invested in a number of distilleries in Pennsylvania and upstate New York. The operations were typically run by a local manager and part owner who was not a member of the mafia; Maranzano and his gang provided protection for this network of producers of illegal products. He ensured that supplies arrived as well as that the whiskey was stored in safe houses and then shipped on to the buyers. He dealt with the police and settled disputes that arose among the various players. Bonanno, who worked for Maranzano, recalls that hijacking of delivery trucks was a common occurrence and one of his jobs was to retrieve stolen trucks. In one instance, a violent shootout led to a significant police investigation.[57] Italian mafiosi were now deeply involved in the largest illegal market of the time and a rough distinction between producers (bootleggers, the stills' managers), buyers (saloon owners), and protectors (mafiosi) was emerging. This was a far cry from writing extortion letters or stealing horses. Surely the goods were reaching the consumers: the mayor of Berlin, while visiting the city in the fall of 1929, asked the mayor of New York, "When does the Prohibition law go into effect?"[58]

Prohibition provided an enormous boost to both the personnel and power of Italian organized crime. The risk of punishment was low, the gains to be made were enormous, and there was no social stigma attached to this trade. One by-product of the massive profits was that syndicates could easily bribe the judiciary and politicians in New York City, reversing the attempt at curbing corruption initiated by Mayor Gaynor in 1910.[59]

Organizational Maturity

Italian criminal groups existed in New York City before Prohibition: the Morello gang of counterfeiters in East Harlem; a group led by Nicolò (Cola) Schiro, mainly formed by immigrants from Castellammare del Golfo and based in Brooklyn; and the borgata around D'Aquila, also in Brooklyn. How were these groups related to the Sicilian mafia? Although American mafiosi were not agents of the Sicilian ones, the homeland still exerted some influence on such U.S. outposts. Between 1910 and 1920, there were three different routes into a U.S. family. One was previous membership in a Sicilian cosca. Nick Gentile—who had entered the Porto Empedocle one before migrating to the United States in 1903—was admitted into the Philadelphia family in 1905. He then moved to Pittsburgh, where after a brief and successful campaign against the despised local gang of Neapolitan descent, he murdered the boss and became a capo. Such a route was open as late as 1925, when Maranzano was accepted into the Schiro family right after arriving in New York City "because," writes Bonanno, "of his position in Sicily."[60] It was customary for would-be members to carry a letter from Sicily testifying to their position in the cosca back home. When Morello was captured in 1909, the secret service discovered such "letters of admittance." Gentile confirms in his memoirs that would-be mafiosi from the old country needed a "letter of reference" from Sicilian bosses in order to be admitted into a cosca, and any change of family had to be approved by the boss back home. A second route was birth in a Sicilian town that was known to be under the sway of the mafia, and thus where Sicilian mafiosi could "vouch" for a prospective U.S. member. Third, coming from a well-known mafia family could ease admittance. This appears to be the way Bonanno entered the Schiro mob: his father had been a leader back home. Still, in contrast to Sicily, mafiosi in the United States could move

quite freely from one family to another, as Gentile did, and dual membership (Sicilian and American) was possible.[61]

As a consequence of Prohibition, the New York mafia families consolidated and grew in number (table 5.1). Masseria, who had played a crucial role in the development of the curb exchange, was the boss of a new family firmly located in Brooklyn and the Bronx as well as in Manhattan and, following the murder of D'Aquila, the D'Aquila family had become an ally. Joe the Boss also had contacts with mafia syndicates in Chicago, Detroit, and Cleveland (Capone was his ally in Chicago). Maranzano, who had taken control of the Brooklyn Schiro family, greatly strengthened it to the point that it became Masseria's main competitor in the war that broke out in 1930, the Castellammare War. The Reina (later Lucchese) had absorbed the bulk of the Morello borgata in the 1920s. By the late 1920s, a second new family had emerged, the Profaci, later called Colombo. Thus, the number of established mafia groups in New York City grew to five and also swelled their ranks. The Castellammare War was a conflict between the two main leaders at the time, Masseria (allied to D'Aquila) and Maranzano (allied to Reina; Profaci remained neutral). Although Maranzano won the war, he was soon gunned down, due to the fear that he would want to exert excessive control over the other groupings. As a result of the war, the new leaders created a commission—a forum where key decisions were discussed and enforced. Individual families retained their autonomy, and over the subsequent decades, the commission tended to intervene mainly when an individual family was unable to choose a successor and plunged into internecine violence. Contrary to a widespread conception suggesting that the Five Families were created after the Castellammare War, they were already in place by the late 1920s. What did change after the conflict was the identity of some leaders. For instance, because of the war, Luciano and Bonanno were elevated to the rank of boss. These Five Families exist to this day.[62]

By the late 1920s, U.S. families were growing in importance in the eyes of their Sicilian counterparts. For example, when a significant dispute arose between two Palermo mafia factions in 1928 over how to split a payment from a company that had obtained a public contract thanks to the mafia, a U.S. delegation was sent to put an end to the dispute, as testified to by Dr. Melchiorre Allegra in his 1937 deposition: "I was told that three

Table 5.1
Timeline of Italian American Crime Families, 1910 Circa to Present, Core Territories and Key Events

Timeline:					
c. 1910		D'Aquila (Brooklyn and Manhattan)	Morello (East Harlem and Manhattan)	Schiro (Brooklyn)	
c. 1920		D'Aquila (Brooklyn and Manhattan)	Morello (East Harlem and Manhattan)	Schiro (Brooklyn)	
Late 1920s	Masseria (Brooklyn, Bronx, East Harlem, and Manhattan)	D'Aquila-Mineo-Mangano (Brooklyn and Manhattan)	Reina-Gagliano (East Harlem)	Schiro-Maranzano (Brooklyn and Manhattan)	Profaci (Brooklyn and Staten Island)
1931	Castellammare War: Maranzano boss; Masseria killed				
1931	Murder of Maranzano (September 10, 1931)				
	Creation of the Commission				
1931–	Luciano-*Genovese*	Mangano-*Gambino*	Gagliano-*Lucchese*	*Bonanno*	Profaci-*Colombo*

Notes: The names of the Five Families, as they are known today, are in italics. Luciano, Mangano, Gagliano, Bonanno, and Profaci were the bosses in 1931 as well as members of the Commission, which included representatives from Chicago and Buffalo.
Sources: Bonanno with Lalli 1983; Critchley 2009; personal communication, December 19, 2009.

special delegations composed of mafiosi residing in the US arrived [in Palermo] with the ultimately unsuccessful aim of finding a solution to the dispute."[63]

The U.S. groups were also becoming autonomous, rescinding any dependency on the Sicilian homeland. By the end of the war that pitted Masseria against Maranzano, and led to the death of both leaders in 1931, dual Sicilian and U.S. mafia membership was forbidden. Furthermore, membership of a Sicilian cosca was no longer a sufficient qualification to join a U.S. family. Buscetta dates the full separation between the two entities at around 1950.[64]

Because of the Castellammare War, the families had turned to new sources for recruitment. In order to increase their ranks to fight the war, families started to look beyond Sicilians and, anathema to a Sicilian mafioso, admitted Neapolitans, the most famous being Joe Valachi, who testified against the mafia in 1963. Over time, typical new recruits came to be youths of Italian descent who had grown up in the inner-city neighborhoods of New York City. The candidates would be observed for a while and then, if deemed worthy, schooled for full membership. This is a sure sign that the U.S. mafia had become an autonomous organization.[65]

Italian American families had not yet acquired a publicly recognized name. Until the 1960s, each borgata was called after the name of the boss at the time or the territory that they inhabited (for example, the Luciano-Genovese faction was known as the West Side to insiders). Thus how did the Gambino, Genovese, Bonanno, Colombo, and Lucchese families come to acquire stable names by the 1960s that have survived to this day? Table 5.2 offers an important clue. In October 1963, Valachi, a soldier in the Masseria-Luciano borgata, gave a televised testimony to the Permanent Subcommittee on Investigations of the U.S. Senate Committee on Government Operations (best known as the McClellan Committee). In October 1963 the bosses happened to be Gambino, Genovese, Bonanno, Colombo, and Lucchese. The testimony transfixed the U.S. public, and the families were from then on assured a place in the U.S. psyche with the names of the bosses at that particular time. As in other instances, an external source conferred a recognizable identity on a phenomenon that already existed but was struggling to consolidate. In order to be recognized, mafiosi themselves started to call their organizations by names that they had not quite chosen.

TABLE 5.2
The New York City Mafia Bosses by Families and Key Events, 1930s–80s

Timeline:	*Familes*				
	Genovese	Gambino	Lucchese	Bonanno	Colombo
1930s	Salvatore Lucania ("Charlie Lucky" Luciano), 1931–46	Vincent Mangano, 1931–51	Tom Gagliano, 1931–53	Joseph Bonanno, 1931–68	Joe Profaci, 1931–62
1940s	Frank Costello, 1946–57				
1950s		Albert Anastasia, 1951–57			
			Gaetano Lucchese (Thomas Lucchese), 1953–67		
	Vito Genovese, 1957–69	Carlo Gambino, 1957–76			
1960s					Joseph Colombo, 1962–71
October 1963			Valachi hearings		
1964–69			Bonanno war		
			Carmine Tramunti, 1967	Natale "Joe Diamond" Evola, 1968–73	
	Tommy Eboli, 1969–72		Anthony "Tony Ducks" Corallo, 1967–87		
1970s	Frank "Funzi" Tieri, 1972			Philip Rastelli, 1973–85	Vincent Aloi, 1971
	Anthony "Fat Tony" Salerno, 1972–87				Carmine Persico, 1971–96
		Paul "Big Paulie" Castellano, 1976–85			

Notes: The dates refer to the tenure of each boss. The names of bosses at the time of Valachi hearings are set in bold. Tom Gagliano might have died in 1951.

Let me conclude this section on the birth of the Italian American mafia. Mafiosi arrived in New York City before a mafia was present, in a fashion not dissimilar from the arrival of members of the `Ndrangheta in Bardonecchia and Verona in the 1960s. The push factor was the unintended consequence of prosecution in Italy along with the attempt of mafiosi in Sicily to avoid mafia disputes and punishment, as was the case with Yakovlev's move to Rome in the 1990s and those of triad members to China in the 1990s (see chapter 6). Some of course just came as part of the generalized migration to North America, in search of a better life. In the nineteenth century, the most profitable markets were already protected by a combination of corrupt police officers and local politicians. The arrangement is not unlike the "protective umbrellas" operating in China (see chapter 6). Italians in the United States did congregate in crime groups and even performed admission rituals, while the Sicilian homeland had a say on admission and moves among families, and operated as a certification agency on reputations. The Italian Americans involved themselves in ordinary crimes, such as counterfeiting, horse theft, and crude extortion.

In the first decade of the twentieth century, leaders of the Progressive movement to reform city politics were successful in curbing grand corruption. Prostitution, gambling, and late-night drinking as well as labor relations were suddenly left unprotected. A central argument of this chapter is that the unintended consequences of police reform gave the mafiosi a golden opportunity to become entrenched as suppliers of services of dispute resolution and protection.

In addition, the Progressive movement succeeded in banning alcohol consumption and manufacturing in 1920. Thus, another vast unprotected market was created shortly after the reform of the police. Mafiosi stepped in to protect truckloads entering the city from Rum Row and large stills in upstate New York. They were also instrumental in the creation of spaces where suppliers could meet distributors and prices could be set. The Italian mafiosi were independent of either suppliers or distributors, offering their services to both. Contrary to a common perception, Prohibition did not create the Italian American mafia.[66] Rather, mobsters had already penetrated some key markets in the previous decade. During and after Prohibition, the Italians continued their involvement in other illegal markets, such as prostitution and gambling.[67]

The Five Families as we know them today had already been formed by the mid- to late 1920s. They had also already started to assert their independence from the Sicilian homeland, as demonstrated by the fact that dual membership in the two organizations came to be forbidden and the major source of recruitment became, from the late 1920s onward, local youths of Italian descent. The final nail in the organizational edifice of the Italian American mafia was the Valachi testimony in 1963. While it fixed the spotlight on the organization, it also gave each family a stable and recognizable name that persisted after the demise of the particular boss.

Italian Mafia in Rosario

Italians set foot in Argentina earlier than in New York City, arrived at a more even pace, and were the most numerous migrant group. Significant influx to the shores of Río de la Plata had started already in the mid-eighteenth century. By 1855, Italians were the largest migratory group in Buenos Aires and other urban centers in the provinces of Santa Fe and Entre Ríos. Most of them lived in the La Boca neighborhood of Buenos Aires, where they already constituted almost a quarter of the capital city's population. Italians continued to form the bulk of overseas migration to Argentina in the last decade of the nineteenth century and until the First World War. According to the Third National Census of 1914, almost a million of them resided in Argentina, making up 20 percent of the population of the capital.[68] While those going to New York City arrived relatively late in the city's own development, when other ethnic groups had already established themselves and the majority of them joined the unskilled labor force, in Argentina the first wave of Italians was able to enter the professions and more generally join the local elite.

The regional background of Italian immigrants to Argentina was also different from the background of those who emigrated to New York City. In the Latin American country, 41 percent came from northern Italy, 47 percent from southern Italy, and 12 percent from central Italy (see table 5.3), while some 80 percent of the migrants to the United States had originated in southern Italy.[69]

And yet one has to be mindful of the changes over time. Arrivals to Argentina from southern Italy jumped from 28 percent of the total Italian immigration in the 1870s to 55 percent in the first decade of the twentieth

FIGURE 5.2 Map of Argentina-Rosario

TABLE 5.3
Regional Origins of Italian Immigrants to Argentina and the United States, 1876–1930

Period	*Percentage from northern Italy*	*Percentage from central Italy*	*Percentage from southern Italy*
	Argentina		
1876–78	66	6	28
1884–86	66	9	25
1894–96	44	16	39
1904–6	32	20	48
1907–9	31	14	55
1910–14	31	14	54
Total, 1876–1930	41	12	47
	United States		
1876–78	41	11	47
1884–86	12	3	85
1894–96	7	5	88
1904–6	9	12	79
1907–9	9	14	78
1910–14	11	14	75
Total, 1876–1930	11	9	80

Source: Klein 1983, 309.
Note: "The regional divisions used here are those in effect before 1919—that is, northern Italy includes Piedmont, Liguria, Lombardia, and Veneto; central Italy includes Emilia, Toscana, Marche, Umbria and Lazio; southern Italy includes the remaining peninsular divisions plus the islands" (Klein 1983, 309).

century. By the end of the nineteenth century, migration from northern Italy declined (especially from Liguria and Lombardy), while arrivals from other central (Le Marche) and southern regions (Abruzzi, Campania, Calabria, Basilicata, and Sicily) increased in relative terms. In the first decade of the twentieth century, many Sicilians, mainly from Caltanissetta, Catania, and Agrigento, moved to urban Argentina. Their professional background also changed: the number of farmers (*agricultores*) declined, while the numbers of day laborers (*giornalieri*) and artisans increased.[70]

After Buenos Aires, Rosario attracted the greatest number of immigrants, mainly from Europe. Italians started arriving in the first half of the nineteenth

century and represented the highest percentage of the city's foreign residents, followed by the Spaniards (who were almost as many as the Italians in 1926), French, Russians, and British.[71] The composition of the Italian contingent in Rosario did not diverge from the national trend. The majority of Italian immigrants recorded in 1870 was from Liguria, Piedmont, and Lombardy, and was made up of mostly shopkeepers and shop assistants, craftspeople, or those employed in the services sector. This first wave was upwardly mobile, in a social setting that did not have an entrenched Argentinean aristocracy. The later influx represented less-qualified workers (agricultural laborers and day laborers), who found jobs in the construction of urban infrastructure and did not achieve the same economic success. According to estimates by economic historian Carina Frid, the Sicilian population reached its peak in Rosario in 1900–1914, when it represented between 15 and 20 percent of Rosario's Italian population for a total ranging from 8,500 to 10,800 of the 54,401 Italians residing in Rosario in 1914.[72] An analysis of marriage records in the Fifth District of Rosario in 1905 (n 582) shows that 19 percent of the total number of those getting married originated from Sicily, followed by Piedmontese (18 percent). Other regions were less represented.[73]

A number of the Italian residents in Rosario (including the leaders of its mafia) had been born in Agrigento Province in Sicily. According to a conservative estimate, the Agrigentini in Rosario were just below one thousand in the period 1900–1905. At the end of the nineteenth century, this part of Italy experienced substantial departures to both North and South America. Some villages in the northern part of the Magazzolo Valley (Alessandria della Rocca, Cianciana, Bivona, Raffadali, Santo Stefano Quisiquina, and Burgio) were almost emptied (see fig. 5.1). The valley was an inhospitable land, where most people worked in the fields or sulfur mines. The inhabitants were mainly bricklayers, shoemakers, and unskilled workers. Some found employment in construction, while others went to reside in—and work in the fields of—the agricultural towns of Arroyo Seco, Serodino, and Villa Gobernador Gálvez outside Rosario (see fig. 5.2).[74]

Was there a "supply" of people with mafia skills in Rosario, as there was in New York City? The Rosario mafiosi were from Sicily, originating from the Magazzolo Valley. José Cuffaro and Esteban Curabà, heading a group of *paesani* involved in kidnapping and blackmailing from the mid-1910s, had been born in Raffadali, near Agrigento. Gaetano Pendino, a Sicilian

Juan Galiffi (1892–1943), the charismatic crime boss of Rosario in the 1930s, known as "Al Capone Argentino." Photo Credit: Osvaldo Aguirre. Historias de la mafia en la Argentina (Buenos Aires: Aguilar, 2000).

from Alessandria della Rocca, chose to migrate to Argentina, where he arrived in 1888 at the age of thirty-five and eventually became the boss of the mafia in Rosario. Santiago Buè and Carlo Cacciatore, members of Francisco Marrone's group (see below), came from the same town in Agrigento Province, and were at once cousins and brothers-in-law. Some Sicilians later involved in crime in Rosario originated from Catania Province, but their role was more limited.[75]

The most charismatic crime leader of the 1930s was Juan Galiffi, dubbed by the press "Al Capone Argentino" and made into Argentinean public enemy number one. Born in Ravanusa (Agrigento) in 1892, he arrived in Argentina in 1910 and first settled in Buenos Aires. Galiffi claimed to be a barber and trader. His career as a businessperson was rather successful. He associated with a Milanese who owned a vineyard in the province of San Juan. Soon after, he forced his Milanese partner out and became the sole proprietor of the firm Vinos Galiffi as well as the owner of a furniture

workshop. His criminal career started in the 1910s as a thief in Santa Fe, Córdoba, La Rioja, and Salta provinces. In the early 1920s he married the daughter of a criminal from the town of Gálvez (240 kilometers from Rosario), where he rented a café (*fonda*). He was accused of robbery and disposing of stolen goods (fencing), though he managed to avoid prison. By the mid-1920s, he had moved to Rosario, where the police suspected him of being a mafia boss as well as involved in several kidnappings and the 1932 murder of a *La Crítica* journalist. Galiffi was also suspected of counterfeiting, extortion, and fixing horse races.[76]

A new generation of mafia leaders arrived in Rosario in the latter part of the 1920s, as a consequence of the fascist repression in Italy. Their arrival upset the local equilibrium and led to violence. The most important newcomer, via France, was Marrone, known as "Don Chico" or "Chicho el Chico" (although he used an exotic name at first—Ali Ben Amar de Sharpe). According to a statement made in 1938, Don Chico arrived in Argentina in 1930 with messages to deliver to Galiffi from Palermo. More specifically, a defendant (who was the first person that Marrone contacted in Argentina) claimed that Marrone "had a mission to accomplish" on behalf of the Sicilian mafia, to ensure that his fellow Palermitani were not taken advantage of by the Sicilians from Agrigento.[77] As soon as he arrived, he tried to muscle his way to the top of the local underworld. He orchestrated the death of three old-timers allied to Galiffi in a villa in San Lorenzo (twenty kilometers from Rosario). The massacre generated great police interest and concern among other Italian criminals, sowing the seeds of further violence. Marrone's epoch was short lived, however. In April 1932, Galiffi convinced him to attend a meeting at his house in Buenos Aires, where Marrone was assassinated.[78]

Local Conditions

I now turn to review the local economic conditions of the city in order to explore whether a demand for protection might have been present in specific markets. Rosario in 1850 was a trading post of no more than three thousand inhabitants in the southeastern Santa Fe Province. It was famed in the late eighteenth century for its locally bred mules as well as the silver, copper, and hides that it received from the interior and forwarded to Buenos Aires. From the late 1830s, its port was banned from foreign trade

by a decree of Juan Manuel de Rosas, the first strongman of independent Argentina. Yet Rosario's marginal economic role was to end in August 1852, when a politically weakened Rosas ended Buenos Aires's legal monopoly on international trade. The port was now allowed to receive ocean-going ships. Another lucky development took place a year later, when the province of Buenos Aires seceded from the rest of the country (it rejoined a decade later) and Rosario became for a brief period the capital-cum-port of the Argentine Confederation. As a consequence, Rosario's trade and population tripled between 1852 and 1858, and received a significant number of Italian immigrants, mainly from Liguria and Piedmont, who would eventually form the economic and social elite. As the city's leading historian Juan Álvarez noted, there were two great epochs in Rosario's history: "that with the river closed, which meant poverty and backwardness, and that with the river open, which meant prosperity and culture."[79]

In the mid-1870s, Rosario as well as the rest of the country went through an economic depression, stopping economic growth and reducing immigration to half of what it had been earlier in the decade. By the 1880s, though, the recession ended, and stable links with international capital and commodity markets led to an impressive burst of direct investment along with the arrival of nine hundred thousand immigrants to Argentina between 1880 and 1890.

The economy of Rosario from this period onward was mainly based on grain production, and land plots tended to be large. Agricultural development was impressive: grain production tripled between 1883 and 1895, and at least 150,000 seasonal laborers worked in the fields. In contrast to western Sicily, where land plots were small, medium-scale rural properties of one to three hundred hectares were common in the province after the 1860s; land tenancy developed in some districts of southern Santa Fe, as large-scale land proprietors (mainly cattle breeders) rented out part of their land for agricultural production. In 1890, an economic crisis ruined many small private producers and agricultural colonies, hastening the trend toward the consolidation of landownership. The price of land increased, making it even harder to buy after 1890. According to economic historian Michael Johns, Rosario lived off the value of its rich hinterland. "Moving commodities, primarily grain, was Rosario's main economic function."[80] The massive expansion of agriculture led also to the creation of factories mainly connected to agriculture production, rail links, and housing.[81]

Unlike in Sicily, where *banditismo* was rife after Italian unification, there was no threat to the transportation of products from the interior to the port. The bands of *Indios* that could have intercepted the goods and robbed the farmers had been exterminated by the vicious campaign conducted by Rosas in 1833 in the province of Buenos Aires. In the second half of the nineteenth century (1858–84), the local provincial government ensured that the rich landowners had nothing to fear from these and other potential bandits. In addition, trade unions were slow to organize in Argentina. Unionization started at the end of the nineteenth century, while the first strikes took place in 1902–3, led mostly by anarchists from northern and central Italy. A wave of strikes hit Argentina in the period 1907–10, but the police ruthlessly repressed them. A leader of the Radical Party in Rosario concluded a speech in 1906 by attacking the government's violent repression with these words: "Here in the City of Rosario . . . the police declared the workers outside the law. Under the pretext of searching for presumed delinquents, they have closed down union headquarters, they have searched homes at all hours of the night, masses have been imprisoned, and what is more despicable, workers declared innocent have been held for 18 hours and beaten up in police stations." There was no Mayor Gaynor to protect protesters.[82] Contrary to New York City, in Rosario there was no demand for an illegal protection agency to supply muscles against employees. The official organs of the state took care of that.

The economic crisis that coincided with the First World War caused numerous small farmers, land tenants, and businesses to default on their credits. Yet no demand for informal dispute settlement in the countryside emerged, mainly thanks to a peculiar system for settling disputes—an informal tribunal known as Paz del Trigo.[83] After 1918, Rosario experienced another brief economic boom that came to an end with the worldwide crash of 1929. The city then relinquished its role as a leading commercial center and has relied on grain exports ever since. Argentinean democracy suffered a blow in 1930, when a military coup took place. Although a civilian government was reinstated in 1931, the Partido Radical and the Communist Party were outlawed, and electoral frauds helped a general win the presidential elections. This period in Argentinean history is known as the Infamous Decade and marks the beginning of the end of Argentinean democracy. By 1943, another coup was staged.

The Construction Sector

There was a point in the history of Rosario when a demand for extralegal protection might have emerged: the construction boom of 1904–11 offered Italian criminals the opportunity to enforce a cartel of firms, excluding competitors in a lucrative market, as the `Ndranghetisti did in Bardonecchia in the 1960s. I now explore this little-known episode. Pendino operated a construction firm from 1895 until around 1913, at a time when the sector was employing between 8 and 12 percent of the entire labor force. Figure 5.6 records the number of building permits granted by the city of Rosario between 1890 and 1910. It shows an increase between 1894 and 1895 and a steady growth from 1904. The boom came to an end by the beginning of the First World War.

The housing boom was driven by the construction of new *conventillos* (tenements) and the transformation of houses into rental units—a profitable investment. Indeed, according to estimates by Johns, rents on houses and labor costs were possibly the highest in Argentina.[84] Labor in the construction industry was organized through merchants who supplied workers (bricklayers, painters, carpenters, and unskilled laborers) to construction firms. The merchants organized workers from the same area of origin in Italy and even offered them accommodation. Italian laborers, bricklayers, and builders had also formed their own association in 1895, the Sociedad Cosmopolita de Obreros Albañiles, which comprised around five hundred members out of a total workforce of seventy-five hundred. Except for the years of economic crisis (1890–95), the demand for bricklayers and construction materials was high, and it increased particularly after 1904. As the industry began to boom, workers mainly originating from central and southern regions, such as Le Marche, Calabria, and Sicily, were hired.[85]

In order to ascertain whether new construction firms owned by southern Italians had entered the market, I collected information on building permits from 1890 to 1910. Table 5.4 shows the share of the market in the preboom and boom periods.[86]

Between 1890 and 1904, four firms had a significant share of the market. Rizzi and Prioni were both run by families from the North (respectively, Liguria and Lombardy). Little is known about Bongiovanni, except that it operated only until 1899. Curti was from Agrigento and a relative of Pendino. Indeed, it is likely that Pendino chose to migrate to Rosario because

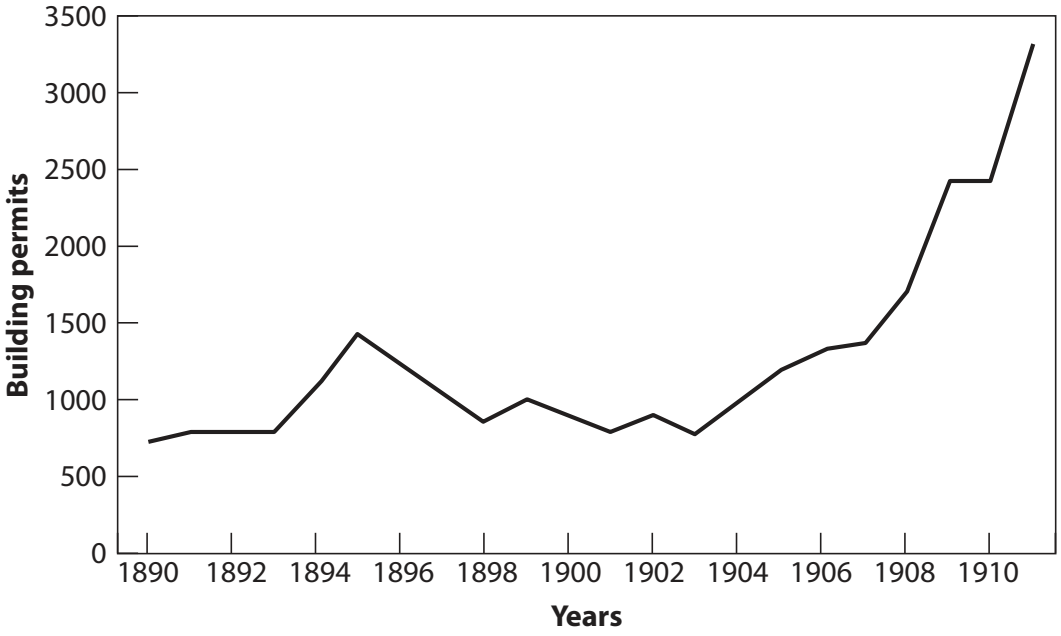

FIGURE 5.6 Building Permits, Rosario,1890–1910
Source: Lanciotti 2004, 229.

he hoped to find a job through his relative. All four firms are documented as operating since at least the early 1890s. I have also listed Micheletti, although it had only 3.2 percent of the market in this period, because it became a significant player later. An established firm, Micheletti was closely connected to the Catholic church in Rosario and remained a prominent constructor even after the First World War. The rest of the market was quite fragmented. Fifty-nine firms (out of eighty-five) had less than 1 percent of the permits. Only ten companies had more than five contracts.

As the market expanded in the next period, the number of firms grew (N 189) and the established firms lost quotas. Micheletti, Rizzi, Prioni, and Curti were now the top four firms, with 22.8 percent of the total permits. The remaining ones gained little share in new projects. In the 1905–11 period, 157 firms applying for permits had less than a 1 percent market share, out of a total of 189 firms. Pendino's firm had 1.1 percent of the construction permits in this period. Large traditional companies such as Maspoli and Co. won profitable public contracts, including the construction of the Italian Hospital of Rosario, the Opera Theater as well as the North, South, and Central Markets.[87]

Rosario's construction market shares some key similarities with Bardonecchia's. They include a sudden boom, the presence of both workers

TABLE 5.4
Percentage Shares of Licenses Obtained by Five Firms to Build New Dwellings, Rosario, 1890–1907

Firm/year	*1890–1904*	*1905–11*
Rizzi	10.7	5.8
Prioni	9.6	5.1
Bongiovanni	6.8	—
Curti	6.0	4.5
Micheletti	3.2	7.3
Total	33.1	22.8

Source: Archivo de Obras Particulares, Municipalidad de Rosario, Rosario.

and entrepreneurs from so-called mafia regions (Calabria and Sicily, respectively), and a clear attempt by individuals linked to the mafia to establish themselves in the market.[88] Masons were organized in a trade union of notable size, making communication and coordination easier. Why, then, did the mafia fail to penetrate this market? Surely the most profitable public projects of this time required contacts within the political elites, and traditional companies secured those contacts. Yet the market boom revolved around the construction of houses for the middle and lower middle class in the suburbs as well as the working-class neighborhoods—a sector of the market that could have been cornered by mafia firms. Also, in such a long period, firms connected to the mafia could have secured public contracts, as they did in both Sicily and New York City, and Rosario gangs had contacts with the political elite of the period, as mentioned below.

Despite some crucial similarities, differences exist that ultimately explain the diverging outcomes. A structural difference is the sheer scale of the market: many more operators were at work in Rosario than in Bardonecchia[89] A mafia finds it extremely difficult, if not impossible, to create cartels when the market actors run into the hundreds. Most crucially, the mafiosi did not have a lock on the labor supply. Recall that in Bardonecchia Lo Presti was the sole supplier of unemployed workers to local companies, which hired their workforce in defiance of existing legislation. Lo Presti ensured services of dispute resolution between workers (hired

illegally) and construction firms (which benefited from such informal arrangements, but could not use the law when disputes arose). In Rosario, firms could bypass a mafia fixer and hire workers through several *padroni* who had no connection to the Agrigentani. Two generous sources of labor were available: the rural folk who moved to the city during the agricultural off-season in search of work in the housing industry, and continued migration from Italy.[90] Since migration from Italy was conducted through "chains"—namely, immigrants arrived because relatives and acquaintances had arrived before them—the supply of labor was diversified. Workers from several parts of Italy, such as Le Marche along with various parts of southern and northern Italy, would arrive in Rosario and be directed to employment through their regional networks. None had complete control over the supply, as Lo Presti had in the case of Calabresi working in Bardonecchia. Since workers in Rosario were hired legally, within a general framework of informality and flexibility, there was no demand for extralegal dispute settlement. To the extent that disputes arose, bosses could turn either to the law or existing informal systems of dispute resolution (it does not follow that workers were better protected in Rosario than in Bardonecchia).

Italian Criminality

The mafia failed to penetrate a booming new market (construction). In addition, trade union activism was repressed by brutal state intervention, thus there was no demand for mafia groups to do so, and no significant illegal market existed in the city. Some of the mafia activities do suggest an attempt to offer services of dispute resolution and protection, however the demand was never enough for the mafia to become a viable and long-term criminal group. Pendino acted as an informal judge within the Sicilian community of Rosario, moderating differences and trying to settle disputes. Along with his associate Curabà, Pendino represented the *mafia limpia*. A member of Marrone's gang (see below), testifying before a judge in 1939, described them as "people who had ascendancy over their countrymen and settled their disputes."[91] A police document dated 1899 contains a description of the new crime of *vendetta* the use of violence to settle disputes within the Italian community without turning to the authorities. The murder of Francisco Randisi, an unemployed day laborer

from Raffadali who was assassinated in 1909 while leaving a boarding-house used by Sicilians, was considered a vendetta murder, as was the murder of Cayetano Saracco in 1903. In a town fifty kilometers south of Rosario (Arroyo Seco), Maria Ferraris was murdered in 1910. The police discovered that the murder had been ordered by her husband and carried out by people linked to Pendino. Vendetta episodes continued to feed the collective imagination and the police chronicle. In some cases, the authorities concluded that such crimes were the product of an internal mafia feud, as in the case of the homicide of Nicodemo Furforo, which took place in Arroyo Seco in 1911. Furforo was suspected of informing the police about a plot to assassinate a shopkeeper.[92]

Italians also provided muscle and personal protection for politicians or their clients during the elections. The local mafia groups sided with the provincial government, which supported the Unión Cívica Radical Antipersonalista, a faction of the larger Unión Cívica Radical (1891), founded in 1924. They acted as bodyguards, intimidated the political opponents of incumbent government officeholders, and helped secure election victories in small towns and cities in the interior of Santa Fe Province. Mafia boss Galiffi in the mid-1920s carried out several acts of intimidation against the local opponent of the Unión Cívica Radical Antipersonalista in the town of Gálvez (there is no evidence that Galiffi had a political agenda of his own).[93]

The political elite did return favors. The first indirect evidence of such connections emerged in the first decade of the twentieth century, when twenty Sicilians from Agrigento Province requested Argentinean citizenship and were supported by Lisandro de la Torre, a candidate for the Liga del Sur, a reformist party that represented the interests of traders and rural producers south of Santa Fe. Among the Sicilians was Pendino, who was considered at the time the boss of the local mafia. More direct evidence of favors emerged when Carlos Centeno, lieutenant governor of the Unión Cívica Radical Antipersonalista, repaid gangs connected to Galiffi by ensuring the reduction of the prison sentences they received for committing a murder. The Antipersonalisti also approved Galiffi's request for citizenship in 1925 (Galiffi by that time had been operating in the criminal underworld in Santa Fe). Arturo Amato, a Radical Party leader and police adviser, became one of the defenders of Galiffi in the first case against him for robbery and blackmailing, while Claudio Newell, a lawyer and

politician with the Radical Party, defended associates of Galiffi. The Santa Fe political elite favored the election of judges amenable to "listening" to political officials. The criminal activities of these Italians were protected in the 1920s and 1930s by the weakness and impunity generated by the same judicial system of Santa Fe Province.[94]

And yet the Rosario mafia was never able to offer services that were demanded by a large enough sector of the local population. For the most part, it engaged in an Argentine version of the Black Hand (Mano Negra) blackmail practices, train robberies, and kidnapping for ransom. The victims of blackmail and threats were in most cases fellow Italians who worked in small businesses, or were craftspeople, shopkeepers, and commodity traders. José Martiré, a potato trader who resided in the suburbs north of Rosario, refused to yield to frequent blackmail and had an incendiary bomb thrown at his house in 1911. Even a prominent member of the underworld, Pendino, was on the receiving end of an arsonist attack in 1907. Although a Mano Negra group led by three men originating from nearby Catania was arrested in 1912, blackmailing continued throughout the 1920s, in contrast to New York City, where this type of crime died out by 1915.[95]

The Cuffaro gang, the most renowned in the 1910s, is credited with carrying out the first Argentine train robbery. Thanks to a tip from a guard who worked in the Central Railway, the gang attacked train number 20 on its way from Tucumán to Buenos Aires. The exploit made the headlines, while the police were duly criticized for their incompetence. As a direct result of the public outrage, the investigation unit of the Rosario police was reorganized and its leadership removed.[96]

By 1914, criminals of Italian origin had turned to a new crime: kidnappings for ransom. The first well-known case was that of the son of Antonio Bevacqua, a coal merchant. His kidnapper, Nicolás Ballestreri, one of the first capos to engage in ransom kidnappings, demanded an exorbitant sum, but did not receive it and so killed the hostage. Kidnappings for ransom continued in the 1920s and 1930s in Santa Fe Province and Buenos Aires, and generated significant social alarm. The victims were professionals, traders, industrialists, and landowners. One of the most brazen acts on the part of the mafia was the kidnapping and murder in 1932 of Silvio Alzogaray, the Rosario correspondent for *La Crítica* who had covered crime in the city. Several theories were floated in the press as to why such a murder was carried out. One suggests that Alzogaray had tried to extort

money from mafia boss Galiffi in exchange for compromising documents, while another theory purports that the journalist had started to uncover police corruption in Rosario.[97]

The abduction and murder of Abel Ayerza—a medical student and son of a wealthy Catholic doctor whose family was connected to the Agustín P. Justo's government—in October 1932 stirred public opinion in an unprecedented way. The case inspired two plays at the time, *La Maffia* and *Don Chicho*, and two movies, *Bajo las garras de la mafia* (1933) and *Asesinos* (1933), and influenced the Senate debate on the new Criminal Code. Rumors ranged widely, and included suggestions that the incident was a staged kidnapping. The discovery of the young man's body on February 21, 1933, led public opinion to focus on the failure of the police and generated calls for the culprits to be severely punished. At the funeral, one orator blamed unregulated foreign immigration for the rise in violence in the country. The boy's kidnappers, linked to Galiffi's gang and of Italian origins, were apprehended in April of the same year (the boy was held captive by the Di Grado family, which owned a fruit and vegetable store in Rosario).

After the murder of Abel Ayerza in 1933, Galiffi fled to Montevideo. He then decided to return to Argentina in 1934 in order to prove his innocence, but was betrayed by his associates, arrested, and accused of the kidnapping of Marcelo Martin (a professional snatched in 1933). After a brief time behind bars, Galiffi was expelled to Italy in 1935. There he continued his low-level criminal life. Accused of counterfeiting, in 1939 he was imprisoned in Milan, where he died in 1943. Galiffi's arrest and expulsion weakened the Rosario mafia, which was also under renewed pressure from the government and the press because of the Ayerza murder (the mafia was also accused of consorting with anarchists). The majority of the ringleaders received prison sentences, while others were expelled from the country.[98]

Galiffi's shadow, however, still haunted the collective imagination; rumors suggested that he had returned illegally to Argentina and that his followers rallied behind his daughter, Agata Galiffi. Agata's green eyes earned her the nickname of "Gatta" (cat), while her decision to leave her husband and move in with a lover fascinated the local press. Up until her arrest in 1938, she was heavily involved in criminal affairs. She had been present at the murder of Don Chico in her father's house and, after Juan had fled to Italy, she continued to organize currency and stock counterfeiting operations.

Agata Galiffi (1916–67), the olive-skinned and aspiring actress was the daughter of Juan Galiffi, the Rosario mafia boss. Known as "Flor de la Maffia," she followed in the footsteps of her father and masterminded the Banco de Tucumán robbery. Photo Credit: Osvaldo Aguirre. Historias de la mafia en la Argentina (Buenos Aires: Aguilar, 2000).

The police regarded her as a capo in Rosario and a key player in the Argentine underworld. In 1938, she was arrested while discussing a plan to rob a bank in the city of Tucumán; the gang had drilled a tunnel almost a hundred meters long with the aim of switching good banknotes kept in the bank's safe with fakes. Sentenced to prison in 1939, Agata was released in 1948 and went on to work as a nurse in Rosario, Buenos Aires, Villa Constitución, and Caucete (a small town in San Juan Province), where she managed her father's property until her death in 1967. By 1940, the Italian mafia had died out.[99] Galiffi is now one of trendiest clubs in Rosario, "prácticamente un icono de nuestra ciudad," writes one of its five thousand friends on its Facebook page, advertising two dancing halls, karaoke, and a VIP space for its best customers.

In conclusion, Italians migrated to Rosario in two broad phases. The first wave of migrants was from the North, some joined the professions while others became large landowners and entrepreneurs. The profile of the migrants in the second phase is quite similar to those who migrated to New York City and were mainly low skilled, and found employment in agri-

culture as seasonal laborers and in the construction industry. Among the immigrants from Sicily, some had a mafia background, but the local conditions did not offer opportunities for these mafiosi to become established in the long run.

As in Bardonecchia, the construction market boomed and individuals connected to crime tried to penetrate it. The size of the market, much larger than in Bardonecchia, and the presence of a varied source of cheap labor that was not controlled by the mafia led to the ultimate failure of this criminal organization to control a key sector of the economy. As for illegal markets, and in contrast to New York City, in Rosario there was no equivalent of Prohibition. In addition, the police repressed labor militancy, thereby drying up a source of activities in which the mafia in New York was prominent. It is intriguing to note that the Partito Radical seemed to make use of mafiosi—the very party that would be banned after 1931. This suggests that electoral democracy would in some circumstances offer opportunities to mafias—a theme that I will return to in chapter 7. Rosario mafiosi thus engaged from the start in crimes such as theft, counterfeiting, the Mano Negra, and to a degree unknown even in the early years in New York City, kidnapping. A rudimentary organizational structure and the presence of charismatic leaders were not sufficient to entrench this mafia in Rosario. There were some mafiosi, but never a mafia.

Conclusions

Rather than summarizing the reasons for the divergent outcomes of Rosario and New York City, I want to try to take stock of the results that have accumulated across the six case studies (table 5.5). As for "supply," generalized migration from mafia territories is usually present when transplantation succeeds, with the exception of Budapest. Yet migrants from mafia territories do not invariably produce a mafia, as testified to by the case of Rosario discussed in this chapter. Clearly, a supply of mafiosi must be present for transplantation to take place, and thus the long list of "Yes" in the "Mafiosi migration" row in table 5.5. What is rather counterintuitive is that I found no instances where mafiosi rationally decided to move in order to open an outpost abroad. They were usually pushed out by state policies, mafia feuds, or in some cases covered in this chapter, poverty. (In the case of Hungary, the initial supply of foreign individuals inclined

to form criminal groups was composed by Red Army defectors). Yet, when forced to move, mafiosi do not choose their new location at random: unless they are told by the courts where to go, they usually join relatives, trusted friends or previous contacts. Contrary to the view that high levels of trust prevent transplantation, this book's findings indicate that such outcome is possible even in highly civic territories, such Bardonecchia. Table 5.5 also suggests that local protectors must not be present for a mafia to transplant successfully. The case of New York City before 1910 is telling: while the police themselves were enforcing protection rackets, the Sicilians had no hope. Paradoxically, when a movement to reform city politics and the police was successful at curbing corruption, a demand for protection developed.

Transplantation goes hand in hand with a demand for criminal protection. New and booming markets tend to generate such a demand. For a mafia to be successful and exert a role, though, it must be able to solve problems in such markets that have not already been solved autonomously by local actors, as in the case of Verona. For instance, the Italian American mafia supplied a service highly valued by market operators: protection of the truckloads and stills, and a place where buyers and sellers could meet. Construction booms can generate such a demand when a mafia has monopoly access to cheap labor that can be hired illegally. Once firms and workers step outside the frame of legality, a demand for alternative forms of dispute settlement emerges. On the contrary, in Rosario local firms managed the same boom by hiring employees legally and bypassing anybody who could have exclusive control of the workers. Rather than liquid and floating in a virtual world, the markets covered in this book are all localized in a specific territory; there is no instance of a mafia offering protection to computer hackers or traders in sophisticated derivatives. Mafiosi might use the Internet for conducting frauds or invest their money in the Stock Exchange, but they do that as customers, not as protectors. Certainly, some structural factors can make it easier for mafias to become entrenched: the smaller a locality, the easier it is to control it. Yet a mafia can develop in a metropolis when an illegal market is large enough, as in the case of Prohibition. Ultimately, a demand for mafia services emerges out of transformations in the economy that local actors and regulators have not been able to govern. When foreign mafiosi are present and can offer genuine protection to some, transplantation is set to take place.

Table 5.5

Factors Facilitating Mafia Transplantation, Bardonecchia, Verona, Budapest, Rome, New York City, and Rosario

Factors facilitating mafia transplantation/cases	*Bardonecchia*	*Verona*	*Budapest*	*Rome*	*New York City (1910–30)*	*Rosario (1910–30)*	*Shenzhen/ Guangzhou*
Generalized migration	Yes	No	No	No	Yes	Yes	
Mafiosi migration (willing/unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	
Supply of mafiosi	Yes	Yes	Yes	Yes	Yes	Yes	
Local conditions							
Level of trust/civic engagement	High	High	Low	Low	Low	Low	
Presence of local illegal protectors	No	No	No	No	No	No	
Size of locale	Small	Large	Large	Large	Large	Large	
New and/or booming markets*	Yes	Yes	Yes	No	Yes	Yes	
Demand for mafia services	Yes	No	Yes	No	Yes	No	
Transplantation	Yes	No	Yes	No	Yes	No	

* The markets considered are construction (Bardonecchia and Rosario), drugs (Verona and China), property rights (Budapest and China), oil (Budapest), alcohol (New York City), gambling (New York City and China), and prostitution (China).

[162.10.217.184] Project MUSE (2026-06-15 01:44 GMT) University of Queensland

Appendix

Table A5.1

Foreign-born Italians in New York City and Rosario, 1860–1930

*Year**	*New York City's Italian population*	*Italian-born as a percentage of New York City's total population*	*Rosario's Italian population*	*Italian-born as a percentage of Rosario's total population*
1860	1,464	0.1	—	—
1870 (1869)	2,794	0.3	2,120	9.0
1880 (1887)	12,223	1.0	11,955	23.0
1890 (1895)	39,951	2.6	25,546	28.0
1900	145,433	4.2	25,679	23.0
1910	340,765	7.1	37,414	20.0
1920 (1914)	390,832	7.0	45,357	18.0
1930 (1926)	440,200	6.4	79,920	19.6

* The year of Rosario's census is in brackets.

Sources: For New York City, Baily 1983, 300; 1999, 58. For Rosario, Frid de Silberstein 1992; Cuarto Censo Municipal de Rosario 1926.

The Future of the Mafias? Foreign Triads in China

The New China

I crossed into China in September 2009. My companion and I had boarded the East Rail Line in downtown Hong Kong heading toward Lo Wu, the last stop before the People's Republic of China. The trip takes no more than forty-five minutes, and there is hardly any time to enjoy the vista. The train races through the center of Hong Kong, allowing the passenger just a glimpse of Mong Kok, the suburb where most of the brothels and karaoke bars run by the triads are located, and quickly covers the several miles of the agricultural, sparsely built land in the new territories, before reaching the border. After our passports were checked on the former British colony side, we set out on foot to cross a modern overpass, equipped with conveyor belts for speedy arrival to the other side. The bridge stands over the Shenzhen River separating Hong Kong from the Middle Kingdom (the name of China in Mandarin). As we approached the other side, I looked at the riverbank through the thick glass. I was reminded by my companion that not long ago Chinese nationals trying to cross this stretch of water would have been shot at by border guards, just as the East Germans who tried to climb the Berlin wall. Today, the business elites of Hong Kong, Taiwan, and other capitalist economies are undertaking the journey in the opposite direction.[1]

Once we got across, we were in Shenzhen, a metropolis of twelve million with a skyline littered with as many skyscrapers as New York City (as

far as I could judge), hypermalls, and factories. The city lies on the eastern shore of the Pearl River delta. To the north was our next destination, Dongguan, where I was going to conduct several interviews. A fast train service then connects Dongguan to Guangzhou, the capital of the Guangdong region, the third city in which I spent time last winter.

Until 1979, Shenzhen as such did not exist; it was a fishing village named Bao'an, with 310,000 residents. This part of the world was transformed in more than just name when Deng Xiaoping decided to open China to the world economy in 1978. The new policy called for the creation of special economic zones where the government offered tax benefits, relaxed regulation, invested in better infrastructure, and reduced bureaucratic obstacles in order to attract foreign investors. The central government selected several cities in the Guangdong, Fujian, and Hainan provinces as the sites of China's experiment with a market economy—among them Shenzhen and Dongguan.[2]

Deng's reform produced unprecedented economic development and unemployment. China's GDP grew by 8.8 percent between 1978 and 1991 on average every year (Guangdong's GDP grew by 12.8 percent on average in the same period). The economic boom spurred a construction spree and rapid urbanization. Roads and superhighways were built to serve the ever-increasing number of cars, and construction of some ten to twelve million housing units is begun every year (Chinese citizens can now apply for personal loans and mortgages). Capital inflow was mainly coming from Taiwan, Hong Kong, and the United States. After Taiwan lifted the ban on its citizens visiting China in 1987, the first to invest in the mainland were small- and medium-scale manufacturers. By 1991, Taiwan was the second-largest investor in China after Hong Kong. In the meantime, around 170 million peasants were officially classified as surplus labor in 1990. This number swelled to 200 million in 1994 and then approximately 300 million in 2000. The northeast was the most seriously affected area. Starting in the 1980s, the Chinese government also reduced military personnel on a large scale.[3]

The increase of surplus labor in the rural areas led to China's "internal immigration"—millions of people fled to cities to seek employment. Mostly they left the western and central provinces to find employment in the more economically developed eastern provinces, such as Guangdong, Zhejiang, Fujian, Jiangsu, and the cities of Beijing and Shanghai. Some

FIGURE 6.1 Maps of China

Shenzeng construction site. Photo Credit: Federico Varese.

two hundred million people were on the move. At three times the number of people who emigrated from Europe to the United States over a century, this represents the largest migration in human history. One finds them employed in factories, restaurants, cleaning services, babysitting, garbage collection, and the sex industry. (Several reports suggest that they are responsible for increasing crime rates.)[4]

Young, immigrant women service the entertainment and night economy of Shenzhen, as I discovered during the first evening that I was in the city, when we were invited by scions of rich Hong Kong businessmen to join them for a night of partying. Trendy, unattached, and foreign educated, these partygoers travel (with bodyguards) to Shenzhen every weekend and keep apartments next to upscale saunas. My evening's entertainment included a massage, dinner, drinks, and games at the most expensive sauna in town. Rather incongruously, the sauna was decorated with gilded festive ornaments hanging from the ceiling celebrating the sixtieth anniversary of Communist China in a setting that encouraged anything but communist frugality. The night ended at one of the hippest discos, Baby Face,

where we were greeted by the manager and quickly surrounded by hostesses, all immigrant women. Although prostitution was not on display at the disco, other clubs and saunas have such a reputation. And so do entire districts. The phenomenon is so widespread that certain parts of Shenzhen and Dongguan have been dubbed "concubine villages" or "second-wife villages" (*er nai cun*), where for a few hundred pounds a month middle-aged men from Hong Kong and Taiwan keep a young (immigrant) woman as a long-term mistress. One such neighborhood is the New Garden Village in Dongguan, a long row of drab apartment buildings and shopping centers, frequented by heavily made-up female shoppers.[5]

Movements of Triad Members to China: The Supply

Have triads from Hong Kong and Taiwan also followed the swarm of businesspeople, wealthy partygoers, and immigrants from the poorest parts of China, and transplanted to the regions that have opened up to Western capital? The first sign of foreign triad activities on the mainland dates to the early 1980s. In 1982, the Shenzhen police arrested 76 Hong Kong criminals with triad backgrounds. By 1992, 338 triad members were behind bars in Shenzhen. In the next two years, the Guangdong police arrested an additional 11 members of the Hong Kong triads.[6]

A key motivation for the brothers (triads members) to cross into China was to avoid police scrutiny and antigang crackdowns in Hong Kong and Taiwan. For instance, crime expert He Bingsong writes that

> police found that over 30 criminals that were wanted by the Hong Kong and Taiwan police came to hide in Shenzhen and engaged in criminal activities between 1992 and 1994. . . . While sheltering in Shenzhen, they not only continued their criminal operations, but also actively recruited new members and spread their criminal skills. For example, shortly after he escaped to Mainland China following an armed robbery, He Suti, a member of Hong Kong "Victory" Triad group, was involved in three stolen cars cases within three months.[7]

Since police in Hong Kong were making it increasingly difficult for triads to carry out their functions, such as reunions, parties, and funerals, the brothers went to China. The Sun Yee On, a Hong Kong triad, started

to perform ceremonies in Guangdong in 1999. The most significant one discovered by the police took place in April 2000, when three senior members of the Sun Yee On performed the Zhazhi ritual in Shenzhen. During the ritual, six Blue Lantern–level members were promoted to Red Pole, a senior position in the group. Shenzhen was also used as a convenient location to plan crimes far from the interference of Hong Kong antitriads squads. For instance, the kidnapping of the son of one of the richest Hong Kong businessman took place in 1996—a joint plot by a Hong Kong triad and Chinese gangsters in Shenzhen.[8]

Taiwanese mafia leaders and foot soldiers have also been escaping police crackdowns and hiding abroad since at least the 1980s. Indeed, a major effect of antitriads operations in Taiwan was to push gang leaders overseas and internationalize the Taiwanese underworld. The first major operation, named "Clean Sweep," took place in 1984 and lasted several months, leading to the arrest of thousands of criminals. Those who managed to escape fled Taiwan and sought refuge in Thailand, Japan, and the Philippines. Those who were caught were housed in two reform camps in remote areas of the country. After living together for almost three years, they came to know each other well. According to a Taiwanese middle-ranking boss, Clean Sweep did not solve the crime problem; "actually," he maintains, "it allowed *jiaotou* [organized crime] figures from across Taiwan to come together and establish a network. After their release, if one asked for help from another, it was unlikely that it would be refused."[9] Indeed, the Celestial Alliance, which was to become one of the most formidable and resilient mafia groups in Taiwan, was formed in those prison camps. The 1984 crackdown had a second unintended consequence: it disrupted the orderly division of territories among bosses, and allowed for ruthless, inexperienced aspiring criminals to emerge and claim profitable territories and businesses. When the brothers were released from the camps in 1988 and wanted to reassert power over their turfs, the authorities witnessed an escalation of gang violence. As a result, a new antimafia operation—"Operation Thunderbolt"—was launched in 1988. This time the targets were better prepared than in 1984; they were ready to flee, with their main destination being China. As He put it, "Many Triad groups members in Taiwan who were on the run or had escaped from jail came to Mainland China, changed their names, rented houses, got married and settled down."[10] Most of them chose Guangdong and the

Fujian region, which is located opposite Taiwan, some 150 miles across the Taiwan Strait (the dialect spoken in southern Fujian is the same as the one used in Taiwan). Although the first Taiwanese triad arrived in China in 1987, a massive exodus started only after Operation Thunderbolt, when some three hundred organized crime figures left Taiwan for China. Among them were Wu Tungtang of the Celestial Alliance as well as one of the leaders of Bamboo United, White Wolf (Chang Anlo), who moved to Shenzhen in 1988 and to this day lives there. Crime chronicles in both countries recount the stories of many brothers who moved to this part of the world, including one who arrived in Shenzhen via Argentina. Between 1992 and 1994, no less than thirty criminal leaders from Taiwan were hiding in Shenzhen.[11]

In 1996, a third major antitriads operation was launched in Taiwan, set off by the stabbing of one lawmaker, the kidnapping of another, and the outbreak of a major bid-rigging scandal—all involving triad members. As in previous antitriads sweeps, the major organized crime figures fled the country, with most of them heading to China. By 1999, more than a thousand members had settled in China, mainly in Dongguan, Guangzhou, and Shenzhen in Guangdong Province, Xiamen and Fuzhou in Fujian Province as well as in Shanghai and on Hainan Island, and they traveled freely to Singapore, Thailand, and the Philippines. By the beginning of the new century, Bamboo United had a presence in Guangdong and the Pearl River area, the Celestial Alliance in Fuzhou and Xiamen, and the Four Seas in Shanghai and Haikou.[12]

The Chinese authorities generally do not pursue fugitives and former criminals unless they commit crimes. In fact, they view their presence as an opportunity to attract foreign investment. Ultimately, as long as these gangsters bring investments to the mainland, they are welcomed as businesspeople by the Chinese authorities. And investments they did bring. In May 1992 a boss of Hong Kong 14K triad group, Huang Jianming, entered China and started a program of investments of 14K funds into Shenzhen, beginning with a restaurant. By 1998, he had acquired thirty-five properties. Similarly, the Sun Yee On invested in a multiplex to be built in Shenzhen (Nanshan District). Taiwan's Pine Union gang also bought real estate. Chen Nuoquan, a former high-ranking member of the Wo Shing Tong triad society, bought a hotel in Shenzhen (his hometown), where he recruited local youngsters and formed his own gang, the Fly-

ing Eagle. According to an investigation conducted in Shenzhen in 1999, among the fifty-two restaurants and entertainment businesses owned by overseas citizens, thirty-two were associated with outside triads, making up 62 percent of the total. In Fuzhou, Taiwanese triads formed joint stock companies, invested in shares, and hired local agents to open firms and purchase real estate. They established businesses in the service and entertainment sectors. For instance, Wu Tungtang, the leader of Celestial Alliance Sun Branch, owns a luxury hotel in Fuzhou.[13]

A major concern of previous chapters was to identify a supply of people who belong to a mafia group moving into new territories. Even a small number of the latter can be highly significant because such specialized criminals are well equipped to set up criminal groups. Although the numbers of hardened criminals might be relatively small, they have the potential to recruit among the new unemployed or underemployed immigrants. The data above suggest that a supply of members of the Hong Kong and Taiwanese triads was present and tried to create groups in mainland China. They moved due to renewed police pressure in their homeland (this was the historical nemesis of a set of events that took place in 1949, when Chinese underworld leaders had escaped to Hong Kong and Taiwan after the Communist victory in order to avoid execution).[14] Once in China, they found a land rich in commercial opportunities and invested some funds in the new market economy. Has the presence of these individuals led to the entrenchment of foreign mafias in China? Surely, new markets—legal and illegal—have suddenly emerged and expanded: construction, manufacturing, gambling, prostitution, and drug trafficking. Such developments in the economy lead to disputes among market actors, and the emergence of a demand for services of dispute settlement and protection. Who is fulfilling such a demand? My aim is to establish if foreign or local triads or members of the state apparatus offer criminal protection to these market operators.

I draw on twelve in-depth field interviews and a detailed examination of seventy-four mafia cases extracted from four Chinese-language sources.[15] For the most recent period (2008–9), I selected official press reports released by the Ministry of Public Security. All publications adopt the official Chinese definition of an organized crime group: "an organization with an underworld nature." To qualify, a group must show some organizational structure, a clear leadership, and engage in illegal activities. Otherwise,

the definition is rather general.[16] The cases are listed in the appendix to this chapter. The data have no claim to be representative.

Legal Markets

Workers in the new market economy have plenty of reasons to feel exploited and thus enter into disputes with their employers. For one, they might want to sue the companies for the appalling working conditions that they have to accept. In the four factories between Shenzhen and Dongguan that I visited, workers slept on bunks ten to twelve to a room in close proximity to unsanitary lavatories and were fed a basic meal (rice, a meat dish, and some soup), with the day starting at around 7:00 a.m. for a total of ten to twelve hours of work. The rooms were cold and had thick metal bars on the windows. A manager accompanying me explained that the bars were necessary to ensure against workers stealing production material. More generally, the security situation in factories in Dongguan is serious, he added, because workers "steal all the time and misuse factory equipment. For instance, the Nike shoes you can find in markets in Guangzhou are perfect replicas of the authentic shoes, because they are produced at night in the same factory! So they are pretty close to the real thing." According to him, factory management in Dongguan adopts a "ten percent ratio"—namely, it hires ten guards for every one hundred workers.[17]

Metal bars might prevent theft, but they also endanger residents in case of an emergency. Indeed, an instance that shocked China in 1993 was a fire in a Shenzhen factory that subcontracted work for a European toy maker. The flames claimed the lives of eighty workers, and a score of others were seriously burned and injured. (In a factory producing office furniture, I saw employees not wearing any protective equipment. Splinters of wood flew everywhere, and sometimes workers would look into the holes being drilled, putting their eyesight at risk.) Often employers simply failed to pay the promised wages, as in the case of a Mr. Zhang reported on Beijing Television in February 2007. Mr. Zhang had convinced an entire brigade of fellow villagers to accept work at a construction site in 2004, but when the time came to pay them, the management refused to shell out the salaries. The villagers followed procedures and filed a lawsuit to demand payment. The court issued an order in their favor, but when it was time to enforce the court order, the boss and other managers of the

construction project disappeared. This is not an isolated instance; an official survey conducted in 2003 discovered that some 75 percent of migrant workers experience various forms of wage nonpayment.[18]

Prosecutors admit that legal avenues to settle disputes are wanting. Zhai Yunfeng, the deputy attorney general of the Qinhuai District (Nanjing) Procurator's Office, says:

> There are many drawbacks in settling commercial disputes through the courts. Firstly, it is expensive. If the creditor relies on the trial procedure to settle commercial disputes, he or she has to pay the litigation fee, enforcement fee, travel expenses, and counsel fee. In addition, the process is complicated and time-consuming. Secondly, trial procedure takes a long time. The first instance of an ordinary civil case takes about half a year, and the second instance about three months, excluding any postponement in the proceedings. Most creditors lack the patience to go through the whole trial procedure, especially if the value of the matter is not great. Thirdly, the enforcement of court orders is difficult. Even though the creditor wins the case, he or she cannot get the money back with simply a note from the court acknowledging the debt.[19]

The situation is no better in Guangdong. In an interview, Chief Justice Lu Botao of the Guangdong Provincial Higher People's Court acknowledged that the courts' inability to enforce decisions relating to business disputes in a timely fashion had reduced public confidence in the judicial system. Justice Lu stressed that "people are reluctant to go to court to settle disputes" because it is "time consuming and expensive," and it is difficult to "get the compensation back [even if] you win the case."[20]

Empirical studies conducted by Chinese scholars confirm that the civil court system is not well equipped to adjudicate cases competently, quickly, and effectively. Cases submitted to the courts have increased dramatically without an equivalent increase in resources, and are more complicated in nature than in the prereform era, while judges have for the most part a basic legal education. In addition, several structural features make it more difficult to reach decisions in Chinese courts than in other countries. One such feature is that the judge is supposed to not only adjudicate on the merits of the case but also collect evidence directly in appeal cases. Judges

are not entirely independent of political pressure, especially from the local administration (a lawyer admitted that "whenever there is a business dispute and the case is being handled in court, we always try to find a high ranking government official to tell the court how to decide the case").[21] Finally, the enforcement of court decisions is particularly weak, and more so when the respondents are outside the territorial limit of the original court. More than two million court orders and decisions were officially recorded as "pending for enforcement" in 1998. In the 1990s, around 50 percent of the rulings in cases concerning economic disputes were enforced, but the situation was, according to a particular study, worse in lawsuits between banks and companies (banks won 95 percent of the lawsuits, yet only 15 percent of the rulings were enforced). Not surprisingly, people's confidence in the judicial system is low. A full-length study of courts in China by Jiang Qingyun describes the situation as a "judicial crisis."[22]

Often workers do not even sign official contracts and, operating in the informal economy, cannot turn to the courts. Estimates suggest that between two-thirds and three-quarters of all new employment in China is in the burgeoning informal economy that already incorporates eighty million people. The Department of Labor in Suizhou City in Hubei carried out random checks on 134 companies and found that not one had issued a contract. The *Jinan Daily*reported research conducted in the city according to which eight out of ten migrants did not even know what a labor contract was—and of the few who did know, most thought contracts were ineffective. The managers of labor-intensive industries frequently prefer a cheap and easy-to-dismiss workforce, bypassing trade union controls and saving on health provisions, while independent labor unions are still illegal in China. Legions of workers are therefore excluded from state-supplied forms of protection and legitimate avenues of dispute settlement.[23]

Let me take stock of the evidence presented so far: China is undergoing an economic boom; the state is unable to settle disputes swiftly and effectively; generally there is little trust in government or interpersonal trust; a vast sector of the population operates in the shadow economy, where by definition it cannot count on legal venues of dispute settlement; and foreign triads have been operating on the mainland. Does it follow that the latter are intercepting the demand for protection that the state is unable to offer? Rather than foreign mafiosi, members of the state apparatus featured prominently in the interviews that I conducted with businesspeople in the

industrial heartland between Shenzhen and Dongguan. In order to interview the owner of a lightbulb factory, I took a bus that crossed the Dongguan industrial area—the same bus that takes workers to their places of employment and residence (the entire ride takes six hours). Factories tend to cluster around a number of cement constructions where workers can shop and find entertainment. On the way to the meeting, we passed Changping, a suburb outside Dongguan, a particularly poor district with high levels of unemployment, and a hub for drug dealing and cheap sex.

The factory owner is a middle-level businessman from Taiwan. He has been operating in the industrial wasteland of Dongguan since the early 1990s. "Until 2001 it was truly a Wild East," he says. "People were going around with guns for self-protection. I myself saw several bodies just left on the side of the streets. If one shot someone else, nobody would know. The situation has improved significantly these days, but security and protection are still a major concern and we factory owners are very sensitive to this issue." Protection of a higher order is also necessary. In order to operate, he continues, one has to develop a working relationship with a member of the state apparatus who will help in case of need. They will also tell you whom to hire. He had to take on a woman, who was well connected with the local administration and the military. After a few years, he decided to fire the lady. Since she was well connected, she was able to mobilize an army unit on her behalf. The unit surrounded the factory. The owner, however, had also formed his own links with the military. Thus, he could call on the help of another unit, which encircled the first unit. "The factory yard seemed a battle ground, with two armies facing each other and ready to fire," he laughed. Ultimately, both parties lost a lot of money because they had to pay off their respective military friends for this service. He concluded, "It is much better to solve matters in a nonconfrontational way, simply because it is cheaper." He was able to fire the woman, but had to compensate her more than he had wished to.[24]

In a similar case, an investor obtained a license to build a factory producing plastic in Dongguan. According to the terms of his license, he could import raw material without paying import duties, but he was not allowed to sell his products on the Chinese market, only to export them or sell them to foreign-owned companies. He negotiated the terms of the license with a set of local officials in return for upfront bribes and the promise to pay them a fraction of the profit he made by breaking the license agreement. In return,

the officials ensured him protection against inspections. This arrangement gave rise to a typical situation of asymmetrical information, whereby the officials would not know if the businessperson was cheating on the deal. In order to monitor him, they forced him to hire a chief accountant and a manager. At regular intervals, the factory gets "inspected" by the officials. If they are not satisfied with the accounts, they detain either the owner or the accountants for breaking tax regulations (at some point, they suspected that the accountants were colluding with the entrepreneur and pocketing what was due to them).[25] The interlocked system between officials and entrepreneur went beyond a one-off corruption benefit (obtaining a license), and evolved into a long-term partnership.

As documented by several scholars, such arrangements are ubiquitous in the Middle Kingdom and are known as "protective umbrella" (*baohusan*): fragments of the state apparatus agree to protect businesspeople against the authorities and other competitors in exchange for regular payment.[26] These solutions differ from standard corruption, where one corrupter pays a corruptee for a specific service (say, obtaining a passport or license). They are more far reaching and involve a wider menu of protection services. Since any economic activity in China is subject to intrusive inspections and requires several permits, and independent courts are not effective in protecting the victims of officials' harassment, even entrepreneurs producing legal commodities, such as lightbulbs, can benefit from entering into such arrangements. The system of protective umbrellas has a striking parallel in the "roof system" that emerged after the transition to the market economy in the Soviet Union and Russia. Roof providers in Russia include the Federal Security Services, the Ministry of Internal Affairs, and other official organizations as well as criminal gangs.[27] Although the Chinese authorities in Beijing pride themselves on having followed a path into capitalism that is noticeably different from the Soviet Union's lawless collapse, ultimately a similar equilibrium has emerged. One might further speculate that the umbrella system ensures continued control over the economy by officials, albeit one that distorts incentives and produces significant waste, and that is occasionally punished by the center with exemplary show trials.[28] In both countries, a precarious balance between local incentives to develop protective umbrellas and the center's aspiration to remain in overall control is constantly negotiated.

Mobilizing one's umbrella is costly and hence regarded as a strategy of last resort. At times, one can just invoke it in the hope that it will be sufficient. One respondent explained to me that in a dispute he had about badly produced glass products, he made it clear that he could count on the services of a specific military umbrella. The name in itself was enough to have the supplier rework the product. Directly mobilizing the umbrella might also alert the protector to new business that the entrepreneur is keen to keep away from the usually greedy hands of the official. In addition, the same respondent suggested, a small-time businessperson might not be valuable enough for an umbrella to take them under their protection, and thus the entrepreneur might turn to one-off protection services.[29] In this context, purely private and unregistered debt collection and dispute resolution agencies have emerged, in which many of the employees have a criminal record. A conservative estimate puts the number of people employed as debt collectors by unregistered companies in China at more than one hundred thousand. Clients include ordinary people and migrant workers.[30]

The following story from the city of Nanjing is telling. In May 2006, Liu paid more than 150,000 yuan to Wang, the manager of a chemical company. Yet Wang did not deliver any chemical product to Liu, nor did he pay the money back. Liu demanded repayment several times, but in vain. Finally, Liu saw an advertisement for a debt collection company in the local newspaper. He signed a contract with the agency and agreed to pay a fee equivalent to 30 percent of the sum to be recovered. On the night of February 10, 2007, four collectors chased Wang's car and forced him out. Wang ran for his life, but was soon caught by his chasers and received a severe beating. He was forced to leave his car as collateral for the unpaid debt. As soon as he was free, Wang reported the case to the authorities, and the police detained four individuals. The investigation established that the top four debt collection agencies in the city were retrieving millions every year for their clients through the use of violence. A follow-up investigation by the Procurator's Office revealed that most employees of these firms had criminal records.[31]

Rather than regulating the industry, the government has taken steps to outlaw debt collection companies. In 1995, the Ministry of Public Security along with the Administrative Department for Industry and Commerce

A debt collection agency, Nanjing, China. The advertisement on the second floor reads "Professional debt recovery." Photo Credit: Zhejiang online.

issued a notification that forbade the establishment of debt-collecting companies by any institution or person. The notification ordered organs of the Administrative Department for Industry and Commerce to close down existing debt-collecting companies, and notify them to apply for a cancellation or change-of-business license. Any company that failed to abide by the notification would have its business license withdrawn by the department organs. This provision was confirmed by further legislation.[32] "Obviously, all debt-collecting companies have been made illegal by the government," concludes Lei Hanshan, the chief partner of Yihe Law Firm of Nanjing.[33] Professor Yuan Jiuhong of the Southeast University of China has perceptively suggested that this legislation increases immensely "the possibility that such companies will collude with mafia groups or develop into mafias."[34]

A professional debt collector, Nanjing, China. The man wears a vest with two Chinese characters, which read "Debt collecting." Photo Credit: South China Daily.

Have local criminal groups emerged as suppliers of services of dispute settlement and debt collection for legal entrepreneurs? Among the seventy-four cases I reviewed in depth, the majority of the gangs involved in dispute settlement and debt collection were also running casinos and/or prostitution rings.[35] For example, two former inmates running a gang for nine years (1991–2002) in Zunyi, Guizhou Province, were eventually found guilty of "running a sauna fitness club as a stronghold for gambling, prostitution and debt-collection, armed robbery, extortion, illegal detention of others, and bribing several police inspectors."[36] When a group is effective at collecting gambling debts, it has the resources to collect other debts as well. Two cases refer to companies that appear to have been legal firms gone underground

Mafia debt collection agency cartoon, China. The cartoon by Yao Wen depicts a debt-collecting company recruiting its staff. Big Brother asks the applicants, "Have you ever killed someone?" The advertisement on the wall reads "People who ever killed someone, who once were prisoners, and who are bold and aggressive enough would be desirable." Image Credit: Wen Yao.

(one was called "solving your problem"). In conclusion, these findings suggest that some legitimate debt collection firms have gone underground, and that the groups involved in gambling and prostitution are also branching out in offering services of debt collection.

I now return to the core preoccupation of this book—whether foreign triads have been able to supply services of dispute settlement and protection to entrepreneurs dealing in legal commodities in mainland China. I have not come across any such case during my field trip. Taiwanese triads are present on the mainland, as I have established above, but to the extent that they are involved in solving problems, they can go only as far as settling disputes among Taiwanese businesspeople. Ko-Lin Chin interviewed some Taiwanese gangsters in 2000 in Changan, a town near Shenzhen. These individuals were only helping Taiwanese investors settle disputes among themselves. One Bamboo brother based in Changan told Chin: "There are many disputes among Taiwanese businessmen and whenever they have conflicts, they like to seek help from us because they don't have

much confidence in the Chinese legal system."[37] There is no indication that they have gone beyond the Taiwanese economic community and established themselves as independent suppliers of protection services. Clearly, as the number of Taiwanese businesspeople grows in China, it is possible that crime groups from that country will grow in importance.

Gambling

The booming gambling sector has generated a vast set of opportunities for loan sharks, and a demand for debt recovery and dispute settlement services. Since the beginning of Deng's policy to open the country to the market economy, more and more people have been traveling from several parts of China to gamble in Macau—from 1999 a special region of the People's Republic of China—and Guangdong. In 2005, Macau drew 10.5 million mainland Chinese visitors—a 147 percent increase on three years earlier. In a move aimed at undercutting competition, the Chinese government forced the Burmese to shut down more than eighty casinos along the border with southwestern China in 2005. Although the average table in Macau earns three times more than a comparable one in Las Vegas, the global financial crisis of 2008 did not spare the former Portuguese colony, bringing to a halt construction on nine multibillion-dollar casinos and hotels. When I visited in late 2009, steel and concrete skeletons covered swaths of the Cotai Strip, the new development to the south of the main Macau peninsula. Beijing also tightened visa regulations on mainland visitors in 2008. Yet since August 2009, the Chinese government has quietly relaxed the curbs, and gamblers from the mainland have increased significantly since 2008. Underground gambling dens also exist on the mainland. In May 2006, China Central Television, the major broadcasting television network in the country, reported that the number of underground casinos exceeded one hundred in the small county of Lianping in northern Guangdong Province. Gamblers from all over Guangdong and several adjacent provinces converged on the Lianping casinos to gamble day and night. In 2003 alone, the Guangdong police raided more than eighteen hundred underground lottery outlets and casinos in Guangdong.[38]

Gambling gives rise to loan sharking. According to official data, loan sharking accounts for the second-highest number of arrests after drug-related

crimes in Macau. Kidnappings for the purpose of repayment of gambling debts increased from twenty-four cases in 2005 to forty-eight in 2006. Diamantino Santos, the coordinator of the Macau Security Bureau, explains that "95 percent of these cases in Macau are usually related to gambling-linked crimes, like loan sharking."[39] The 2006 figures also show a rise in illegal activities closely tied to the gaming industry, such as fraud, robbery, or abuse of confidence.[40]

The inducement of Chinese high rollers to VIP rooms in Macau and the loans they are given generates specific opportunities for strong-arm people to act as enforcers of gambling debts in China. I now turn to a detailed exposition of this system, with the aim of linking it to an as yet underexplored push factor for the transplantation of triads from Macau and Hong Kong to mainland China. VIP rooms are sections within a casino where high rollers stake their bets. They exist in all major gambling venues. For instance, in Las Vegas high rollers are known as "whales" and are actively pursued by casino promoters, who offer them inducements to patronize their casino (and only theirs). The VIP system in Macau, however, is somewhat peculiar.

A visit to the former Portuguese colony with the appropriate guide can help make sense of this system. I visited the Grand Lisboa, a giant, Fabergé egg-shaped casino sitting underneath a fifty-two-story hotel tower shaped as a soaring lotus flower that opened to the public in 2007 and caters mostly to mainland Chinese. The Grand Lisboa stands next to Casino Lisboa, built in the 1970s. The famed Macau multibillionaire Stanley Ho, who held the monopoly on gambling on the island from 1962 to 2002, owns both casinos. My guide and I quickly walked across the main hall where regular players spend their time (and money) at the "mass gaming tables," and entered a VIP room. Two heavily built bouncers dressed in tuxedos were standing in front of the door, ushering us through an additional metal detector, but there was no need to hand over eyeglass cases, bags, or keys. The decor was garish, with fake gilded columns, richly decorated canapés, and statuettes of ancient warriors. Plenty of waiters were on call to answer requests for drinks and food. We also saw a cage dispensing chips and, at one of the three tables, a croupier servicing a loud party of mainland Chinese who, to my guide, looked like the family of a wealthy official. The gambler was playing baccarat, the card game favored by James Bond (in *Casino Royale*, Bond and le Chiffre play a variant of baccarat

called *chemin-de-fer*). To me, it was striking how superstitious he seemed to be, praying and hissing as the cards were dealt and uncovered. The women and the younger members of the party gathered around the older man, groaning and gasping at every deal. Hovering around was a peculiar majordomo, who made sure that the gambler had his drink and enough room to move. He also seemed busy substituting the chips that the player was winning with what to me looked like similar chips, of the same value but differently shaped.[41]

I was to receive an education on how the VIP rooms work in Macau from a hulking Chinese man based in Hong Kong. Mr. *Xin* is a "junket operator," offering free trips to mainland Chinese high rollers to Macau VIP rooms. Xin is attached to a room run by a "promoter," who rents it from the casino and puts down collateral to gain access to chips. Traditionally, junket operators were jobless individuals who would scout for gamblers from the cities in the vicinity of Macau and get paid a small fee by the casino. Macau's gambling world underwent a sea change when the island lost its status as a Portuguese territory in 1999. When the Chinese took over, they revoked Ho's concession, thereby opening the market to Western operators. Mainland residents soon became the main players. At this point, junket dealers went from being lowlifes trying to entice local players to a table to marketing agents of the casino on the mainland.[42] This was the case of the majordomo I had observed.

Xin had made deals with travel agencies in three different cities in Guangdong, offering free trips to Macau to high rollers. Ultimately, his business is to entice wealthy Chinese players to a VIP room similar to the one I had visited at the Grand Lisboa and to act as their lackey (by 2008, some 80 percent of the VIP players came from mainland China).[43] Once the players land in Macau, Xin accompanies them to the VIP room, where he lends them chips to play—in the region of five hundred thousand Hong Kong dollars (almost sixty thousand U.S. dollars). The high rollers thus do not need to carry a lot of cash and can bypass the laws regulating the export of money out of China. Moreover, the players can avoid declaring the source of their money (most likely they would be highly embarrassed if they had to). The chips that the junket operator lends—called "dead," "junket," or "clay" chips—cannot be redeemed by the players for cash in the main casino and have a market value that is slightly lower than the nominal value (in the region of 0.7–0.8, I was told). As the players

receive chips from their wins, the junket operator replaces the redeemable chips with unredeemable ones, making a profit (notably, the junket operator profits from the game lasting a long time, rather than from either the gambler or the house winning). The junket operator also offers advice and possibly other services, such as introductions to a good sauna, massage, and prostitutes. When the game is finished, in theory the gambler might have won, thereby simply paying the debt back and offering a tip to their "friend." Most likely, the gambler loses, and thus the operator has to collect his debt. I was told that in most cases, the VIP players pay up. Occasionally they do not. If the junket operators cannot recover the debt, they face losing a considerable sum. Loans offered in the VIP rooms exist in limbo and cannot be legally enforced in mainland China.[44]

The VIP room system remains profitable for casinos, which can count on a wide-ranging network of marketing agents without running any risk. The revenues generated by VIP rooms are enormous. The average VIP room share of total gaming revenues for the period 2000–2007 is almost 70 percent, although the mass-market sector is becoming larger.[45] The casino management is a few steps removed from any violence related to eventual disputes. Junket operators face far greater risks, but can reap significant earnings. The system, however, opens up scope for extralegal services of debt collection. Such a situation creates a demand for muscle, and potentially a link between Macau-based triads and the mainland. Some debtors are allowed to return home to gather the money; others are imprisoned in Macau, from where they instruct relatives to pay.

Collecting gambling debts is a significant business for crime groups in mainland China. This particular activity also leads local groups to team up—while remaining separate—with foreign mafias in an effort to chase Chinese gamblers who fail to pay their dues while gambling in Macau. I have come across five such cases. For instance, the Foshan Water Room gang based in the city of Foshan, Guangdong, had teamed up with the Macau Sui Fong (Water Room) triad, the main Macau mafia group. The leader had copied the structure of the Water Room gang, appointing three underlings to manage three different aspects of the gang's activities. Most importantly, they assisted the Macau-based triad in tracking down the families of mainland gamblers who had failed to pay up for their losses in the Las Vegas of the East. They also expanded into loan sharking and betting for sports events. Eventually, they were brought to justice in 2000,

after operating for five years (the Water Room triad has also forged ties with a group in Fujian for similar purposes).[46] Another Macau triad, the Great Ring Gang, had set up relations with a gang operating for six years in Guangzhou. As reported in an indictment, the gang "established action teams in the mainland to collect gambling debts."[47] An official at the Guangdong Department of Justice confirmed to me that Hong Kong triads have great influence in Guangzhou.[48]

A high official at Zhuhai Bureau of Justice, a city a few kilometers north of Macau in Guangdong Province, told me that

> there are four main [triads] groups in Macau, 14K, Water Gang, Great Ring Gang, and Wo Shing Yee. All the four main groups were discovered in Zhuhai. Their main businesses included collecting debts for Macau casinos, organizing prostitution, smuggling, kidnapping, manufacturing and selling counterfeit money and collecting protection fees. . . . [I]t was common that Macau mafias came to Zhuhai and other cities in Guangdong to recruit local members, or forge alliances with local gangs to commit crimes. This was a strategy to extend their territory of influence. For example, Wo Shing Yee of Macau established a gang in Jiangmen city [a city some one hundred kilometers northwest of Zhuhai] and provided financial support for the gang to conduct business in the mainland. But the gangsters were local thugs.[49]

The 14K triad (based in both Macau and Hong Kong) also wanted to ensure that it had an outpost on the mainland to track down gamblers who failed to honor their debts. As is often the case, prison provides valuable contacts for gangsters. Two members of the 14K, "Four-Eyed Xiong" Chen and his brother "Big Jie," had shared a cell with two Guangzhou criminals— Jiang Jinxin and Zeng Jijun. The latter eventually became the 14K contacts in the city. Jiang and Zeng would track down gamblers who had not paid their debts and had slipped back to the mainland. After the funds were recovered, they would be transferred by the Guangzhou outpost to the brothers in Hong Kong and Macau using a network of underground banks and legitimate businesses. For instance, on the afternoon of November 18, 1996, Big Jie, Jiang, and Zeng went to the China Grand Hotel in Guangzhou to demand the repayment of HK$2.6 million from

a gambler who had borrowed money in a VIP room in Macau and failed to pay it back. Violence ensued, and one person was severely wounded. In another case, in November 1998, the general manager of the Yushun Company of Shanghai borrowed HK$300,000 from the 14K while at the gambling table of the New Century Casino in Macau. The Chen brothers demanded the repayment of this debt several times, but the manager did not return the money. In March 1999 they dispatched their team to Shanghai, where they ultimately killed the gambler's girlfriend.[50]

When Zeng was sentenced to death in 2001, the Chen brothers joined forces with another heavy, Mai Guoqing, who in turn worked with a local gang leader, Li Deliang. As the group grew in strength, it moved beyond collecting gambling debts and formed a debt collection agency, which recovered debts for local customers. Within a short period, the group made at least 7 million yuan in profit. An indictment against the group lists several cases of the violent recovery of ordinary business debts. For example, in February 2001 a customer offered to pay Mai and Li to recover 250,000 yuan from a man called Wu, who lived in the Liwan District in Guangzhou. The gang went to Wu's residence and took the man to the Jiahua Restaurant, in another part of town. They then moved the hostage several times to a variety of locations, mainly around the city airport. He was beaten and tortured. Once the gang was tipped off that the police were after them, they moved their hostage to a farm and were later arrested. Wu escaped alive. In a similar situation in December 2001, two Hong Kong businesspeople asked the gang to recover HK$6 million from a debtor, Kuang, from Guangzhou—offering a fee of 30 percent of the money to be recovered. Kuang, who was kidnapped and tortured at a secret location, finally agreed to pay 3.6 million yuan. Mai demanded the immediate payment of 1.5 million to a designated bank account as a condition for freeing the debtor. Mai stressed that the rest had to be paid within one month. Kuang and his brother eventually paid back the money, and Mai and Li got 900,000 yuan for their services. According to a twenty-four-page indictment issued by Guangzhou Procurator's Office, thirty people were tried in 2003 for twenty-four crimes.[51]

Taiwanese gang leaders interviewed by Ko-Lin Chin in Changan (an industrial town north of Shenzhen) confirm the picture that emerged above: that they settle gambling disputes among Taiwanese

businesspeople only, for debts incurred in Taiwan. A Taiwanese brother who owns a restaurant in Changan had this to say:

> I helped [Mr. Hsieh, a businessman from Taiwan] take care of gambling debt of ten million yuan he owed another Taiwanese businessman. A group of brothers from Taiwan were coming over to Changan to settle it, possibly by taking over Mr. Hsieh's factory. Mr. Hsieh asked me for help, and I had the whole thing settled by having Mr. Hsieh pay the businessman NT$700,000. Mr. Hsieh initially said that he could come up with only NT$500,000, but the businessman and his people said no. So I asked Mr. Hsieh to come up with more, and he increased the amount to NT$700,000. That was a pretty good deal for him.[52]

The collection of gambling debts provides a link between Macau and Hong Kong triads and mainland Chinese gangs. The former team up with the latter in order to track down gamblers and their families who failed to pay their debts. It is still too early to say whether foreign triads will become entrenched on the mainland. This criminal activity remains in any case an important source of contacts, and has the potential to allow Hong Kong and Macau mafias to spread on the mainland. As for Taiwanese triads, they appear to be, at most, dealing with debts incurred by gamblers in Taiwan itself.

Prostitution

The junket operator who educated me about his business was keen to let me know that he could provide overall care for any customer, including me if I wished. In particular, he would take me to "the best sauna in Macau." Without the need to insist much, he let me into his secret: the best place in town for prostitutes was the sauna at the Golden Dragon Hotel called "18," a place that I had read about before traveling to Macau, where it was rumored that Uzbek women are trafficked (no evidence was proved in court).[53] Located just off the main street that connects the Hong Kong ferry pier to the center of town, "18" is on the third floor of a glittering

four-star hotel and can be reached via an elevator. A plastic-coated price list is placed on a freestanding lectern at the entrance. Ethnicity is a price discriminator: Taiwanese are the most expensive, and Uzbeks are the cheapest. One can also opt to have a sauna only or a standard Chinese massage. Payment is at the end. After perusing the "menu," the customer is whisked to a changing room to undress. He is then led to a large hall with a mammoth bathtub in the middle, and steam rooms and showers to the left. Half-naked girls appear on a balcony and start to dance, eventually undressing fully. Then a parade of some seventy women marches into the main hall, each with a number and a colored pin attached to their bathing costume. They slowly do the room, stopping in front of men draped in their bathrobes for a minute or two, and then move forward. A customer does not need to follow the parade. When he makes up his mind, the john informs the majordomo of his choice and is accompanied to a room, where he and his companion have sex. Men whose bodies are covered in elaborate tattoos are easily found at "18."[54]

While prostitution is legal in Macau, it is not in China. Following the Communist takeover in 1949, local governments were given the task of eliminating counter-revolutionary decadence. The first crackdown against brothels took place in the capital in 1949. Several others followed. During Mao's reign, prostitutes faced severe penalties and could be sent to labor camps for education. In 1958, the Chinese Communist Party announced that prostitution had been eradicated. Even the twenty-nine venereal disease research institutes were closed.[55]

Since the beginning of China's transition to the market economy in 1978, all forms of sex for cash have reemerged. Initially, the phenomenon was limited to the eastern, coastal cities, but since the 1990s it has spread across the country. Arrests of prostitutes, clients, and pimps have increased every year since 1982. Some suggest that the business employs ten million people, with an annual turnover of one trillion yuan. The bulk of the sex trade takes place in karaoke bars, hotels, saunas, beauty salons, and teahouses. A common euphemism for hostesses working in karaoke bars is "ladies of the three accompaniments." In theory, they accompany men by chatting, drinking, and dancing. In reality, they allow clients to fondle them and are willing to engage in sexual intercourse. "Dingdong ladies" are women who phone hotel guests offering sex, while "street girls" try their luck at the lowest level of this profession.[56]

[162.10.217.184] Project MUSE (2026-06-15 01:44 GMT) University of Queensland

Contrary to common misperceptions, Chinese law does not depart significantly from Western countries' provision in this sphere. The law distinguishes those who organize and induce others into prostitution from those who engage in the act by paying or receiving money (the clients and the workers). Statutes passed since 1991 have made the involvement of a third party, such as a pimp, a criminal offense, even punishable with death. Bar, sauna, and massage parlor owners all face the risk of long prison sentences if found guilty. Sex workers and their clients are mainly dealt with through administrative law, although they face arrest and heavy fines. Hostesses are the most vulnerable, since local authorities have several means at their disposal to harass and humiliate them. The Communist Party has issued specific disciplinary measures to expel members caught red-handed.[57] How do actors in this market, especially the owners of brothels, negotiate protection against police arrest? To whom do they turn to fend off rowdy customers and violent thugs?

After an interview in a factory outside Guangzhou, the owner showed us an upscale karaoke bar in a nearby town that he patronizes regularly. I asked if he knew whether the establishment has entered into a protective umbrella with anyone. According to the factory owner, the hotel was under the wing of police officers to whom it could turn if there was a serious dispute and who protect it against random police raids, while the hotel security guards fend off local thugs and unruly customers. He added that low-level establishments are at much greater risk from local thugs and other bar owners—who harass competitors and try to steal their workers—because they are located in red-light districts and dangerous neighborhoods. The police protectors would not offer help in these fights and would indeed expect them to be handled with discretion, so that attention is not drawn to the bar. Many officials justify their actions by arguing that karaoke bars promote the local economy as well as help businesspeople forge stronger bonds and strike deals.[58]

A Chinese scholar who worked in a karaoke bar for twenty months in Dalian between 1999 and 2002 confirms that officials—especially police officers—are regularly paid for protecting these establishments. One Public Security Bureau officer remarked to her: "Karaoke bars and hostesses are our source of livelihood. We basically cannot live without them."[59] As in the case of legitimate businesspeople who are forced to hire individuals suggested by their umbrella, police officers have devised a system to keep

informed on the activities of the brothels: they maintain a group of "spy hostesses" who report on the club conditions as well as act as these officials' personal harem.[60]

The case of Chen Kai from Fujian has brought to the fore the reach of protective umbrellas. Chen Kai was sentenced to death in 2005 for organizing prostitution in Fuzhou. Before being arrested, he was the head of a conglomerate that included a hotel, a nightclub, three restaurants, a real estate development firm, and three saunas. Chen Kai had started as a street seller and then entered the electronic gambling industry. As his business interests grew and expanded into entertainment, he struck a deal with the city chief of police, who was known as the "Godfather of Fuzhou," and named the chief's son the vice president of his company. Whenever an investigation was initiated, the chief of police would block it. No less than fifty officials were eventually found guilty at the Chen Kai trial in 2003. They were, as the *China Daily*noted, the protective umbrella for Chen Kai operations.[61] People familiar with the case suggest that Chen was nothing but a brothel owner, and the violence used by him was limited to maintaining order within his premises and occasionally forcing waiters into providing sexual services for officials who took a fancy to them.[62] Protection was coming from his umbrella.

Among the seventy-four cases that I reviewed in depth, nine groups were found guilty of running brothels. None is on record as trying to monopolize the business. These cases seem to refer to instances of involvement in managing a brothel, rather than wide-ranging attempts to control the market. There is no evidence that foreign triads played a role in this business. In sum, it appears that fragments of the state, and in particular the very people who are supposed to fight prostitution, act as the industry's protectors and there is yet more evidence that these arrangements are localized in nature.

Drug Trafficking

Chinese drug traffickers benefit from proximity to a 150,000-square-mile patch of land in the Wa area of the northern Shan state of Burma, known to the world as the golden triangle. Burma is the second-largest opium-producing country in the world after Afghanistan. The methamphetamine production plants blamed for the "speed" epidemic in Thailand in the

1990s are also located here. After the country gained independence in 1948, the Communist Party of Burma controlled most of the area. In the same year as the Berlin wall collapsed and Eastern Europe was freed from Soviet influence, the leaders of the Wa ethnic group dissociated themselves from the Communist Party of Burma and signed a peace treaty with the government. Under the conditions of the treaty, the Wa army was allowed to remain in control of the territory and retain its arsenal, while the Burmese leadership could direct its attention to crushing the indigenous democratic movement. The Wa army—defined by the U.S. Department of Justice as "one of the largest heroin-producing and trafficking groups in the world"—continued its long-standing involvement in the cultivation, production, and distribution of drugs.[63] Here opium cultivation is legal and is a major source of tax revenue for the Wa leadership. Local farmers pay a compulsory tax in opium regardless of whether they grow the plant or not, thereby forcing them to either start cultivation or buy opium to pay the tax. Heroin and methamphetamine factories are illegal, although they operate under the informal protection of army officers.[64]

In the early 1990s, legitimate and illegitimate cross-border trade between Burma and China began to flourish. Many entrepreneurs from China shuttled between the Wa region and the newly established special economic zones in search of opportunities. With the arrival of the Chinese, heroin production grew. The presence of a developed chemical industry in China makes it relatively easy to obtain and import the precursor chemicals needed for narcotics production from China into Burma, and export the finished product from Burma back to China and then onward internationally. Methamphetamine production took off when the Thai authorities decided to crack down on this drug in their own country in the mid-1990s. Chinese entrepreneurs operating in China, Burma, and Thailand took advantage of the situation, and began to mass-produce methamphetamine in the Wa area to meet the enormous demand in Thailand.[65]

The heroin produced in the Wa region travels into China through the province of Yunnan, onward through Guangdong, Shenzhen, and Hong Kong, and finally reaches North America. As the cross-border trade of legal commodities between China and Burma started to swell in the 1980s, and continued to expand rapidly in the 1990s, drug trafficking along the border area also flourished. Significant seizures of heroin in Yunnan Province are on record since at least 1986. In the 1990s, there was a noticeable

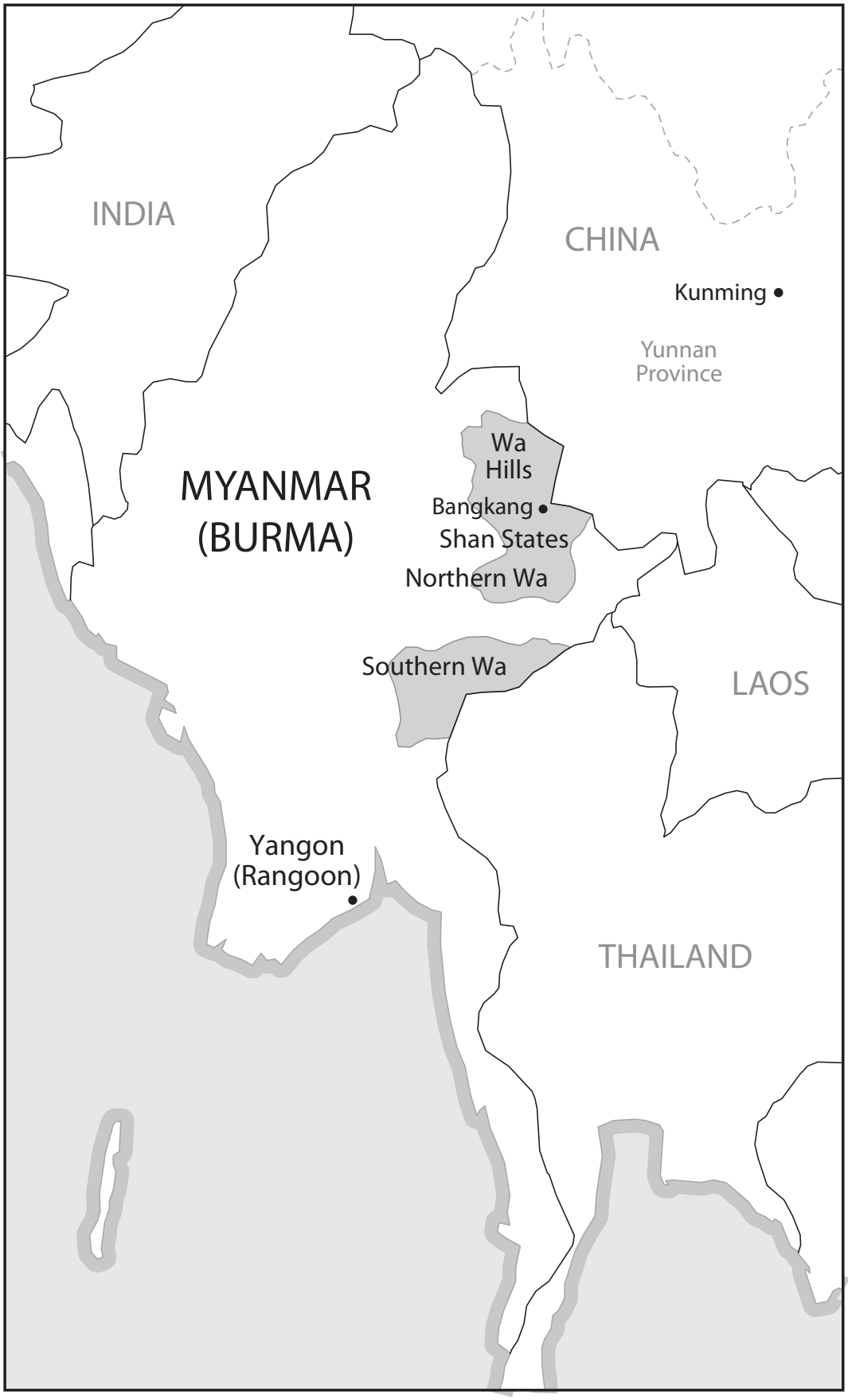

Figure 6.2 Map of the Wa area

increase in the number of detected cross-border drug trafficking cases. As reported by the U.S. Drug Enforcement Administration in 2002, "China's Yunnan province has become the primary transit point for Burmese heroin."[66] The drug then reaches Guangdong Province, the primary distribution point for both the domestic and international market. In 2002 only, the Guangdong police seized 1,618.72 kilograms of drugs and cracked down on 5,745 drug-related criminal activities. In describing the situation, an officer in charge of narcotics control stressed that "Guangdong has become the major channel and distributing center for drug smuggling activities."[67]

Once in Guangdong, the drug reaches the United States via Shenzhen and Hong Kong. In the late 1980s, a change in the export methods employed by the Chinese was detected. Instead of using drug couriers traveling to U.S. airports from Hong Kong and Bangkok, Chinese traffickers began to send large quantities of heroin (from fifty to one hundred pounds or more) to the seaports of Newark and Elizabeth, New Jersey, and Chicago, hidden in cargo containers shipped from Asian ports, such as Shenzhen and Hong Kong. The drugs were carefully stuffed into products such as furniture and frozen seafood. In one instance, drug traffickers stuffed heroin into five boxes of goldfish that were to be shipped to an aquarium in San Francisco. The trick was discovered, and led to the exposure of the activities of a drug-trafficking ring between mainland China, Hong Kong, and the United States.[68]

For such complex transshipping operations to be successful, several actors must be involved at various points of the trade and protection must be arranged. Are foreign triads the main suppliers of such service? There is no evidence that triads are directly involved in smuggling drugs or that they offer protection to the trade (the distinction is crucial). The traders responsible for the bulk of heroin imported from Burma through China into the United States are international businesspeople of Chinese origin who take advantage of their connections and legitimate commercial operations to carry out the transportation of drugs from the source countries. The major traffickers are entrepreneurs who have links with the communities to which the drug is exported.[69] Since the adoption of the open-door policy, Chinese investors—especially from the provinces of Yunnan and Sichuan—have visited the Wa area of Burma. Their presence has helped

the Wa leaders to develop the manufacturing of drugs. They also organize the trafficking of the product back to China, independently of any connection with Hong Kong and Taiwanese triads. They use legitimate transportation networks to reach Shenzhen and Hong Kong. Once there, one would expect that Hong Kong triads might control the harbors. The reality is, however, different. Hong Kong triads control low-level drug dealing in the city for local consumption, but they have never become the dominant players in the international trade. At every stage, successful traffickers rely on officials to turn a blind eye, as several observers have suggested.[70]

Two members of the security branch of a Western multinational operating in Asia whom I interviewed in Hong Kong dismissed the idea that triads are prominent in any smuggling activities, of either humans or drugs. In their extensive investigations of the matter (which include running informants and intercepting communications), they have come across only one reference to a Taiwanese triad member who seemed somewhat connected, although in a personal capacity rather than as a member of his mafia group. In their opinion, the smuggling of illegal products out of China is overseen by corrupt officials. "We know that during the recent Olympic Games, officials in Beijing phoned their opposite numbers in the provinces ordering them to suspend shipments of illegal commodities. The order was meant to last until the end of the Paralympics!"[71] They added that illegal trafficking is greatly facilitated by the Container Security Initiative.

The Container Security Initiative allows U.S. Customs and Border Protection officials to inspect containers in foreign seaports before they are loaded on board vessels destined for the United States. The inspections take place with the support of local customs officials. In China, the ports of Hong Kong, Shenzhen, and Shanghai are part of the initiative. Indeed, Hong Kong and Shanghai are the largest ports in the world shipping goods to the United States. In the immediate wake of the World Trade Center attack in 2001, U.S. customs developed this initiative to address "the threat to border security and global trade posed by the potential for terrorist use of a maritime container to deliver a weapon," as its Web site recites. The containers deemed to pose a threat are examined at the port of origin using "sophisticated technology" aimed at detecting nuclear and radiological material. Once they have passed the check, they can enter the United States without further scrutiny.[72]

In effect, "local custom officials tell U.S. agents where to look and where not to look," one of my informants told me. They added, "It is like having the crooks telling the police what to do."[73] To put it differently, this source claims that local bureaucrats, who speak the language and know the American operative procedures, have worked out what kinds of goods would not be picked up by the U.S. technology. The surest way to ensure that cigarettes or drugs are smuggled into the United States is to have the containers inspected for nuclear and radiological material. Since the technology does not detect other commodities, the container is then given a clean bill of health and allowed to enter the United States without any further check.[74]

Conclusions

So far, China counts as another negative case in the general argument of this book. Members and bosses of foreign triads are present on the mainland, but have not yet emerged as a viable mafia supplying private protection. As in the case of Bardonecchia and Rome, mafiosi did not decide to migrate out of their own free will. Their presence in the new territory is the unintended consequence of police action in their country of origin. Once they found themselves on the mainland, they quickly realized that the new China offered many opportunities to invest some of their gangs' funds, but they have so far failed to establish themselves as viable protectors for legal entrepreneurs. Some conditions for their success were present: a language and ancestry in common with the locals (Taiwanese is similar to the dialect of southern Fujian; some Hong Kong triads members originated from Guangdong region); the presence of many new immigrants from other parts of China who were underemployed or out of work; and the presence of new and booming markets, including illegal markets such as gambling and prostitution (table 6.1). Such a situation should have generated a demand for criminal protection and offered opportunities for mafiosi, local or foreign. In reality, though, the outcome was different because a powerful protector was already on the ground: corrupt fragments of the state apparatus.

Remarkably, the jargon word for the activities of the latter is protective umbrella—a clear indication that what officials offer goes beyond simple,

one-off corruption services and encompasses long-term arrangements to take care of (and profit from) private entrepreneurs. In the Russian case, some criminal gangs became powerful roofs for businesspeople, although official roofs played the biggest role in the market for informal, illegal private protection. The case of China indicates that few criminal groups have managed to take on the role of protective umbrellas. Instead, corrupt elements of the state apparatus, such as the military, police, and the local administration, act as the protectors of legitimate businesspeople (table 6.1), like the producer of lightbulbs that I encountered in Dongguan. As suggested in chapter 2, it would be an uphill struggle for an incoming mafia to dislodge an existing local criminal protector, especially one with the organs of state power at its disposal.

Since the opening of the economy, illegal markets have also boomed in China: gambling, prostitution, human smuggling (an issue that I have touched on only tangentially in this chapter), and drug trafficking. For the most part, it seems that even in illegal markets, fragments of the state apparatus offer protection. This is especially evident in the protection of prostitution. Gambling gives rise to loan sharking and a demand to recoup debts incurred at the tables in Macau by mainland Chinese. In such cases, Macau triads may team up with gangs on the mainland to trace the gamblers—or their families—and some of these gangs have then expanded their business into the collection of ordinary, business debts. If allowed to expand further, these gangs could develop into fully fledged mafia groups offering generalized protection services to whomever can pay. Since they enforce promises on behalf of foreign triads, in my view this represents a potential mechanism for long-distance cooperation and the transplantation of foreign triads to China. Yet there is no strong evidence that such transplantation has taken place. Quite to the contrary, it appears that local authorities have been quick to outlaw debt collection agencies and have arrested those tied to triads.

Have foreign triads been able to penetrate the lucrative drug trade? The short answer is, again, no. The heroin that leaves the Wa area of Burma is transported into China by low-level couriers organized by respectable businesspeople. When the drug reaches the ports of Shenzhen and Hong Kong, crucially placed custom officials exploit the system to sign off cargo bound for U.S. ports. The Container Security Initiative might have prevented the shipment of nuclear and bacteriologic weapons to U.S. soil,

Table 6.1

Factors Facilitating Mafia Transplantation, Bardonecchia, Verona, Budapest, Rome, New York City, Rosario, and Southern China

Factors facilitating mafia transplantation/cases	*Bardonecchia*	*Verona*	*Budapest*	*Rome*	*New York City (1910–30)*	*Rosario (1910–30)*	*Shenzhen/ Guangzhou*
Generalized migration	Yes	No	No	No	Yes	Yes	Yes
Mafiosi migration (willing/unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)	Yes (unwilling)
Supply of mafiosi	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Local conditions							
Level of trust/civic engagement	High	High	Low	Low	Low	Low	Low
Presence of local illegal protectors	No	No	No	No	No	No	Yes
Size of locale	Small	Large	Large	Large	Large	Large	Large
New and/or booming markets*	Yes	Yes	Yes	No	Yes	Yes	Yes
Demand for mafia services	Yes	No	Yes	No	Yes	No	No
Transplantation	Yes	No	Yes	No	Yes	No	No

* The markets considered are construction (Bardonecchia and Rosario), drugs (Verona and China), property rights (Budapest and China), oil (Budapest), alcohol (New York City), gambling (New York City and China), and prostitution (China).

but has also ensured that cargoes checked in China enter directly into the United States without further inspection. It might prove a devil's pact.

This chapter has raised some questions that cannot be fully answered at this stage and would require a separate study. It is nevertheless worth spelling them out. Who is allowed to acquire a protective umbrella? On the basis of the respondents' suggestions, it appears that the protection industry is stratified. Small entrepreneurs are not large and profitable enough to be of interest, and therefore may be more likely to enlist the services of independent debt collection agencies when they enter into a dispute. Since the government has moved to outlaw legitimate debt collection agencies, it could in effect have pushed low-level businesspeople into the hands of now-criminalized and unregistered agencies.

A second issue that I have touched on is the relationship between the center and periphery. To what extent can Beijing dictate to the provinces what to do in terms of illegal activities? There are several instances in which it appears that the center retains a degree of control. When the latter decides to arrest gang leaders protected by officials, it bypasses the local police and simply descends on the city to round up the suspects. In order to avoid embarrassment during high-profile events such as the Olympic Games or the sixtieth-anniversary celebrations for the People's Republic of China, Beijing appears to have been able to tell the periphery to stop smuggling operations, and enforce more strictly antiprostitution and drug consumption rules, as I learned in the disco in Shenzhen in late September 2009. And yet the periphery can also "bribe" the center. In order to obtain the go-ahead and funding for major public works, local cadres can entice national-level officials. Once the project is approved, local officials have plenty of opportunities to handpick the construction company and extract bribes, as documented by Xueliang Ding.[75] This system produces what the Chinese call "doufu-zha structures"—deeply flawed constructions that put lives at risk.

As Timothy Garton Ash has remarked recently, China might well be the defining geopolitical story of our time.[76] Yet observers routinely fail to connect the macropicture with microlevel processes. A recent report from the McKinsey Global Institute points out that China underconsumes and overinvests, mostly in building projects. The stimulus plan that China enacted in 2009 focused almost entirely on building infrastructure and public works, while other countries have also passed tax breaks and improved social safety nets.[77] Only by recognizing the massive opportunities

for kickbacks that construction projects open up for officials in both the center and periphery, can one make full sense of macroeconomic decisions. The equilibrium between central government and cadres in the provinces appears precarious, and deserves a full study of its own. To the extent that criminal gangs in the periphery overpower local power holders, they could become the interlocutor of the center, and China might well develop pockets where mafias are entrenched, like in southern Italy, certain parts of Latin America, and the former Soviet Union.

Appendix

Table A6.1

Summary Information on Seventy-four "Organizations with an Underworld Nature," China, 1992–2009

Name of gang	*Length of activity in years*	*Start date*	*Location (region)*	*Size*	*Background leadership**	*Main charges*
1. Anda LU Brothers	16	1992	Heilongjiang	54	3	Kidnapping, loan-sharking, raping, gambling, prostitution, corruption, frauds
2. Black Leopard	1	1995	Sichuan	N/A	N/A	Robbery, protection racket, contract killing
3. Blue Clothes squad	7	2000	Liaoning	N/A	3	Debt collection and dispute settlement in real estate
4. Bo TIAN's gang	6	1995	Jilin	N/A	1	Kidnapping, extortion, monopolization of coal sector
5. Broadsword	1	N/A	Shanghai	N/A	N/A	Robbery, debt collection, extortion, monopolization of entertainment sector, drug trafficking
6. Caiping XIE's gang	5	2004	Chongqing	18	1	Loan-sharking, gambling, dispute settlement
7. Central China overlord	1	1994	Henan	N/A	1	Raping, hooliganism, attempts to control transport sector
8. Changli He's gang	1	N/A	Henan	N/A	1	Corruption

TABLE A6.1 (*cont.*)

Name of gang	*Length of activity in years*	*Start date*	*Location (region)*	*Size*	*Background leadership**	*Main charges*
9. Chongqing Mingliang CHEN's gang	8	2001	Chongqing	47	N/A	Kidnapping, extortion, prostitution, drug trafficking
10. Deliang LI and Guoqing MAI's gang	6	1996	Guangdong	N/A	4	Kidnapping, robbery, collection of gambling debts, extortion, protection rackets, blackmailing
11. Deping JIANG's gang	5	1997	Jiangsu	20	3	Monopolization of excavation sector
12. Fang Guangcheng's gang	9	1996	Beijing	36	1	Extortion, monopolization of construction
13. Foshan Water Gang	5	1995	Guangdong	N/A	3	Collection of gambling debts, arms dealing, loan-sharking, gambling
14. Great Ring (or Big Circle Boys)	4	1994	Macao	N/A	2	Kidnapping, robbery
15. Guanglong ZHOU's gang	6	1995	Guangdong	N/A	1	Protection racket, monopolization of transportation and taxi industry
16. Guizhen MA's gang	14	1995	Jilin	10	N/A	Loan-sharking, extortion, gambling, corruption
17. Guojian LI's gang	1	2007	Hubei	7	4	Monopolization of fruit and vegetable market
18. Handan Lifa LIN's gang	5	2003	Hebei	24	N/A	Extortion in construction
19. Hong YANG's gang	3	2004	Hubei	N/A	3	Debt collection, collection of gambling debts, extortion, gambling
20. Hongyong ZHANG's gang	4	2005	Hebei	90	2	Tax evasion, theft of raw materials
21. HU Brothers	9	1996	Beijing	34	N/A	Kidnapping, arms dealing, illegal sand excavation, illegal detention, corruption

TABLE A6.1 (*cont.*)

Name of gang	*Length of activity in years*	*Start date*	*Location (region)*	*Size*	*Background leadership**	*Main charges*
22. Huaibei mafia	16	1993	Anhui	N/A	N/A	Debt collection, loan-sharking, protection racket, gambling, control of coal sector
23. Jianshe LI's gang	8	1994	Hebei	40	1	Kidnapping, debt collection, extortion, controlling officials, dispute settlement, illegal detention
24. Jinwen XIONG's gang	8	1992	Yunnan	N/A	3	Kidnapping, extortion, rape, gambling, illegal activities in mining, illegal detention
25. Kai ZHAO's gang	9	2000	Jilin	10	N/A	Monopolization of gas sector, dispute settlement
26. LI Brothers	3	1997	Gansu	54	1	Robbery, protection racket, gambling
27. Lifeng TANG's gang	1	1998	Henan	N/A	4	Debt collection, protection racket, control of elections, gambling
28. Luoma group		N/A	Sichuan	N/A	N/A	Monopolization of entertainment and car repair business
29. MA and DING's gang	9	1992	Gansu	60	N/A	Robbery, extortion, protection rackets, gambling, monopolization of entertainment
30. Man FENG's gang	8	1993	Chongqing	110	3	Extortion, monopolization of real estate and construction, control of officials, dispute settlement, corruption
31. Mingran ZHU's gang	2	1999	Xinjiang Uigur	N/A	4	Extortion, monopolization of fruit and vegetable market
32. Nanyang Yugang BAI's gang	5	2004	Henan	27	N/A	Extortion, monopolization of excavation and mining
33. Nine Brothers	N/A	N/A	Guangdong	N/A	N/A	Protection racket, gambling, usury
34. Pengfei SONG's gang	15	1993	Liaoning	95	5	Monopolization of transportation

TABLE A6.1 (*cont.*)

Name of gang	*Length of activity in years*	*Start date*	*Location (region)*	*Size*	*Background leadership**	*Main charges*
35. Pingyuan mafia	12	1980	Yunnan	N/A	1	Arms dealing, protection racket, drugs, control of officials, mining, and stolen cars
36. Qiaosi criminal syndicate	7	1990	Heilongjiang	N/A	2	Extortion, rape, monopolization of entertainment and construction
37. Renhao ZHENG's gang	3	1998	Heilongjiang	N/A	3	Kidnapping, extortion at fruit and vegetable market
38. Shaoxi ZOU's gang	15	1994	Guizhou	N/A		Arms dealing, gambling, prostitution
39. Shengli LIANG's gang	14	N/A	Henan	143	3	Debt collection, monopolization of entertainment, construction, and transportation, dispute settlement
40. Shiwei REN's gang	13	1995	Liaoning	43		Hooliganism
41. Shounan ZHOU and Xu DING's gang	9	1991	Guizhou	N/A	3	Robbery, debt collection, collection of gambling debts, extortion, gambling, prostitution, illegal detention, corruption
42. Sicong XIA's gang	N/A	N/A	Hubei	21	1	Monopolization of construction
43. Sister Nine's gang	6	1996	Sichuan	N/A	3	Kidnapping, debt collection, protection racket, gambling, prostitution, drugs, illegal detention
44. Solving Your Problems gang	3	N/A	Hunan	N/A	3	Robbery, extortion, protection racket, dispute settlement, illegal detention
45. Songyu HU's gang	2	2006	Gansu	53	N/A	Robbery, protection racket, entertainment, illegal detention
46. Tao HUANG's gang	5	1997	Jiangxi	N/A	4	Kidnapping, robbery, extortion of taxi drivers, protection racket, gambling

TABLE A6.1 (*cont.*)

Name of gang	*Length of activity in years*	*Start date*	*Location (region)*	*Size*	*Background leadership**	*Main charges*
47. Thirteen Protectors	5	1997	Yunnan	N/A	N/A	Debt collection, arms dealing, extortion, protection racket, gambling, monopolization of transportation
48. Tianqing YANG's gang	4	2005	Chongqing	9	3	Debt collection, loan-sharking, extortion
49. TU Brothers	3	1998	Guizhou	N/A	3	Debt collection, protection racket in entertainment and prostitution
50. Underworld 110	1	2005	Hunan	13	N/A	Debt collection, extortion
51. Wanchun HAO's gang	8	2008	Liaoning	24	N/A	Extortion, frauds
52. Wei ZHANG's gang	6	1995	Zhejiang	N/A	3	Bid rigging, real estate, corruption, stolen cars, frauds
53. Weiguo ZHENG's gang	3	1998	Shaanxi	N/A	1	Protection racket, bid rigging, monopolization of excavation
54. West gang	6	1993	Guangxi	N/A	2	Debt collection, loan-sharking, gambling
55. White Dragon	N/A	N/A	Guizhou	16	N/A	Robbery, transportation
56. Wolf	6	N/A	Shanxi	49	3	Robbery, arms dealing, extortion, rape, gambling, usury
57. Xiangji ZHUANG's gang	4	1996	Hunan	N/A	3	Monopolization of construction sector
58. Xiangu DU's gang	4	1997	Heilongjiang	N/A	4	Robbery
59. Xianliang FU's gang	2	1999	Sichuan	N/A	3	Collection of gambling debts, loan-sharking, gambling, transportation, usury
60. Xiaoming LIANG criminal syndicate	4	1994	Jilin	N/A	2	Kidnapping, robbery, gambling, prostitution

TABLE A6.1 (*cont.*)

Name of gang	*Length of activity in years*	*Start date*	*Location (region)*	*Size*	*Background leadership**	*Main charges*
61. XU's criminal syndicate	2	1992	Zhejiang	N/A	3	Robbery, arms dealing, extortion, rape, monopolization of transportation, drug trafficking, dispute settlement
62. Yali YU's gang	11	1998	Jilin	13	N/A	Corruption, frauds, tax evasion
63. YANG and XIE's gang	4	N/A	Fujian	N/A	N/A	Robbery
64. Yangjiang mafia	15	N/A	Guangdong	N/A	4	Protection racket, monopolization of entertainment, transportation, gasoline, and construction materials
65. Yanhong BAI's gang	15	1993	Sichuan	8	N/A	Gambling, drug trafficking, controlling officials
66. YE Ba Er gang	19	1990	Guizhou	23	3	Gambling, prostitution, dispute settlement, illegal detention, illegal logging
67. Yibing CHEN's gang	3	1998	Beijing	N/A	1	Protection racket of transportation and retail
68. Yong LIU's gang	5	1995	Liaoning	N/A	1	Monopolization of entertainment, supermarkets, real estate, sale of cigarettes, and construction
69. Yongfeng WEI's gang	5	2002	Shaanxi	18	N/A	Kidnapping, robbery, debt collection, extortion, protection rackets, gambling, monopolization of waste disposal and gambling, illegal detention
70. Yu ZHOU's gang	4	2002	Hubei	40	N/A	Prostitution, entertainment
71. Zhenhuang DU's gang (or White Pig)	8	2000	Fujian	N/A	N/A	Extortion, gambling, dispute settlement

TABLE A6.1 (*cont.*)

Name of gang	*Length of activity in years*	*Start date*	*Location (region)*	*Size*	*Background leadership**	*Main charges*
72. ZHU family	12	1989	Jiangxi	N/A	1	Kidnapping, debt collection, loan-sharking, corruption, gambling, extortion in transportation, mining, fruit and vegetable market, gasoline, waste disposal
73. ZI family	4	1997	Heilongjiang	N/A	3	Arms dealing, prostitution, monopolization of entertainment and real estate, stolen cars, illegal logging
74. Ziqiang ZHANG and Jihuan YE's gang	6	1990	Guangdong	N/A	3	Kidnapping, arms dealing, robbery

* Key to "background of leadership": 1 official/politician/relative of; 2 police officer; 3 ex-prisoner/criminal; 4 businessperson; 5 migrant worker.

Sources: He 2003; Zhang 2006; Li and Ke 2006; Kang Kang 1998; selected official press reports.

Note: The cases listed in table A6.1 come under the Chinese definition of mafia group ("organizations with an underworld nature"), but do not all display the features of a mafia group as defined in this book. Clearly, this list does not claim to be representative. The cases were deemed important by the sources listed above.

Mafia Origins, Transplantation, and the Paradoxes of Democracy

Boris Sergeev, the Solntsevskaya associate operating in Rome, was a flitter, laying his eggs in many nests. Born in Moscow, he lived in Vienna and Paris. His police file lists several aliases. He was a polygamist and forger. Unconfirmed sources claim that he had worked for the KGB in the 1980s. When negotiating with Islamist fighters to smuggle Chechen oil to countries under the UN embargo, he grew a beard. For reasons as yet unknown, he surfaced in Rome in the early 1990s. When the Solntsevskaya boss arrived in the Italian capital a year or two later, Sergeev offered to help: he registered some of Yakovlev's companies at his address, arranged invitations to Austria for the boss's lieutenant (a fugitive from justice), supplied false German passports, and allowed the crew to use his bank accounts for the transit of vast sums of money. Around April 1996, however, the two grew apart. Yakovlev suspected Sergeev of embezzling money entrusted to him.

Sergeev had been accused of embezzlement before. A few years earlier, he had taken funds from a Russian businessman, *Nikita Morozov,* but never invested or returned them. As one might expect, Morozov was no ordinary businessman. When he died in 1994, he was a partner in two Russian companies based in Vienna and controlled by Ivan'kov, who had escaped to the United States in 1992. Together with two other Russians connected to the Solntsevskaya, Morozov came to the attention of the U.S. authorities when he threatened a drug trafficker based in Antwerp who had started cooperating with U.S. intelligence. The three Russians were

trying to obtain a share in the trafficker's legitimate shipping company. Sergeev had a talent for upsetting powerful people.

When Morozov's son, *Akim*, and his wife, *Ekaterina*, showed up in Rome in June 1996 asking for the money, Sergeev and his wife welcomed them with open arms. After a lavish lunch at their house, they pulled a gun on the couple. According to Ekaterina, a young and attractive blond, they first beat them and then Sergeev tried to rape her. In the ensuing bedlam, Sergeev's wife was holding the pistol. The couple managed to escape after a struggle by climbing over the garden fence. The railing was not high; to this day Sergeev's abode is the same two-story, white, detached house with a small pool in the garden, an estate agent told me. Ekaterina and Akim stopped a police car on the busy main street of the tourist town on the Lazio coast and reported Sergeev. The attack on the Morozovs had momentous consequences. Sergeev was arrested for assault, and the house was searched for over three days by local and special units. On the first day, the police found twenty-two caliber-nine cartridges, several Russian and Polish passports, a gun holster, and a piece of paper listing all Russian criminal groups, including the name of the person in charge and the banks they used. On the second day, they retrieved a gun from the water tank behind the toilet—a rather rudimentary way to hide a weapon. On the third day, Italian authorities found more documents, mainly related to arms sales.

During the summer of 1996 Sergeev was hard at work on his last scam: the sale of cheap Bulgarian meat in Russia. Through political contacts within the European Union, he obtained a certificate stating that his product was from high-quality Italian livestock and intended for humanitarian aid to Russia. The certification allowed him to avoid paying duties in Europe. Once in Russia, the meat would have been sold at market price. To pull off this scam worth twenty million U.S. dollars, he needed capital and official support on the Russian side too. He thought that he had secured the backing of a Moscow brigada. This was the reason for his last trip to his native city in 1996 described in the introduction of this book. Although there is no final word on who ordered and carried out Sergeev's murder at the Tverskaya hotel in September, it is plausible that the Solntsevskaya had grown tired of him and decided to end his career. Some ventured the theory that the hit was carried out with the blessing of officials involved in illegal oil deals in Chechnya. Yakovlev, the boss in Rome, received a call informing him of Sergeev's death at 17.52 Italian time, just one minute

after Sergeev's wife got the news. He remarked, "What, did they kill him? I am not surprised; he has stolen money from half of Russia."[1]

Seen from a distance, international organized crime appears as a monolithic and self-assured Global Corp. Inc. The Solntsevskaya sends a boss to Rome, where he sets up an outpost, and quickly penetrates the upper echelons of national and international finance. Waiting for him is an infrastructure that includes local fixers and a fellow Russian with international contacts that range, according to newspaper reports, from top Moscow apparatchiki to Swiss financiers linked to the Democratic Party in the United States.

Such a picture is not entirely inaccurate, but the complications of the story have been erased. The Solntsevskaya is not a single organization but rather an alliance of independent brigades. The "envoy" to Rome was running for his life after his mentor had been murdered in Moscow. The local help consisted of two people operating a travel agency. The Russian fixer was not a full-time member of the organization but instead a freelance con artist with apparently constrained intellectual capacity and certainly limited credibility, whose plans often floundered and backfired.

The first step for observers of international organized crime is to draw some basic distinctions. Sergeev was part of the "service industry" of organized crime. Although some might be tempted to portray him as a global criminal mastermind floating in hyperspace, a present-day Moriarty, he and other unsavory characters that fill popular accounts of this phenomenon are not independent variables; they are hired to carry out work for states, secret services, legitimate corporations, or mafia groups. When they lose the trust of their paymasters, they are removed and leave no trace.

Mafias do not flit. Rather than being liquid entities, they are firmly entrenched in the territory that they govern. One surprising finding of this study is that most mafiosi do not migrate away from their territory of their own volition (the surprise is of course directly proportional to the belief that mafias migrate easily). They are not the CEOs of a global corporation exploring rationally the best mix of tax breaks, law enforcement, and climatic conditions. In the cases covered here, mafiosi move to new territories in order to escape state prosecution, mafia wars, and internal disputes, or because they are ordered by the state to move away. The recent transplantation of gangs from Southern California to El Salvador and Guatemala is another case of less-than-willing migration. The first wave of migration

of Central American youths to Southern California was due to civil wars and military conflict in Central America in the 1980s. Once in the United States, some individuals joined Latino gangs. In the early 1990s, the U.S. government forced more than 150,000 Central Americans to return to their home countries in a three-year period. Some of them brought their criminal expertise with them, taking over and transforming local bands. By the mid-1990s, one could find "clones" of Los Angeles gangs—such as Mara Salvatrucha and the 18th gang in San Salvador, and the White Fence and Latin Kings in Guatemala. Contrary to what was suggested by the media and some scholars, though, the members of Latino gangs in California had not sought to expand their franchise and drug distribution network through relocation to Central America. They had been forced there by state policies.[2]

Mafiosi are stationary because the service they provide is inherently local. They ensure selective access to resources in a given territory. In order to do so, they build long-term relationships with the place in which they operate as well as with the people, officeholders, and police. Rather than with a CEO, a more apt comparison is with a politician—say, a British Member of Parliament or U.S. Senator. Candidates who have built their power base in a given constituency do not simply pack up and try their luck in the French or Italian political system, even if the salaries and allowances are larger. They would not have enough local knowledge and therefore cannot hope to get things done because they do not have connections to local power holders. As a rule, political (and criminal) reputations are local and are the product of costly investments. To start afresh somewhere else is expensive. As Tocqueville wrote in *Democracy in America*, "The happy and the powerful do not go into exile." Rather, "poverty and misfortune" make them move.

Only under a special set of circumstances do mafias reproduce themselves in new areas. This book has tried to untangle the factors that account for mafia migration and successful transplantation. In so doing, it has challenged some widespread conceptions regarding migration. Generalized population migration on its own cannot explain the mob's successful and long-term transplantation in a new territory. The migration of individuals with specific mafia skills surely increases the risk of mafias becoming entrenched, yet this "variable" is not sufficient for a mafia to become deep-rooted in a new territory.

The findings of this book also qualify the effect of globalization on organized crime. I found no instances in which mafiosi opened outposts abroad in order to obtain resources such as labor and specialized equipment, or where mafiosi rationally decided to start a protection racket in a faraway land—what I called market-seeking motivations. To the extent that globalization has increased labor mobility, mafias have even less reason to open branches abroad to look for recruits. If mafias seek specialized technical equipment, such as arms, globalization could increase the number of international locations from which they obtain these resources, but it also reduces the motivation to own resources abroad. In the mid-1990s, for instance, Russian bosses occasionally traveled to Germany to buy arms. Rather than establishing an outpost in that country, they simply bought arms on the open market. Thus, globalization affects how crime is committed in a given country, instead of making mobsters want to migrate abroad.

Mafias do reinvest the proceeds of their crimes in different markets. A specific function that a mafioso can carry out abroad is to monitor investments for their group back home. The case of Yakovlev partly fits this picture. Although he ended up in Rome because he was fleeing death threats in Moscow, while abroad he kept himself busy investing the funds of his own brigada in the Italian economy. He also had won the trust of other Russian criminal groups and was managing some of their funds as well. Other cases are on record. Anthony Spilotro oversaw the Chicago outfit's investments in Las Vegas in the 1970s, although he did not do a particularly good job. Pippo Calò, the boss of the Porta Nuova Sicilian mafia family, moved to Rome at the start of the 1970s to monitor its investments in real estate and banking. The presence of the Neapolitan Camorra in the Scottish city of Aberdeen also reflected mafia attempts to launder money and invest in the local legal economy.[3] In these cases, the initial motivation for the mafias' presence was not to establish control over a specific sector of the economy.

Why would a mafia send an envoy abroad rather than just monitor its investments from a distance? Mafia investments are informal and often in cash; no recourse to the legal system exists in the event of a dispute. Moreover, money laundering and investments in the legal economy can involve several hundred one-shot transactions between business associ-

ates of the criminal group and legitimate firms in foreign and inhospitable countries. Those tasked with undertaking these decisions enjoy a significant amount of discretion and are difficult to monitor. Investments can go wrong, and the bosses back home cannot easily verify claims and reports. This situation generates specific incentives for mafiosi to go abroad so as to monitor directly transactions with legitimate entrepreneurs. The boss might well be tempted to go himself, since he cannot trust agents fully. On the other hand, if he leaves his territory for a long time, he weakens his position back home. Bosses thus face a dilemma to which there is no optimal solution. While one should not underestimate the danger of criminal groups making such inroads into the legitimate economy, this strategy and its impact differ from territorial penetration. For the latter to succeed, several local conditions must also be in place—most notably a demand for private protection.

Origins and Transplantations

Can our conclusions on transplantation form the basis of a broader theory of mafia emergence and transplantation? Scholars have already explored in considerable depth the reasons why mafias emerged in their territories of origin. Contrary to the view prominent until the early 1990s that these organizations were the product of social and economic backwardness and chaos, recent studies have shown that mafias emerge in societies that are undergoing a sudden and late transition to the market economy, lack a legal structure that reliably protects property rights or settles business disputes, and have a supply of people trained in violence who become unemployed at this specific juncture.[4]

For instance, the origin of the Sicilian mafia is best explained as a perverse response to a late and rapid transition to the market economy in the early nineteenth century, in the presence of a state that failed to clearly define and protect the newly granted property rights, and a supply of individuals trained in the use of violence who became suddenly unemployed. The armed guards (*campieri*) formerly at the service of the feudal lords were now out of work. In addition, the Bourbon army had disbanded after the unification of Italy and its soldiers were in search of a purpose. At this point in history, some members of the violent classes turned to banditry,

while others started to offer their services to more than one aristocratic family. The lethal combination of a demand for the protection of property and property rights, the presence of a threat from banditry and disputes with other owners, and a supply of disbanded soldiers and unemployed field guards ready to offer private protection gave rise to the Sicilian mafia in the early to mid-nineteenth century.[5]

This perspective—what could be called the "property rights theory of mafia emergence"—can be applied to other cases, such as Japan and post–Soviet Russia, to explain how mafias might emerge in times of rapid but flawed transitions to the market economy. Japan made a rapid transition from an agrarian, feudal society to a modern, industrialized economy in the Meiji period, which is traditionally dated from 1868 to 1911. During the Meiji period, the country saw the end of feudalism, the spread of property ownership (mainly in land), the enactment of legal reforms—including land reform (1873–76), a written constitution (1889), and a French-style civil code (1898)—and a process of centralization of government. As a consequence of the spread of property ownership, disputes increased, both between individuals and the state (mainly over the levels of taxation) and between individual owners. The state, however, failed to provide mechanisms for dispute resolution that were quick and efficient. At the same time, the transition to the market produced a crisis for the large and economically useless warrior class. A supply of people trained in violence started to offer services of dispute resolution and protection outside the scope of the state, giving rise to the modern yakuza.[6]

As I have argued elsewhere, Russia underwent a similar process. From 1986 onward, the country witnessed a rapid spread of property rights that was not matched by the establishment of adequate formal enforcement mechanisms by the state. This generated a demand for nonstate sources of protection. Such a demand coincided with the presence of individuals who had acquired violent skills and found themselves unemployed. In the Russian case, these individuals were former Red Army soldiers, Afghan veterans, unemployed sportsmen, and ex-prisoners. The Russian mafia emerged at this historical juncture, and many groups adopted similar norms and rituals.[7]

The property rights theory of mafia emergence remains the most convincing perspective on the origins of mafias. Yet it has also proved to be a special case. Not all mafias have developed during times of transition to

the market as in Sicily and Japan in the nineteenth century and Russia at the end of the twentieth. Mafias may well emerge within functioning market economies, and for reasons other than to ensure the protection of property rights. A sudden boom in a local market that is not governed by the state can lead to a demand for criminal protection, even in countries where property rights are clearly defined, trust is high, and courts work relatively well at settling legitimate disputes among market actors. The presence of a supply of people trained in violence and capable of offering such protection might lead to the emergence of a mafia or the transplantation of a foreign group. Endogenous mafia emergence or transplantation, however, are not a mechanical product of sudden changes in the economy. Authorities or market operators can take actions to govern the transformation, thereby preventing the rise of a demand for mafia protection.

Democratic Paradoxes

A key insight of the perspective outlined above is that the Sicilian, Japanese, and Russian mafias all emerged at times when the market and the political process were both undergoing a process of democratization. Can democracy also provide the means to fight mafias effectively? Chinese authorities battle organized crime and corruption by routinely arresting criminals, and then meting out harsh sentences. As I was writing these lines in early January 2010, seven corrupt officials and criminals were executed in Hebei Province for a variety of crimes. But the structural conditions that give rise to opportunities for graft have not been tackled. Random and personalized "justice" is dispensed from the center, and businesspeople are vulnerable to the changes in fortune of their official protectors. The stability much valued by Beijing rulers in fact betrays uncertainty and deep insecurity for market players.[8]

One might then conclude that the solution is to transit to a fully democratic system of government as quickly as possible. Democracies can fight mafias effectively, yet they also generate their own paradoxes. First, the development of democratic institutions offers a major opportunity for organized crime by creating a market for a commodity that is not meant to be traded: votes. Mafias can help politicians ensure that a section of the electorate is rewarded for selling their votes to the highest bidder. Politicians can return the favor in the way they dispense the resources under their

control, such as public contracts, tips on police investigations, passports, and travel documents, to name a few. The defiant antimafia campaigner and mayor of Bardonecchia, Mario Corino, could not defeat his political opponents when they commanded the support of the few hundred voters controlled by the Calabrese boss Rocco Lo Presti. When constituencies are small, it is easier for an organized minority to control a significant amount of voters and thereby dominate the democratic process. As constituencies grow in size, it becomes ceteris paribus more difficult to control and organize a sufficient number of voters to suppress widespread discontent.[9] Indeed, when Lo Presti tried to get an associate elected to the Piedmont Regional Assembly, he failed. He did not muster enough votes.

William Jay Gaynor, now a relatively forgotten figure of U.S. politics, is also the product of democracy—more specifically, of a reform that enlarged the constituency that elected the mayor of New York and an electorate disgusted by pervasive graft. In 1897, some forty municipal entities were "consolidated" under the single mantle of Greater New York, so that several thousand votes were needed to win the election.[10] Public opinion aided by preachers and the independent media mobilized in support of a change in government. Mayor Gaynor was thus able to reform the city administration, enforce key measures to protect trade unions, and bring an end to the official corruption that protected brothels and gambling dens ("protective umbrella"). As a consequence of his reforms, many city employees were fired, and one was so outraged that he shot the mayor in the throat early in his first term. Gaynor would eventually die because of this wound.

The political legacy of Mayor Gaynor is paradoxical, however. By dismantling the system of protective umbrellas, he opened the way for the Italian American mafia to evolve from petty criminals to a fully formed structure of governance. After his reforms, individuals trained in violence replaced the protective umbrellas. Mobsters now organized the saloons, brothels, and gambling establishments. A well-meaning reform thus had a crucial unintended effect. Likewise, I would expect that a sudden transition to democracy in China might well create a bonanza for mafias.

The media in a democracy can be a powerful tool to fight organized crime. Public opinion leaders at the time of Mayor Gaynor included the Reverend Charles H. Parkhurst of the Madison Square Presbyterian Church. His powerful sermons and personal forays in the vice district of New York City—Satan's Circle—helped galvanize the anticorruption movement. The

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press was mostly supportive as well. Joseph Pulitzer's *New York World* and its fierce competitor, William Randolph Hearst's *New York Morning Journal*, both campaigned against corruption, in conjunction with two other influential local papers, the *Herald* and the *New York Times*. Quite crucially, Hearst commissioned Stephen Crane (the author in 1895 of the Civil War novel *The Red Badge of Courage*) to write a series of pieces on police corruption and brutality in Satan's Circle. Yet both the *World* and the *Journal* also had a possibly pernicious influence. In order to fight its war against the *Journal*, the *World*, through its reporter Herbert B. Swope, led a relentless campaign against a New York Police Department captain, Charles Backer, who was ultimately unjustly accused of murdering the operator of a gambling den and sentenced to die in the electric chair.[11] The fact that prosecutors in the case were also running for office further highlights the paradoxes of democracy. For his part, Hearst—the inspiration for the lead character in Orson Welles's film *Citizen Kane*—used his paper to campaign ferociously against Gaynor—possibly because he stood against him in the election of 1909 and lost. Although the relationship between the media and the fight against the mafia is a complex one, and cannot be explored here, the former follows a logic of its own, which does not always coincide with the latter.

Gaynor's reforms led indirectly to the entrenchment of the Italian American mafia in some key illegal markets, such as prostitution and gambling. The very same Progressive movement that was behind the clean up of City Hall and the New York Police Department was also responsible for passing, a few years later, the Volsted Act and the policy that has come to be known as Prohibition (Hearst was a major supporter of the war against marijuana that led to its prohibition in 1937 in the United States). The New York families were now best placed to reap the benefits of the largest illegal market at the time. As a result of Prohibition, they became a force in New York City and arguably U.S. history.

One might then simply suggest that authorities should pursue the mafia in illegal markets as well, as vigorously as possible. But another paradox presents itself. In markets for illegal commodities, mafias restrict competition, and ensure a degree of order and predictability. In this instance, the public (at least notionally) should welcome inefficient firms organized in cartels, and not want the cheap and efficient delivery of, say, drugs, prostitution, and the like. The fight against the mafias in illegal markets might

then have the effect of making available more products that people generally do not want on the streets. The ability of Cosa Nostra to control the docks of New York City, for example, gave it the possibility to organize the traffic of heroin into the United States. The mafia became the primary supplier of the product across the country for a period. Still, the fact that heroin was going through the New York docks also limited the amount of heroin entering the country. The organization had an incentive to restrict the supply and increase the price, with the end result being a lower quantity available. When Cosa Nostra failed to maintain control of the New York heroin market in the 1970s, by contrast, the city was flooded. The crack epidemic of the 1980s is a postmafia phenomenon.

A further consequence of the fight against the mafia is the displacement effect that I have highlighted in the chapters above. Effective repression of the mafia in one country can simply displace the problem. To use the language of this book, police repression is a most important factor in pushing the supply to other countries. While such measures might go some way to reducing the problem at home, they show a perverse effect of policing. As no country can afford to ignore the entrenchment of the mafia in another land, displacing the problem might just serve to postpone facing up to it.

Subsidies and administrative regulations can foster mafia involvement in frauds and racketeering. A case in point are the subsidies from the Organization for Economic Cooperation and Development and the European Union for the production of crops. Such subsidies have been hijacked by organized crime in many parts of southern Italy. Instead of protecting hard-hit farmers and the countryside, they have generated further exploitation and crime. In order to save on labor costs and rather than work the land themselves, landowners in Calabria employ cheap illegal workers from the Maghreb and sub-Saharan Africa. Workers come in the winter to harvest oranges and clementines for a pittance (the going daily wage is twenty-five euros). The living conditions are dreadful, and immigrants are routinely harassed. When I visited this part of Italy in March 2010, I was taken to a disused factory lacking any sanitation or toilets where immigrants camp out. Racketeers extract five euros from each worker a day. When vast sectors of the population exist beyond the reach of state institutions, as is the case with large communities of illegal migrants, a demand for extralegal services of dispute settlement and governance can emerge among the mi-

grants as well as the entrepreneurs who exploit them. Legitimate structures should prevent the emergence of such pockets of poverty and lawlessness. By ensuring this, they also help prevent mafia emergence.

In recent years, the European Union has curbed some such subsidies, forcing Italian farmers to compete against Spanish and Latin American producers of oranges and orange juice. While previously the `Ndrangheta had helped landowners control and exploit illegal immigrant workers, it could not protect farmers against global competition—in this case, competition against Brazilian and Spanish products. As I have shown in this book, mafias are able to protect local markets, but they find it next to impossible to protect export markets. Thus, a clear policy implication is that more global competition would weaken this criminal organization. Yet deregulation and global competition must be introduced with a grain of salt. In January 2010, riots between immigrants and locals broke out in the town of Rosarno, the epicenter of the labor racket and a `Ndrangheta stronghold. The root cause of the violence was the lack of work. Farmers, who could not squeeze the workers' salaries any further and had failed to modernize, decided to leave the fruit to rot in the fields and just rely on the lump-sum subsidy that the European Union still pays to owners of a field. In a heated social climate, a minor scuffle between a black immigrant and the owner of a car led to large-scale riots. Social tension was the unexpected outcome of a measure intended—among other things—to curb the role of organized crime.

How can we make sense of the paradox that reforms aimed at introducing democracy, reducing corruption, and opening up markets can give rise to a demand for mafia services? Or that riots break out when the mafia is weakened? Observers and policymakers routinely fail to recognize that mafias can serve powerful and entrenched interests in a democracy. In markets for legal commodities, mafias offer, in a nutshell, a form of protectionism against cutthroat competition. Market insiders might prefer this protection to competition that would force them to make painful changes. Elected politicians sometimes find it easier to enlist the services of thugs than to compete fairly with their opponents. Those who pay the price are ordinary people who have to cope with inflated prices and lousy representatives.[12] In illegal markets, mafias bring some order to the trade and can reduce uncertainty. It is not surprising, then, that police forces and some politi-

cians are tempted to come to terms with organized crime in illegal markets; it makes their work easier (the occasional bribe surely helps).

This book is not a list of specific recipes to fight the mafia. It simply suggests that a demand for mafia services originates in the economy, and that state action can foster or hinder such a demand. The best way to fight the presence of a mafia is to drain the demand for its services. It is not enough to reform the public administration or liberalize markets, or let booms go unchecked. Liberalization should be accompanied by effective measures aimed at preventing the formation of cartels in local markets and easing the effect of liberalization on the local workforce to avoid social tension. Liberalization requires more, not less, state intervention in the economy. Opening markets to competition requires state structures strong enough to ensure that market actors are free to sell in a territory. The prohibition and criminalization of certain substances, such as alcohol and drugs, should not be undertaken lightly, as they will generate a demand for forms of governance in illegal markets.

The political climate at the end of the twentieth century and in this decade has promoted the erosion of state monopolies over policing and security, and citizens are encouraged by governments to become "responsible" for the provision of their own protection. Rather than civic associations devoted to the defense of rights, mafias and mafia-like groups are well placed to exploit such a protection deficit. Already in many developing countries—whose local economies revolve around agricultural goods sold at markets, where the demand for the protection of property, goods, trading spots, and transportation routes is high—communities rely on alternatives to state security, such as informal organized security groups, religious police, and ethnic militias, some of which are effective. Although it might be early to speak of full-fledged mafias, groups such as the Bakassi Boys in Nigeria—youths armed with machetes, guns, and charms who engage in anticrime vigilante activities in the Igbo area, and often are accused of illegal activities and human rights abuses—have the potential to turn into mafias.[13]

Once the demand for mafia services has been sapped, it is also necessary to neutralize the threat posed by the supply. The utmost determination on the part of authorities is a central ingredient of any fight against the mafia. Effective policing makes life difficult for bosses, increases mistrust among

the rank and file, and helps to dislodge deeply entrenched criminal groups. And ultimately any fight against criminal organizations set on using violence on the population cannot get started without the actions of a few dedicated campaigners who risk their lives to bring about a better world. This book is dedicated to them.

Notes

Introduction

1. Shelley 2006, 43.
2. Williams 2001, 71; see also Shelley 1999.
3. Castells 2000, 201.
4. Shelley, Picarelli, and Corpora 2003, 145; see also Veltri and Laudati 2009, 198; CPA 2008.
5. Castells 2000, 168; Barak 2001; Shelley 2006. See also *Newsweek* special report on the "Global Mafia," December 31, 1993.
6. Albrow 1996; Bauman 1998; Beck 1999. For perceptive studies of the connection between globalization, security, and crime, see Nelken 2003; Loader and Walker 2007; Zedner 2009.
7. Reuter 1985, 21–22, 31; Gambetta 1993, 249–51.
8. Gambetta 1993; Chu 2000; Varese 2001; Frye 2002; Hill 2003; Chin 2003, 54–58. See also Dixit 2004.
9. For instance, the pure extortion of film crews has been recorded in Palermo, Hong Kong, and Moscow (see, respectively, Gambetta 2009, 255–56; Chu 2000, 71; *Independent*, November 2, 1995). The shooting of movies is particularly susceptible to extortion because crews work on tight schedules and cannot afford even the smallest delay in production; as they also tend to be from outside, they have no long-term connection with local men of honor (see Gambetta 2009, 256). In some cases, film crews have entered into partnerships with "location agents" who have ensured a safe production schedule, presumably because they enjoy long-term connections with the local mafiosi.

10. Extortion is often confused with other phenomena, such as the imposition of a tribute and overcharging for a service. Failing to appreciate that protection is subject to economies of scale generates the first confusion. If a group has the resources to protect client X and scare that person's enemies away, the same group must have all the qualities it takes to protect other people as well. This leads protectors to impose their protection on others. Just as states impose their protection on their subjects, so do mafias, although it does not follow that the service provided is bogus. Failing to appreciate that protection is also a natural monopoly leads to the second confusion. Since protectors are monopolists, they will charge a monopoly price and obtain a monopoly profit. Just as states charge more for their protection services than it costs to produce them, so do mafias. For a broader discussion of the economics of protection, see Lane 1958.

11. For parallels between state action and mafia behavior, see Tilly 1985.

12. For instances of services supplied by the mafia, see Bell [1953] 1988, 131; Block 1983, 43; Chu 2000, 43–76, 153–54; Gambetta 1993, 93–94, 171–79, 190–92, 197; Sabetti 1984, 90–91; Varese 2001, 69–72, 110–13, 115–17, 119; *New York Times*, August 29, 1999. For discussions of cartel agreement enforcement, see Landesco [1929] 1968; Reuter 1987; Gambetta 1993, 195–225; Gambetta and Reuter 1995. Nonetheless, extortion and protection are closely related in practice. What constitutes extortion and the consequent possible financial ruin for one victim of the mafia may be genuine protection for another. This is exemplified by a story narrated by Catania-boss-turned-state-witness Tonino Calderone. In the mid-1950s he placed a bomb in the chimney of the offices of the Rendo construction company, the main competitors of the Costanzos, who were then protected by his family. "The goal," he writes, "was to do the Costanzo brothers a favour." After the bomb was placed, "the usual phone call asking for money was made," although Calderone had no intention of supplying any genuine service (Arlacchi 1993, 53). What were extortionary demands on the Rendo amounted to protection against competition for the Costanzos. Joe Bonanno (with Lalli 1983, 79) put it best: "What is seen as extortion from the outsider is viewed as self-protection by the insider." From a dynamic perspective, external factors might turn protection into extortion. For instance, the shorter the group's time horizon, the more likely it will harass customers with purely extortionary demands. The view that extortion is the defining feature of the mafia might be a consequence of selection bias in the evidence that filters out from the underworld: extortion is more likely to require the use of violence. In turn, violent conflicts leave behind more evidence and are more easily reported (Gambetta 1993). For a discussion of these themes, see Gambetta 1993 and Varese 2010.

13. A word often used in Italian is colonization (see Massari 2001, 15). Mark Galeotti (2000, 38) calls it "hard" penetration.

Chapter 2: Mafia Transplantation

1. On the data for Russia, see *Itar-TASS*, July 21, 1998; for the `Ndrangheta, see chapter 3.

2. Reuter 1985, 21.

3. Gambetta 1993, 249, 251.

4. Chu 2000, 130; see also Finckenauer and Chin 2006, 23.

5. Hill 2002, 53; see also 2004, 112.

6. Ibid., 111; 2005, 1. For a perceptive study that downplays the presence of the Russian mafia in the Netherlands, see Weenink and van der Laan 2007. The prosecutors Paolo Giovagnoli and Morena Plazzi (R5 and R6) have concluded that a much-hyped case of alleged Russian mafia presence in Rimini amounted to financial improprieties (PRB 2007). See also *New York Times*, September 28, 1999; *La Repubblica*, August 24, 2008.

7. Reuter 1985, 21–22.

8. Ibid., 21–22nn53–54, 21–22n56, 33; Gambetta 1993, 249–51.

9. Arlacchi 1993, 28; Gambetta 1993, 251, 314; see also MA 1937.

10. Sciarrone 1998, 155–212. See, also, Massari 1998.

11. Chin 2003, 200. In this book, I will use the expression "Taiwanese triads," but organized crime groups in Taiwan are normally called *jiaotou*

12. Linter 2004, 93.

13. He 2003, 201–3.

14. Hill 2004, 111–12; see also 2002, 55.

15. See, for example, Bovenkerk 2001; Waldinger 1995; Williams 1995.

16. See, for example, CRP 1983, 54, 68–69; CPA 1994, 854. TT 1990, 32 (quoted in Sciarrone 1998, 123) makes a rather crude link between migration and crime.

17. Gambetta 1993, 251. Monica Massari (2001, 29) mentions the settlement of significant immigrant communities from southern Italy as a factor in explaining the entrenchment of mafia groups in northern Italy.

18. Kefavuer 1951.

19. Massari 2001, 12; Veltri and Laudati 2009, 198; see also TT 1990, 32 (quoted in Sciarrone 1998, 123), claiming that the soggiorno obbligato of Calabresi in the Canavese valleys is partly responsible (along with Calabrian migration) for the increase in crime.

20. Quoted in Massari 2001, 12.

21. For other examples, see, e.g., Sciarrone 1998, 248; Massari 2001, 10–11.

22. Finckenauer and Waring 1998, 112–13; see also Grant 1996. Claire Sterling (1995, 5; see also ibid., 1) instead inflates Ivan'kov's role in the United States, and assumes that he was tasked by the Solntsevskaya to turn "an assortment of

unruly and loosely articulated Russian gangs on American soil into a modern, nation-wide crime corporation," as (she assumes) Lucky Luciano did with the Italian American Mafia.

23. Hill 2004, 112.

24. Glonti and Lobjanidze 2004, 32, 37–38; Kukhianidze 2009, 220.

25. Kukhianidze 2009, 228–29.

26. Chin 2003, 193. Similarly, Dawood Ibrahim, the leader of the Mumbai-based crime group D-Company, was forced to move his operations to Dubai because of continued police crackdowns (Weinstein 2008, 28).

27. Campana 2010.

28. A typology first advanced by John Dunning (1993), and subsequently modified and expanded by Srilata Zaheer and Shalini Manrakhan (2001), focused on "resource-seeking," "market-seeking," and "efficiency-seeking" motivations. See also Dunning 1998, 2000.

29. Zaheer and Manrakhan 2001, 670.

30. Gambetta 1993. In one case, Sicilian mafiosi were forced to replace a Turkish-language translator because he had misconstrued a drug dealer's words, leading the parties involved to believe erroneously that a large debt had already been settled. A Swiss man was urgently brought in to sort out the dangerous misunderstanding (Gambetta 1993, 66).

31. For an instance where a mafia family was not so careful, see US 1988; Pistone and Woodley 1989; Pistone with Brant 2007.

32. Sifakis 1999, 397–98; Raab 2005, 205–6, 703; Pistone and Woodley 1989; Pistone with Brant 2007. A capo (also *caporegime* or captain) in a mafia family is a full member who is in charge of several "soldiers," and reports to the underboss and the boss (Davis 1993; Maas 1997; Raab 2005).

33. CAF 1989; Paoli 1995. In 2007, Calò was acquitted of this murder (*BBC News*, June 6, 2007).

34. Coleman 1990, 302.

35. Putnam 1993, 97, 149. The reason that he offers invokes the distant medieval past, and in particular the republican tradition of the city-states in the North and the Norman centralized, autocratic rule in the South: "Social patterns plainly traceable from early medieval Italy to today turn out to be decisive in explaining why, on the verge of the twenty-first century, some communities are better able than others to manage collective life and sustain effective institutions" (Putnam 1993, 121). An alternative view is that trust can be depleted by intentional strategies and is rather fragile, even in territories where it has flourished for centuries. See Pagden 1987; Doria [1709–10] 1973.

36. Rose-Ackerman 1998, 2001a, 2001b. See also Portes 1998; Farrell 2009.

37. Saviano 2007, 51; Varese 2009, 263.

38. Quoted in Pileggi 1987, 60–61.

39. Quoted in Chin 2003, 197.

40. See Sciarrone 1998, 252, 287.

41. Reuter 1995, 92.

42. Quoted in *Il Corriere della Sera*, July 1, 1998. Similarly, Japanese director Fukasaku Kinji said: "They [the yakuza] liked those movies because it made them look good. It was good for their image" (quoted in Desjardinis 2005, 25). For relevant discussions, see Gambetta 1993, 127–55; Varese 2006b; Gambetta 2009, 251–74.

43. On the possibility principle, see Mahoney and Goertz 2004. On the logic of the comparative method more generally, see the restatement in King, Keohane, and Verba 1994. As a substantive example of such research strategy, see the groundbreaking study by Stathis Kalyvas (2006), in particular his focus on two cases that are similar as far as many variables are concerned, except for one crucial outcome: the level of violence during the civil war in Greece in the 1940s. Papers with a similar design include Posner 2004; Miguel 2004; Varese 2006a.

Chapter 3: The `Ndrangheta in Piedmont and Veneto

1. Quoted in Veltri and Laudati 2009, 148; Sergi 1991, 61.

2. Falcone with Padovani 1993, 109.

3. Ciconte 1992, 5–20; Paoli 2003, 37; Montalto [1940] 1973; *Il Corriere della Sera* February 10, 1978. Court sentences and police reports point to the existence of the `Ndrangheta since the 1870s.

4. CPA 2000, 94; see also CPA 1993b, 700; 2000, 92, 97.

5. Sciarrone 2008, 77. Among the many references on `ndrina, see Ciconte 1992, 20; 1996, 17. Cosca or family are also used. For the origins of the word, see Martino 1988.

6. PRC 1998, quoted in CPA 2000, 95. According to former member Francesco Fonti, "Almost all male inhabitants belong to the `Ndrangheta" in San Luca (quoted in Paoli 2003, 29). On Fonti, see Ciconte 1998, 45–48, 202–28); TT 1996. For evidence of the continuing relevence of the Sanctuary of Our Lady of Polsi, see the investigation reported in *Repubblica* July 14, 2010.

7. Quoted in Paoli 2003, 59.

8. CPA 2000, 94–95. Some evidence on the ability of the crimine to rein in local `ndrine does exist. In one case, the annual meeting deprived the locale of Sant'Eufemia d'Aspromonte of its mafia status because it proved unable to prevent the mourning of a police officer killed in the line of duty, and some `ndranghesti even attended the funeral (CPA 2000, 94). The Apalachin meeting of the Italian American mafia took place on November 14, 1957, in Apalachin, New York.

Some one hundred crime bosses attended. On the many sources for this event, see, for example, Raab 2005.

9. CPA 2000, 96. Letizia Paoli (2003, 32) writes that "though enjoying a high degree of operational independence, these units are considered by their own members and their Calabrian correspondents as belonging for all intents and purposes to the `Ndrangheta."

10. CPA 2000, 98. In the northern Irish conflict 3,700 people were killed between 1969 and 1998, which amounts to 128 deaths per year. The average death in the 1986–91 period in Calabria was 136. Since 1991, violence between different groups has declined considerably (DIA 2002, 85).

11. See CPA 1993b, 704–5; 2000, 98; Paoli 2003, 59. For the earliest evidence, see Ciconte 1992, 118–27.

12. CPA 1993b, 705. The `Ndrangheta is also present in the Calabrian provinces Catanzaro and Cosenza. Paoli (2003, 30) reports that there are eighty-six groups in the same province.

13. CPA 2000, 24, 37; 1993, 702. The prefect of Catanzaro, Francesco Stranges, notes that the sum of money regularly demanded from entrepreneurs by the `Ndrangheta is often small. "The mafiosi, since they are not very greedy, practice extortion at an acceptable level, hence it is difficult to find individuals willing to testify in these cases" (quoted in ibid., 37). Mafiosi themselves have expressed concern with high rates of extortion. In one instance, the head of the mafia family of San Luca, which is considered the repository of "certified" values and rules of this mafia, expressed concern at the excessive demands that the head of the Locri family was imposing on the latter's victims. He was overheard saying: "Do you know why I came here [to meet you]? Totò, be careful—when the human race, the people go against you, you will lose what you have achieved in thirty years! You just lose it! When you destroy the shop of one guy, burn the car of another, the people will rebel!" (quoted in ibid., 38). On the resurgence of severe violence in Reggio Calabria, see *Il Sole 24 Ore*, August 26, 2001.

14. CPA 1993b, 702, 709; 2000, 25–27, 35; Mangano 2010, 33–44.

15. *Deutsche Welle*, August 17, 2007; CPA 2008; Forgione 2009.

16. Quoted in CPA 2000, 92.

17. Paoli 2003, 31. Similarly, Antonio Zagari, also a former member, states that "from their birth . . . the sons of Calabrian men of honour are, by right, considered *giovani d'onore*" (quoted in Paoli 2003, 232).

18. Quoted in CPA 1993b, 700.

19. Ibid., 700–701; Falcone with Padovani 1993, 109; Arlacchi 1983, 137. Usually, members of a ruling blood family rise to the post of boss, although political or military merit plays a role in upward mobility within each unit. Also, the *locali* have developed a complex system of ranks that does not always coincide with kin relationships. See Paoli 2003, 50.

20. CPA 1993b, 700–701; 2000, 13, 101–2.

21. See Allum 2001, 332–33; 2006. Unlike the `Ndrangheta, Camorra groups have no notion of being part of the same entity, although some of them are grouped in cartels (for example, the Alleanza di Secondigliano and the Clan dei Casalesi). Recently, the number of Camorra members who have turned state's witness (pentiti) has risen significantly, when bosses started to turn state witnesses. Such a move has prompted many other family members to turn, surely a strategic and collective decision. For the relevant, more recent data, see CPA 2008, 24. I am grateful to Paolo Campana for a discussion on this point.

22. CPA 2000, 102; see also 1993a, 701.

23. See Ciconte 1996, 160–98; 1998; CPA 2000, 13, 15, 17; Paoli 2003, 32; Veltri and Laudati 2009, 150; Forgione 2009. For Canada and Australia, see Minuti and Nicaso 1994.

24. Quoted in CPA 1993b, 703; see also Massari 2001, 15.

25. For instance, a member tried to buy a bank in Saint Petersburg (CPA 2000, 112). The push to export criminal proceeding is partly due to the fact that Italian authorities are quite successful at confiscating properties and businesses bought by the mafia *in loco*(ibid., 59–60).

26. Information on the town comes from Molino 1996; http://www.bardonecchiasci.it/; TT 1996, 59. The resident populations of Bardonecchia and Cuorgnè were—in 1961 and 1971, respectively—2,667 and 3,081 (Bardonecchia) and 8,211 and 9,334 (Cuorgnè). See ISTAT 1971.

27. The Civic Community Index is based on four indicators: preference voting, referendum turnout, newspaper readership, and the scarcity of sports and cultural associations. Data were collected in the 1970s and 1980s (Putnam 1993, 96–97). The variables that form the historical index are the strength of mass parties, the incidence of cooperatives, membership in mutual aid societies, electoral turnout, and local associations founded before 1860 (ibid., 149–50).

28. CRP 1983, 70–71; ASC-CT 2001, table 1. Overall, in the 1950s and 1960s some four million people migrated from southern to northern Italy. See Bonaguidi 1985; Sonnino 1995.

29. See Gratteri and Nicaso 2006, 185–88; Veltri and Laudati 2009, 206–30; Carlucci and Caruso 2009.

30. CPA 1976, 279–80, 289; Sciarrone 1998, 255–56; Massari 2001, 13. Of the forty-eight individuals who resettled in Turin Province during the period 1970–82 due to soggiorno obbligato, Public Prosecutor Sebastiano Sorbello points out that "none appears to be a significant mafia boss" (quoted in CRP 1983, 55). This judgment possibly indicates that although these criminals were not prominent bosses when they arrived, they became prominent under new conditions, so transplantation could be seen as a ladder for upward mobility.

31. The data are from CRP 1983, 26, and refer to legally obtained construction licenses.

32. CRP 1983, 26.

33. In 1994 alone, the city council collected five billion lira in residential dwelling taxes. Similar increases occurred in the nearby Canavese Valley (Sciarrone 1998, 264; *La Luna Nuova*, November 7, 1995).

34. Sciarrone 1998, 257.

35. B5.

36. Quoted in TT 2002, 19–20.

37. B1.

38. CPA 1976, 279; B2; B3.

39. Quoted in TT 1996, 30.

40. CRP 1983, 24. See also CPA 1976, 280; Sciarrone 1998, 257; Massari 2001, 7.

41. CRP 1983, 25.

42. Sciarrone 1998, 273.

43. CRP 1983, 27, 48; *La Stampa*, November 14, 1995.

44. TT 2002, 21. The witness is Francesco Fonti, a high-profile state witness. Bardonecchia's chief inspector (B2) told me that he had no evidence of any motive other than extortion.

45. The murder of another Calabrese took place in Cuorgnè in August 1978 (CRP 1983, 27).

46. One of the most important state witnesses, Francesco Fonti, testified to this effect (see TT 1996, 8).

47. Quoted in ibid., 9. For other instances, reaching well into the 1990s, see ibid., 32; 2002, 27. Lo Presti himself stated in a phone call that "we are at the source of everything here, do you understand?" (quoted in ibid., 32).

48. PT 1995, 15–17; TT 1996, 15–17; *La Stampa*, October 5, 1994; October 26, 1995; November 14, 1995; November 23, 1998; September 19, 2002; October 31, 2002; Caselli 2003a, 2, 4; *La Stampa*, January 24, 2009; *Cronaca Qui*, January 27, 2009; http://www.sosimpresa.it/news.php?id=7922; Ciccarello 2009. See also Saccomanno 2005, 120–55. Interestingly, the name of Lo Presti has been pirated by lesser criminals banking on the reputation of the "real thing." A *Lucio* Lo Presti, also from southern Italy (although Messina, not Reggio Calabria) tried to collect a million lira from a shopkeeper (*La Stampa*, November 9, 2001).

49. Quoted in TT 2002, 19–20; see also ibid., 24.

50. Sciarrone 1998, 260. Stefano Caselli (2003a) gives a different date (1971) for Mazzaferro's move to Bardonecchia. See also Ciconte 1992, 302.

51. Caselli 2003a. Mazzaferro belongs to the reputed Mazzaferro crime family and acted as the representative of the `Ndrangheta to the provincial commission

of the Sicilian mafia. He was arrested again in 1993 and found guilty of drug trafficking.

52. Sciarrone 1998, 271.

53. PT 1995, 3. An investigation established that Lo Presti directly chose the subcontractors in the Campo Smith development (TT 1996, 28–29). For several instances, see *La Stampa*, November 14, 1995.

54. Quoted in PT 1995, 14.

55. Quoted in TT 1996, 10; 2002, 23 (emphasis added).

56. PT 1995, 15. Lo Presti was never convicted, due to an amnesty. See also CPA 1976, 10.

57. CRP 1983, 26; *La Stampa*, November 14, 1995.

58. CRP 1983, 27, 48.

59. Ibid., 51, 61.

60. *La Stampa*, October 24, 1995.

61. Ibid., October 15, 1995; B2.

62. For instance, Mario Mezzani Mezzacuva, who was running a construction company with offices in Calabria and Cuorgnè, and was a reputed member of the `Ndrangheta, was killed in Calabria in 1985. He had been present at the annual gathering in 1969 at the Sanctuary of Our Lady of Polsi that was raided by police. Two individuals were first wounded and then burned alive in 1996 (*La Stampa*, July 16, 1996). The same article includes a list of unsolved murders in the period 1991–96. On July 14, 1998, two construction workers from Calabria who had previous convictions were murdered in Santa Lucia di Cuorgnè (see CRP 1983, 27; *Il Corriere della Sera*, July 15, 1998).

63. TT 1996, 18–19; *La Luna Nuova*, September 12, 1995; *La Stampa*, November 15, 1995; February 6, 1996; January 17, 2001; October 31, 2002; Caselli 2003a, 3.

64. Caselli 2003a, 4; see also TT 1996, 24. The sentence in 2002 against Lo Presti stresses that the "trial has proved the presence of *omertà* and submission in Bardonecchia and Val Susa" (quoted in Caselli 2003a, 4).

65. PT 1995, 8; TT 1996, 26; *La Stampa*, October 5, 1994; Caselli 2003a, 4.

66. *La Stampa*, October 6, 1996.

67. See ibid., April 29, 1995; September 7, 1995.

68. CRP 1983, 25; *La Stampa*, November 14, 1995. The same level of fear among construction workers was observed in the 1990s by trade unionists interviewed in *La Stampa* (May 3, 1995), and episodes of intimidation continue to be recorded (see, for example, ibid., November 16, 1995).

69. Sciarrone 1998, 257.

70. Direzione Centrale per i Servizi Antidroga, available at http://www.vivoscuola.it/us/geometri-pozzo-trento/droghe/2F/ecstasy/ECSTASY.PDF; http://www.exodus.it/sostanze/ ecstasy/belpaese.htm. For more instances of drugs dealing, see TT 1996, 9–10; 2002, 25. Arms sold illegally in Val Susa were found

in the possession of members of the `Ndrangheta in Calabria (see *La Stampa*, June 7, 1996; June 8, 1996; *La Luna Nuova*, May 1, 1998).

71. *La Luna Nuova*, April 17, 1998.

72. TT 2002, 142–43; B2. There were 414 new residents from 1961 to 1971.

73. PT 1995, 8, 18–19; *La Stampa*, April 30, 1995; November 14, 1995; December 8, 1995.

74. Quoted in TT 1996, 40. See also *La Stampa*, November 15, 1995.

75. Quoted in *La Repubblica*(Turin), October 6, 1994; see also TT 1996, 41; TT 2002, 43; *La Stampa*, April 29, 1995.

76. *La Luna Nuova*, October 7, 1994, quoted in Sciarrone 1998, 268; see also TT 1996, 41.

77. PT 1995; PR 1995; MI 1995; TT 1996, 28; Caselli 2003b; Laudi 2003. Additional information is in *La Stampa*, October 6, 1994; October 25, 1995; November 17, 1995; October 5, 1996.

78. PT 1995, 5; TT 1996, 61–62; see also press reports in *Il Corriere della Sera*, March 16, 1995; April 29, 1995; June 5, 1995; *La Stampa*, April 29, 1995; June 27, 1995; Caselli 2003a, 2. For discussions of law 221/91 utilized to disband city councils due to mafia influence, see Gullotti 2003; Maresco and Serpone 2005; Mete 2007. It should be noted that this legislation has come under criticism since it does not apply to administrative post holders. It only revokes the elected officials and calls for new elections within a relatively short period of time. Up to 1995, this procedure had been used for city councils in Calabria (fourteen), Campania (thirty-six), Sicilia (twenty-four), Apulia (seven), and Basilicata (one).

79. Data on the composition of the local administration are taken from *La Stampa*, November 19, 1996; November 20, 1996; October 20, 1996; December 4, 1996; May 15, 2001; June 6, 2001; *La Luna Nuova*, May 15, 2001. For earlier instances of intimidation against elected opposition officials opposed to development projects, see TT 1996, 27. Within Cuorgnè, Giovanni Iaria has a position similar to that of Lo Presti in Bardonecchia. One significant difference is the distinguished political career that he managed to achieve, rising rapidly through the ranks of the Italian Socialist Party to become the deputy leader of Turin Province in 1988 and being elected to a number of offices in the city council. See *La Stampa*, November 15, 1994; Sciarrone 1998, 264, 255, 276–77.

80. TT 2002, 29; see also ibid., 33.

81. Quoted in *La Stampa*, October 5, 1994; see also *La Luna Nuova*, October 7, 1994.

82. Quoted in *La Stampa*, April 29, 1995; February 4, 1994.

83. *La Repubblica* (Turin), quoted in Sciarrone 1998, 271.

84. *La Stampa*, January 19, 2001.

85. B1.

86. *La Luna Nuova*, February 5, 2010.

87. Quoted in *La Stampa*, April 30, 1995.

88. On the march, see ibid., October 5, 1994; October 9, 1994; April 30, 1995. In 1982, a priest accepted thirty million liras from Lo Presti, promising him that he would influence the outcome of a trial, although he failed to deliver. Ibid., December 30, 1994; July 12, 1996.

89. PSB 1995. Naturally, the reason for such lack of enthusiasm for the Lega's rally might be due to the local population's aversion to this political party. Yet in the European elections of June 12, 1994, the Lega obtained 11.13 percent of the valid votes and was the second party after Forza Italia (47.17 percent). Data available at http://elezionistorico.interno.it/index.php.

90. *La Stampa*, April 30, 1995.

91. Data from http://elezionistorico.interno.it/index.php.

92. See TT 1996, 10, 12; 1997, 13. One Aldo Bertolotto testifies that he traveled back to Palmi to undergo the "formal entry ritual" (TT 1996, 10).

93. Data contained in a 1995 report by the Direzione Investigativa Antimafia (DIA, Antimafia Directorate). See an extensive summary of the 1995 DIA report in *La Stampa*, August 6, 1995.

94. B3; *La Stampa*, November 16, 1995; November 21, 1995; December 2, 1995; Caselli 2003a, 4.

95. B4.

96. *La Stampa*, April 29, 1993; April 4, 1995.

97. B2; TT 2002, 33.

98. Putnam 1993, 97. In fact, both regions obtain the same high score on the Civic Community Index. Veneto achieves the same (high) score in the historical index on civic traditions, 1860–1920 (ibid., 150). The indicators mentioned in the text refer to the period 1980–85. See *Il Mondo*, August 29, 1983; Arlacchi and Lewis 1990, 22–23; Ruggiero and Vass 1992, 282.

99. Brugoli 1985; Gaburro 1985.

100. Arlacchi and Lewis 1990, 33.

101. CV 2001.

102. In 1971, the Veneto region's agriculture sector employed 30 percent of the number it employed at the time of the 1951 census (Anastasia and Tattara 2003; Gaburro 1985, 74). As shown by Anna Maria Birindelli (2004, 240), positive and significant "medium range inter-provincial mobility" affected Verona as well as Vicenza, Treviso, and Padua in the 1960s and 1970s, while other provinces in the Veneto region, most notably Venice and Rovigo, lost population. The unemployment rate was between 4 and 6 percent from the early 1960s to the late 1970s (Anastasia and Tattara 2003).

103. FPCI 1981, 13.

104. *L'Arena di Verona*, February 23, 1974.

105. Generally, on the Veronese neofascists in this period, see FPCI 1981, 30–32. On the Rosa dei Venti investigation, see the several articles that appeared in *L'Arena di Verona* in 1974, especially January 3, 1974 and March 28, 1974. For the investigation into Veronesi linked to the Brescia bombing, see, for example, ibid., June 7, 1974; June 11, 1974; June 20, 1974.

106. FPCI 1981, 11. This number is around ten thousand, according to AFV 1983.

107. *L'Arena di Verona*, April 28, 1974; May 15, 1974; June 13, 1974; July 28, 1974; Pedrini 1979, 5; FPCI 1981, 21–3.

108. Arlacchi and Lewis 1990, 51, 73; V4; see also TV 1987; Fogliata, Carrarini, and Mazzoccoli 1987, 25, 27–28.

109. FPCI 1981, 11, 29.

110. V1. The Interporto Web page is available at http://www.quadranteeuropa.it/en/interporto_en.php.

111. AFV 1983, 67; Facchini 1982, 12; V4.

112. *L'Arena di Verona*, February 17, 1974; *La Repubblica*, February 4, 1988; Arlacchi and Lewis 1990, 15, 59–60, 66.

113. *La Repubblica*, November 4, 1988; Arlacchi and Lewis 1990, 46, 51, 53–54.

114. V3; V4; *L'Arena di Verona*, March 23, 2008.

115. FPCI 1981, 34; *L'Arena di Verona*, January 13, 1974.

116. FPCI 1981, 34–35, 49; *L'Arena di Verona*, June 14, 1974.

117. *L'Arena di Verona*, January 18, 1974; April 1, 1974; May 24, 1974; FPCI 1981, 28; Arlacchi and Lewis 1990, 68.

118. FPCI 1981, 50; V1.

119. CD 1986, 46278; V4.

120. FPCI 1981, 27; Facchini 1982, 13; AFV 1983, 70–71.

121. *L'Arena di Verona*, February 12, 1974; FPCI 1981, 32–35.

122. FPCI 1981, 32–35, 28.

123. *L'Unità*, July 9, 1982; Facchini 1982, 14; AFV 1983, 59–62; V1; V2.

124. CD 1980, 21784; V1; V2; *L'Arena di Verona*, March 23, 2008.

125. *La Repubblica*, February 21, 1980; March 10, 1981; April 22, 1981; *Verona Fedele*, November 30, 1980; FPCI 1981, 14, 86–89; AFV 1983; V1; V2.

126. AFV 1983, 87.

127. Ibid., 78–84, 94–95.

128. FPCI 1981, 73–75.

129. See, for example, *L'Arena di Verona*, February 23, 1974; March 29, 1974.

130. FPCI 1981, 60; *Paese Sera*, March 14, 1981.

131. CD 1980, 21784–85; FPCI 1981, 60; AFV 1983, 15–16, 46, 60; *L'Arena di Verona*, March 22, 1981; *Il Nuovo Veronese*, May 29, 1982; V1.

132. FPCI 1981, 16.

133. Arlacchi and Lewis 1990, 69.

134. *La Repubblica*, February 4, 1988; V3.

135. *L'Arena di Verona*, March 23, 2008.

136. For other examples, see Reuter 1995, 91–92.

137. See remarks by ibid., 1985, 31.

Chapter 4: The Russian Mafia in Rome and Budapest

1. Glenny 2008, 79.

2. "He was arrested twice again—once for racketeering, another time for the murder of a casino owner—but was not convicted" (*New York Times*, January 10, 1999). Glenny (2008, 78–79) puts his arrest at 1986.

3. *Moscow Times*, February 22, 2000. On the Solntsevskaya, see also Modestov 1996; Maksimov 1997; Finckenauer and Waring 1998, 110–14; Galeotti 2000; Varese 2001; Karyshev 2001; Glenny 2008, 78–82, 86–89.

4. *Komsomol'skaya Pravda*, December 4, 1998, cited in Varese 2001, 173–74.

5. On Elson in New York, see Friedman 2000, 19–20. On Ivan'kov, see Finckenauer and Waring 1998, 112–13; Grant 1996.

6. See Kochan 2005, 21–36. The Italian investigation into these bank transfers did not lead to any conviction (PRB 2008).

7. Although hard to believe, such an occurrence is not that rare. In 1969 Lefty Rosenthal, the central character of Martin Scorsese's film *Casino*, was able to throw out an indictment because the attorney general had failed to personally sign the wiretap orders (Pileggi 1996, 13).

8. In short, refugees were not allowed to apply for a visa to the United States in Moscow, so they would leave the USSR with an Israeli visa and then stop in Rome, where they applied for refugee status to enter the United States.

9. During the 1970s some 370,000 people, mostly Soviet Jews, were allowed to leave the USSR (Mynz 1995) .

10. In 1989, more than seven thousand Russians were in Ladispoli and Rome awaiting visas to the United States. Overall, seventy-one thousand Russian Jews applied for refugee status to enter the United States that year. A vivid memoir of this migration to the United States is contained in a book evoking everyday life in Rome in 1989 by Anatoly Rozenblat, *Hello America!*

11. Friedman 2000, 15.

12. *Paese Sera*, February 24, 1977.

13. Friedman 2000, 14.

14. R7; American Jewish Year Book 1991, 128–29; Skolnik 2006, 2:62; Rozenblat 2006.

15. The population in Rome (city) was 2,775,250 in 1991 and 2,663,182 in 2001. In 1995, twenty individuals were recorded as having been born in a former Soviet republic, constituting 0.13 percent of the total population and 5.08 percent of the foreign population of the town. These percentages rose to 0.25 and 8.39, respectively, in 1997, when the group was arrested.

16. SCO 1997a, 16–17.

17. SCO 1997b, 31.

18. Ibid., 31.

19. SCO 1997a, 21, 187; SCO 1997b, 36.

20. SCO 1997a, 47–75.

21. Ibid., 191; 1997c, 31.

22. CPA 1997, 18–19.

23. SCO 1997a, 180; 1997c, 37; CPA 1997, 20.

24. SCO 1997a, 81–96.

25. A third Italian, also married to a Russian woman (*Olga Ferrari*), was *Marco Ferrari*, a petty criminal who both consumed and sold drugs, and was a resident of Margherita Laziale. He became a partner in a company set up in Italy by the group and worked mainly in the area of fictitious marriages.

26. Becucci 2006.

27. SCO 1997a, 93, 120; CPA 1997, 19.

28. SCO 1997a, 85.

29. Ibid., 83; SCO 1997b, 65.

30. For example, one such deal was worth US$300 million (SCO 1997b, 98; see also CPA 1997, 21).

31. SCO 1997b, 110.

32. SCO 1997a, 132, 163–64; SCO 1997c, 40–41.

33. SCO 1997a, 120, 89, 51–52.

34. Ibid., 101.

35. Ibid., 244, 188. On protection as a natural monopoly, see Lane 1958; Nozick 1974.

36. SCO 1997a, 97–102.

37. SCO 1997c, 40.

38. SCO 1997a, 204.

39. Ibid., 24–26, 163–64; CPA 1997, 19. At first, Yakovlev was hesitant about killing Vlasik. In a conversation with Yakovlev, Sidelnikov (one of Yakov's deputies) said he wanted Vlasik killed right away, but Yakovlev demurred: "No, better

talk to him, tell him that he should think twice before deciding to cut loose from his own friends." Sidelnikov agreed. Yakovlev had also planned to kidnap and torture Rostovtsev's secretary (SCO 1997a, 26).

40. See, respectively, ibid., 99, 53.

41. Ibid., 77; see also CPA 1997, 19–20.

42. SCO 1997a, 20.

43. R1.

44. Varese 2006c.

45. R1; R2; R3.

46. Friedman 2000, 240–41. Mikhailov reportedly owns a luxury hotel in Budapest. See Maksimov 1997, 329.

47. *Washington Post*, December 21, 1998; see also Wright 1997, 70.

48. Kwist 1991; *Washington Post*, December 21, 1998; Wright 1997, 70; Guy 1997, 83.

49. Information in this paragraph comes from Urbán 1997, 240; Csáki and Karsai 2001, 5, 66; Sárközy 1993, 243; Kornai 1996.

50. Data from Központi Statisztikai Hivatal (Central Statistics Office), available at http://portal.ksh.hu/pls/ksh/docs/eng/xstadat/xstadat_annual/tabl3_01_01ie.html; http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_eves/tabl3_01_08i.html.

51. Urbán 1997, 243. For pointed criticisms of the early privatization plans and a blueprint for postsocialist transition in Eastern Europe, see Kornai 1990. For a general assessment of the economic transition and political transformation in Hungary, see Kornai 1996; Rose-Ackerman 2007.

52. Csáki and Karsai 2001, 69.

53. Ibid., 71, 72.

54. Ibid., 71; see also Wright 1997, 74.

55. Csáki and Karsai 2001, 71.

56. Ibid., 71; see also Wright 1997, 69.

57. Csáki and Karsai 2001, 72. Alan Wright (1997, 71) claims that in 1992, Hungary was the third-largest money launderer in Europe, and official statistics up to the end of 1996 record no conviction or completed proceedings for money laundering.

58. Csáki and Karsai 2001, 72.

59. Pap 2001; see also Mawby and Wright 2001.

60. The 31 percent estimate is by Mária Lackó (1997) and is based on electric energy consumption in the year 1994. See also Tóth 1997–98; http://rru.www.worldbank.org. According to *Budapest Week* (February 23–29, 1995, quoted in Wright 1997, 74), between 20 and 40 percent of Hungary's half-million unemployed are estimated to be involved in the shadow economy.

61. Mink 1997, 78–79.

62. Furthermore, the international trade embargo against Yugoslavia offered extraordinary profits for smugglers in the southern and eastern cities of the country, such as Miskolc, Kecskemét, and Kiskörös (Mink 1997).

63. Firearms and explosives have also been easily available since the transition to the market. See Wright 1997, 72; especially Nagy 2000.

64. "The Billion Dollar Don," *BBC1 Panorama*, December 6, 1999.

65. See also Wright 1997, 72.

66. *Hetek*, August 1999; *Russian Business Monitor*, September 1, 1999; *Times* (London), August 20, 1999; *RFE/RL Organized Crime and Terrorism Watch*, January 16, 2003; March 13, 2003; *Jane's Intelligence Digest*, January 31, 2003; *St. Petersburg Times*, February 28, 2003; Kupchinsky 2009. Mogilevich bought 95 percent of the Army Co-op through Arigon Ltd. A rare but significant confirmation of the fact that Mogilevich used Solntsevskaya funds for his investments comes from a phone conversation intercepted by the Austrian police and reported in the Italian file on Yakovlev. The conversation, between Averin and Mogilevich, took place in April 1994. The former reminds the latter that he has to return money that he obtained from the group's common fund. The money involved was US$5 million (SCO 1997a, 79). Most notoriously, Mogilevich injected US$30 million from Arigon Ltd. into YBM Magnex International, which merged with Magnex 2000 (Friedman 2000, 249–51).

67. *Moscow Times*, February 22, 2000.

68. Silber and Little 1996, 102–3; Glenny 1996, 103. In any case and for the purpose of this discussion, it is still a well-meaning policy (intended to help an ally at war) that led to the unintended consequence described above.

69. Mink 1997; *CTK Czech News Agency*, November 8, 1999.

70. "The Billion Dollar Don," *BBC1 Panorama*, December 6, 1999.

71. *CTK Czech News Agency*, November 8, 1999; *Index* (Budapest), June 9, 2000.

72. *Hungarian News Agency (MTI)*, September 17, 1998.

73. *Moscow Times*, February 22, 2000.

74. *Hungarian News Agency* (*MTI)*, November 19, 1998.

75. Clodo created a bomb-making facility in Budapest, where bombs later used in the wave of attacks on criminals and businesspeople in the period 1996–98 were produced (*Duna Satellite TV* [BBC Monitoring], November 6, 2000; December 29, 2001).

76. *Heti Világgazdaság*, November 11, 2000. Steigura was also active in the oil market in Budapest (*Világgazdaság*, November 22, 2000).

77. *Hungarian News Agency (MTI)*, November 5, 2003. Mogilevich was arrested in Russia on January 24, 2008 and released a year later (*Moscow Times*, April 7, 2008; *RIA Novosti* July 27, 2009).

78. Available at http://nbh.gov.hu/english/bmenu7.htm.
79. Spaventa 1999.
80. R1.
81. Gambetta 1993, 104.

Chapter 5: Lessons from the Past

1. Gentile [1963] 1993. There is some dispute on the exact year of Gentile's birth. The year 1884 is claimed somewhere, but 1885 is the year that Gentile himself gave, and it is backed by his Federal Narcotics Bureau file and naturalization records (Critchley, personal communication, January 26, 2009 and December 19, 2009).

2. Extracts from the report are in Farrell 1997, 29–30. See also Hess [1973] 1998, 151; Gambetta 1988, 161; 1993, 97.

3. Franchetti [1876] 1993; Gambetta and Reuter 1995, 121–22. The English press favorably reviewed Franchetti's book at the time. See, for example, *Pall Mall Gazette*, February 26, 1877; March 12, 1877; *Birmingham Daily Post*, February 15, 1894; *Times* (London), April 8, 1891. On the official, inconclusive inquiry that preceded Franchetti's trip, see the discussion in *Pall Mall Gazette*, February 26, 1877. Newspaper reports on the existence of such a "vast organization of the dangerous classes" (*New York Times*, September 24, 1874) had been published in London, Manchester, and New York as early as 1874. See, for example, *Times* (London), September 22, 1874; October 7, 1874; October 15, 1874; October 24, 1874; June 9, 1875; June 21, 1875. Consistent with Franchetti's findings is a piece titled "The Sicilian Maffia" published in the *New York Times* on September 24, 1874: the mafia "comprehends noblemen, judges, lawyers, merchants, agriculturists, every grade of life in short." The author perceptively links the mafia's origin to a lack of trust in the government and absentee landlords who rely on daily laborers and live in cities, feeling no connection to the land or their employees.

4. The 1886 book is Alongi [1886] 1977; see also Lupo 1996, 33. On the *Sangiorgi* report, see Lupo 1988, 466–67; 1996, 117; Paoli 2003, 35; Dickie 2007, 100. Defendants for whose trial the report had been written got light sentences and walked free.

5. Baily 1999, 25; see also Eckerson 1966; Goldin 1994, 238; compare to Raab 2005, 24. Immigration into the United States came to a virtual halt in 1929, when the United States introduced stricter immigration quotas.

6. Klein 1983, 311; Baily 1983, 296; 1999, 61; Lankevich 2002, 119, 122. Data on Italian migration to the United States and Argentina are in Baily 1999, 26, 47. For a discussion of why most Italians preferred the United States over Argentina, see Baily 1999, 56.

7. On Lupo, see Critchley 2009, 47. See also the cases of Giovanni Pecoraro and Joseph Palermo, who were both wanted for murder in Palermo (Critchley 2009, 67, 69). On Masseria's arrival, see Nash 1993, 278; Repetto 2004, 105; Cohen 1998, 58. David Critchley (2009) disputes that he was facing a murder charge. The report of the Immigration Commission discusses three Italian police certificates stating that the individuals are considered "mafiosi" by all in their villages of origin (IC 1911, 282). Oddly, Albini (1971, 168), who discusses these data, does not take them to suggest that mafiosi had arrived in the United States.

8. The *Brooklyn Eagle* reported on March 16, 1875 that a letter sent to the Brooklyn police in 1866 alleged that the Deodati executioners were indeed hired in Sicily, and intended to go to Mexico or Canada immediately after committing the deed. The "murder in the woods" was widely reported at the time. See, for example, *Brooklyn Eagle*, June 3, 1865; June 9, 1865; June 10, 1865; June 13, 1865; June 14, 1865; June 16, 1865; June 17, 1865; November 1, 1865; see also Critchley 2009, 38–39. For additional instances, see, for example, Hess [1973] 1998, 163–64; Lupo 1996, 144. Of course, cases of mafiosi running in the other direction are also on record—namely, persons condemned by the U.S. mafia escaping back to Sicily. See Gentile [1963] 1993, 70–71; Arlacchi 1993, 26.

9. Bonanno with Lalli 1983, 52. See also Lupo 1996, 180. For instance, Mori arrested 450 people from the town of Gangi, 300 of whom were accused of harboring mafiosi. A U.S. anthropologist who was doing fieldwork in Milocca, a town of some 2,500 inhabitants, recounts how the people were rounded up and forced to walk, together with their animals, to the village of Mussomeli, where more than 100 were eventually jailed (Gower Chapman 1971, 7–8). Mori was also instrumental in the reduction of licenses to carry guns in Palermo Province—from 25,459 in 1922 to 11,570 in 1923 and 6,224 in 1928 (according data in Mori 1933, 224). Murders dropped from 268 in 1925 to 77 in 1926; see also Hess [1973] 1998, 182–83. This suggests that Mori's campaign was having an effect. Yet other evidence indicates that the mafia was still able to determine who was to undertake construction work in Palermo (MA 1937); see also Mori's reflections (1933, 151–229).

10. Melchiorre Allegra (b. 1881), a doctor practicing in Palermo who had joined the mafia in 1916, declared that in the 1924 elections, mafiosi had planned to support both the democratic and fascist party lists. In the end, they simply sold their votes to the highest bidder. Allegra himself stood for election, with the support of Salvatore Maranzano, who at the time was still in Italy (MA 1937). See also Lupo 1996, 171; Lupo 2008, 44; Critchley 2009, 144; Gambetta 1993, 293fn20.

11. Arlacchi 1993, 41.

12. When Melchiorre Allegra joined the organization in 1916 in Palermo, he was told by his mentors that the "sect, according to them, had powerful ramifications, not just in Sicily, but also in Tunis, the Americas and in some other centres

of the continent such as, for instance, Marseilles" (MA 1937). Calderone's discussion of the Tunis family is in Arlacchi (1992, 15). Bonanno (with Lalli 1983, 55) had an uncle living in Tunis, although he might not have been in the mafia. For other evidence of Italian criminals passing through Tunis, see IC 1911, 284–85. Tunisia—a French protectorate—was, along with the United States and Argentina, a destination of significant Italian migration, mainly from Sicily and Sardinia, at the end of the nineteenth century. At the beginning of the twentieth century, more than a hundred thousand Italians resided in Tunisia (Alberti Russell 1977, 34–37), mostly living in Tunis. In those years, Sicilians made up 72.5 percent of the community's population (Bonura 1929, 59). Buscetta's reference to his boss's escape to France is in Arlacchi 1996, 99.

13. Bonanno with Lalli 1983, 52. One prominent mafioso that reached the United States in this period was Salvatore Maranzano. He arrived in 1925, at age forty-three, and was soon to become the leader of the Schiro (later Bonanno) family in New York.

14. Chandler 1976, 57–58. Compare to Critchley 2009, 208.

15. Lankevich 2002, 112.

16. I am drawing here on ibid., especially 112, 117, 123.

17. Ibid., 124.

18. Turner 1909, 119; see also the influential investigation, *How the Other Half Lives*, by Jacob Riis ([1890] 1970).

19. Cited in Turner 1909, 120.

20. Lankevich 2002, 127, 130; Dash 2007.

21. Nelli 1976, 115; Dash 2007, 33–34; Turner 1909, 117, 119; Czitrom 1991; Lardner and Reppetto 2000, 96–97; Lankevich 2002, 117–18; see also Nelli 1976, 112. The Tammany Hall leader mentioned in the text is Richard Croker: see Dash 2007, 35–6, 367–8.

22. Thomas 1969, 254; Dash 2007, 40, 49; Lardner and Reppetto 2000, 104; Lankevich 2002, 129; see also Anbinder 2001, 228.

23. Cited in Dash 2007, 47, 49. For the information in this paragraph, see especially Thomas 1969, 256, 260–61; Dash 2007, 39, 47, 58; Turner 1909, 119–34; Lankevich 2002, 140; see also Fogelson 1977, 3; Lardner and Reppetto 2000, 95, 97; Anbinder 2001, 228. Each time a police officer arrived in a post, all the brothels, gambling dens, and dubious saloons that operated in their district were forced to pay an "initiation fee," in the region of $500 each. Similar payments were expected whenever an illegal business changed owner or a gambler or madam expanded into a new building. It cost $500 to reopen a brothel or gaming house after a raid (Dash 2007, 65).

24. *New York Times*, February 9, 1900; Dash 2007, 80.

25. This paragraph is based on Dash 2007, 77–80, 383–84.

26. Quoted in Thomas 1969, 261.

27. This paragraph draws on *New York Times*, May 24, 1911; Thomas 1969, 256–57, 261; Lankevich 2002, 141, 147–49; Dash 2007, 94, 117; see also Thomas 1967; Lardner and Reppetto 2000, 102–7. On the 1910s wave of strikes in New York City, see Lankevich 2002, 149; Drehle 2003. Gaynor also established the rule that vacant positions on the police force should be filled by choosing candidates from the top of the civil service eligible list, in strict numerical order.

28. Quoted in Thomas 1969, 411.

29. Ibid., 261–62, 264; Dash 2007, 119.

30. Dash 2007, 120.

31. Ibid., 335; Critchley 2009, 72. It should be noted that other aspects of the criminal justice system were not reformed. For instance, appointments to magistrate's courts continued to be "rewards for party service and favors in return were expected and received" (Block 1983, 33).

32. Quoted in *New York Times*, October 22, 1888.

33. For evidence on early Italian involvement in counterfeiting, see Critchley 2009, 38–39. The Messina gang exposed in 1865 is mentioned in *New York Times*, June 3, 1865; *Brooklyn Eagle*, June 9, 1865; June 10, 1865; June 13, 1865; June 14, 1865; June 17, 1865. On Morello and Lupo, see Asbury [1928] 1998, 248–49; Nelli 1976, 124; Dash 2009. Lupo was also known as Ignazio Saietta (Asbury 1950, 229). Morello was arrested in 1900 for counterfeiting and eventually slain during the Castellammare War in August 1930. On the mafia oath, see FBI 1963, cited in Critchley 2009, 255n95.

34. *New York Times*, October 31, 1909.

35. See *New York Times*, October 14, 1908; October 31, 1909; Asbury [1928] 1998, 248; Selvaggi 1978, 25; Critchley 2009, 101–3. The Terranova brothers had been linked to horse stealing.

36. Raab 2005, 19; Nelli 1976, 69–100; Pitkin and Cordasco 1977; Critchley 2009, 20–35. A reference to the Black Hand appeared for the first time in the U.S. press in 1903, according to Humbert Nelli (1976, 75–76); see also Pitkin and Cordasco 1977, 15–16. Robert Lombardo (2004) concludes that the Black Hand in Chicago was first reported in 1904 and had disappeared by 1920. By 1915, the Black Hand brand had vanished in New York City (Critchley 2009, 33). For a discussion of criminal brands that are pirated, see Smith and Varese 2001; Gambetta 1993.

37. On the 1910s' wave of strikes in New York City, see Lankevich 2002, 149; Drehle 2003. On early mafia involvement in labor disputes, see, for example, *New York Times*, October 12, 1913; Critchley 2009, 23. On Paul Kelly, see Nelli 1976, 109. Other data come from Critchley 2009, 77, 147–48, 151. More gen-

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erally on the role of the mafia in various markets in New York City, see Jacobs, Friel, and Raddick 1999.

38. See Merz 1932; Behr 1997, 82–86; Kerr 1985. Finland enacted similar legislation, leading to the prohibition of alcohol from 1919 to 1928 (Wuorinen 1932). Immigrant communities more likely thought of Prohibition as the product of bigotry and racist sentiments directed against them (Lerner 2007, 3; Bonanno with Lalli 1983, 64). Beer drinking was of course part of life for German American immigrants, "prohibition's first victims" (Behr 1997, 69–71). On enforcement of the legislation, see Wickersham Commission 1931; Sawyer 1932; Asbury 1950, 220; Bonanno with Lalli 1983, 65; Merz 1932, 130–57.

39. On estimates of the market size, see Sinclair 1962, 222; see also Raab 2005, 25.

40. Asbury 1950, 216–64; Carse 1961, 17; Sinclair 1962, 197.

41. *New York Times*, February 4, 1923; Moray 1929, 82–95, 125–30, 179–88; Asbury 1950, 241–64; Carse 1961, 61–81; Sinclair 1962, 198. Liquor was also coming from the West Indies, in particular the Bahamas, Mexico, and Cuba (Asbury 1950, 242; Carse 1961, 17).

42. Asbury 1950, 251.

43. Moray 1929, 211, which adds: "Several raids have been carried out, actually by one of the partners in a rum-runner. One boat about five miles east of us was raided not long ago" (ibid.).

44. Asbury 1950, 250–51; Moray 1929, xiii, 210; Cohen 1998, 53–54; see also Carse 1961, 62.

45. Ashbury 1950, 251.

46. See Cohen 1998, 54–55.

47. See several reports in *New York Times*, October 13, 1920; October 14, 1920; October 15, 1920; October 16, 1920; October 17, 1920; November 14, 1920; November 20, 1920; February 11, 1921; March 22, 1921; March 30, 1921; February 24, 1922; March 21, 1922; May 9, 1922; August 29, 1922; September 17, 1922; November 4, 1922; December 31, 1922). Elizabeth Street, to the left of Bowery and in the heart of the curb exchange area, housed the core of the New York City Sicilian community (Gabaccia 1984). A report in the *New York Times* (August 29, 1922) contains the list and quotes the prices.

48. *New York Times*, October 13, 1920.

49. Ibid.

50. Ibid., March 21, 1921 ("four barrels and six gallons").

51. Ibid., August 29, 1922; see also ibid., October 13, 1920.

52. Ibid., October 13, 1920.

53. Ibid., August 29, 1922; see also November 20, 1920; November 4, 1922.

54. Ibid., April 15, 1913; October 17, 1920; February 11, 1921; February 24, 1922; April 9, 1922; May 9, 1922; Bonanno with Lalli 1983, 85; Critchley 2009, 154–57.

55. Critchley 2009, 155.

56. Asbury 1950, 263; Sinclair 1962, 199; Cohen 1998, 54–55; Critchley 2009, 142–43. See also Repetto 2004, 110. The "Big Seven" was a short-lived cartel of smugglers active along the Atlantic coast bringing in Canadian liquor. There were originally seven groups (hence the Big Seven), but their number grew to about a dozen. The purpose of the Big Seven was to stabilize the price of imported booze. Established in October 1932, the cartel handled some eight thousand cases of rum monthly. But despite its powerful membership, the cartel broke up in spring 1933 (Prohibition ended on December 5, 1933). *New York Times*, April 1, 1939; April 2, 1939; April 11, 1939; Critchley 2009, 142.

57. Bonanno with Lalli 1983, 70, 75; Critchley 2009, 144, 146; see also MA 1937; Lupo 2008, 84. His warehouses stretched across Dutchess County, New York, where Maranzano bought a house. In March 1929, Rocco Germano, one of Maranzano's associates, fired on a liquor truck traveling on Main Street in Poughkeepsie. The truck's driver and friend abandoned the vehicle, which had been stolen in the Bronx. Detectives concluded that the men in the truck had failed to hand over what they owed to Maranzano. A five-thousand-gallon plant was uncovered as a result of the investigation. In the first decade of the twentieth century, New York was the brewing center of the nation (Lankevich 2002, 146), making it easier to continue the production underground.

58. *New York Times*, September 29, 1929, quoted in Lerner 2007, 1.

59. Landesco 1932; Bonanno with Lalli 1983, 85, 93, 126; Sinclair 1962, 221, 223, 230. This does not imply that the Italian mafia was accepting non-Italians after 1931, nor that a unified structure emerged.

60. Bonanno with Lalli 1983, 76. Buscetta, in his testimony to Italian authorities, recalls that "it used to be possible for a man of honor who migrated to the United States to become immediately, by virtue of his position, a member of the American Cosa Nostra" (quoted in Gambetta 1993, 118; see also Arlacchi 1996, 62).

61. As evidence of such letters of reference, see Flynn 1919, 207; see also Buscetta's testimony in Arlacchi 1996, 62. On Gentile's mafia membership, see Critchley 2009, 93, 269n206; Gentile [1963] 1993.

62. I am grateful to David Critchley for his advice. See also Maas 1997, 46.

63. Quoted in MA 1937.

64. Arlacchi 1996, 62, 52; Gambetta 1993, 117–18. Calderone also makes it clear that the two organizations were independent in the postwar period (Arlacchi 1993, 78; see also Critchley 2009, 196, 187; Cressey 1969, 46). A conversa-

tion recorded in Montreal in 1974 between Paul Violi, most likely a Bonanno man and the head of the Montreal family, and a Sicilian who had plans to set himself up in Canada, demonstrates that the Sicilian and North American mafias were two fully separate and independent entities. Violi makes it clear that if a mafioso were to move to Canada, he would be put on a five-year probation, during which he would be assessed "so that everyone can figure out what he is like" (quoted in OSPA Stajano 1992, 59; see also 60). According to Calderone, Violi was instead a member of the Gambino family operating in Canada (Gambetta 1993, 296n41). Yet the Sicilians were not that accurately informed about the membership of the U.S. families (David Critchley, personal communication, December 19, 2009).

65. Critchley 2009, 91; see also Maas [1968] 2003. Relevant examples are George Barone, Sammy the Bull Gravano, and John Gotti. Still, some mainland Italians like Genovese and Anastasia had been admitted into the New York City mafia during the 1920s, before the Castellammare War. Buscetta claims that even Jews and Irish had been admitted at the height of the Castellammare War—a move that was kept secret for several years (Arlacchi 1996, 164). Generally, criminal groups try to increase their ranks in times of war (see, for example, the case of British street gangs in Yearwood and Hayes 2000, 16; Densley 2009, 6).

66. See, for example, Lupsha 1986, 44; Gambetta 1993, 252.

67. Nelli 1976, 122.

68. Carrasco 1886; Baily 1983, 1999; Gallo 1983; Devoto 1993.

69. Klein 1983, 311; Baily 1983, 296; 1999, 61; Rosoli 1978.

70. Cacopardo and Moreno 1985; Frid de Silberstein 1994.

71. Johns 1991, 491–92; Frid de Silberstein 1993, 133; Gallo 1983; Lanciotti 2004.

72. Carina Frid de Silberstein, personal communication, January 31, 2010.

73. Information presented in this section comes from Frid de Silberstein 1992; 1993, 130, 141–43; 1994; Johns 1994. Chiavari and Lavagna in Liguria were the hub of the first wave of Italian migration to Rosario. The city is famous in Italy for the heartbreaking story of a Genovese child who had gone in search of his mother all the way to Rosario, narrated in De Amicis's *Il Libro Cuore*([1886] 2001). The city is also the birthplace of Ernesto "Che" Guevara (Anderson 1997, 3–9).

74. Frid de Silberstein 1994, 509, 512; personal communication, January 31, 2010. Frid de Silberstein's estimate is based on the number of Agrigentani that are mentioned in marriage records between 1900 and 1905 in six districts of the city (N 234 in this period). After applying a coefficient of 4 (a rather conservative one to estimate the average family unit), we get a figure of 936. This figure most likely still underrepresents the total number of Agrigentani who immigrated to Rosario in the first decade of the twentieth century since it is based on civil

marriages only for those five years (ibid., personal communication, January 31, 2010; see also Mormino and Pozzetta 1998).

75. Aguirre 2000, 74, 191; Rossi 2003, 148. Although Rosario was referred to as the Chicago Argentina, the origin of such a name refers to the workers who were killed during a strike in Chicago in 1886. Other historians suggest that the Chicago Argentina refers to the leading position of Rosario as a grain market and grain port (still nowadays, Chicago's Grain Stock Exchange does not close its daily blackboard prices until Rosario's prices are delivered). It was soon used to refer to its criminal reputation (Rossi 2003, 171; Aguirre 2006). Mafia activities were also reported in Andean provinces (San Juan) and to the north of Argentina (La Rioja, Salta, and Santiago del Estero). The Catanesi mentioned in the text were from Regalbuto, Mineo, and San Filippo. Cuffaro is also the last name of a Raffadali mafia boss in the 1970s, Giuseppe Cuffaro.

76. For the press dubbing Galiffi a local Al Capone, see, for example, "Como en Chicago, Contra Al Capone," *Crítica*, October 9, 1932; February 27, 1933. Data on his life are in Caimari 2007, 19; Aguirre 2000, 173–215; Rossi 2003, 149.

77. MHPR 1938a. Samburgo confessed in 1938 before the Comisario de Investigaciones Teodoro Alemán while he was imprisoned at the Penitenciaría Nacional in Buenos Aires.

78. New arrivals pushed out of Sicily by Mussolini included Romeo Capuani, Felipe Campeoni, Santos Gerardo, and Juan D'Angelo. Data on Marrone's life and criminal activities are in MHPR 1938a, folio 122; 1938b, folio 198. The Spanish version of the mafia titles recorded in the judicial documents are "Jefes, sub-jefes, jefes de grupo, consejeros."

79. Alvarez 1943, 14, quoted in Johns 1991, 491. This paragraph draws on Johns 1991, 490–91. See also Gallo 1976, 5–23.

80. Johns 1991, 499.

81. Ibid., 495–46, 498, 507; Gallo 1970; 1983, 166–67. Data on large Italian land properties are also in Frid de Silberstein 1993, 139 (for example, Castagnigno and Pignasco, seventeen thousand hectares). As for manufacturing, the Refinería Argentina, employing eight hundred workers between 1894 and 1920, was the main producer of refined sugar and alcohol in the country (ibid., 152).

82. The words by Ricardo Caballero are quoted in Karush 1999, 597–58. See Gallo 1983; Johns 1991, 494; Thompson 1984; Hasbrouck 1935.

83. Palacio 2004.

84. Johns 1991, 500; Lanciotti 2004. More than a fourth of the population lived in tenements.

85. Lanciotti 2009, 229, 231–32, 189. By 1913, the construction market started to contract.

86. Although I have data for the value of each projects (with some gaps), it should be noted that the owners had an incentive to underreport the cost of the work for tax purposes.

87. Pendino worked in construction between the early 1880s to at least 1910. Frid de Silberstein 1991, 182–90; Aguirre 2000, 47–49.

88. The level of violence was lower in Rosario, although instances are on record. In the local newspaper *El Municipio*, eight reports of robbery of construction machinery and tools are mentioned between August 1909 and July 1910.

89. In Rosario, the number of firms obtaining permits between 1905 and 1909 stood at 172, while in Bardonecchia, in the boom periods 1965–69 and 1970–74, the equivalent figures were 42 and 49, respectively.

90. On the rural folk, see Johns 1991, 501. As documented by Norma Lanciotti (2009, 156–57), a significant number of real estate investors were themselves landowners (22.54 percent in the 1885–95 period and 15.85 percent in the 1896–1914 period of the total investors identified [N 213]).

91. The defendant was a Carlos Cacciato. MHPR 1939. In another court file, Pendino is described by a defendant as a man "who was respected among his countrymen due to the fact that he always tried to help them" (MHPR 1938b, folio 97).

92. Frid de Silberstein 1991, 182–90; Aguirre 2000, 159. For the 1899 police document, see PR 1899; Revista Órgano Oficial de la Policía del Rosario (Rosario: Imprenta La Minerva, 1924). The shopkeeper mentioned in the text was Vicente Puteti (Aguirre 2000, 86). Puteti was the owner of a small grocery store along the *pampa gringa* (agricultural countryside) that performed a distinctive social function. Such stores provided credit to tenants (*arrendatarios*); they became a key source of information for both tenants and landowners since they usually gathered information on potential work qualifications, knowledge of techniques of agriculture, and capital of the prospective arrendatarios.

93. The victim was Dr. Enzo Bordhabere.

94. Frid 1993; Malamud 1997. The Liga del Sur's political platform included the reform of the electoral system in Argentina. It also supported the extension of citizenship to immigrants. See Gandolfo 1991.

95. Aguirre 2000, 88–89. Other victims of the Mano Negra were Jose Castiglione and Mariano Giangrecco. The Catanese gang was composed of Gaetano Pergola, José Perola, and José Costanzo, all born in Galliano (ibid., 89–91). The gang had attacked, among others, Martiré and Castiglione. Contrary to what Nelli (1969, 379) claims, Argentina did experience the phenomenon of the Black Hand.

96. Aguirre 2000, 122.

97. Aguirre 2000, 296; Caimari 2007, 5. In the 1910s, see the case of a boy, Juan Vicente Parisi, the son of a coal merchant, who was snatched from his parents

in 1915. In 1916, the group led by José Cuffaro successfully organized the kidnapping of Antonio Moressi, a carriage driver (other cases took place throughout 1916). In the 1930s, see the cases of F. Andueza (1931) and the son of the trader Julio Nannini (1932). The kidnapping of a respected Jewish doctor, Jaime Favelukes (1932), and that of another professional, Marcelo Martin (1933), shocked the nation. On the Favelukes's kidnapping, see, for example, *El Mundo*, October 8, 1932; October 13, 1932; *La Nación*, October 7, 1932; *Crítica*, October 7, 1932; October 11, 1932. See also Aguirre 2004.

98. A third movie on the case was produced in 1972, titled *La maffia* (Leopoldo Torre Nilsson) (Caimari 2007, 1, 29; Blanco Pazos and Clemente 2004, 12). The Senate approved the new framework for the Criminal Code in 1933. The death penalty had been abolished in 1922. On rumors regarding the case, see *Crítica*, October 19, 1932; December 14, 1932; December 29, 1932. On the funeral, see *La Nación*, February 24, 1933; Caimari 2007, 6–8. On the kidnappers, see Aguirre 2000, 360; Rossi 2003, 149.

99. *Time Magazine*, May 29, 1944; Zinni 1975, 161–80; Goris 1999; Aguirre 2000, 382–402; Rossi 2003, 147, 150–51. Despite the significant role of Italian crime in Rosario, Italians did not control some of the key criminal markets. For instance, prostitution and the trafficking of women from Eastern Europe was controlled by the Zwi Migdal gang, staffed by Polish criminals of Jewish origin (brothels in Buenos Aires also utilized women trafficked from Eastern Europe and were controlled by "Jewish" criminals). In the aftermath of a trial that decimated the Zwi Migdal in 1931, however, Italians extended their reach to some local brothels. Guy 1991; Rossi 2003, 171.

Chapter 6: The Future of the Mafias?

1. By China, I am referring to mainland China. For the purpose of this chapter, I also use the name "Burma" to refer to the state now officially called the Union of Myanmar. For data on foreign investments in China, see Hsing 1998, 3, 8, 21.

2. Chin 2003, 203; Ngai 2005, 38–39; Goldman 2006, 413.

3. Information in this paragraph comes from Druijven 1993, 151; Hsing 1998, 3, 4, 8, 15, 19–21, 25; Li 1996, 12; Boardman 2005; Bosworth and Collins 2008. The registered economic growth rate for Shenzhen and Zhuhai during 1978–84 averaged 9.5 percent annually. Approximately 75 percent of manufacturing workers had been laid off within less than ten years. In 1985 alone, the armed forces were reduced by over one million individuals. The personnel of the national army went from 4.238 million in 1987 to 3.199 million in 1990. The 1.039 million demobilized soldiers during the first round of disarmament represented 24.5 percent of the army's original strength. The second round of cuts in the strength of

the army started in 1997, when some 700,000 soldiers were made redundant from 1997 to 2003. Most of the redundant soldiers were posted in the northeast (Information Office of the State Council 2005; Zheng 2005; Chan 2002).

4. Tuñón 2006, 5, 6, 8; Hsing 1998, 9; Deshingkar 2006, 8; Zheng 2009, 5; Chang 2008, 12; Jian and Zhang 2005; Wang 2006, 186; see also Wu and Treiman 2004; Mallee 1995. Two hundred million is a 2006 estimate. Internal migration was made possible by the reform of the *hukou* system of internal registration. A clear discussion of definitional problems of the terms "migrant workers" and "agricultural workers" is in Wang 2006. In Beijing and Shanghai, migrants make up a quarter of the population (*Nanfang Daily* January 11, 2003). Guangdong is one of migrant workers' primary choices, accommodating 35 percent of the total migrant workers in China in 2003. The influx of migrant workers altered the demographic composition of Guangdong. The province officially became the most populous in China in January 2005, with a population totaling 110 million, of which 72 percent were registered permanent residents and 28 percent were migrants from other provinces (*China Daily*, January 29, 2005). Shenzhen has been transformed into "a city of migrants," where 82.1 percent of the total population is composed of people from other provinces (Liu 2004). "In 1995, the number of recorded criminal cases in Guangdong accounted for 10 percent of the national total, whilst the recorded major and serious cases represented 16.7 percent" (Chong and Pu 1997, 252). Official statistics indicated that more than 60 percent of the crimes were committed by nonpermanent local residents, which caused an economic loss of 3.36 billion yuan. The situation was echoed in the statistics revealed by the Ministry of Public Security regarding the crimes in Guangzhou and Shenzhen. In 1994, the crimes committed by the migrant population represented 69.2 percent of the total in Guangzhou; the figure was 97 percent in Shenzhen (Feng 2001, 127). See also People's Government of Guangdong 2006.

5. C10; see also Hershatter 1997, 338; *Telegraph*, August 27, 2000; Ngai 2005, 180; *Sunday Times*, October 22, 2006.

6. He 2002, 353–54.

7. He 2002, 137.

8. Ibid., 136; *Yangcheng Evening Paper*, April 20, 2000; He 2003, 30, 256–57; Liu, Zhao, and Su 2005; Chu 2000, 131. The ransom was for 1.038 billion yuan (US$1.300 million). The Zhazhi ritual is a triad ceremony for the promotion of members. A Blue Lantern is medium-level rank in a triad society, the equivalent of a gang leader, while a Red Pole is the equivalent of an Area Boss (Chu 2000, 28). "The Shenzhen Public Security Bureau arrested over 300 members that were newly recruited by these triads. Liao Tiansong, head of Hong Kong 'Victory' issued a directive to his new members in Shenzhen, stating, 'Stand your ground in Shenzhen, keep growing and wait for the chance to do big things'" (He 2002, 353).

9. Chin 2003, 169.

10. He 2002, 137.

11. Chin 2003, 6–7, 168–72, 202–3, 205, 223; He 2002, 137. As a Taiwanese investor put it, "We speak the same language and enjoy the same food!" (Hsing 1998, 3). Bamboo United was created in 1956 and remains to this day the biggest mafia group in Taiwan (estimates put the membership at ten thousand). In the 1960s, the gang was restructured into five branches. Over the next twenty years the branches grew in number. By 1983, eighteen branches (*tang*) had been established. As a testament to the international reach of the group, in 1982 an overseas branch (Chao Tang) was formally opened in Hong Kong, the only one outside Taiwan, although some members are said to operate in the United States, the Philippines, and Japan (Chin 2003, 33–34).

12. Chin 2003, 171–72, 202–3; He 2002; Chu 2000, 132; *Washington Post*, December 31, 2000. Some also went to Cambodia.

13. C8; He 2002, 139–40; Chu 2000, 132; Chin 2003, 202, 204; see also Kong 2004. On the 14K triad group, see Morgan 1960, 79–88; Chu 2000.

14. Morgan 1960; Chin and Godson 2006, 7.

15. He 2003; Zhang 2006; Li and Ke 2006; Kang Kang 1998.

16. He 2003, 116–17.

17. C5.

18. Ngai 2005, 1; see also Jiang and Fu 2006; "The Seventh Day," Channel 7, Beijing Television, February 4, 2007 available at at http://www.btv.org/btvweb/sh/2007-02/06/content_153538.htm. For details of the 2003 survey, see *Far Eastern Economic Review*January 22, 2004. Ching Kwan Lee (2007, 110), the author of a groundbreaking ethnography of labor disputes in China's Sunbelt, has concluded that the violation of labor rights and entitlements is "endemic." It is still too early to assess the effects of the introduction of the new Labor Contract Law on January 1, 2008 (available at http://www.bjreview.com.cn/document/txt/2007-10/16/content_80896.htm). On the low quality and unevenness of intellectual property rights enforcement in China, see the important study by Martin Dimitrov (2009).

19. Quoted in *Jiancha Daily* May 16, 2007.

20. Quoted in Zheng and Xia 2006.

21. Quote from Chin and Godson 2006, 24–25. In a survey of 288 judges published in 1998, none regarded the jurisdiction of courts as completely independent, while 124 of them (43.1 percent) believed that judicial independence had not been achieved in China (Jiang 2004, 5).

22. For data mentioned in this paragraph, see Jiang 2004, 6–7, 9–11, 23–26; 2006, 200. Jiang (2004, 7n32) notes that "the quota [of decisions enforced by courts] could even be lower in reality as some pending cases were considered to be

settled due to long delay." He adds: "In several interviews, lawyers even reported that only around 20% of the judgments can be successfully enforced, and it is believed that the average rate of successful enforcement in all the courts is supposed to be 25–30%" (ibid., 36). In a poll conducted by the China Commercial Press just before the assembly of the People's Congress in December 2002, 91 percent of the respondents said that they were not confident in the judiciary and were pessimistic about "access to justice" (ibid., 1). Another distinctive feature of the court system in China that delays decisions is the presence of a "trial committee" that oversees each judge's decision (ibid., 8).

23. Tuñón 2006, 10–11; *Jinan Daily* March 10, 2005; *CSR Asia Weekly* 1 (week 11): 10; Druijven 1993, 148; Pan 2008.

24. C10.

25. C7.

26. Chin and Godson 2006; Tian 2001, cited in Chin and Godson 2006, 6; see also Glenny 2008, 364.

27. Varese 2001, 59–72.

28. Forward-looking officials channel bribes to their children living abroad (Glenny 2008).

29. C11.

30. *Jiancha Daily*, May 16, 2007, available at http://www.jcrb.com/200706/ca608419.htm. On the accumulation of bad debts in the banking system, see Shih 2004.

31. Yuan and the other three debt collectors were convicted for using extortion and violence to recover debts (*Jiancha Daily* May 16, 2007).

32. In 2000, the Ministry of Public Security along with the Administrative Department for Industry and Commerce proscribed by formal decree the operation of debt-collection companies, and forbade the establishment of such companies by any institution or person. In 2002, the Trademark Office of the Administrative Department for Industry and Commerce adjusted the scope of trademark registration. The department lifted restrictions on "detective companies" and "private bodyguards," but still strictly forbade the operation of debt-collection companies (ibid.).

33. Quoted in ibid.

34. Quoted in ibid.

35. Respectively, six out of ten and twelve out of fifteen cases. Seven of the ten cases listed as dispute settlement are also involved in debt collection, so there is significant overlap between the two categories.

36. He 2003, 133–37.

37. Quoted in Chin 2003, 206–7.

38. *New York Times*, March 25, 2007; Bruck 2008, 45; *Xinhua*, March 28, 2005; *Weekly Standard*, May 7–8, 2005; *CCTV Online*, May 12, 2006; *China*

Daily, June 17, 2004. Since Chinese nationals need a special permit to travel to Macau, this increase reflects a deliberate policy on the part of the government as well as an increase in the number of wealthy Chinese (Bruck 2008, 45). The *Standard* (October 2, 2009) reports that Guangdong residents may now apply for a visa every month, rather than every two or three months, as in the past.

39. Quoted in http://a2zmacau.com/macau-casino/combating-crime-in-macau/.

40. See Lo 2005; *South China Morning Post*, December 20, 2000. The official data cited in the text refer to 2004, available at http://www.pj.gov.mo/1024/pj_en/magazine_en.htm. There were 917 illicit activities related to gaming in 2006—only 4 more cases than in 2005. Of these, 164 cases involved loan sharking (4 more than in 2005) and 79 cases involved gambling chips theft (3 more than the previous year).

41. For an insider's account of how high rollers are lured on to the tables in casinos in Las Vegas, see Castleman 2009.

42. C6; SCBC 2003a, 2003b; Wang and Eadington 2008, 241; Siu and Eadington 2009; Godinho 2006; Leong 2002. A recent development is the creation of consortia of VIP room contractors and junket operators with the aim of increasing bargaining powers vis-à-vis the casinos. See https://rp1.tss.db.com/dbdr/publication/PressRel/4602_NOV112007100351PM.pdf; *Business Wire*, January 14, 2009; Wang and Eadington 2008, 251. The western casinos are the Las Vegas Sands, Wynn Resorts, PBL Melco, Galaxy, and MGM.

43. Wang and Eadington 2008, 250.

44. C6. The business of lending money to high rollers is known as the *dupma* business (SCBC 2003a). A case at the center of the Supreme Court of British Columbia involves a Guangzhou resident who failed to repay his debt and was pursued by the creditors. In some cases, lenders have "accounts" at more than one casino (SCBC 2003b). Law 5/2004 allows for operators to collect the debt in Macau courts, although, write Wuyi Wang and William Eadington (2008, 249), these debts are "neither legal nor illegal," and suggest that extralegal efforts to recover the debts are the most common. Jorge Godinho (2006) points out that after the passing of the 2004 law, it is not possible to enforce gaming debts arising in Macau in mainland China.

45. This average is based on data in Wang and Eadington 2008, 256.

46. He 2003, 31–35; Li and Ke 2006, 51.

47. He 2003, 81–85.

48. C2.

49. C1.

50. Ibid.; *China News Website*, April 9, 2003; He 2003, 82–85.

51. C1; *China News Website*, April 9, 2003; He 2003, 82–85. Gambling venues exist also across China, and local crime groups make sure debts are honored. For instance, Mr. Lifeng Tang ran a gang in Ruzhou, Henan Province, whose members had to wear black suits and were paid a monthly wage. This gang controlled the gambling and entertainment sector of the city, collected debts, and even extended its influence over the election of town elders. The members were arrested in 1999, after only one year of operation.

52. Quoted in Chin 2003, 207.

53. See http://mitchmoxley.ca/index.php?option=com_content&view=article&id=9.

54. C6. I also draw upon a video posted on YouTube titled "18 dance and parade."

55. Hershatter 1997, 304; Jeffreys 2004, 96; Zheng 2007, 125.

56. Hershatter 1997, 331, 333–34, table 2; Jeffreys 2004, 97, 168–69; Gil et al. 1994; Zheng 2007, 126; 2009, 3–4, 55, 66; C12. The one trillion yuan estimate refers to 1999. Gail Hershatter (1997) points out that prostitution never completely disappeared.

57. See article 358, Criminal Code of the People's Republic of China, 1998; see also discussion in Jeffreys 2004, 138–49; Zheng 2009, 69; compare to Jeffreys 2004, 151, 157. The lower bound for convicted offenders is five years in prison. Death sentences are usually imposed when some other aggravating factors are present, such as bribery and the use of violence. See, for example, the case of Zhang Fengxiang (*Beijing Fazhi Ribao*, August 26, 2003). Criminal charges would be brought against customers or workers who knowingly transmit sexual diseases or engaged in sex with minors (Jeffreys 2004, 168–69; Zheng 2007, 133).

58. C12.

59. Quoted in Zheng 2007, 132.

60. Ibid., 132; 2009, 70, 71.

61. *China Daily*, January 23, 2005; see also Chin and Godson 2006, 13–17.

62. Chin and Godson 2006, 17.

63. USDJ 2005. It should be noted that other groups in Burma are involved in the drug business in addition to the Wa. They include the Kokang, Mengla, Kachin, and Shan (Beyrer et al. 2000, 77; Chin 2009, 101, 234).

64. Chin 2009, 1, 3, 9, 75; *Bangkok Times*, December 21, 2003; Swanström 2006, 122. This section is greatly indebted to Ko-lin Chin's remarkable ethnography (2009) of the drug trade in the golden triangle. For estimates of heroin production, see Chin 2009, 8, 9, 86. Burmese poppy cultivation accounts for 90 percent of all southeast Asian opium production (USDS 1998). For various estimates of opium-producing countries, see Chin 1990, 147; Chu 2000, 109; Beyrer

et al. 2000, 76; Zhang and Chin 2003, 473. Some authors link the suppression of the popular uprising in 1988 in Burma to the rise of poppy cultivation (Beyrer et al. 2000, 77, 82).

65. Chin 2009, 4, 9, 44, 83, 89; Swanström 2006, 128.

66. USDJ 2002, 5.

67. Quoted in *Xinhua News Agency*, August 3, 2004. Data in this paragraph are in Beyrer et al. 2000, 78–79; Chin 2009, 112, 117; Chu 2000, 187; Swanström 2006, 122; *People's Daily*, June 27, 2002; *China Daily* June 27, 2002. See also Yunnan Provincial Department of Commerce 2005; the *China Daily*(March 31, 2005) describes a family-run drug smuggling ring operating "in the corridor that runs from Myanmar to Yunnan to Harbin." Hong Kong is the hub for other illegal traffics, such as cigarettes and endangered species. See, for example, Sharma 2003–4, 1–2.

68. Chin 2009, 121; Chu 2000, 187.

69. Chin 2009, 229–30. For similar conclusions, see also Chao Tzang 1993; Milson 2005, both cited in Chin 2009.

70. Chu 2000, 109–14; 2002.

71. C9.

72. See also the discussion of this initiative in Glenny 2008, 389–90.

73. C9.

74. In a recent case, the Italian police proved that the `Ndrangheta had reached an agreement with Chinese smugglers to ensure safe passage through the Gioia Tauro harbor, another port part of the Container Security Initiative (*La Repubblica*, December 22, 2009).

75. Ding 2001; see also *Le Monde*, December 30, 2009.

76. *Times Literary Supplement*, November 27, 2009.

77. See http://www.mckinsey.com/mgi/publications/unleashing_chinese_consumer/index.asp; see also *New Yorker*, December 7, 2009.

Chapter 7: Mafia Origins, Transplantation, and the Paradoxes of Democracy

1. SCO 1997c, 2.

2. Cruz 2010; Arana 2005. Hard state repression helped further shape and strengthen gangs' identities. A large percentage of gang members who came from different areas of El Salvador were held in detention centers organized according to their gang affiliation. Such a policy helped members to meet and coordinate across the country.

3. RCC 2000, 38. More generally on the Camorra in Aberdeen, see Saviano 2007, 259–81; Campana 2010.

4. On the early 1990s viewpoint, see, for example, Hess [1973] 1998; compare to Ruggiero and Vass 1992. A notable exception is the classic inquiry by Leopoldo Franchetti ([1876] 1993).

5. Gambetta 1993; Bandiera 2003.

6. Milhaupt and West 2000; Varese 2003. On disputes over land in the Meiji period, see Brown 1993.

7. Varese 1994, 2001.

8. I am grateful to C3 and C4, both officials in the Hebei Province, for their insights into cases of official corruption and their punishments.

9. The ceteris paribus condition here is crucial. Obviously, in the presence of widespread violence, vote rigging, and electoral fraud, even large constituencies are not safe from manipulation.

10. I refer here to the so-called consolidation movement. Gaynor obtained 250,678 votes (43 percent of the total cast), while his Republican opponent, Otto Bannard, got 177,662 (30 percent). The third candidate, media tycoon William R. Hearst, received 153,843 votes (27 percent). See Thomas 1969, 192; Cerillo 2000; Lankevich 2002, 134, 148.

11. A fictionalized account of the gambler's murder is described by Meyer Wolfsheim in *e Great Gatsby* by F. Scott Fitzgerald ([1925] 1998). I take Becker's innocence from Cohen 2006 and Dash 2007.

12. A parallel exists with protectionist measures in the developing world. For a discussion of how to lift people out of poverty in the developing world, see Collier 2008.

13. Baker 2004.

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B2 Chief inspector, Italian police, Bardonecchia, March 15, 2007.

B3 Maurizio Laudi, deputy district attorney, Turin, May 14, 2007.
B4 Francesco Saccomanno, deputy chief inspector, crime unit, police headquarters, Turin, May 28, 2007.
B5 Giorgio Bortoluzzi, opposition politician, City Council, Bardonecchia, May 17, 2010.
C1 Ministry of Justice official in Zhuhai, Guangdong, June 28, 2008.
C2 Official in Guangdong Department of Justice, Guangzhou, June 28, 2008.
C3 High-ranking prison official, Hebei Province, January 19, 2009.
C4 Official in the mayor's office, Shahe City, Hebei Province, January 20, 2009.
C5 Entrepreneur, Dongguan, September 27, 2009.
C6 Mr. Xin, casino junket operator, Hong Kong, October 3, 2009.
C7 Entrepreneur, Dongguan, October 1, 2009.
C8 Chu Kong, professor, University of Hong Kong, September 23, 2009.
C9 Private security agents, Hong Kong, September 22, 2009.
C10 Taiwanese entrepreneur, Dongguan, September 28, 2009.
C11 Entrepreneur, Shenzhen, September 26, 2009.
C12 Entrepreneur, Guangzhou, September 30, 2009.
R1 Aurelio Galasso, prosecutor, Rome, May 17, 2007.
R2 Police officer in charge of the Yakovev investigation, Rome, May 16, 2007.
R3 Luigi De Ficchy, prosecutor, Rome, May 16, 2007.
R5 Paolo Giovagnoli, prosecutor, Bologna, September 11, 2007.
R6 Morena Plazzi, prosecutor, Bologna, September 11, 2007.
R7 Pier Paolo Mudu, migration expert, Rome, October 18, 2006.
V1 Dino Facchini, former secretary of the Communist Party of Italy, city of Verona, Verona, September 7, 2007.
V2 Guido Papalia, district attorney, Verona, September 13, 2007.
V3 Former chief inspector, Italian police, Verona, September 13, 2007.
V4 Crime reporter, *L'Arena di Verona*, Verona, April 15, 2005.

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* indicates that the name is a pseudonym.

GOV•UK

Guidance

Bid-rigging: advice for public sector procurers

Updated 20 June 2016

Contents

What is bid-rigging?

Why public sector procurers should care about bid-rigging

How to spot suspicious bidding patterns

What can public sector procurers do to reduce the risks of anti-competitive behaviour?

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What is bid-rigging?

Bid-rigging is when suppliers agree to limit competition in the procurement process, thereby denying the customer a fair price. Bid-rigging agreements can take several forms, such as:

- bid rotation – where firms agree to take it in turns to submit the lowest bid
- bid suppression – where one or more firms agree not to bid, or to withdraw their bids
- cover pricing – bidders arrange for one or more of them to submit an artificially high bid, distorting the procurer's impression of the competitive price

Why public sector procurers should care about bid-rigging

Bid-rigging can cost the taxpayer money and can exclude potentially more efficient competitors from the bidding process.

It may also reduce suppliers' incentives to improve quality or innovate.

How to spot suspicious bidding patterns

- bids received at the same time or containing similar or unusual wording
- different bids with identical prices
- bids containing less detail than expected
- the likely bidder failing to submit a bid
- the lowest bidder not taking the contract
- bids that drop on the entry of a new or infrequent bidder
- the successful bidder later subcontracting work to a supplier that submitted a higher bid
- expected discounts suddenly vanishing or other last minute changes
- suspiciously high bids without logical cost differences (for example, delivery distances)
- a bidder that betrays discussions with others or has knowledge of previous bids

What can public sector procurers do to reduce the risks of anti-competitive behaviour?

- look for suspicious bidding patterns, and inform suppliers that you will be looking
- consider requiring bidders to sign non-collusion clauses and/or certificates of independent bids
- avoid tender list management that incentivises firms to bid even if they do not want the work
- share experience with other public sector procurers

Bid-rigging can cost the taxpayer money. Stay aware to the possibility that your suppliers are rigging bids and report any suspicious behaviour to the CMA.

Report a cartel on the Cartels Hotline 020 3738 6888 or email Cartelshotline@cma.gov.uk

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The Evolution of Organized Crime and Labor Racketeering Corruption

Office of Inspector General
U.S. Department of Labor

November 2004

Background

Labor racketeering is the infiltration and/or control of a union or employee benefit plan for personal benefit through illegal, violent, or fraudulent means. Organized crime groups often engage in labor racketeering. However, the types of organized crime groups that engage in labor racketeering and the methods they employ have evolved over time.

Although the government has made strides in the fight against traditional organized crime, new nontraditional organized crime groups have emerged alongside enduring forms of racketeering such as bribery and extortion. The field of organized crime groups has expanded to include new nontraditional, transnational groups from Asia and Eastern Europe among others, in addition to traditional groups like La Cosa Nostra (LCN), known also as the "Mafia."

What remains unchanged is labor racketeering's impact on American workers, employers, and the public through reduced wages and benefits, diminished competitive business opportunities, and increased costs for goods and services.

Although the government has made strides in the fight against traditional organized crime, new groups have emerged.

The Unique Role of the Department of Labor's Office of Inspector General

In addition to the normal investigative activities carried out by all Offices of Inspector General (OIGs), the OIG at the Department of Labor (DOL) has a unique programmatic responsibility for investigating labor racketeering and organized crime influence or control in unions, employee benefit plans, and the workplace.

This statutory mandate is undertaken as part of the Department of Justice's overall attack on organized crime and racketeering activities. Following U.S. Senate hearings in 1978 on DOL's ineffective commitment to the Department of Justice Organized Crime Strike Force's attack on labor racketeering, the Secretary of Labor reassigned the enforcement program to an independent Office of Special Investigations. Later that year, when Congress passed the Inspector General Act, Congress recognized the need to safeguard the independence of DOL's labor racketeering program and placed the enforcement program in the independent Labor OIG.

Within it's jurisdiction the OIG identifies and investigates labor racketeering and corruption in employee benefit plans, labor-management relations, and internal union affairs. Among our successes are the conviction of high-ranking members of the Gambino, Genovese, and Colombo LCN families as well as members of nontraditional organized crime groups.

From October 2003 through September 2004, the OIG's labor racketeering program had 130 open cases involving organized crime groups. In addition, during this time frame, our racketeering investigations resulted in over $36.5 million in monetary accomplishments, including restitutions and forfeitures, plus 260 indictments and 143 convictions.

Crime in the three traditional core areas of labor racketeering-pensions and employee benefit plans, improper labor-management relations, and internal union corruption-persists. The OIG has 359 pending labor racketeering investigations, of which over one-third involve organized crime.

Schemes involving bribery, extortion, deprivation of union rights by violence, and embezzlement used by early racketeers are still employed to abuse the power of unions. This activity is commonly seen in industries with a history of organized crime influence. Internal union affairs cases involving the "big four" international unions, namely the International Brotherhood of Teamsters, Hotel Employees and Restaurant Employees International Union, Laborers International Union of North America, and International Longshoremen's Association (ILA), still make up a significant portion of the OIG's racketeering investigations.

Despite major gains in the fight against organized crime, the influence of LCN continues with strong influence in the northeastern United States, Florida, the northern Midwest, and to a lesser extent other southern and western states. The OIG continues to monitor the efforts of such traditional organized crime groups to reassert control over the big four international unions, which have undergone anticorruption reforms.

Pensions and Employee Benefit Plans

Of the total OIG labor racketeering investigations, nearly 50% involve pensions and employee welfare benefit plans. The vast sums of money involved in this industry make it inherently vulnerable to corruption. According to DOL's Employee Benefits Security Administration, the total of all assets in ERISA-covered pension plans at the end of 1999 was over $4.4 trillion. Pension assets in multi-employer, union-sponsored plans have continued to increase in the past decade, going from approximately $220 billion in 1993 to nearly $400 billion in 1999. These amounts represent the latest figures available.

In 1998, the OIG began targeting pension plan service providers who are controlled or influenced by organized crime or who are retained by pension plans whose sponsors have historically been associated with organized crime or union racketeers. As of September 2004, the OIG's inventory of 94 pension cases included 19 service provider investment activity investigations with plan assets exceeding $1 billion potentially at risk.

OIG investigations have shown that abuses by service providers are particularly egregious because they have the potential for substantial dollar losses, by affecting more than one plan at a time; and because service providers have the opportunity and sophistication to conceal their illegal activity through complexfinancial schemes. The OIG's work in this area has yielded excellent results, for example:

- An attorney for the Indiana Regional Council of Carpenters and a real estate broker pled guilty to charges of conspiracy and making $65,000 in bribe payments to the secretary treasurer of the Regional Council who was also a former trustee of the Northwest District Council of Carpenters Pension Fund to influence the operation of an ERISA employee benefit plan. The attorney admitted to accepting $200,000 in illegal kickbacks, which were made in conjunction with the fund's $10 million purchase of 55 acres of land. The union official also has pled guilty.
- In October 2003, the former president of Teamsters Local 25, who was also a benefit plan trustee, was sentenced to 34 months' incarceration and three years' probation and was ordered to pay a $30,000 fine after pleading guilty to Hobbs Act extortion, conspiracy to embezzle from a benefit program and filing false documents under ERISA. An OIG investigation found that he and another individual conspired to launder the proceeds of a $100,000 extortion payment from representatives of an Ohio-based pharmaceutical corporation. This payment was made in connection with the settlement of a pension fund liability.

Labor-Management Investigations

Labor-management relations cases involve corrupt relationships between management and union officials. Typical labor-management cases range from collusion between representatives of management and corrupt union officials to the use of the threat of "labor problems" to extort money or benefits from employers. Racketeering and the influence of organized crime groups persist in those industries that have traditionally been most vulnerable to organized crime, including the maritime, construction, surface transportation, garment-manufacturing, motion picture production, and gambling and hotel services industries. The OIG employs industry probes to examine labor and management components of such industries to expose corrupt relationships. OIG cases related to the maritime industry, for example, include 21 pending investigations involving the ILA. Significant investigations in this area include the following:

- An investigation of the New York and New Jersey waterfront that resulted in the conviction of the Gambino Crime Family boss and six associates of conspiracy, extortion, money laundering, and gambling.

- An investigation that led to the guilty plea by the acting boss of the Luchese Organized Crime Family. He was found to have extorted money from New York City garment center businesses from the early 1980s through April 1998. He directed the extortion through threatened and actual use of physical injury and economic harm, the disruption of labor peace, and his control over labor unions.

- An investigation that resulted in the sentencing of eight individuals for violations of the RICO statute, extortion in violation of the Hobbs Act, and unlawful labor payments in violation of the Taft-Hartley Act. Those sentenced include members and officials of the International Union of Operating Engineers Locals 14 and 15, as well as members of the Genovese and Colombo Crime Families. The investigation found that the union officials allowed contractors to violate collective bargaining agreements in exchange for kickbacks that they shared with the crime families. The crime families involved also used their influence to obtain membership in the locals for friends and family, as well as preferential job assignments.

Internal Union Affairs

Despite successes in diminishing organized crime influence in the big four international unions, criminal abuse of power involving union finances or property and damage to democratic practices still occur. Indeed, the OIG has seen a three-fold increase in the number of convictions in internal union cases since FY 1998.

The OIG continues to receive specific allegations and intelligence of possible criminal activity involving high-ranking national and local union officials. We continue to identify criminal activity involving kickbacks, unauthorized perks and compensation, no-show jobs, and embezzlement from pension and welfare plans. Three of the big four have been subject to a court-supervised civil RICO monitorship or voluntary internal reform mechanisms, and thus oversight remains necessary. The following are highlights of recent work in this area.

- In July 2004, the international president of the United Transportation Union was sentenced to two years' imprisonment and three years' probation and was ordered to forfeit to the United States $100,000. He pled guilty to labor racketeering conspiracy charges in a scheme to extort bribes from attorneys in exchange for becoming or remaining designated legal counsel for the union, a highly coveted position for attorneys.

- In June 2004, the president of the National Federation of Public and Private Employees and his sister, a former administrative assistant to the union, were convicted on charges including RICO violations and embezzlement of union assets. The investigation found that from 1994 to 2003, the president received almost $500,000 from various employers while simultaneously representing the interests of the federation and a maritime labor union. Additionally, the former administrative assistant embezzled more than $116,000 from the Federation by issuing unauthorized payroll checks. The two also falsified travel and entertainment expense reports, thereby causing the Federation to pay thousands of dollars in personal expenses on their behalf.

Nontraditional Organized Crime Groups and Racketeering Enterprises

According to the Department of Justice, there has been a rapid rise of transnational organized crime groups that are engaging in new criminal enterprises. These nontraditional groups from Asia, Russian, Eastern Europe, and West Africa have engaged in racketeering and other crimes against workers in both union and nonunion environments.

Nontraditional, transnational groups engage in abuses traditionally associated with organized crime including extortion, money laundering, and insurance fraud. They also engage in complex financial schemes, immigration fraud and exploitation of undocumented aliens, and fraud against government benefit programs.

Specifically, OIG investigations have found that nontraditional organized criminal groups are exploiting the Department of Labor's foreign labor certification and Unemployment Insurance (UI) programs.

Fraud Against DOL Foreign Labor Certification Programs

The OIG is concerned that transnational organized crime groups are able to file false labor certifications with possible national security implications. We are seeing labor certification, visa, and related schemes by nontraditional groups. Labor certification fraud cases involve fraudulent applications that are filed with DOL on behalf of fictitious companies or applications using the names of legitimate companies without their knowledge. Immigration attorneys and labor brokers then collect fees up to $30,000 from foreign workers for the fraudulent applications. From October 1, 2003, to September 30, 2004, OIG alien certification cases resulted in 86 indictments and 66 convictions.

Unemployment Insurance Fraud by Organized Crime Groups

Based on recent casework, the OIG is concerned about nontraditional organized crime exploitation of the UI program through the use of identity theft. In one such case, 13 members of a Mexican nontraditional organized crime group were indicted for conspiracy, mail fraud, identity theft, and money laundering in connection with millions of dollars in fraudulent UI claims. The group defrauded four states' UI programs using at least 10,000 stolen identities. From September 1, 2003, through September 30, 2004, OIG UI investigations resulted in $67.6 million in monetary results, 55 indictments, and 43 convictions. Increasingly, our cases involve high-dollar criminal enterprises, as opposed to fraud by individual claimants.

Combating Organized Crime Today

Identifying and combating new forms of racketeering crime and criminals while holding the line against more traditional forms of racketeering is a continuing challenge. For more than two decades, the OIG has worked toward this end in cooperation with the Department of Justice and other entities. With the Federal Bureau of Investigation shifting its focus toward counterterrorism activities, the OIG will play a more critical role than ever in enforcing antiracketeering laws and combating the influence of organized crime in the workplace. In this regard, the OIG coordinates closely with the Justice Department to ensure that OIG investigators have a presence in localities where the need is greatest.

For more information, please contact the OIG at (202) 693-5238 or LaborOIGinfo@oig.dol.gov.

JUSTIA

United States of America, Plaintiff-appellee, v. Raymond Casamayor, Defendant-appellant.united States of America, Plaintiff-appellee, v. Carroll Key, Carol Hardin, Janet Cates, Michael Cates,raymond Casamayor, Russell Barker, John R. Roberts, Buforde. Clark, Michael Alan Clark, Aristides M. Brito, Miguelbrito-williams, Antonio Diaz, Defendants-appellants, 837 F.2d 1509 (11th Cir. 1988)

Full Name: United States of America, Plaintiff-appellee, v. Raymond Casamayor, Defendant-appellant.united States of America, Plaintiff-appellee, v. Carroll Key, Carol Hardin, Janet Cates, Michael... **Show More**

Citation: 837 F.2d 1509

Date: February 23, 1988

U.S. Court of Appeals for the Eleventh Circuit - 837 F.2d 1509 (11th Cir. 1988)

Feb. 23, 1988

Entin, Schwartz, Barbakoff & Schwartz, Stephen A. LeClair, Miami, Fla., for defendant-appellant.

Stanley Marcus, Leon B. Kellner, U.S. Attys., Michael P. Sullivan, Sonia O'Donnell, Asst. U.S. Attys., Miami, Fla., for plaintiff-appellee.

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R.H. Bo Hitchcock, Hitchcock & Cunningham, P.A., John F. O'Donnell, O'Donnell & Lazarus, Fort Lauderdale, Fla., for A. Diaz.

Alan S. Ross, Weiner, Robbins, Tunkey & Ross, P.A., Miami, Fla., for J. Cates.

William R. Tunkey, Weiner, Robbins, Tunkey & Ross, P.A., Miami, Fla., for M. Cates.

Appeals from the United States District Court for the Southern District of Florida.

Before RONEY, Chief Judge, VANCE, Circuit Judge, and PITTMAN[*], Senior District Judge.

PER CURIAM:

This is a RICO case involving jury convictions of three members of the Key West Police Department, and nine co-defendants, who became co-conspirators by supplying cocaine and by protecting cocaine traffickers. On appeal, defendants raised issues concerning: (1) severance; (2) sufficiency of evidence; (3) the Jencks act; (4) evidentiary rulings; (5) jury instructions; (6) jury misconduct; (7) prosecutorial misconduct; and (8) ineffective assistance of counsel. Concluding there was no error in denying a severance, that sufficient evidence supports the convictions, and that the district court committed no reversible error, we affirm.

The superseding indictment upon which defendants were convicted alleged varying degrees of involvement with the Key West Police Department (KWPD), the RICO "enterprise" for purposes of this case. See Racketeer Influenced and Corrupt Organizations, 18 U.S.C.A. Sec. 1961(4). Specifically, the enterprise consisted of Key West Police officers, narcotics traffickers and a Key West attorney.

The defendants were convicted as follows:

A. Raymond Casamayor (the KWPD Chief-of-Detectives):

(1) Racketeering and conspiracy to commit racketeering, in violation of 18 U.S.C.A. Secs. 1962(c), (d), 1963;

(2) Possession and conspiracy to possess with intent to distribute cocaine, in violation of 21 U.S.C.A. Secs. 841(a) (1), 846;

(3) Bribing a witness, in violation of 18 U.S.C.A. Sec. 201(d); and

(4) Tax evasion and filing false tax returns, in violation of 26 U.S.C.A. Secs. 7201, 7206(1).

B. Carroll Key (the KWPD Sergeant of Detectives) and Russell Barker (the KWPD Lieutenant of Detectives):

(1) Racketeering and conspiracy to commit racketeering, in violation of 18 U.S.C.A. Secs. 1962(c), (d), 1963.

C. Carol Hardin (school bus driver and cocaine buyer/seller):

(1) Conspiracy to commit racketeering, in violation of 18 U.S.C.A. Secs. 1962(d), 1963; and

(2) Conspiracy to possess with intent to distribute cocaine, in violation of 21 U.S.C.A. Sec. 846.

(1) Racketeering and conspiracy to commit racketeering, in violation of 18 U.S.C.A. Secs. 1962(c), (d), 1963; and

(2) Conspiracy to possess with intent to distribute cocaine, in violation of 21 U.S.C.A. Sec. 846.

E. Janet Cates, Buford Clark, Antonio Diaz, John R. Roberts and Miguel Brito-Williams, a/k/a Mike Brito (cocaine traffickers):

(1) Racketeering and conspiracy to commit racketeering, in violation of 18 U.S.C.A. Secs. 1962(c), (d), 1963; and

(2) Possession and conspiracy to possess with intent to distribute cocaine, in violation of 21 U.S.C.A. Secs. 841(a) (1), 846.

F. Michael Clark and Aristides M. Brito (cocaine traffickers):

(1) Racketeering and conspiracy to commit racketeering, in violation of 18 U.S.C.A. Secs. 1962(c), (d), 1963;

(2) Possession and conspiracy to possess with intent to distribute cocaine, in violation of 21 U.S.C.A. Secs. 841(a) (1), 846; and

(3) Bribing a witness, in violation of 18 U.S.C.A. Sec. 201(d).

(1) Severance

The district court acted within its broad discretion in denying defendants' requests for severance of offenses and defendants under Rule 14 of the Federal Rules of Criminal Procedure. See also Fed. R. Crim. P. 8. Defendants have not demonstrated the specific and compelling prejudice which is necessary to warrant relief. See United States v. Rivera, 775 F.2d 1559, 1564 (11th Cir. 1985), cert. denied, 475 U.S. 1051, 106 S. Ct. 1275, 89 L. Ed. 2d 582 (1986); United States v. Magdaniel-Mora, 746 F.2d 715, 718 (11th Cir. 1984).

The major argument of the defendants for severance involved the alleged prejudicial spillover effect from the joinder of co-defendant Casamayor's income tax counts with the RICO and narcotics charges. Approximately half of the evidence presented at the three and one-half month trial related to Casamayor's tax counts. The quantity of evidence, however, does not alone constitute specific and compelling prejudice. See United States v. Walker, 720 F.2d 1527, 1533-34 (11th Cir. 1983), cert. denied, 465 U.S. 1108, 104 S. Ct. 1614, 80 L. Ed. 2d 143 (1984). The tax-related charges were included to show that Casamayor must have received bribes because his income and expenses far exceeded that which he earned in his employment with the Key West Police Department and other legitimate sources. That Casamayor received bribes was an important part of the Government's case. A separate trial on Casamayor's tax counts would have resulted in extensive duplication of evidence. See United States v. Zicree, 605 F.2d 1381, 1386 (5th Cir. 1979), modified on other grounds, 609 F.2d 826 (5th Cir.), cert. denied, 445 U.S. 966, 100 S. Ct. 1656, 64 L. Ed. 2d 242 (1980).

The district court's repeated admonitory instructions that the income tax evidence could only be used against defendant Casamayor enabled the jury to separate the evidence relevant to each defendant and render fair and impartial verdicts. See Zicree, 605 F.2d at 1389. As a practical matter, the jury appears to have meticulously sifted the evidence by acquitting two defendants and by acquitting certain defendants of several counts charged in the indictment.

Detective Russell Barker contends that he should have been granted a severance in order to introduce defendant Aristides M. Brito's testimony at a separate trial. On the eve of the trial, Detective Barker submitted co-defendant Brito's affidavit stating, inter alia, that Brito would testify at a separate trial that he neither conspired with Detective Barker nor paid any protection money to Barker. See Byrd v. Wainwright, 428 F.2d 1017 (5th Cir. 1970). The district court concluded, however, that this severance motion and accompanying affidavit were untimely and insufficient to warrant relief. See United States v. Hewes, 729 F.2d 1302, 1320 (11th Cir. 1984), cert. denied, 469 U.S. 1110, 105 S. Ct. 790, 83 L. Ed. 2d 783 (1985). Such a decision is within the trial court's discretion. United States v. Leichtman, 742 F.2d 598, 605 (11th Cir. 1984). In any event, the proffered testimony was cumulative of the testimony of Key and Barker that no bribes were paid to Barker.

Defendant John Roberts has not shown specific and compelling prejudice in the district court's refusal to sever his trial from that of co-defendants Barker and Brito.

Defendant Miguel Brito-Williams contends that he was entitled to a severance from co-defendant, Detective Carroll Key because Key, in pursuing his defense, informed the jury of law enforcement efforts against Brito-Williams. Antagonistic defenses satisfy the compelling prejudice standard if the defenses are irreconcilable and mutually exclusive. United States v. Van Horn, 789 F.2d 1492, 1505 (11th Cir.), cert. denied, --- U.S. ----, 107 S. Ct. 190, 93 L. Ed. 2d 123 (1986). In this case, the defenses were consistent. Brito-Williams' defense that he never bribed Detective Key dovetailed with Key's defense that he never accepted protection money.

(2) Sufficiency of Evidence

Viewing the evidence adduced in this case and the inferences that may be drawn from it in the light most favorable to the Government, the Court concludes that it was sufficient to allow a reasonable trier of fact to find guilt beyond a reasonable doubt of the defendants who contest sufficiency: Michael Cates, Carroll Key, Buford Clark and Marion Russell Barker. See United States v. Bell, 678 F.2d 547, 549 (5th Cir. Unit B 1982) (in banc), aff'd on other grounds, 462 U.S. 356, 103 S. Ct. 2398, 76 L. Ed. 2d 638 (1983). Because the

sufficiency point is especially difficult in the appeal of a protracted, multiple defendant trial, and the time for oral argument for each defendant is so limited, we have studied carefully each brief and the relevant portions of the record. Although not overwhelming as to certain defendants, there was sufficient testimony to support the guilty verdicts, if believed by the jury. In making this determination, the Court is mindful that it is not necessary that the evidence exclude every reasonable hypothesis of innocence or be wholly inconsistent with every conclusion except that of guilt. Id.

(3) The Jencks Act

Casamayor argues that it was error not to declare a mistrial due to the Government's failure to timely produce, pursuant to the Jencks Act, 18 U.S.C.A. Sec. 3500(b), a tape recording in their possession between Government witness Donald Faison and defense witness George Carey immediately upon the completion of Faison's testimony.

On direct examination, Donald Faison testified for the Government that he paid monies to Casamayor through George Carey, an alleged "bag man" for Casamayor, to protect his operations in Key West. Cross-examination by defense counsel sought to show Casamayor's position that Faison's testimony was fabricated. The defense called Carey on direct examination to rebut Faison's testimony. Cross-examination of Carey by the Government included a recorded conversation between Faison and Carey which took place in April, 1983 in which Faison and Carey referred to Casamayor and Carey. The tape was not turned over to defense counsel until the time of Carey's testimony.

The trial court ruled that the material did not fall within the Jencks Act because Faison's direct testimony did not relate to anything on the tape. The Government did not elicit testimony from Faison on direct-examination regarding the conversation he had with Carey in April, 1983. Thus, the tape does not "relate to the subject matter" as to which Faison testified to on direct-examination. 18 U.S.C.A. Sec. 3500(b).

Second,

[t]he purpose of the Jencks Act is to reinforce the credibility of the criminal justice process by requiring the prosecution to furnish the statements of any witness it calls so that the defense can conduct its cross-examination in light of all facts known to the prosecutor and so that the defense is assured that the witness had made no secret contrary statements in the past.

United States v. Head, 586 F.2d 508, 512 (5th Cir. 1978) (emphasis added). Accord United States v. Prieto, 505 F.2d 8, 11 (5th Cir. 1974) ("underlying purpose of Jencks Act ... is

solely to enable the defense to impeach a Government witness by bringing variances [between testimony at trial and pre-trial statements] to the attention of the jury during cross-examination."). This purpose was not undermined here by the tardy production of the tape.

There was no obligation on the part of the Government to produce a non-exculpatory statement of a witness that the defense calls. The tape goes to show that Carey was untruthful either when it was recorded or during his testimony at defendant's trial. In that situation, it was proper for the Government to use it to impeach Carey.

Furthermore, having received the tape at the time of Carey's testimony, defendant could have recalled Faison to challenge him on the tape's contents, which, as indicated, is the primary purpose behind production. Thus, the failure to produce the tape until after Carey testified inconsistently with it did not prejudice defendant's ability to effectively cross-examine Faison.

(4) Evidentiary Rulings

A careful review of the record and arguments concerning each point raised as to the district court's evidentiary and other trial rulings reveals no reversible error.

(a) The taped statements of some of the co-defendants, obtained with a body bug on a co-conspirator who began to cooperate with the Government, were admissible as statements made in furtherance of the conspiracy, even though some co-conspirators had been arrested. The district court correctly found that this was an on-going conspiracy which did not end upon the arrest of some of the co-conspirators. See United States v. Papia, 560 F.2d 827, 835-37 (7th Cir. 1977).

(b) It was not an improper limitation on Carol Hardin's attorney's closing argument to advise counsel that if he pointed out to the jury that the Government did not call a witness in its case-in-chief, the Government in its rebuttal could respond that the defense also could have called the witness. United States v. Ivey, 546 F.2d 139, reh. denied, 550 F.2d 243 (5th Cir.), cert. denied, 431 U.S. 943, 97 S. Ct. 2662, 53 L. Ed. 2d 263 (1977).

(c) Defendant John Roberts has failed to show reversible error in the alleged inconsistent application of the Federal Rules of Evidence, primarily Rule 608(b). Defendant Raymond Casamayor has shown no reversible error on the district court's admission of extrinsic evidence. In ruling on these questions, the law allows the district court broad discretion, and neither defendant has demonstrated any abuse of that discretion. United States v.

Banks, 475 F.2d 1367, 1368 (5th Cir. 1973); United States v. Dinitz, 538 F.2d 1214, 1224 (5th Cir. 1976).

(d) Likewise, defendant Roberts has failed to show any abuse of discretion in the district court's limitation on the cross-examination of Government witnesses Hector Serrano and Herbert Reynolds. See Alford v. United States, 282 U.S. 687, 694, 51 S. Ct. 218, 220, 75 L. Ed. 624 (1931). The discretion afforded the trial court is especially broad when it comes to controlling cross-examination for impeachment purposes. United States v. Burke, 738 F.2d 1225, 1227 (11th Cir. 1984).

(e) There was no plain error in admitting, without objection, the guilty pleas of certain co-conspirators. It was clear through pre-trial motions that the defense counsel would examine these witnesses as to their plea bargains, as they did, so the Government's introducing that evidence did not affect the substantial rights of the defendants. United States v. Cortez, 757 F.2d 1204, 1207 (11th Cir.), cert. denied, 474 U.S. 945, 106 S. Ct. 310, 88 L. Ed. 2d 287 (1985).

(f) The Government correctly argues that the testimony of Gustavo Fernandez related to the charged offenses and was not admitted as prior act testimony under Fed.R.Evid. 404(b). See United States v. Weeks, 716 F.2d 830, 832 (11th Cir. 1983). The testimony of Donald Faison about other similar crimes of Casamayor meets the tests set forth in United States v. Beechum, 582 F.2d 898 (5th Cir. 1978) (in banc), cert. denied, 440 U.S. 920, 99 S. Ct. 1244, 59 L. Ed. 2d 472 (1979), for admission under Fed.R.Evid. 404(b), as does any statement made by the Government in its rebuttal closing argument regarding Diaz.

(g) Kathy Hybarger testified that she had received cocaine from and "did" cocaine with Casamayor. We need not here decide whether the Government is correct in arguing the admissibility of this testimony to rebut the testimony of Casamayor's witness that he was a law-abiding citizen, because the district court later struck the testimony and instructed the jury to disregard it. Under the circumstances, such an instruction was sufficient to cure the error, if any. See United States v. Ruz-Salazar, 764 F.2d 1433, 1437 (11th Cir. 1985).

(h) There was no error in excluding from evidence a tape recording of a conversation between Serrano, the Government witness who cooperated with a body bug, and Marion Russell Barker, which Barker claims would have shown that Barker was not aware of the criminality which Serrano was trying to get him to discuss. The district court could properly determine after reviewing the taped conversation that there was nothing exculpatory in it and that it would have confused the jury. In any event, both Serrano and Barker testified as to the substance of what was in the tape, so that the district court was

well within its discretion in excluding the evidence. See United States v. Collins, 779 F.2d 1520 (11th Cir. 1986).

(5) Jury Instructions

The district court did not commit reversible error in refusing to give defendant Russell Barker's requested jury instruction in connection with the RICO conspiracy count. See 18 U.S.C.A. Sec. 1962. The indictment alleged that Detective Barker committed two acts of bribery chargeable under state law. See Fla.State. Sec. 838.015. The district court instructed the jury on the definition and elements of the Florida bribery statute. Defendant Barker, however, requested the district court to deliver an additional Florida Standard Jury Instruction setting out the specific elements involved in proving a violation of Fla.Stat. Sec. 838.015 when the defendant is a public official accused of accepting a bribe, as distinguished from being a person charged with offering a bribe.

In construing the federal racketeering statutes, this Court has held: [R]eferences to state law serve a definitional purpose, to identify generally the kind of activity made illegal by the federal statute.

United States v. Watchmaker, 761 F.2d 1459, 1469 (11th Cir. 1985), cert. denied, 474 U.S. 1100, 106 S. Ct. 880, 88 L. Ed. 2d 917 (1986); United States v. Salinas, 564 F.2d 688, 690 (5th Cir. 1977), cert. denied, 435 U.S. 951, 98 S. Ct. 1577, 55 L. Ed. 2d 800 (1978). Thus, the district court's charge, which included a definition of Fla.Stat. Sec. 838.015, accurately stated the applicable law. See United States v. Sorrells, 714 F.2d 1522, 1531-32 (11th Cir. 1983). Having adequately charged on the law, the district court did not have to give other requested instructions.

(6) Jury Misconduct

The district court acted within its discretion in denying a Motion For New Trial Based on Non-Disclosure of Material Juror Information challenging jury foreman Peter Cabrera. See United States v. O'Neill, 767 F.2d 780, 785 (11th Cir. 1985). Juror Cabrera had been a trainee at the Key West Police Department for three and one-half months, approximately 23 years before trial, and had met defendant Russell Barker at that time. He did not reveal this fact on voir dire.

In McDonough Power Equipment, Inc. v. Greenwood, 464 U.S. 548, 104 S. Ct. 845, 78 L. Ed. 2d 663 (1984), the Supreme Court established the required review:

[T]o obtain a new trial in such a situation, a party must first demonstrate that a juror failed to answer honestly a material question on voir dire, and then further show that a correct

response would have provided a valid basis for a challenge for cause. The motives for concealing information may vary, but only those reasons that affect a juror's impartiality can truly be said to affect the fairness of a trial.

Id. at 556, 104 S. Ct. at 850. The district court, in addition to holding the motion was untimely, found after a post-trial evidentiary hearing: first, that Cabrera did not deliberately withhold information during voir dire or in his juror questionnaire, but rather his nondisclosure was attributable to "inattentiveness;" and second, that in any event, Cabrera's short probationary tenure with the Key West Police Department 23 years prior to trial did not constitute actual bias to sustain a challenge for cause. The record supports these findings. The facts here clearly would not present a presumption of bias. Cf. United States v. Perkins, 748 F.2d 1519, 1532-33 (11th Cir. 1984). Thus, the defendants have not met either prong of the McDonough standard.

The district court committed no error concerning its handling of alleged improprieties during the jury deliberations. At the post-trial evidentiary hearing regarding foreperson Cabrera, defendants apprised the court that several jurors had sent the United States Magistrate letters which suggested "possible improprieties" during their deliberations. Specifically, defendants indicated that a juror had complained of juror Cabrera's "strong arm tactics." The district court noted that it would request a report from the Magistrate. The defendants did not follow-up on this matter. Defendants, therefore, have failed to adequately preserve this issue on appeal. See e.g., Johnson v. Smith, 696 F.2d 1334, 1338 (11th Cir. 1983). In any event, the alleged harassment or intimidation of one juror by another would not be competent evidence to impeach the verdict under Rule 606(b) of the Federal Rules of Evidence. See United States v. D'Angelo, 598 F.2d 1002, 1004 (5th Cir. 1979); Smith v. Brewer, 444 F. Supp. 482 (S.D. Iowa), aff'd, 577 F.2d 466 (8th Cir.), cert. denied, 439 U.S. 967, 99 S. Ct. 457, 58 L. Ed. 2d 426 (1978); Simmons First Nat'l Bank v. Ford Motor Co., 88 F.R.D. 344 (E.D. Ark. 1980); see also Jacobson v. Henderson, 765 F.2d 12 (2d Cir. 1985).

(7) Prosecutorial Misconduct

Defendant John Roberts argues that his conviction should be reversed because of alleged prosecutorial misconduct in the Government's opening argument, examination of witnesses and rebuttal summation. His brief cites to numerous instances in the record, which we have carefully examined. In the context of the entire trial, the challenged statements and conduct does not merit a reversal of these convictions. See United States v. Esle, 743 F.2d 1465, 1477 (11th Cir. 1984).

For instance, Roberts contends that the Government's opening argument contained a burden-shifting suggestion in the following statement:

An indictment is not evidence. It is the vehicle by which charges are brought in federal court, a vehicle by which the Defendants are called to answer in a criminal trial....

The district court, however, carefully instructed the jury on the point so there could be no misunderstanding that the Government had to prove its case beyond a reasonable doubt.

The indictment is not evidence against the accused and affords no inference of guilt. The Government has the burden of proof to establish guilt beyond a reasonable doubt as to every essential element in the respective counts set forth in the indictment. The Defendants, each of them, is presumed by the law to be innocent. A Defendant is not required to prove his innocence or produce any evidence at all. The Government has the burden of proving him guilty beyond a reasonable doubt and if it fails to do so you must acquit him.

As to the examination of witnesses, the district court continually ruled on objections when made in a way to preserve the integrity of the trial. This trial was presided over by an experienced trial judge who has wide discretion in deciding whether attorney's conduct results in an unfair trial, because of the greater ability of a judge in the courtroom to determine the effect on a jury of such conduct. Defendant has failed to convince us that there was any abuse of discretion in denying a mistrial in this case.

As to the closing argument, the comment objected to appears not to exceed the scope of fair response. The Government did not impermissibly vouch for the veracity of prosecution witnesses.

(8) Ineffective Assistance of Counsel

Defendant Miguel Brito-Williams contends that his retained trial counsel rendered ineffective assistance in violation of his Sixth Amendment rights. Although defendant voiced dissatisfaction with counsel from time-to-time during the trial, no evidentiary hearing on matters occurring outside the courtroom was ever requested or held. Under these circumstances, this Court is precluded from considering Brito-Williams' allegations of counsel's prejudicial performance on this direct appeal. United States v. Griffin, 699 F.2d 1102, 1109 & n. 15 (11th Cir. 1983); United States v. Badolato, 701 F.2d 915, 925-26 (11th Cir. 1983).

Conclusion

A careful review of each defendant's brief and oral argument, and the pertinent parts of the 67 volume record fails to reveal that any conviction appealed is inconsistent with the present applicable law.

AFFIRMED.

Honorable Virgil Pittman, Senior U.S. District Judge for the Southern district of Alabama, sitting by designation

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Politics | Australia

Australian Workers' Union leader Stacey Schinnerl warned she wasn't safe at building site after CFMEU threats

The Queensland head of the Australian Workers' Union was told to stay away from a project targeted by CFMEU because her safety was at risk.

Aaron Patrick
THE NIGHTLY
3 MIN READ · 02 DEC 2025 · UPDATED 02 DEC 2025

1 COMMENTS SAVE

The CFMEU targeted women as part of its attempt to gain control of Queensland construction sites, an inquiry in Brisbane heard. Credit: Darren England/AAP

One of Queensland's most senior union leaders was warned it was not safe for her on a building site because the CFMEU was waging a violent campaign to take control of the project and squeeze out her union.

Australian Workers' Union secretary Stacey Schinnerl was one of several women targeted by the rival Construction, Forestry and Maritime Employees Union when it tried to expand its influence across the state, Queensland Council of Unions head Jacqueline King told an inquiry into the CFMEU Tuesday.

A large construction company that had an agreement with the AWU, BMD Group, tried several times to get the police to intervene when CFMEU officials turned up at BMD building sites, Ms King said in a written statement to the inquiry.

The police refused to get involved because they said it was a matter for the State workplace safety regulator, which the CFMEU had also targeted with a campaign of intimidation against a senior female manager, according to Ms King.

"Ms Schinnerl also told me she had been informed by BMD senior management that they could no longer protect or provide safety to her as the union state secretary to come on to site because they could not control the violence or escalation of incidents that might occur in the future involving the CFMEU," Ms King said.

"I recall Ms Schinnerl had been quite upset about that, because the AWU had an enterprise agreement with BMD and she couldn't access the site with her legal right-of-entry permit."

Turned against

Ms Schinnerl is due to give evidence on Wednesday. Her appearance and Ms King's at an inquiry initiated by the State Liberal-National government suggests the State's top union leaders have turned against the previous leaders of the construction division of the CFMEU, which was placed under the control of an independent lawyer by the federal Labor government last year.

Ms King told the inquiry today the union targeted Kim Bancroft, the deputy director general of the Office of Industrial Relations, who had a been hired from the private sector to improve the safety of building sites.

"The union had a view that they wanted to be able to control her when she went into that job," Ms King said Tuesday morning. "She became almost a captured pawn of just their issues. She was at the union office several times a week, which was unusual.

"When she pulled back from that, the union then adopted what appeared to be a campaign of directly targeting Ms Bancroft. They were texting, emailing and sending phone calls ... and demanding she respond to every compliance mater that the union had within a 24-hour period or else she would be responsible for people dying on work sites.

"She couldn't do her day-to-day job while that was occurring."

Ms Bancroft resigned within 12 months of being appointed.

The CFMEU's previous leaders, Michael Ravbar and Jade Ingham, have not had a chance to respond to any of the allegations in the inquiry although may be called as witnesses next year.

The Nightly does not suggest any wrongdoing on Mr Ravbar or Ms Ingham's part, only that they may be called as witnesses during the inquiry.

Intimidation and violence

So far the inquiry has focused on conflict between the CFMEU and the AWU, which represented many of the workers on large government building sites in Queensland, including railways, train stations and freeways. The inquiry heard the CFMEU wanted to expand from buildings into civil construction and used intimidation and violence to take over sites from the AWU.

In 2023, about a dozen CFMEU members known as the "Youth Crew" surrounded an AWU car and chanted "scab, scab, scab". AWU officials were followed through traffic by men on motorcycles and Ms Schinnerl was verbally abused in front of her young son at a May Day family picnic, the inquiry was told.

In her written statement, which was admitted into evidence at the inquiry under commissioner Stuart Wood KC, Ms King said BMD told her groups of between 30 to 35 men wearing CFMEU clothing gathered daily at the Centenary Bridge project in suburban Brisbane and blocked access to AWU officials.

"They also told me that they had hired a private investigator to investigate who the people were, and that they had been advised that the guys on the picket line were Croatians, most likely associated with John Setka's crew from Melbourne, and that some may have had some connections with bikies," she said in the statement.

"BMD also told me that the investigator had found three trackers on BMD vehicles and that they had concerns for the safety of some of their crew and for the security of the site."

Mr Setka is a former Victoria CFMEU leader who was charged this month with threatening the union's government-appointed administrator, Mark Irving KC.

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CFMEU inquiry hears Workplace Health and Safety Queensland 'captured' and 'weaponised' by union

By Tobi Loftus Unions

Tue 10 Mar 2026 at 1:38pm

The inquiry is examining alleged misconduct within the construction union. *(ABC News: Luke Bowden)*

In short:

The fourth round of hearings as part of the inquiry into alleged misconduct within the Queensland branch of the CFMEU began in Brisbane on Tuesday morning.

Senior counsel assisting Patrick Wheelahan alleged Workplace Health and Safety Queensland became "captured" and "weaponised" by the union when Labor was in government.

What's next?

The inquiry continues, with current and former senior WHSQ personnel set to give evidence this week.

Queensland's workplace health and safety regulator was "captured" by the CFMEU when Labor was last in power in the state, a commission of inquiry into the union has heard.

The fourth round of hearings as part of the probe into alleged misconduct within the construction union began in Brisbane this morning.

Senior counsel assisting Patrick Wheelahan in his opening remarks alleged there was "regulatory capture of Workplace Health and Safety Queensland by the CFMEU during the period that ... Grace Grace was the Minister for Industrial Relations".

He said regulatory capture was "a form of institutional corruption".

Senior counsel assisting Patrick Wheelahan delivered his opening remarks in the CFMEU inquiry in Brisbane on Tuesday. *(ABC News)*

"That is, in this case, Workplace Health and Safety Queensland, whose legitimate objectives are to protect the health, safety and welfare of all individuals affected ... became improperly dominated by the interest of the CFMEU."

It was then "weaponised" by the CFMEU for "illegitimate industrial control purposes" in the construction industry, Mr Wheelahan said.

He said this took many forms over several years.

"Evidence will be put before the commission of firstly improper external pressure by the CFMEU ... by way of example that includes aggressive and intimidatory behaviour towards inspectors while they were performing their duties," he said.

"The alleged outcome of regulatory capture of WHSQ by the CFMEU is that the CFMEU was treated beneficially when compared to other stakeholders."

The fourth round of hearings into the Queensland branch of the CFMEU began on Tuesday. *(AAP Image: Darren England)*

Mr Wheelahan alleged CFMEU officials were allowed to behave towards WHSQ inspectors in ways that would "not be permitted by other industry

participants".

"Evidence ... of a culture of fear within the regulator, that if staff acted in contrary to the CFMEU wishes they would suffer detrimental consequences in their employment, or be targeted, demeaned or ridiculed."

He alleged resources were diverted away from higher priority matters towards areas of interest to the CFMEU.

Former director a 'focus' of inquiry

Mr Wheelahan said a focus for the inquiry was former director of construction, compliance and field services, Helen Burgess.

"Under the leadership of Helen Burgess ... the CFMEU was unduly prioritised and favoured in terms of health and safety notices and site access," he said.

"It will be alleged that Ms Burgess was the primary conduit between the CFMEU and WHSQ."

Patrick Wheelahan alleged the regulator had been captured by the CFMEU. *(ABC News)*

He alleged Ms Burgess improperly directed inspectors to deal with CFMEU issues as a priority and directed inspectors to assist CFMEU officials to enter worksites in circumstances where those CFMEU officials did not have a legal right to enter.

He also alleged she "worked hand in hand" with the CFMEU to use compliance monitoring and enforcement policies to "pressure inspectors to issue infringement notices at the CFMEU's bidding".

"Ms Burgess telephoned an inspector on the way to a right of entry issue to a site, and I quote 'to make sure the CFMEU officials don't get arrested'," Mr Wheelahan said.

Current WHSQ operations manager and former principal inspector Deborah Dargan, and former principal inspectors Noel Hayes and Paul Watts will give evidence this week.

A fourth former principal inspector is expected to give evidence at a later date.

The inquiry heard WHSQ was influenced by the CFMEU while Grace Grace was minister for industrial relations. *(AAP: Darren England)*

Mr Wheelahan said that evidence would show a "culture developed following the election of the Palaszczuk Government and the appointment of Grace Grace [as minister]".

"[Their evidence will show WHSQ] went from a relaxed and effective workplace, to one with a culture of bullying, intimidation and harassment."

Mr Wheelahan told the hearing 14 WHSQ inspectors made a complaint to the Crime and Corruption Commission alleging "systemic bulling, intimidation and abuse" by CFMEU officials to WHSQ inspectors, supported by senior WHSQ staff.

The complaint alleged Ms Grace failed to act on complaints and "allowed... unprecedented influence" over WHSQ by the CFMEU.

In a response to one of those complainants, the CCC said it would "not be taking any action in relation to the complaint about Minister Grace".

Senior counsel assisting Patrick Wheelahan alleged the CFMEU "captured" Workplace Health and Safety Queensland. *(ABC News: Luke Bowden)*

"The CCC takes the view that the performance of the official duty of a person elected to office would not involve corrupt conduct unless the

conduct would if proved amount to a criminal offence," the CCC said in the response read to the inquiry by Mr Wheelahan.

"In the absence of evidence that would support a criminal offence, the CCC is unable to deal with the matter."

Commissioner Stuart Wood KC is due to deliver his final report to the Queensland government in July, but that date could be pushed back.

Speaking in Mackay this morning, Opposition Leader Steven Miles defended the former government and his colleague.

"[Grace Grace's] focus was on ensuring safe workplaces," he said.

"The construction industry can be dangerous work, and we were always motivated to make sure those workers who go to those construction sites go home to their families every day."

Ms Grace said it would be "inappropriate" to comment on the ongoing commission of inquiry.

"Queensland Labor placed the CFMEU into administration and have supported the Commission of Inquiry since its inception," she said.

Union complaints treated as high priority

WHSQ operations manager Deborah Dargan, who was previously a principal inspector, gave evidence to the inquiry on Tuesday afternoon.

She told the inquiry the "appetite for prosecution" into the alleged failure of the union to give 24-hour right of entry notices "had ceased" soon after Labor came to power in 2015.

The 24-hour entry notice rule was subsequently scrapped by the Labor government.

She told the inquiry union complaints were then treated as a high priority, and that escalated further after Ms Burgess became the construction director in 2018.

WHSQ operations manager Deborah Dargan said union complaints were treated as a high priority. *(ABC News)*

"[Inspectors] were expected to leave whatever they were doing to attend a union right of entry request," Ms Dargan told the inquiry.

"Once they got the call, initially they would argue, then they would realise there was no point in arguing.

"It was very seldom there would be a genuine risk present."

She said inspectors would then have to walk around the construction site for "hours and hours" doing a general audit and "following the union around" .

Ms Dargan will continue to give evidence on Wednesday.

Posted

Tue 10 Mar 2026 at 1:38pm

, updated

Tue 10 Mar 2026 at 4:27pm

The identities linked to corruption at the CFMEU, according to Queensland's Commission of Inquiry

By investigative reporter **Jessica Longbottom**

Construction and Real Estate Industry

Thu 12 Feb 2026 at 4:14am

Geoffrey Watson's report named dozens of people who have allegedly benefited from corrupt conduct at the CFMEU. *(Graeme Powell)*

abc.net.au/news/cfmeu-inquiry-report-corruption/106333306 Share

The CFMEU construction union has been under a cloud since Nine newspapers raised serious concerns about corruption in its ranks two years ago.

It forced the federal Labor government to place the union in administration and order an investigation into its operations.

The full depths of criminality that plagued the union have now been revealed in a report by Geoffrey Watson SC, tendered to Queensland's Commission of Inquiry into the CFMEU on Wednesday.

In a colourful and unusually candid report, Watson tears the CFMEU apart — naming dozens of people who have benefited from corrupt conduct.

Among them are convicted and alleged killers employed as CFMEU health and safety officers, to untrained relatives of CFMEU delegates who were hand-picked to work shifts where they made as much as $15,000 a week.

The report also exposed the role Outlaw Motorcycle Gangs (OMCGs) have played, alleging they were so embedded in the CFMEU that they were using government building sites as drug distribution centres.

"The CFMEU was actively employing criminals. During the [John] Setka era, the CFMEU was forcing contractors to employ patched bikies, meth-abusers, violent stand-over men, killers, boxers and cage fighters," the report states.

"The CFMEU succeeded in casting a shadow of fear over the whole building sector."

The losers in all this — alongside the law-abiding construction workers and companies intimidated by the union — were the people of Victoria.

The report estimates $15 billion of taxpayer money was wasted on corrupt payments linked to the CFMEU.

This is because of the union's heavy involvement on building sites associated with Victoria's Big Build. This $100 billion mass public infrastructure project includes the recently completed Metro Tunnel, the North-East Link, and various rail upgrades.

More than 25 people who benefited from or are linked to corrupt behaviour are named in the report.

Who are they?

JOHN SETKA

MICK GATTO

JOE MYLES

FARUK ORMAN

TOBY MITCHELL

Union delegates who were bikies

It goes without saying that union delegates and health and safety officials should be people of good standing who have the best interests of workers at heart.

"Ordinarily, the position of a delegate is one earned by skill, dedication and long service to the Union. It would usually take years before an ordinary worker could become a delegate," the report says.

However, the report says those appointed included dangerous criminals, killers, drug dealers, and violent bikies.

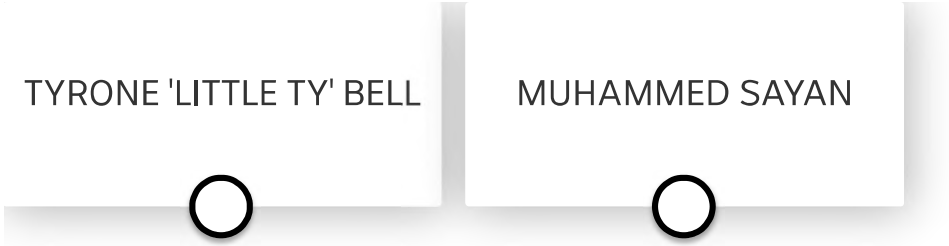
Few had experience or qualifications in the building industry.

Here are just some that the report says infiltrated the union.

LUKE MOLONEY

JONNY 'TWO GUNS' WALKER

JOEL LEAVITT



What was going on?

There were several ways the corruption happened, including:

- Contractors and builders were extorted. They would be threatened with industrial disruption — unless they paid money to union officials or associates. Closing worksites is highly costly, so builders would often comply.
- The CFMEU controlled the awarding of Enterprise Bargaining Agreements to companies that wanted to work on government projects. They allegedly would approve them only if a bribe were paid or in exchange for other favours.
- Some workers on Victoria's Big Build projects had to pay union delegates or organisers up-front in cash to get a job.
- There were also notorious 'ghost shifts' where union delegates ensured they got paid twice for the same shift — once from a labour hire company and then from the contractor they were working for. Taxpayers again footed the bill for this double-dip.
- Highly lucrative jobs were given to mates and family members — sometimes, where they did not even need to turn up to get paid. The shift penalties were so huge that they could make $15,000 a week for an unskilled labourer.

Workers protested at a Hawthorn East site after the bashing of a union organiser.
(Queensland's Commission of Inquiry into the CFMEU)

On top of losing money, the fear of actual violence was real. One union organiser lost the use of his eye after being bashed in an attack, the report says, which was 'covered up' by the CFMEU leadership.

Misogyny was also rife, with women strippers allegedly being recruited for Big Build jobs from strip clubs and being paid to perform by male workers.

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Queensland inquiry into CFMEU hears union had 'hit list' of Workplace Health and Safety Queensland inspectors

By Tobi Loftus Unions

Wed 15 Apr 2026 at 5:09pm

A commission of inquiry is underway into the Queensland branch of the CFMEU. *(ABC News: Luke Bowden)*

In short:

A commission of inquiry into the Queensland branch of the CFMEU has heard the union had a "hit list" of workplace inspectors it wanted to force out of the organisation, a senior inspector has claimed.

Workplace Health and Safety Queensland's David Cappelletti told the inquiry inspectors lost the freedom and ability to do jobs as they saw fit "quite quickly after Annastacia Palaszczuk came to power" in 2015.

What's next?

The inquiry will continue on Thursday, with former deputy director-general of the Office of Industrial Relations, Peter McKay, expected to

give evidence.

The Construction, Forestry and Maritime Employees Union (CFMEU) had a "hit list" of workplace inspectors it wanted to force out of the organisation, a senior inspector has claimed.

The "regulatory capture" of Workplace Health and Safety Queensland (WHSQ) by the construction union was back under the microscope of the commission of inquiry into the CFMEU and misconduct in the construction industry on Wednesday.

It heard that capture, previously labelled a form of "institutional corruption", got so bad that on one occasion inspectors issued an unsafe work order against themselves to stop them going to construction sites where one union official was present.

Principal inspector David Cappelletti told the inquiry inspectors lost the freedom and the ability to do jobs as they saw fit "quite quickly after Annastacia Palaszczuk came to power" in 2015.

> **"We were micromanaged to a point where we couldn't make our own decisions," he said.**

Several inspectors have told the inquiry they received calls from managers telling them to comply with CFMEU requests.

David Cappelletti told the inquiry he was aware of a "hit list" with his name on it. *(ABC News)*

Mr Cappelletti told the inquiry this involved having to respond to claims from the CFMEU which he did not believe were lawful.

"We tried to follow legislation, but we were pushed into scenarios where we were lurched away from the legislation to give the union favourable outcomes."

He said this was amplified when former director of construction, compliance and field services, Helen Burgess, oversaw inspectors. Ms Burgess left the role in late 2023.

"You were singled out if you didn't do what Helen Burgess said to do," he said.

> **"If we didn't find a favourable outcome for the CFMEU, [they] would cause problems."**

MOU with police

Mr Cappelletti also gave evidence there was a memorandum of understanding between Queensland Police and Ms Burgess.

"Usually, the builder would call police if they believed the CFMEU weren't there legally," he said.

"Somewhere down the track we heard that police stopped turning up or were intercepted on their way to site."

He said Ms Burgess was the point of contact for police in the regulator, and he alleged she told officers there was no need for them to head to a site as the union were not trespassing and were there legally.

'Hit list'

Mr Cappelletti said about two years after Ms Burgess started in the role in 2018, he became aware of a "hit list" with his name on it.

"I believe the hit list came into existence through the CFMEU using Helen Burgess; they wanted to get rid of inspectors that were a thorn in their side," he said in his written submission.

"I believe we had been identified because we would regularly and often refuse to partake in behaviour on construction sites that we believe wasn't legal or compliant with their entry permits in the legislation.

"So, we would push back on that with the CFMEU organiser on site, and the management, such as Helen Burgess who was the conduit between the CFMEU and WHSQ."

Senior executive speaks out

Sarina Wise began as the executive director for compliance and building services within WHSQ in October 2023, after a career at the New South Wales regulator.

She told the inquiry soon after starting, she discovered the regulator was no longer impartial and the CFMEU was influencing decisions.

Sarina Wise told the inquiry she realised the CFMEU was influencing decisions soon after she started at WHSQ. *(ABC News)*

She said by that point, the CFMEU were contacting the then-deputy director-general of the Office of Industrial Relations, Peter McKay, when they had concerns.

Mr McKay is currently the director-general for the Department of Trade, Employment and Training.

"It was very unusual that such operations like right of entry were going to the deputy director-general," she said.

"This appeared to be a transition from the calls going to [Helen Burgess] and because they needed to go somewhere else, they moved to him.

"I could see it was a burden on his time."

She said she advised CFMEU officials at meetings that they could phone her instead, to free Mr McKay up, but she was told by these officers they would "only call the top dog".

Former deputy director-general of the Office of Industrial Relations, Peter McKay, is expected to give evidence at the inquiry on Thursday. *(ABC News)*

Ms Wise said she was blocked by other senior executives within the department from moving the CFMEU from having direct lines to regional directors and executives for immediate disputes to a phone hotline for those issues.

She said this changed in November 2024 after the LNP came to power, with the union again made to use the hotline.

Inspectors issue unsafe notice against themselves

Ms Wise told the inquiry 10 days before she started in the role, health and safety representatives in her division, who were also construction inspectors, had issued an unsafe work order against their own workplace.

She told the inquiry CFMEU official Matthew Vonhoff had filmed inspectors multiple times on construction sites and shared the footage, along with commentary, onto the union's Facebook page.

"The sheer numbers of comments that would flow on from those videos that would be publicly posted ... would talk about my inspectors in

inflammatory ways, they would use swear words talking about the inspectors," she said.

"The health and safety representatives in my area ... made the orders that would stop them from going to those particular sites when that particular CFMEU official would attend."

Employee's CFMEU conflict

She said she was made aware by colleagues, that after a Crime and Corruption Commission investigation, Ms Burgess had been in a de facto relationship with a CFMEU delegate, whose son she employed as an inspector.

She said the man — Nathan Williams — had by that point been appointed on a temporary basis to a team that "inspects high-risk projects" across the state, but she was told she couldn't pull him from that team as there was "concern about a potential claim of discrimination by association".

She said the conflicts of interests were not declared by Mr Williams or Ms Burgess. Mr Williams still works for WHSQ but in a different section.

Ms Wise said in the past 12 to 18 months the culture had improved within Workplace Health and Safety Queensland and she did not believe that regulatory capture was still occurring.

"A proper public servant should be apolitical, no matter the government of the day," she said.

Mr McKay is expected to give evidence before the inquiry on Thursday.

Posted

Wed 15 Apr 2026 at 5:09pm

, updated

Wed 15 Apr 2026 at 5:41pm

Former CFMEU boss sent abusive text to anti-corruption barrister and offered weight loss advice, inquiry hears

By Ciara Jones By Will Murray Courts

Wed 19 Nov 2025 at 7:33pm

All branches of the construction arm of the CFMEU were placed into administration in 2024. *(ABC News: Luke Bowden)*

Former Construction, Forestry and Maritime Employees Union (CFMEU) boss John Setka abused a prominent anti-corruption barrister calling him a 'f***ing fat, ugly c**t, Queensland's commission of inquiry into the union has heard.

Geoffrey Watson SC, who authored a damning report into the Queensland branch, has given evidence over two days at the inquiry.

In his report, which triggered the probe, Mr Watson alleged the Queensland division of the union used violence, intimidation and bullying against rival unions, public servants and workplace regulators to "support a pursuit of political, industrial and financial power."

Before leaving the witness stand at the hearing in Brisbane on Wednesday, Mr Watson revealed a text exchange between him and ousted Victorian CFMEU heavyweight John Setka.

"I hope you don't mind the language ... I sent a message to Mr Setka to ask him if he would meet with me and he told me that I better hope I'd never cross his path," Mr Watson told the inquiry.

"And he called me a f***ing fat, ugly c**t.

"He then gave me some weight loss advice, which I'd say my wife does too from time to time ... but that was the response that I got," he said.

John Setka was previously the head of the Victorian branch of the CFMEU. *(AAP: Stefan Postles)*

Mr Watson had earlier told the inquiry he believed the Queensland branch was inspired by Mr Setka's "effective campaign" in Victoria to push rival unionists, the Australian Workers Union (AWU), off civil construction sites to gain control of the industry.

> **"If you knock out the AWU, you know what you're knocking out? The competition," Mr Watson said.**

"Then, all of a sudden, you've got one union with all the power and all of the negotiating tools and skills in an environment where labour is scarce."

Police union denies 'memorandum of understanding'

The inquiry, headed by Stuart Wood KC, was shown videos of several incidents of CFMEU members acting aggressively towards rival union members or non-union workers, including the picket line brawl outside a Cross River Rail construction site at Dutton Park in April 2024.

In the footage, CFMEU workers can be seen shoving and wrestling non-union employees, while trying to block access to the worksite.

Mr Watson said the brawl, which broke out a few metres from a busy road, could have "led to a loss of life."

Footage of the picket line clash between non-union workers and CFMEU members has been played.

He told the inquiry he was "shocked" to learn a memorandum of understanding (MOU) had been signed between the CFMEU and a Queensland police "association".

Mr Watson said he had seen a copy of the alleged memorandum during his work, which he told the inquiry prevented officers from intervening in such

industrial disputes, even when they turned violent.

"I think it's well known that if you call police to the edge of an industrial dispute, they would say: 'This is an industrial matter, we're not getting involved," Mr Watson told the inquiry.

"The MOU that I saw ... was in effect to mean that they (Queensland police) had no jurisdiction once it became an industrial dispute.

> **"It seems like the Police Association and the CFMEU had struck some kind of agreement ... I didn't understand that," he said.**

In a statement, union president Shane Prior said he was not aware of the existence of the MOU.

"I find it offensive and outrageous any insinuation suggesting police who have sworn an oath to disrupt and stop criminal behaviour would not act where required by law and jeopardise their own integrity," Mr Prior said.

"Police put their lives on the line every day and they are proud of their ethics. Mr Watson is wrong to suggest the QPU has signed any agreement with the CFMEU. I will forever defend the integrity and moral code of Queensland Police Officers."

The ABC also contacted Queensland Police for comment.

Mr Watson urged the commission to probe the "unusual relationship between police and the boundaries of ... industrial disputes."

'The beast is gone'

A private copy of the Watson report, which recommended the immediate dismissal of several union officials, has also been released.

In the report, Mr Watson called for former Queensland CFMEU leaders Michael Ravbar and Jade Ingham to have their membership terminated over the culture at the union.

Mr Watson told the inquiry of his three-month-long investigation into the Quensland branch of the CFMEU. *(ABC News: Curtis Rodda)*

The inquiry heard several members have been sacked, made redundant or have resigned on their own accord since CFMEU administrator Mark Irving took control of the union's construction arm last year.

"A number of problematic people have gone, the influence of Mr Ravbar and Mr Ingham has gone and it's getting back on its feet," Mr Watson said.

"Queensland is under control.

> **"The beast has gone. That's the way I put it."**

Mr Irving will take the witness box tomorrow.

Posted

Wed 19 Nov 2025 at 7:33pm

, updated

Wed 19 Nov 2025 at 8:47pm

A secret scheme and plans to expel former leaders — here's what we've heard from Queensland's inquiry into the CFMEU

By Ciara Jones Unions

Sun 23 Nov 2025 at 7:15am

An inquiry into Queensland's CFMEU branch was announced after a report laid bare allegations of a culture of violence. *(ABC News: Luke Bowden)*

When prominent anti-corruption barrister Geoffrey Watson SC was asked to investigate alleged misconduct within Queensland's powerful construction union, he had doubts about how bad things were.

"I thought it was a storm in a teacup," he said.

"I then spent some weeks interviewing people and I realised I was wrong."

Mr Watson's 45-page report — which laid bare allegations of a culture of violence within the Construction, Forestry and Maritime Employees Union (CFMEU) state division — was so scathing, it sparked a landmark

Queensland commission of inquiry, which heard from its first witnesses in Brisbane this week.

Here are five takeaways from the first block of public hearings.

Michael Ravbar, the CFMEU's ousted state secretary, pictured in 2014. *(AAP: Dan Peled)*

Administrator plans to 'expel' former leaders

CFMEU administrator Mark Irving KC, who commissioned Mr Watson's report, took the witness stand on Thursday and detailed his efforts to overhaul the embattled union.

The Victorian barrister was appointed by the federal government to lead construction divisions across the country last year.

In an explosive day of testimony, he told the inquiry he had set up disciplinary processes that could lead to the expulsion of several high-profile CFMEU officials over alleged misconduct.

He revealed he has taken steps to permanently terminate the memberships of ousted Queensland secretary Queensland Michael Ravbar and assistant

secretary Jade Ingham, who he claimed ran the union as their own personal "kingdom".

Mr Irving said he was also considering expelling former leaders in other states, including disgraced Victorian boss John Setka.

He told the inquiry Mr Setka had allowed the Victorian branch to be infiltrated by organised crime figures, including outlaw motorcycle gangs, but was confident that "had never happened" in Queensland.

> **"The cancer in Queensland was violence, it wasn't organised crime," he said.**

The inquiry heard steps have been made to permanently terminate Jade Ingham's CFMEU membership.

However, Mr Irving warned governments against deregistering the union, saying such a move would trigger "chaos" and "massive industrial disruption".

"It leaves a void and ... opportunities for organised crime and outlaw motorcycle gangs to ... control sites via extortion and other means," he told

the inquiry.

An 'extraordinary' secret scheme

Mr Irving told the inquiry he had discovered an "extraordinary" service agreement, set up by Mr Ravbar and Mr Ingham in 2020, involving the alleged misuse of up to $50 million in union fees.

He said the money was paid to the state-registered branch instead of the federal body, which was "contrary to the rules" and, in his view, "contrary to the law".

CFMEU administrator Mark Irving KC gave evidence at the inquiry on Thursday. *(AAP Image: Darren England)*

Mr Irving said the Queensland branch then used the funds to buy a swathe of properties.

It also left 15,000 to 20,000 members financially unregistered and therefore unable to vote in elections, the inquiry heard.

"None of these matters were reported to the national executive which strikes me as extraordinary and one says that secrecy is a badge of fraud," Mr Irving said.

Mr Irving speculated that "power" was a potential motivator for orchestrating such a deal.

All branches of the construction arm of the CFMEU were placed into administration in 2024. *(ABC News: Luke Bowden)*

Accused killer drove officials to interviews

Many union members were "uncooperative" and "hopeless without exception" during Mr Watson's investigation, with some claiming a "defective memory", the inquiry heard.

The inquiry was told a relative of Mr Ingham — Anthony Perrett — drove CFMEU officials to meetings with the investigator and provided them with tape recorders. Mr Perrett has since been charged with torture and murder in an unrelated matter.

Mr Irving told the inquiry he had "no doubt" those recordings were then handed to Mr Ingham.

> "In circumstances where someone like that gives you a recorder and sends you to a meeting, there's an implication of what will occur if one is cooperative with the administration," Mr Irving told the inquiry.

Geoffrey Watson SC told the inquiry Mr Ravbar and Mr Ingham were inspired by an approach taken by John Setka (pictured) in Victoria to push a rival union off job sites. *(AAP: Joe Castro)*

Counsel assisting Mark Costello KC asked Mr Irving whether he believed that was a form of "coercive control".

"Yes," Mr Irving replied, telling the inquiry he believed it sent a message: "Effectively, don't squeal."

Mr Irving said he had referred the matter to Queensland Police.

The ABC does not suggest Mr Ingham has any involvement in Mr Perrett's alleged criminal activity.

Queensland 'emulated' Victorian power campaign

Mr Watson gave evidence over two days and was grilled at length over his three-month investigation, which he feared only "scratched the surface of the violence" within the union.

He told the inquiry Mr Ravbar and Mr Ingham were inspired by Mr Setka's "effective" approach in Victoria to push rivals, the Australian Workers Union (AWU), off work sites to gain control of the state's construction industry.

He said it was an issue of "economic significance" to Queensland and the nation.

> **"If you knock out the AWU, you know what you're knocking out? The competition," he said.**

"Then, all of a sudden, you've got one union with all the power and all of the negotiating tools and skills in an environment where labour is scarce."

Mr Irving disagreed with Mr Watson's analysis.

"Mr Ravbar and Mr Ingham ran the Queensland branch as their own fiefdom ... they didn't need Mr Setka — they had their own source of funds," he said.

Memorandum of understanding

The inquiry was shown videos of several incidents of CFMEU members acting aggressively towards rival union members or non-union workers at Brisbane job sites, including the Cross River Rail, which Mr Watson said was a "hotspot" for violence.

Footage of the infamous picket line clash between non-union workers and CFMEU members has been played at the inquiry.

Mr Watson urged the commission to probe the "unusual relationship between police and the boundaries of ... industrial disputes".

He said he had seen a copy of an alleged memorandum of understanding (MOU) between the CFMEU and a Queensland Police "association" during his work, which he told the inquiry prevented officers from intervening in such industrial disputes, even when they turned violent.

"I think it's well known that if you call police to the edge of an industrial dispute, they would say: 'This is an industrial matter, we're not getting involved'," Mr Watson told the inquiry.

> **"It seems like the Police Association and the CFMEU had struck some kind of agreement ... I didn't understand that."**

Geoffrey Watson SC told the inquiry he had seen a copy of an alleged memorandum of understanding (MOU) between the CFMEU and a Queensland Police "association". *(ABC News: Curtis Rodda)*

The Queensland Police Service declined to comment. However, police union president Shane Prior told the ABC he was not aware of the existence

of the MOU.

"I find it offensive and outrageous any insinuation suggesting police who have sworn an oath to disrupt and stop criminal behaviour would not act where required by law and jeopardise their own integrity," Mr Prior said.

The next block of public hearings will be held in the first week of December.

Posted

Sun 23 Nov 2025 at 7:15am

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Australia

CFMEU paid $40 million-$50 million into the wrong account, corruption inquiry told

The misdirection of money took place in Queensland, where the union's leaders hadn't faced an election in 15 years, administrator Mark Irving said.

Aaron Patrick
THE NIGHTLY
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7 COMMENTS SAVE

Stuart Wood KC is leading an inquiry into CFMEU practices. Credit: DARREN ENGLAND/AAPIMAGE

Around $40 million to $50 million of CFMEU members' dues were paid to the wrong part of the union, breaking union rules, industrial relations law and depriving the workers of the right to vote in union elections, CFMEU administrator Mark Irving KC told a corruption inquiry today.

The misdirection of the money may have been designed to protect the leaders of the CFMEU's Queensland construction division from interference by their Federal counterparts, Mr Irving told the inquiry being conducted by barrister Stuart Wood KC in Brisbane today.

After previously watching dramatic footage of violence on Queensland building sites, the inquiry shifted on its third day to financial irregularities in the union, which was placed under the control of Mr Irving in 2024 by the Federal Labor government.

Mr Irving portrayed the CFMEU as Australia's most lawless union, and said it had been found to have broken the law 1163 times between 2019 and 2024, while other unions had few or no convictions. He blamed the union's problems in Queensland on former State secretary Michael Ravbar and deputy Jade Ingham, who he removed from their jobs.

CFMEU administrator Mark Irving. Credit: AAP

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'Violence, not organised crime'

Unlike the union's leaders in Victoria, who used criminals and motorcycle gangs to take control of building sites, Mr Irving said, the Queenslanders did not need outside help because they had controlled the division for 15 years "unhindered by the laws of society and the laws of civil society" without facing an election.

"The cancer in Queensland was violence, it wasn't organised crime," Mr Irving told the inquiry. "Ravbar and Ingham ran the Queensland branch as their own fiefdom."

The two men continued to have "effective control" over the division until June, this year, through the loyalty of union representatives known as delegates across hundreds of building sites, Mr Irving said.

Firing the delegates would have triggered "industrial chaos" across the state, he said, but he was able to use a report on union-orchestrated violence that was published in June to wrest control of the division about 10 months after he was legally placed in charge.

The inquiry heard on Wednesday that when a corruption investigator, Geoffrey Watson, conducted interviews for the report, union officials were driven to his interviews by a relative of Mr Ingham later charged with murder.

The union officials recorded the interviews. Those recordings were given to the driver and likely passed on to Mr Ingham, Mr Irving said, a process he agreed was a form of "coercive control".

Mr Irving said he was considering expelling Mr Ravbar and Mr Ingham and recommending legal action against them. Neither has been charged or had an opportunity to defend themselves to the inquiry, although have hired lawyers to attend each day. They are expected to be compelled to give evidence next year in what could be the inquiry's climax.

The inquiry was initiated by Queensland's Liberal-National government to clean out corruption in the building industry before big construction projects start for the 2032 Olympic Games.

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Workplace agreements doubt

Under a complicated legal structure that created two Queensland branches, $10m of members' dues each year was paid to an entity out of the control of the national division.

As a consequence the only construction workers considered paid-up members, and entitled to vote in union elections, were 163 members in the Northern Territory, Mr Irving said. The inquiry is considering if this could mean industrial agreements struck on behalf of Queensland members were legally valid.

In the 24 hours before Mr Irving took over, $3m was transferred from the union's accounts, he said. Fearing the money would disappear or be used to campaign against the administration, Mr Irving was able to get the money back.

On Wednesday Mr Watson, the corruption investigator, told the inquiry the union had reached an agreement with the police union that the police would not get involved in workplace disputes, even if they descended into physical intimidation or violence.

The Queensland Police Association vehemently denied signing any such deal. "I find it offensive and outrageous any insinuation suggesting police who have sworn an oath to disrupt and stop criminal behaviour would not act where required by law and jeopardise their own integrity," President Shane Prior said.

Contacted Thursday morning about Mr Prior's statement, Mr Watson declined to comment.

Both Mr Watson and Mr Irving said the union should not be deregistered, or abolished, because it would cause too much disruption to the building industry and hurt workers.

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Victorian CFMEU branch became 'hateful, greedy rabble' under John Setka, report finds

Construction and Real Estate Industry

Wed 11 Feb 2026 at 9:23am

Geffrey Watson SC's report into corruption within the CFMEU was commissioned by the federal government. *(AAP: Joel Carrett)*

In short:

A redacted report into the Victorian branch of the CFMEU is among the documents released by Queensland's Commission of Inquiry today.

In it, author Geoffrey Watson SC alleged the branch descended into a "violent, hateful and greedy rabble" under former boss John Setka.

The Victorian government said it was not involved in the report, and defended its track record on the troubled construction industry.

Allegations of crime, corruption, violence and extortion within the Victorian branch of the CFMEU have been detailed in a report commissioned by the federal government into the troubled union.

The findings of the investigation by Geoffrey Watson SC were tendered to Queensland's Commission of Inquiry into the CFMEU on Wednesday.

It comes as the Victorian government defends its handling of corruption in the state's construction sector amid accusations it was "cowed" by the CFMEU.

Mr Watson appeared before the Queensland commission today.

Geoffrey Watson said in his report that he has been a "lifelong believer in trade unions". *(ABC News: Billy Cooper)*

His 136-page document alleged that under John Setka's leadership, the CFMEU went from achieving great changes for working class Australians to a "violent, hateful and greedy rabble" that "cultivated the company of underworld figures" and bikie gangs.

"As a lifelong believer in trade unions, it was shocking to see so much crime, so much corruption, such a perversion of values," Mr Watson wrote.

"The union was no longer the champion of the working class — the Setka-era CFMEU turned to looking after gangsters, standover men, bikies, heroin traffickers, and even killers.

> **"By the end of this investigation I have been left with the empty feeling that the Setka-led Victorian branch of the CFMEU was no longer a trade union, it was a crime syndicate."**

Mr Watson said in his report that the union went "badly downhill" when the Victorian Government's $100 billion infrastructure program ramped up in 2015.

"The big money generated by the Big Build was at the root of the problem in Victoria," he wrote.

"The temptation created by the big money proved too great."

Alleged threats made to CFMEU administrator, ACTU leader

He accused the Victorian government of inaction on issues emerging with the union.

Mr Watson said that after the union was placed in administration in August 2024, threats were made against the life of administrator Mark Irving.

He said threats were also made against ACTU secretary Sally McManus and the then federal Minister for Workplace Relations Murray Watt requiring both to employ personal security, as well as The Age's investigative journalist Nick McKenzie.

"It is quite clear that the problems in Victoria were exponentially worse and far more dangerous than elsewhere."

Mr Watson's report alleged he sought a response from John Setka and received an expletive-laden reply, including: "I warn you Watson you should hope you never cross my path."

Geoffrey Watson wrote in his report that the CFMEU collapsed into a squalid mess under John Setka's leadership. *(AAP: Penny Stephens)*

Today, the commission was also shown a redacted draft final report in which Mr Watson estimated that the actions of the CFMEU had cost the Victorian taxpayer around $15 billion.

"Much of that $15 billion has been poured directly into the hands of criminals and organised crime gangs," he said in the redacted report.

The hearing in Queensland was shown lines cut from Mr Watson's report which included his belief that the state Labor government had been "cowed" by the industrial power of the CFMEU and its willingness to act outside the law.

"Victorians have been aware for years that the union had become extremely aggressive and this was causing delays and costs blow-outs to government jobs. If the press knew, then the public knew. If the public knew, then the government must have known," he wrote.

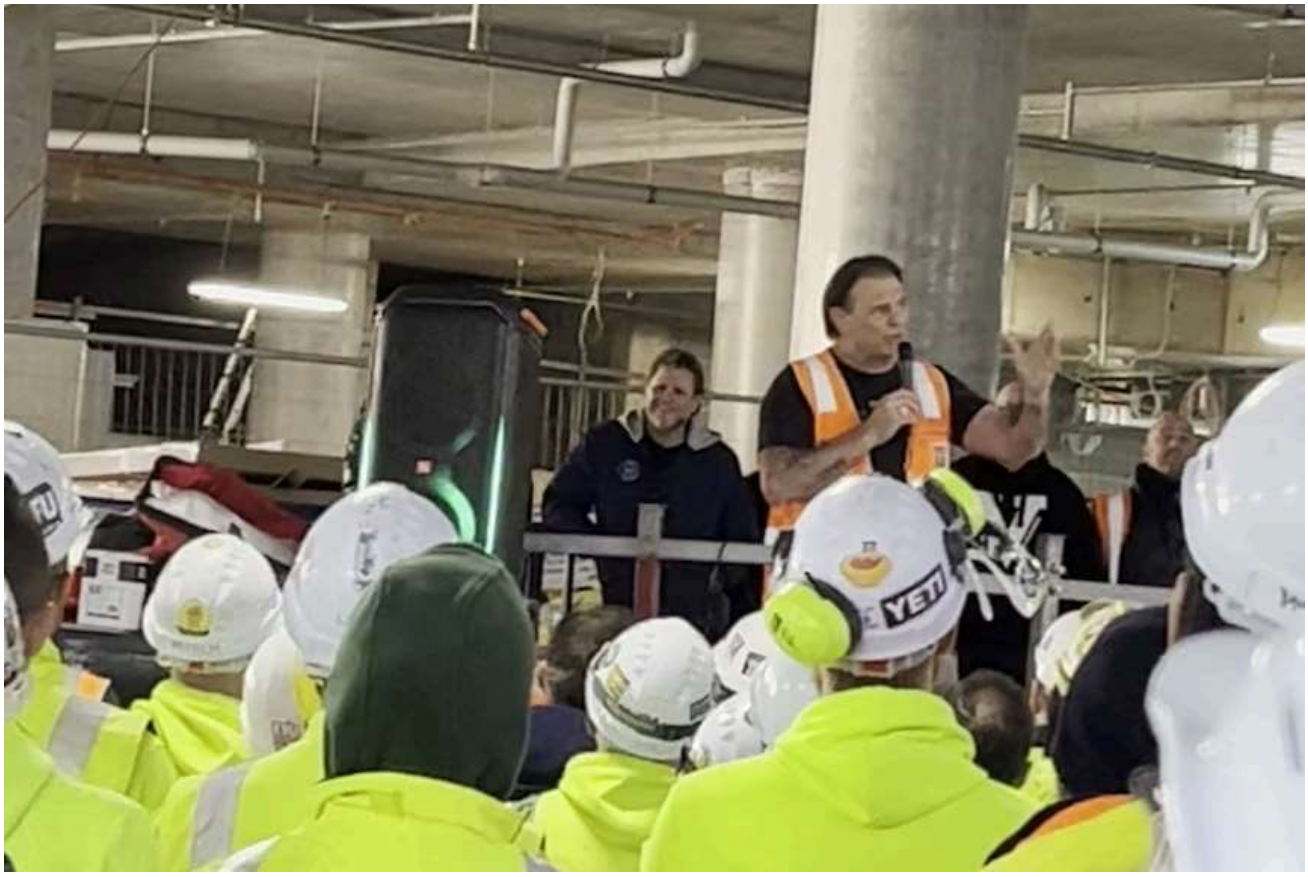
"More to the point, as the guardian of public money, the government had a duty to know. It had a duty to monitor delays and costs-blowouts. There is

no doubt the government knew about the rising problem — but it is equally clear that the government did nothing."

Under questioning, Mr Watson told the commission the government just wanted to get projects completed.

> **"There was only one way to get projects finished and that was to keep the CFMEU on side," Mr Watson said.**

"[The Victorian Government] weren't doing anything effective to bring the CFMEU to heel."



John Setka on the site of the Footscray Hospital Big Build site after he had resigned as leader of the CFMEU. *(Supplied)*

Mr Watson confirmed to the commission that he had been ordered by administrator Mr Irving to make the redactions because they were outside the terms of reference, including the estimate of the cost to taxpayers.

"I kept it together ... I was really quite angry," he told the commission.

Mr Irving released a statement saying Mr Watson's report documents serious allegations of criminal and improper conduct.

"These matters have not been determined by a court or tested through criminal proceedings," he said in a statement.

"For that reason, the report will be referred to the AFP, Victoria Police, the Fair Work Commission and other relevant law-enforcement agencies and regulators so they may undertake their own independent inquiries and take whatever enforcement action they consider appropriate."

Victorian government defends track record on corruption

On Wednesday morning, Victorian Attorney General Sonya Kilkenny would not comment directly on the contents of the report, saying it had not yet been released.

However, she defended the government's attempts to crack down on corruption in the construction sector.

"You can see from the actions we've already taken, when we acted really swiftly to eradicate this kind of rotten culture that was exposed in parts of Victoria's construction sector," she told ABC Radio Melbourne.

Attorney General Sonya Kilkenny defended the Victorian government's actions on corruption in the construction sector. *(ABC News: Maddison Cutajar)*

Ms Kilkenny said the Victorian government did not contribute to the Watson investigation.

"The federal report — the Watson report — is not our report. We haven't had involvement in its content," Ms Kilkenny said.

"This government moved swiftly to establish the Wilson review and of course writing to the Chief Commissioner of Victoria Police and to IBAC referring those allegations for investigation.

"It proves we have zero tolerance, absolutely zero tolerance for this kind of conduct and this kind of illegal behaviour and we're going to get on and eradicate this rotten culture which has been exposed in parts of our construction sector."

The Wilson review was conducted by senior public sector bureaucrat Greg Wilson, who made eight recommendations in his final report, including the establishment of the new complaints body, in December 2024.

Opposition leader Jess Wilson said Premier Jacinta Allan's failure to publicly address the allegations today was a "failure of leadership".

Ms Wilson said the premier was directly tied to the allegations, as Ms Allan previously served as minister for transport and infrastructure before becoming Labor leader.

"Premier Jacinta Allan has overseen corruption that is costing every Victorian household more than $5,000, and today she's refusing to front up," Ms Wilson said.

"She was the minister responsible for ensuring that taxpayer dollars were being respected, not being funnelled into organised crime and corruption on these sites."

Victorian federal Liberal MP and Shadow Industrial Relations Minister Tim Wilson said he had concerns about the apparent intervention by the CFMEU administrator in the Watson report.

"This is alarming and deeply concerning and every Victorian should be concerned about the conduct by the CFMEU, the Albanese government's heads that they appointed to that body and whether taxpayer's money is being abused," he told ABC Radio Melbourne.

"It's pretty distressing when the CFMEU head of the administration is trying to scrub those sections of the report."

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CFMEU inquiry hears Labor leaders ignored 'repeated' industry warnings

By Ciara Jones Unions

Tue 10 Feb 2026 at 5:02pm

An inquiry is underway in Brisbane into the CFMEU's alleged links to organised crime across Queensland. *(ABC News: Luke Bowden)*

In short:

An ongoing inquiry into alleged misconduct within the CFMEU has heard industry leaders were "ignored" by the former Labor government.

The inquiry heard construction industry bosses expressed concerns about the impact of the controversial BPIC policy, introduced in 2018.

What's next?

The inquiry continues with a final report due to be handed to the Queensland government in July.

The former Queensland premier and senior Labor ministers ignored repeated warnings from several high-ranking industry bosses about a key CFMEU-linked government policy, an inquiry has heard.

Civil Contractors Federation Queensland chief executive Damian Long has fronted a commission of inquiry into alleged union misconduct and criminal links in Queensland, which is holding its third block of public hearings in Brisbane.

Mr Long's evidence was centred on the development and rollout of the Palaszczuk government's controversial best practice industry conditions (BPIC) policy, which outlined conditions and pay for construction union workers on all major state projects worth more than $100 million.

The former Labor government's best practice industry conditions (BPIC) policy came under fire during the inquiry on Tuesday. *(ABC News: Glenn Mullane)*

The deal, introduced in 2018, included a five per cent pay rise annually, double time for some workers when it rained, a month of rostered days off each year and an allowance of $100 a week for workers using their own mobile phone.

The current LNP government scrapped the conditions, citing cost blow-outs and crippling productivity on state builds.

Mr Long told the inquiry the policy was "essentially a CFMEU enterprise agreement" with union officials reportedly involved in departmental negotiations.

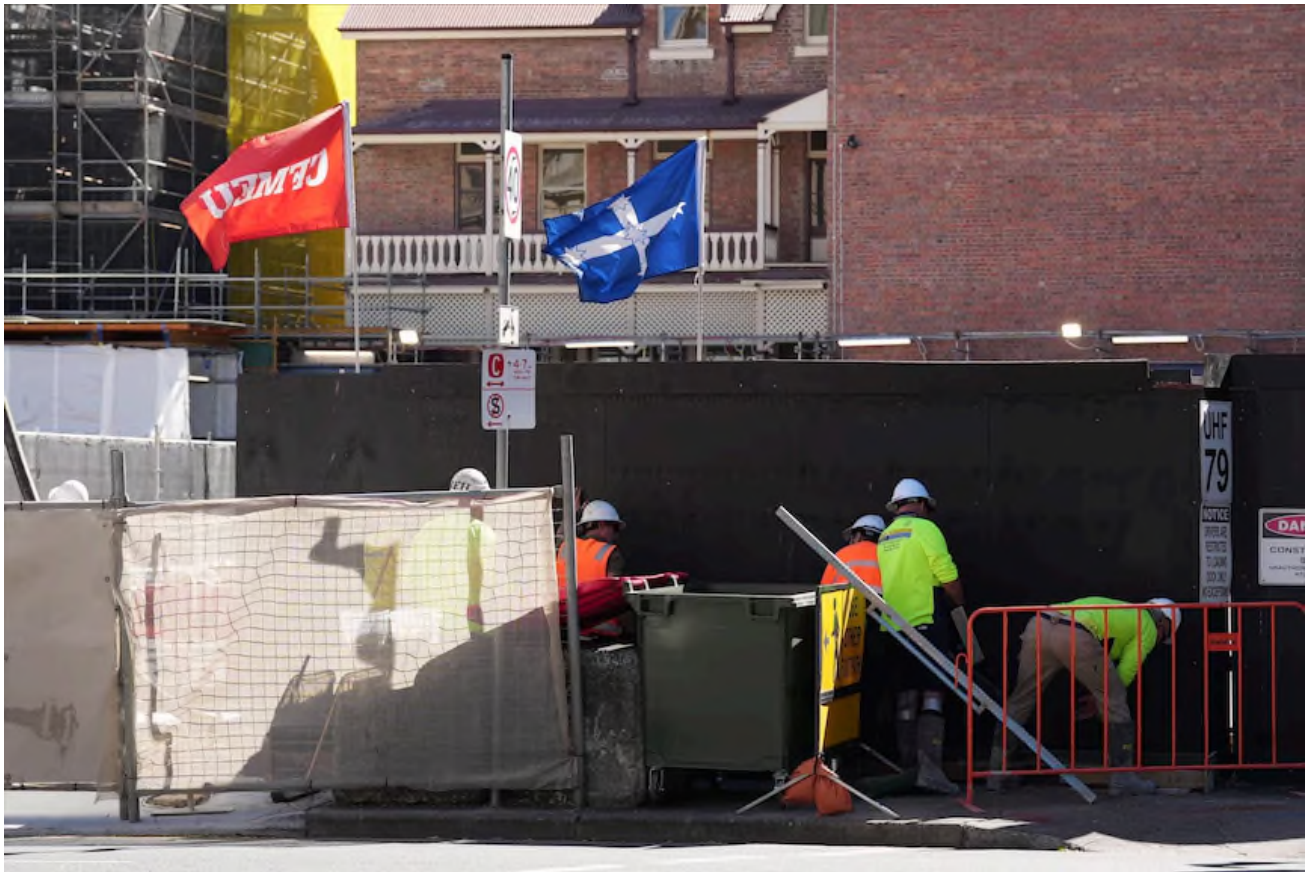
He accused the former government of running a "sham of a collaborative process" and said the militant union ultimately had a "driving hand" in BPIC's implementation.

"The collaborative process and consultation process was nothing more than tabling documents to show where the government was going," Mr Long said.

> **"There was no acceptance of any feedback from industry ... there was no opportunity to give feedback."**

Mr Long cited internal evidence showing the conditions reduced productivity to as little as two days of work per week, contributed to increased labour costs, reduced labour capacity, and caused delays on major projects.

The inquiry heard the policy cost the state between $13.1 billion and $38.6 billion.



Mr Long told the inquiry industry leaders had "no opportunity" to provide the government with feedback. *(ABC News: Brigham Edgar)*

Government 'embarrassingly silent' on industry concerns

The inquiry heard in 2020, Mr Long and several other industry group leaders, including Master Builders and the Infrastructure Association of Queensland, outlined their concerns in a letter to then premier Annastacia Palsazczuk.

"Apart from 'noting' the letter, there was no response verbally or otherwise," Mr Long said.

"We could see the cost increases ... and we couldn't reconcile the government's response that it was 'good for Queenslanders and the Queensland economy' when we could plainly see that it wasn't and we were providing evidence to the contrary.

"I found it quite insulting ... a group of industry heads that represented such a large part of the economy — [weren't given the] courtesy to even pull together a small working group to run through our concerns.

Mr Long said the government was "embarrassingly silent" on industry concerns. *(AAP Image: Darren England)*

"It [the government] was embarrassingly silent," he said.

Mr Long told the hearing BPIC was the "worst" and "most damaging" policy he had seen in his 30-year career.

Anti-corruption barrister Geoffrey Watson SC, who authored a damning report into the union's Queensland branch which triggered the probe, is due to be cross-examined when he takes the witness stand for a third time on Wednesday.

Commissioner Stuart Wood KC is due to deliver his final report to the Queensland government in July.

The inquiry is being run by Commissioner Stuart Wood. *(AAP Image: Liam Kidston)*

New legal action against CFMEU

In a separate matter, the workplace watchdog today launched legal action against the CFMEU and two officials for alleged illegal conduct on a Brisbane work site.

The Fair Work Ombudsman alleges that in November 2024, organisers Cody Budgeon and Dylan Howard entered an exclusion zone at the Woolloongabba Cross River Rail station construction site without authorisation, despite requests to leave.

It is further alleged the men refused to leave the zone for about an hour, delaying work.

The pair could be fined almost $20,000 per contravention, while the CFMEU faces penalties of up to $99,000 per contravention.

The matter will be heard in the Federal Circuit and Family Court in Brisbane on May 25.

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