

Lecture 2: CORRUPTION & ORGANIZED CRIME

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OUTLINE

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- 6. Why does it prosper during transition?**
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Reading of reference and other sources for today's lecture:

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LECTURE SCRIPT

Today's lecture is going to take us from the world of corruption to the underworld of organized crime!

We spent a lot of time in trying to analyze the causes and consequences of corruption. We saw the controversial impact that corruption has on economic development, the negative consequences on the functioning of democratic institutions and on citizens' trust toward democracy. We reflected on the damage to elections' legitimacy when the electoral process is manipulated. We also looked at some potential causes of corruption, from poverty to institutional weakness, and we investigate the possible ways to prevent or curb corruption in a country. Today we are going to examine one of the most important actors dominating the realm of systematic corruption at all levels.

If we had to interpret our course as a police investigation, scrutinizing corruption, putting it under a third degree interrogation, after a series of question about *location, modus operandi and motives*, we would now be at the “*who is the killer*” key question.

Who monopolize many of the forms of corruption we saw? Organized crime...

With organized crime we mean an informal but structured network of individuals and businesses that operate and protect themselves frequently with the use of illegal tools such as violence and corruption. As you learnt reading the paper by Professor Shelley (Shelley, 2004), there are two types of organized crime that can be identified today. One is the traditional type, i.e. *Cosa Nostra* in Sicily, which we are all more familiar with, while the other is a new form of transnational crime groups.

After the end of the Cold War and in the era of globalization, new powerful groups emerged in conflicts zones such as the Balkans or the Caucasus and gained strength from the state of anarchy and from the lack of law enforcement that these areas suffer from. Indeed, one of the key differences between the two types of organized crime that Shelley outlines in her work is their relationship with the State and their modus operandi, in particular whether they use corruption as main “operative tool” or not.

In fact, the traditional types of Mafia rely on the existence of the State and often infiltrate its branches using bribery or other form of illegal “incentives”. Differently, the new groups will habitually cooperate with terrorist organizations that undermine the stability of the State itself.

These transnational groups, although navigating in usually highly corrupted environments, obtain influence mainly with the use of violent strategies. The links between the new transnational crime and terrorism, for instance, has been evident in many cases: drug trafficking or other illegal activities have been vital sources of funding, for many Jihadist groups, for the *Sendero Luminoso* in Peru, as well as for the Maoist insurgents in Nepal.

The structure of these new groups is also very different from the traditional hierarchical structure we saw in the Italian or Chinese organized crime: their criminal “enterprise” is often not family-based and not well-structured. Furthermore, the types of “business model” applied by the two groups diverge. The old Mafia adjusted to the new economy and survived the changes in the markets through the implementation of long-term financial strategies. They often reinvested the profits from their illegal transaction in legal sectors. For instance, after the Italian Mafia in the 1980s had invested a lot of the profits from the drug trade into tourism and commercial and agricultural real estate, it was able to create huge legal empires that would be a sustainable and untouchable source of income for decades. These Mafiosi, also, often store much of the non-invested profits in off-shores accounts protected by armies of well-paid lawyers. Alternatively, the new groups have short-term financial goals. They tend to re-use the money for military purposes or in the black markets of their community. Their profits are usually less significant and their linkage to large financial institutions is much less likely (for details on this see Shelley, 2004).

Finally, another important difference between the two types of organized crime has to see with the cultural and normative aspect of these groups. The traditional Mafias are strongly rooted in

their communities and in the normative system of their societies. The Mafias would be at the same time a result of the type of existing familiar and clientelistic relationships in the society, and a force that shaped the set of behavioral norms in the community itself. For instance, the famous concept of Sicilian “*omertá*” - roughly translated as the rule of silence or the conspiracy of silence - is the result of a long history of oppression and foreigners’ control on the locals which produced a sense of distrust toward the official authorities and caused the reliance on local bosses. However, on the other side, this silence is also the consequence of the cycle of fear and distrust that these same local Mafiosi have perpetuated in the years - Mafia as both the cause and the consequence of some historical and cultural processes.

Differently, the new groups arose in a contest of conflict or post-conflict where often the traditional relationships, families and institutions have been destroyed. They do not create a new set of norms and relationships, but actually prosper in the vacuum of them. These groups, indeed, frequently exploit and traffic with human beings, without any exception for their own fellow citizens.

So we have seen that the two types of organized crime have very different features both in their relationship with the State and the society they prosper in and in the type of business and financial interests they pursue. Finally, we saw how the reliance on the use of corruption changes across these groups. In the rest of the lecture we will focus mainly on the more traditional type of Mafias, their features and the type of corruption they exploit.

As we said before, the various long-lasting Mafias, present in a range of countries, from Italy, to China, Japan or Russia, penetrate the structure of the State and through corrupted means are able to influence different part of the bureaucratic and political engine. In the detailed report from the Center for the Study of Democracy (CSD), of which you read a very interesting section, we can see some data about the use of corruption by organized crime in four main areas: 1) judicial, 2) political, 3) police and 4) private sector corruption.

According to the EUROPOL report of 2009 criminal groups use corruption on the judicial system in two main ways: bribing at the middle level to avoid detention and at the low or middle level to hinder ongoing law enforcement or judicial processes (see GRAPH). According to the same report, the literature provides evidences of organized crime influencing the judiciary system without intermediaries in Central and Eastern Europe. In Poland, for instance, judges and prosecutors were identified as usual guest of clubs owned by the local mobsters and the same were found to act in favor of those criminals (Plywaczewsky, 2004.) Similarly, in Lithuania between the 1999 and 2001, less than half of the cases of smuggling were actually brought to trial, because of the high level of corruption of the judges (Gutauskas, 2004.)

In other countries, instead, political corruption is the channel through which also the judiciary system gets tainted (see GRAPH). In the case of Italy and Bulgaria, the literature has shown the existence of long-term and systematic networks between politicians, organized crime and judiciary system. In these countries (and not only in these), the Mafia has penetrated various levels of the political arena. In particular, by using its influence on a significant part of the

populations in some area and thanks to its ability of implementing credible violent threats, the organized crime has been able to control an invaluable trading currency: votes.

Important studies about this type of connection have been done on Italy. Paoli (2000) estimated that between 40-75% of the deputies elected in Western Sicily from 1950 to 1992 had the open endorsement of *Cosa Nostra*. Similarly, 18 out of 50 Regional councilors in Reggio Calabria (the point of the boot) were under investigation for organized crime association. Finally, Briquet (2003) presents the case of the Giulio Andreotti - three times Prime Minister, and lifetime Senator since 1991- who was in an established connection with the Mafia and protected its interests in many ways among which by stopping the trails of some of their leaders.

Another important way in which organized crime uses corruption is when targeting police and other law enforcement agents, like the military or prison personnel. Firstly, the reasons to bribe a policeman are various and intuitive and, in the case of organized crime, often lead to systematic corrupted relationship between some policemen and the mobsters. In particular, this connection is the fundamental to the development of a successful drug marketplace, one of the main sources of profits for these organizations. Police often needs to close an eye - or both - for the business to proceed without setbacks.

Secondly, also the corruption of the military appears quite common and an important source of income for well-connected mobsters, as we will see in the case of the Russian Mafia later in the lecture today. Finally, the corruption of prisons' guards is important for the maintenance of the Mafia system too. It is quite frequent for important leaders in the hierarchy of the organization to

be arrested. Whenever this happens, they need to be able to continue their work also from jail. Hence, smuggling messages, cell phones and even arms ensure the survival of the system.

The last form of corruption presented by the report (CSD) is the private sector corruption. The term which is most often used for private sector actors or professionals, like lawyers, who cooperate with the Mafia is "collusion". One of the most important goals of the relationship with the private sector is money laundering. Indeed, mobsters frequently need legal channels to clean the profits proceeding from their illegal activities. In the CDS report, we have seen how in many countries the collusion of the private sector is necessary to the survival of the illegal networks (See GRAPH).

Now that we saw the different modes of corruption used by organized crime - political, judicial, police and private sector - we are going to move one step forward in the analysis of the linkage between corruption and organized crime, beyond the pure functional relationship. We will try to ask ourselves if organized crime and corruption, besides being the latter often an instrument of the former, are also symptoms of the same problems. We will do it by analyzing from close two case studies and their history, two examples of traditional Mafia, the *Red Mafia* (Russia) and *Cosa Nostra* (Sicily).

As we saw in Huntington and other authors during the course, the problem of widely spread/systematic corruption seems to affect more intensively those countries with weak institutions, those countries that are transitioning or failed to transition to democracy.

Is it the same for organized crime? Do we think that organized crime is similarly a symptom of weak states? And/or of unstable democracies?

Obviously this is still an open debate since measuring the presence of organized crime in a country is even more difficult than measuring corruption itself. Today, we will simply try to give a first tentative answer through an historical comparison of the case of Russia and Italy.

The origins of the Russian Mafia go back to the Imperial period when a group of thieves and robbers created what became famous as the *Thieves World*. At the time, stealing was the only possible way to rebel against the Zar and the thieves acquired a sort of heroic fame. People would consider them some kind of Robin-hoods, to look at with admiration.

The thieves built a very complex and structured system of rules and norms, among which the respect and protection of each of the members and the sharing of any profit through a communal fund, the *obshchak* (Volkov, 1999). They also created a secret code of tattoos that represented a sort of permanent resume of each thief, a signal of their role in the organization.

During the Soviet Union, both Lenin and Stalin tried very hard to dismantle this underworld and many thieves were arrested. When the WWII required significant human efforts from the USSR, Stalin offered to many prisoners the possibility of gaining freedom in exchange of their support as soldiers in the military endeavor. Many thieves decided to accept, and broke one of the fundamental taboo of their world by cooperating with the government. However, at the end of the war, Stalin re-sent all of them to jail where they immediately became the traitors in the eyes

of the other thieves. Inevitably a bloody war inside the jailed started and the world of thieves changed forever.

A new brand of criminals emerged from this period. Their relationship with the state and the bureaucracy was totally different. They now penetrate the system instead of opposing it and quickly the Soviet state and the organized crime system were highly connected, to the point that of making it hard to distinguish them.

At the beginning of the 1980s, Gorbachev expressed serious preoccupation for the level of corruption and Mafia collusion that the Soviet system was guilty of and tried to implement reform to clean the system. However, these reforms arrived too late and the collapse of the USSR was inevitable.

The end of the USSR and the following transition phase represented the beginning of a new golden period for the Russian Mafia. New sources of profit were made available. In particular, the end of the Cold War left new independent State with a huge arms arsenal. This represented a vast supply in high demand by the many terrorist movements, paramilitary organizations and liberation movements in the post-Cold World International system.

In Russia, also an important sector of activity of the organized crime, that developed toward the end of the Soviet regime and prospered afterward, is the market of private protection. In fact, from the first opening of private business in the last decade of Communism, a demand for protection and contract enforcement, that only illegal channels could fulfill, offered a great profit

opportunity for the Mafia. Similarly, the weakness of the law enforcement during the transition to democracy phase allowed the Mafia to maintain the same role of protectors and only re-enforced it.

Now let's compare the history of the Russian Mafia to the Italian case. The origins of the Italian Mafia, instead, are tracked back even farther in the history of the island. Sicily has been under the control of many different foreign rulers, from the Normans in the XII century to the Spaniards more recently - dynasty of the Bourbons until unification in 1860. Many of them were distant sovereigns that relied on the local bosses to maintain the power. These bosses acquired more and more power in the time and were seen as "man of honor", of respect. They became the real authority on the territories and were the ones to enforce whatever law they judged appropriate.

Until the period of the Mussolini's regime the bosses maintained an undisputed control of the area. However, the dictator could not accept to have his own legitimacy questioned in Sicily. A report from the time, tells the story of Mussolini going to give one of his usual speeches in Sicily and finding an empty square, instead of the usual cheering crowd. Clearly the local boss had told to the people not to attend the event. Mussolini was shocked by this incident and decided he could not bear any competition in Sicily. He began a campaign to dismantle the Mafia and arrested many leaders.

However, after WWII, with the disintegration of the Fascist Regime, the power of the Mafia was restored. Many prisoners were released and one of the most respected "men of honor", Calogero Vizzini (see PICTURE), openly endorsed the Christian Democrats (DC) in the 1948 elections.

He was the most famous leader of the Mafia at the time and many other local bosses followed his examples, and endorsed the DC.

The cooperation between the Italian dominant party and *Cosa Nostra* was going to last undisturbed until the 1990s despite the inner changes that the organization underwent. Indeed, toward the end of the 1950s and the beginning of the 1960s, the Mafia in Sicily experienced an important transformation. From a purely rural phenomenon became a more urban and violent one. Luciano Liggio and then Totò Riina (see PICTURE) represented the new faces of Sicilian organized crime, from the sadly famous Corleonesi faction, which won a bloody war in the 1980s.

The collusion with the central institutions of the Italian government continued without major fallback until the arrival of two prosecutors, Giovanni Falcone and Paolo Borsellino (see PICTURE), who changed forever the way to fight the Mafia in Italy: their maxi-trial in 1987 charged hundreds of mafiosi. Despite the fact that both Falcone and Borsellino were killed in 1992, their work survived and represented an historical break in the cooperation between State and Mafia. No one stopped the maxi trial. No politicians managed (or wanted) to intervene. The new phase that lasts until today sees a more conflicting relationship between the two entities.

What are the similarities that we can identify between the development of the Red Mafia and Cosa Nostra up until the 1990s?

In both these brief histories I presented you, the complex relationship with the State stands out. Both organizations had, in some moments, form of collaboration and/or interpenetration with the State and periods of conflict with it. They were both originated under a non-democratic system (imperial or monarchical), highly challenged under authoritarian/totalitarian regimes (Stalin and Mussolini), and they both significantly prospered during the transition to democracy.

Why were both groups strongly antagonized by authoritarian leaders?

Both Stalin and Mussolini could not accept the existence of an alternative power or world that would not follow their rules. Organized crime in this sense represents a bigger threat than corruption for these authoritarian regimes. While the non-democratic system under which the first form of criminal groups emerged did not care about the population recognizing the legitimate power of the central government, they were simply distant rulers exploiting the territory for their interests, Stalin and Mussolini relied on the people's recognition of their uncontested power and authority. Alternative/surrogate local authorities were an advantage for the Bourbons in the XVII century but a threat for Mussolini.

What made those transition moments particularly vulnerable to the development of these phenomena?

Similarly to the case of corruption, we can identify three features that made transition to democracy a favorable moment for organized crime: 1) the lack of law enforcement 2) the new sources of wealth and the 3) new political actors.

The first factor, the lack of law enforcement, is due to the fact that both the judicial system and the police were undergoing a difficult moment. They needed to adjust to a new system, but as always in moments of change, the rules were not clear and not well-defined yet. Furthermore, often a large share of the personnel remains the same from the previous regime and, as you can imagine, these bureaucrats have to learn to reject norms on which they based their work for years and learn to embrace new ones. The discrepancy between the new and old norms and the weakness of the recently reformed institutions created a fragile and inefficient environment where many loopholes and numerous opportunities for rent became available. In this context, a well-organized group like the Mafia was well-equipped to take advantage of the systematic corruption of the newly born State.

Secondly, as it is particularly obvious in the case of the collapse of the USSR, but also in the case of Italy, transitions also often mean new access to markets and to sources of profit. The *Red Mafia* exploited both the possibilities offered by the opening to capitalism and the great opportunity to sell the military arsenal of the ex Soviet Union. In the case of Sicily too, the end of the War and the alliance with the US opened new chance to access the American markets.

Finally, in both cases (although probably more evidently in the case of Italy), with the end of the regime a new class of politician came out. New parties created to seek power, less ideological, like the DC in Italy, became the perfect counterpart of the mafiosi.

Did we notice any other important similarity in the two cases presented?

Another, important similarity between the Russian Mafia and the Sicilian one, which comes out in their history, is the role played by the private protection. For the analysis of this aspect of *Cosa Nostra*, we mainly rely on the work by Professor Gambetta in his book "The Sicilian Mafia", of which you read the first chapter. But we also saw the Russian case presented by Professor Volkov in his paper about the violent entrepreneurship in post-communist Russia. Both authors use a supply-demand approach to the problem of Mafia. According to Gambetta, the key activity that defines organized crime itself is private protection and contract enforcement for both legal and illegal transactions. Indeed, those economic transactions that happen in contexts where no legal enforcement can be appealed, represent a florid market for the Mafia's services. The reasons why official channels - police or judges, etc... - might not be viable options are mainly two: because the population has no trust in the effectiveness or fairness of these institutions or because the transaction itself is illegal. Both cases applied in our case studies, for instance, in the period in which private business was officially illegal in Russia, or in Sicily under the distant foreign and untrustworthy rulers.

Gambetta reports an interview with a cattle breeder: [QUOTE ON SCREEN]. In other words, both parties will try to maximize their profits with any tool available. If you think about that, this is not very different from any economic bargaining except for the range of available tools. The Mafia, hence, appears to substitute the legal system in limiting the acceptable range of tools, by eliminating cheating. (Gambetta, 1996)

However, in my opinion, this purely economic interpretation constructs a misleading impression of the Mafia phenomenon, a quite anachronistic one. Although it is true that one of the main functions of the organization is to substitute the legal channels of law enforcement. It is important to pay more attention to the origin of the demand for these services in the last decades. If many centuries ago, under the Spaniard dominance, a peasant had no other option than relying on the protection of the local boss, the citizens of today's (last 20 years) Sicily would have other option if the Mafia had not made itself indispensable both by limiting the efficient development of democratic institutions and contributing to construct the threat to the businesses. Indeed, organized crime now offers a service which it creates and perpetuates the need for.

Let me try to clarify what I mean with it. The Mafia has for decades asked for the protection money to businesses operating in their territories. This protection money was usually paid based on the level of profit that the shop or restaurant would make. The real threat of not paying is actually that the local mobsters could burn your shop or threaten your family, or boycott your activity. In other words, the protection money has become much less a sort of taxation and more the outcome of blackmailing: if you don't pay I will kill your daughter; if you pay, I will protect you from myself. Something that was created from a real demand in the market became self-sustainable, institutionalized and independent from the demand itself, to the point of becoming the creator itself of the threat.

To conclude, let's take a second to review what we saw today. We compare the new type of transnational organized groups with the more traditional type of Mafia. For the latter, we analyze

the various ways in which corruption is used as an operative tool: as political, judicial, police or private sector corruption.

We then investigate whether what we have learnt about corruption applies to the phenomenon of Mafia, through the analysis of two case studies: the *Red Mafia* and *Cosa Nostra*. We noticed some similarities between the two cases that appear to share a common path with corruption. In particular we saw how organized crime flourished during the period of transition. Finally, we discussed the important aspect of business protection and contract enforcement and we saw how the function and role of organized crime as service provider has changed in the time.

That is all for today...See you next week! Have a great weekend!