A vaccaro (cattle breeder) I interviewed in Palermo succinctly expressed the core elements of the hypothesis I wish to present: "When the butcher comes to me to buy an animal, he knows that I want to cheat him. But I know that he wants to cheat me. Thus we need, say, Peppe [that is, a third party] to make us agree. And we both pay Peppe a percentage of the deal." This statement has far-reaching theoretical consequences. There are mutual low-trust expectations generating a demand for guarantees on both sides, and there is "Peppe," a man capable of meeting this demand and trusted by both butcher and vaccaro to be capable of doing so. But before subjecting the freshness of the vaccaro's style to the rigor of economic theory, I should place this conversation in context.

We were in a large furniture store in Palermo, where I had gone to interview the owner, a man of about fifty, born and bred in that part of the city. We were talking about credit, trust, and the protection racket in the area. The person who had put us in touch (a guarantor is required to facilitate interviews, to reassure both interviewee and interviewer that it is safe to talk) had himself been living locally for a long time. To give me some idea of the district, he told me the story of a butcher who would offer him protection every time he or his wife bought meat at the shop. "Professore," the butcher would say with a heavy Palermo accent, "if anyone bothers you, do not hesitate to call me." This butcher, at the time of the interview, was in jail, charged with being a "man of honor" connected to an "emerging" mafia family. While in jail, he had killed a man who for some reason had to be "punished." This story, among many others, was told to me by my guarantor to demonstrate how common it is in Palermo even for well-to-do families to come into contact with mafiosi.
I ventured to ask the furniture dealer whether he knew the butcher and could explain how a man with a successful business might end up in jail and become a murderer. He had previously claimed that the causes of widespread criminality in Palermo were to be found in youth unemployment, and I thought that the case of the butcher could disprove his statement. He seemed irritated by my question. “Mr. X is a friend. I have known him since we were kids. If you knew how he came to be a butcher and what he had to do for it, you would not be surprised.” He was, I suppose, suggesting that by murdering on commission, the butcher was paying off a debt of some kind to those who had helped him in the past. No negative moral judgment was implied in his words but rather sadness at the fate of his butcher friend.

The furniture dealer himself was probably not part of any illegal activity or organization, but on his own admission he had to “be in equilibrium” with the environment. He did not pay protection money, at least not in cash, but, as he said, he was always generous and helpful, ready to give discounts to the “men of respect” and extend credit for their purchases. He was known in the district and was respected; no trouble had ever befallen him or his trade. At most he was intissi, a word which in Palermo designates those who, while not being “made members” as the jargon has it, share with the mafia some degree of opportunistic compliance and understanding.

As we were talking, the vaccaro came into the shop to pay for the furniture he had ordered for his daughter’s wedding present. He was a day late in paying, and he apologized profusely, claiming he had himself been waiting five months for the payment of a sum a butcher owed him. The dealer introduced us and, after the bill was settled, brought the conversation back to the subject of trust by pointing out that he had lent money to the vaccaro without requiring him to sign for it but simply trusting his word, somehow implying that the respect in which he was held was itself sufficient guarantee that the other man would pay him back. It was at this point that the vaccaro told me about the need for a “Peppe.”

The furniture dealer maintained that “Peppe” was mainly selling information, thereby making the transactions possible, and that it was for this service that he received a 2 percent commission. When in addition he acted as a guarantor of quality and payment, the percentage increased. He himself had in his youth thought of becoming a “Peppe” on the livestock market but was discouraged by the theatrical require-

ments of the job, which entails a perpetual exchange of insults, simulated outrage, ritual claims of friendship, handshaking, and robust shoulder patting. Both agreed, however, that at least some of the time “Peppe” acted as a guarantor, and that over a given territory he operated as a monopolist. All the transactions in question were illegal. They were part of the so-called clandestine slaughtering market, a market which has long been said—in one of those holistic and sinister formulas common in this field—to be “under the control of the mafia.” According to law, no transaction involving meat may take place outside the public slaughterhouse, the only permissible meeting point for butchers and cattle breeders. There the problem of trust, as the vaccaro himself pointed out, is less acute, for the weight, health, and quality of the animal are formally controlled and easily verified. Nonetheless, there is an incentive to bypass the legal procedure: the opportunity to avoid tax. At a cost which must be lower than the tax, the presence of “Peppe” as informer and guarantor makes this attractive but illegal transaction feasible.

Am I suggesting that, in essence, “Peppe” and his colleagues are mafiosi? The answer is, broadly, yes. My claim is that the main market for mafia services is to be found in unstable transactions in which trust is scarce and fragile. Such is the case, for instance, with illegal transactions in which no legitimate enforcement agency—in other words, the state—is available. There are many variants on the model. “Peppe” may be a single person or a network of more or less organized agents. He may supervise every transaction in a given market, or he may be asked ex post facto to resolve a transaction in which cooperation and agreement have failed. He may protect either buyers or sellers or both at the same time. The situation is further complicated by the variety of transactions requiring protection, for each poses different technical and organizational demands. These possibilities are all explored in this book. Yet, although “Peppe” may appear under many guises, it is nevertheless a peculiar evolution of his activity which is at the origin of the mafia.

It may be objected that “Peppe” is simply an intermediary, common to many fields, times, and places, while the mafia is a circumscribed phenomenon. Intermediaries play a role in all sorts of business, from agriculture to marriage, from international arms traffic to the housing market, and there is nothing intrinsically mafioso about their activities. At the heart of this objection lies a conceptual confusion between
two very different commodities: whether or not "Pepe" displays mafioso characteristics depends primarily on whether he produces and sells information or guarantees. As I show in the next chapter, if he sells guarantees, he is likely, under certain conditions, to develop mafioso tendencies, whereas if he limits himself to selling information without guaranteeing reliability, he will not. It is trust rather than information that matters.

This distinction also clarifies the distinction between mafiosi and patrons, two roles which are often compared (and at times performed by the same person). It might be thought that the essential difference is one of method—that is, patrons do not use violence. Analytically, however, it is more fundamental: patrons are concerned not so much with guarantees as with supplying privileged information in order to connect their clients to higher authorities. They provide introductions, recommendations, advice about competition for public contracts, the names of key people to approach; they back new legislation or applications for jobs and benefits; they translate client demands into appropriate language, simplify rules, and identify means of avoiding sanctions and obtaining favors. Unlike mafiosi, patrons do not operate autonomously but depend on one or another political party, on whose behalf they act. They do not supply safeguards against cheating in goods, promises, or rights, nor do they protect clients from crime, competitors, debtors, and so on. If violence is not part of a patron's job, therefore, this is a consequence of the commodity he handles, which, unlike protection, does not require that "resource." #2

An Equine "Lemon"
The conversation between the vaccaro and the furniture dealer took place in February 1987. Let us jump back a century and show how, mutatis mutandis, the vaccaro's problem is resistant to time. Whereas faulty used cars are the lemons of today (and the sale of used cars has been proposed by economists as an example of a market exchange in which trust is crucial), faulty used horses were their premotorized counterpart. A Neapolitan coachman in 1863 gave this account:

I am a dead man. I bought a dead horse which does not know his way around, wants to follow only the roads he likes, slips and falls on ditches, is frightened by firecrackers and bells, and yesterday he shied and ran into a flock of sheep that was barring the way. A camorrista [the Neapolitan version of a mafioso] who protects me and used to control the horse market would have saved me from this crime. He used to check up on the sales and would get his cut from both buyer and seller. Last year I needed to get rid of a blind horse and he helped me to sell it as a sound one, for he protected me. Now he is in jail, and without him I was forced to buy a bad horse. He was a great gentleman! (quoted in Monnier [1863] 1965: 73-74)

In the bewildering confusion surrounding accounts of the economic activities of the mafia, this represents a simple anecdote on which to focus analytical attention. The first point it raises is the general economic position of the mafioso: his role is to protect either buyer or seller or both, independently of whether he is a horse dealer himself. He need not buy or sell horses, or if he does, it is not crucial to his role as mafioso, nor is it what he is paid for. Mafiosi may sometimes be dealers in a variety of commodities both legal and illegal—and for that matter they may also be doctors, politicians, or even priests—but this is not the differentia specifica separating mafiosi from ordinary entrepreneurs. Mafiosi are first and foremost entrepreneurs in one particular commodity—protection—and this is what distinguishes them from simple criminals, simple entrepreneurs, or criminal entrepreneurs. Their relatives, friends, and friends of friends may be criminals inasmuch as they deal in illegal goods, but they may equally well be entrepreneurs in legal goods. In both cases these people are not mafiosi but customers, buyers rather than suppliers of protection. Even in those instances in which mafiosi themselves are involved in some other economic activity, they should be considered, as it were, their own customers.

An entrepreneur who trades in secondhand horses or smuggled cigarettes may purchase the protection of a mafioso. Alternatively, the mafioso may deal in drugs or used cars, but this is not what makes him a mafioso. What does make him a mafioso is the fact that he is capable of protecting himself as well as others against cheats and competitors. The fact that, say, the owner of an automobile dealership buys a car from himself does not make him merely a motorist; similarly, the fact that a mafioso involved in drug or secondhand car dealing "buys" his own protection does not make him merely a dealer in drugs or used cars. This has been perhaps the most regrettable of several confusions inhibiting a proper understanding of the mafia, as it has systematically confused the market of the good being protected with the market of protection itself (see, for example, Arlacchi 1983a). As each is subject
to sharply differing constraints and opportunities, any successful analysis must preserve a clear distinction between protected commodities and protection as a commodity.

A second and equally important point arising from the anecdote of the equine lemon is that, contrary to widespread belief, protection money may be willingly paid. Here, the coachman compensates an actual defensive act performed by the mafioso, so much so that the latter's forced absence is bitterly regretted. The mafioso is capable of deterring the seller from handing over a lemon. Without that protection the coachman is truly at risk, for he is saddled, as it were, with a bad horse. Thus, although the optimal outcome for the coachman would be to buy a good horse without paying protection money, he still prefers to pay some protection money rather than avoid the transaction altogether or pay for a bad horse.

The fact that the seller also gives the mafioso a cut is more difficult to interpret. The vaccaro's words—"he knows that I want to cheat him. But I know that he wants to cheat me"—suggest that the seller needs protection too, for the buyer may pay late, not pay at all, pay less than agreed, write a bad check, and so on. Thus, while the buyer needs protection against being sold goods of poor quality, the seller needs protection for equivalent reasons. This explanation is a plausible one, and in several instances protection of this sort seems to be part of the contract which links entrepreneurs and tradesmen as sellers with the mafia.

There is, however, a more subtle way of looking at the "protection contract" based on the idea that in business, to be trusted is just as important as to trust (Dasgupta 1988). If the buyer knows that the seller can gain more from cheating him than from being honest, he will avoid the transaction, and the seller too will lose. Under these conditions the seller would prefer to sell a sound horse rather than none at all. So the problem for him becomes how to improve his reputation so as to convince the buyer of his trustworthiness.

The seller may thus choose to purchase protection "against" himself—that is, against his own temptation to sell a lemon—in order to acquire credibility in the eyes of a distrustful buyer. If it is known that the mafioso will punish him if he sells a lemon, and therefore the seller would lose more by selling a lemon than by selling a sound horse, then a rational buyer should be persuaded that it is safe to enter into the transaction. The seller's cut to the mafioso would reflect the price he is prepared to pay to be trusted by the customer. By virtue of such a contract a new equilibrium would come into play, and even in a simple world made up of just three agents—seller, buyer, and mafioso—all would be better off. Transaction costs would be higher than in a trustworthy world, but returns would still exceed those yielded by no transaction at all. Thus, in an untrustworthy world the price paid for the services of a mafia may have more than one rational justification for both parties to a transaction. (I say untrustworthy rather than dishonest because neither party need know for sure that the other party is dishonest; the suspicion alone may be sufficient to justify the purchase of protection, thereby yielding the same result.)

The picture of the mafioso sketched thus far may seem to be that of a "gentleman," as the coachman regretfully says. He is a special entrepreneur who safeguards the smoothness of transactions in exchange for a reward which he can exact from both parties. Ceteris paribus, without his intervention the parties would not reach an agreement and no market would evolve. The fact that agents befriend mafiosi is at once easy to understand and, on purely economic grounds, difficult to reproach. At the same time, this model helps explain why mafiosi have survived so long—far longer than mere criminal groups operating without consent could have done—and gives analytical substance to what is observed in practice: that the mafiosi are surrounded by networks of willing agents. Tommaso Buscetta, a mafioso turned state's evidence, stressed this issue during his interrogation:

I wish to point out that around the mafia families and the men of honor there is an incredible number of people who, even though they are not themselves mafiosi, cooperate, sometimes even unconsciously, with the mafia. . . . With regard to the nature of these relationships, I must stress that they cannot be explained as the result of coercion. Those who cooperate expect certain advantages. True, one cannot expect these relationships to be on an equal footing, as it is always clear that one of the parties is a man of honor; yet the other party makes himself available. It is like courting a woman: if a relationship gets started, it is because the woman has cooperated in being chosen; she has agreed to be courted. (TB: I, 28; II, 53)

There are, of course, fortunate states of affairs in which agents are, as several of the people I interviewed in Sicily put it, "more honest than we are," or in which the state can be trusted to enforce its own laws. But, as the local philosophy goes, here, where everyone is ready to take
advantage of everyone else just to show he is a "wise guy," the mafia puts things in order and keeps people in their place. The implications of such premises, however, are not so straightforward; nor is the role of the mafioso precisely that of benefactor. There are three ways, detailed in the following three sections, in which protection can fail short of being either fair or universal: the mafioso may sell genuine protection (1) only to some sellers (or buyers) at other sellers' (or buyers') expense; (2) only to sellers at the expense of buyers (or vice versa); (3) to neither, that is, he may practice extortion.

Protection against Competition

So far we have assumed that the market is made up of just three agents: customer, salesman, and mafioso. But if there is more than one seller in the market, the introduction of competition complicates the game. 1 In this case the seller may pay the mafioso for a further service not directly connected with trust: for directing the customer to him rather than to his competitors. If all sellers appear equally untrustworthy and the mafioso can enforce honest behavior from any one of them, he must therefore have a reason to choose one in particular for whom to act as guarantor. The seller's cut to the mafioso reflects both the price of being made to be trustworthy and the additional price of being chosen from among other potential sellers.

The question arises why the mafioso should not offer his "mark of guarantee" to all sellers on the market and allow customers to choose on the basis of taste, price, and quality. He would be providing a public good, and each seller would chip in his cut toward making them all trustworthy. Transactions would then take place under ordinary market conditions. After all, it might be thought, the more sellers the mafioso protects, the higher his total cut. Evidence suggests, however, that the mafioso will guarantee (and therefore select) only a limited number of sellers at the expense of all others.

One possible reason is the problem of scale. First, if the guarantees the mafioso offered were too public, available to a potentially infinite number of sellers, he would be unable to enforce the collection of his cut from all his clients, who would thus find "tax evasion" easier. As with all public goods, every seller would have an interest in having the mafioso supply guarantees but also in not paying for that supply. A Palermo businessman dealing in tires put it starkly: "It is easier to eat from the plate of three who cover the same market" (I-8). Second, the mafioso would find it difficult to police all the transactions he guaranteed, thus risking the loss of his reputation if a lemon were to be sold behind his back. 2

A further reason why his intervention as guarantor must be not anonymous and universal but rather clearly linked to specific transactions is to ensure that the buyer knows that if he gets a good deal, it is due to the mafioso's protection and not the independent honesty of the seller, which might foster the development of trust directly between buyer and seller and put the mafioso out of business. 3 One entrepreneur summed this up when I asked why the mafioso who protected and regulated the construction firms working at the Palermo cemetery did not allow more firms to join the cartel so that he could levy more "taxes." He would lose control, I was told, for it would become difficult for him to establish shifts among firms, and he might have difficulty finding work for every firm; some firms would then feel insufficiently protected, and he would lose his prestige (I-1). It is for these reasons that the mafioso sells protection as a good that one agent can consume only if others do not. And this is why competition develops in harmful ways, for other sellers enter into business less by improving the quality of their goods and the competitiveness of their prices than by developing those (ultimately military) skills which may subtract monopolistic power from the mafioso and his coterie. In other words, they must either become mafiosi themselves or enlist the protection of other mafiosi.

Some readers may visualize the mafioso approach to competition as a couple of thugs resorting to muscular persuasion at the expense of an innocent contender. Examples of this kind abound. Are we to infer, therefore, that we are dealing with a wholly separate kind of protection unrelated to trust? True, when the mafia looks after the interests of only one entrepreneur, protection amounts to little more than intimidation. This, however, is seldom the case. Although protectors have an interest in restricting the number of protégés, they are also subject to a countervailing drive to increase it in order to strengthen both their sources of revenue and their independence from any single source. In addition, supporting a monopoly is risky because it provides disappointed competitors with an incentive to seek protection from either police or rival racketeers (Reuter 1987: 6). As we shall see in Chapter 8, it is thus more advantageous to protect groups rather than individual firms. When more than one firm is involved in restrictive practices, trust once again becomes a factor to be reckoned with.

Consider first a competitive market. If X sets a price, Y (or Z) is free
to set a lower one; if Z and Y win customers from X or move into X's area, they are not violating any pact, nor are they considered traitors. Betrayal, loyalty, and friendship—key terms in the mafia lexicon—are, as it were, killed by inflation: everyone is invited to betray everyone else, and friendship never stands in the way of commercial gain. Where choice is governed by price, a “miracle” occurs which no political agreement can easily achieve: the demand for trust is minimized. By contrast, since cartels rely on agreements, defection is a permanent hazard, and the demand for protection, first of all against other members, is intense. A Palermo building contractor commented that he could not recall how many times he had heard the complaint “But this is dishonest!” voiced by one or another cartel member while arguing over some illicit restrictive deal (I-3). Each partner must feel confident that all other partners will comply with the pact; otherwise the cartel collapses, and competition creeps back in. Thus, competition is held in check, first and foremost, by orchestrating successful collusive agreements. The greater the internal cohesion of the cartel, the less the need to discourage external intruders.

It is appropriate, therefore, to interpret the enforcement of agreements within the same analytical framework as dispute settlement. Agreements are transactions in which participants exchange promises instead of ordinary goods. Promises are a peculiar commodity involving a high degree of asymmetry of information: the party who makes the promise knows much more about the likelihood of its being honored than the party who receives it. The actual outcome is the only available test of the quality of a promise. Broken promises can thus be seen as the “lemons” of their kind.

Endogenous Distrust

Private protection is not supplied on the basis of principles, let alone universal principles. Like any other market good it is supplied strictly on the basis of opportunity, and opportunities are not always conducive to protecting all sides in a transaction. Whom they protect and how is a matter not of course but of choice—a complex economic choice. (The consequent shifts in the types of protected people have been the cause of much confusion. Mafiosi have been identified with whomever they were protecting at a given moment, and changes of customer have been mistaken for changes in the nature of the mafia.)

From the coachman we learn that the mafioso once helped him sell a blind horse as a sound one. This indicates that the mafioso does not really offer protection to all buyers on the horse market, so he is not dispensing a public good to the buyers, either. We are not told, however, why the mafioso on one occasion satisfies the interests of both buyer and seller while on the other he protects those of the latter at the expense of the former. The victim may be a casual buyer to whom it is not worth offering protection, whereas, conversely, it is more advantageous to advance the (in this case dishonest) interests of his client-friend of long standing, the coachman. A more subtle reason might be that the mafioso, in “guaranteeing” the sale of a blind horse to a victim who is not under his protection, is offering a demonstration by reminding everyone that without his protection, cheating is “guaranteed” to occur. The mafioso himself has an interest in making regulated injections of distrust into the market to increase the demand for the good he sells: protection. If agents were to develop trust among themselves, he would become idle. The income he receives and the power he enjoys are primarily the fruits of distrust.

The fact that mafiosi may have an interest in the sale of an occasional lemon, however, does not explain why there should be people ready to buy one. If a (rational) buyer suspects he may get a lemon, he will not enter into the transaction. But here the coachman not only manages to sell a lemon but, when deprived of the mafioso's protection, is sold one himself. This point needs elaboration. There are, of course, ad hoc explanations. The customer may be a fool. The chief director of purchases of one of the world's largest aircraft corporations, while in Naples on business, is said to have bought a fancy “Swiss” watch remarkably cheaply on the street. The watch promptly broke and could never be repaired. In a large enough world with a large enough basket of consumer goods, foolishness can occasionally afflict anyone, and astute operators can live off this fact. Alternatively, the customer may have no immediate means of assessing whether or not the seller is dishonest, and if the possible loss is sufficiently small or the constraints sufficiently strong, he will proceed and risk getting a lemon. But the coachman was no fool and nonetheless wound up with a bad horse. His words “I was forced” suggest a twofold explanation: if a business relies on privately supplied protection and for some reason protection ceases—the mafioso was jailed in this case—one is trapped. It may be impossible to buy replacement protection immediately and, at the same time, imperative
The key point is to establish the effects of private protection on the total number of lemons sold in a market. It might be thought that if mafiosi protect individuals effectively, the overall number of lemons sold in a society will be reduced. Despite the apparent paradox, however, the opposite is true. This can be shown in a variety of ways (discussed in Chapter 7), but the most general demonstration runs this way. A seller who does not live off only occasional customers and is concerned about his future income has a rational interest in behaving honestly and acquiring a good reputation (Dasgupta 1988; see also Axelrod 1984). Even if dishonest, he still has an interest in sacrificing short-term benefits for the sake of prospective gains. Fundamental to this argument is the assumption that a good standing in business is easily destroyed. The question is whether mafia protection alters this tendency toward self-enforcing honesty.

Assume that a mafioso protects both a seller and a group of buyers at the same time so that any transaction between any one buyer of this group and the seller leads to the sale of a sound horse. Assume further the existence of another group of buyers who, for whatever reason—foolishness, ignorance, or necessity—enter the market unprotected. When a new buyer appears in the market, we have seen that the optimal outcome for the mafioso is either to permit the sale of a lemon or to welcome the new buyer to the group he protects, while the outcome he fears most is the sale of a sound horse without his intervention. To introduce a limiting condition, however, let us assume that the mafioso is neutral and the seller is free to sell either a healthy or an unhealthy horse to the newcomer.

Given these assumptions, it is clear that the seller's punishment if he opts for selling a lemon is considerably reduced. First, he will not be punished by the cheated party unless the latter secures more powerful protection himself, since the mafioso's protection extends to shielding the dishonest seller from retaliation. Second, even if he loses that customer and all other unprotected customers who hear about the incident, he can still rely on his protected customers, who will not infer from the fact that he sold a lemon to an outsider that he will therefore sell one to them too. As a result, the greater the number of protected buyers who patronize his business regardless of the incident, the lower the seller's incentive to refrain from selling a lemon.

This conclusion has three consequences. Other things being equal, (a) there will be more lemons sold under the auspices of the mafia even if the mafia itself had no direct interest in their sale. Even assuming that (b) the proportion of dishonest sellers is not higher than in other parts of the world, (a) still holds true. Finally, from (a) it follows that (c) even without an active and intentional effort on the part of the mafioso, the demand for protection will increase. In short, distrust, once addressed through mafioso protection, becomes self-perpetuating and self-expanding. Distrust, in other words, becomes endogenous and need no longer be thought of as a precondition external to the mafia protection market.

Furthermore, from (a) and (b) an important corollary follows. Consider the point made in Hume's *Treatise on Human Nature* (but see also...
Sugden 1986) that norms of good behavior in business evolve from an economic interest in keeping promises and acquiring a reputation for honest dealing: “Afterwards a sentiment of morals concurs with interest, and becomes a new obligation upon mankind” (1740 1969: 574). There being no such interest in Sicily, or only to a limited extent, on account of the protection of the mafia, the likelihood that these norms will become dominant, anticipating experience and giving rise to virtuous circles, is diminished. This may also explain why the opposite norm obtains and the ability to cheat is praised and encouraged.9

**Extortion**

The reader may wonder how the foregoing tallies with the commonplace view of the mafia as offering protection from danger and distrust, which the mafia itself creates. The mafia does not, in other words, supply a real service but merely practices extortion.10 This view is in part the result of an informational bias exaggerating the effect of extortion as opposed to those transactions in which the likelihood of being cheated (or being caught cheating) is truly reduced as a result of protection. We hear more about the former simply because dealers are more likely to talk to the police in this case than in the latter. In the last three chapters of this book I present a body of evidence which proves beyond any reasonable doubt that mafia protection can be genuine indeed. But here the argument must still be developed in theory.

Protection is a peculiar commodity even when it is sold by the most legitimate authority. When we pay taxes or insurance premiums, we pay without receiving anything in return other than the right to use a certain commodity when and if we need it and want to use it. We pay for it, in other words, even if the service is only a potential one. For instance, we pay for homeowner’s insurance in exchange for a kind of financial protection which we may never need. Protection requires an apparatus which must be sustained even when the protection itself is not used. Worse still, by paying taxes, we pay for some commodities we may never use and for others we may believe to be useless or harmful, such as military weapons. Sometimes legitimate authorities may even forget we have paid for certain rights and may need reminding, much like the two mafiosi in this story, which was told by Pete Salerno, an American mafioso turned state’s evidence:

A phone call comes in an’ Figgy gets on:
“Okay, we’ll be there in a few minutes.” He turns to me:
“Pete, we have got a problem at the fruit place. The fruit guy wants what he has been payin’ for—protection.” Up ‘til now we hadn’t given that much thought, that a guy would actually want us to provide protection for his money. Figgy had told the fruit guy:
“If there’s a problem, we’ll take care of it.” It was a freak thing, but now we had to do something or they would revolt—stop paying.
(quoted in Abadinski 1983: 150–151)

Pete and Figgy had set out with the intention of extorting money on the pretext of providing protection, but then, to avoid losing face, they were forced to honor their promises and were obliged to supply real protection.

It must also be stressed that forms of behavior comparable to extortion are rife in the world of ordinary commodities. Imagine that blowing up a shop window was an act of intimidation to extort money from an innocent merchant. In abstract economic terms one might say that those responsible were trying to increase demand for their product by unfair means. Consider now a company producing cars which puts covert pressure on the government or on individual politicians to spend more money on highways and less on railways, irrespective of whether this is in the public interest. The latter example is, in economic terms, precisely analogous to the former: the car company is also trying to increase demand for its product by unfair means. The fact that one person commits a crime does not excuse another’s doing so. Nevertheless, this parallel serves to demonstrate that whatever the commodity, the temptation to manipulate demand exists, and the extortion perpetrated by “organized crime” is not necessarily more common than that perpetrated by big business. These unorthodox comparisons are not intended to suggest that private protection is in any way desirable. On the contrary, they simply set it in a broader context in which many other undesirable transactions of an analytically similar nature are forced on us and encourage us to search in greater depth the reasons why mafia protection is specifically ruinous. Common sense is not enough.

The ambiguous distinction between extortion and genuine protection goes deeper and derives in part from the fact that protection as a commodity has both positive and negative externalities. Let us consider first the latter. Imagine that in a given area there is a small but constant
proportion of unidentified cheats (or thieves) who are independent of the mafia and that the probability of being cheated (or robbed) by them is on average low enough for local merchants not to bother buying protection. Assume, however, that some do begin to buy it. Perhaps they simply worry more than others (jewelers, for example, who stand to lose more)\textsuperscript{12}; or perhaps in an area densely populated by protection firms they enjoy protection as the open credit of kin or friendship; or perhaps they yield more readily to others to the threats of the protection firms. Only in the last case would we be justified in considering the first dealers to yield victims of extortion. But even so, as more and more dealers buy protection, the risk to those who do not increases, for if the protection is effective, predators will concentrate their efforts on the unprotected. As a result, there will be a progressively more genuine incentive to buy protection, which would act as a catalyst for a chain reaction in which everyone ends up buying protection simply because everyone else is doing so. The greater the number of people buying private protection, the greater the need for others to buy it too. In other words, even if the process is initially triggered by threats and intimidation and can thus be seen as extortion, once it is under way it soon becomes very difficult to claim that the remaining dealers are buying bogus protection.\textsuperscript{12}

If we call this practice extortion, we must also interpret as extortion our paying for a number of other goods which we buy simply to avoid the consequences others impose on us by buying them first. Cars and advertising are two good examples. In a city where most people travel by car, the efficiency of public transport is reduced, and this further encourages more people to buy cars. Similarly, if all firms in an industry pay for advertising, then every new firm planning to enter that industry must take advertising costs into account whether they like it or not. Protection is not dissimilar from other supposedly innocuous commodities based on collective equilibria which are far from ideal.

These examples demonstrate the case in which, if some people buy protection, this constitutes a negative externality for those who do not. Consider now the positive externality in which protection functions as a public (or indivisible) good. If, for instance, the local garage is protected, then other merchants enjoy derived protection by virtue of the fact that thieves are afraid to enter the street. Similarly, in a market repute to be protected by a mafioso, outsiders are less likely to cheat: even if only a few pay for protection, all benefit, for outsiders may not be able to distinguish those who are protected from those who are not.

The mafioso would then have an interest in exacting a “tax” from all dealers, for providing them with protection entails no further cost than that already incurred in protecting one garage or a fraction of the market. In this case the interests of the protection firm and its customers coincide, for those already paying for protection would prefer that everybody else in the neighborhood pay his share. We arrive at the apparent paradox whereby the standard piece of evidence from which we infer that a dealer is being forced to pay extortion money—for example, a shop window blowing up—might simply mean that he is being punished for free riding at the expense of those around him, who are paying for a commodity from which he benefits without bearing his share of the cost. Forcing people to pay may be analytically equivalent to picketing by a union: there, too, the aim is to make people pay for what they may all eventually get, in this case wage increases.

Both externality arguments prove that protection tends to proliferate and be inflicted on all regardless of individual will. Customers demand more protection simply because others have more, and suppliers want to impose it universally not only for reasons of economy of scale but also because the commodity sometimes behaves like an indivisible good: whether one wants it or not, one gets it and is required to pay for it.\textsuperscript{13}

One version of the view that the mafia is essentially engaged in extortion is put forward in Schelling (1984: chap. 7), which claims that the main victim of the mafia in the United States is “the man who sells illicit services to the public. And the crime of which he is the victim is extortion. He pays to stay in business” (p. 185; emphasis added). Illegitimate “may find the [protection racket] useful as many small businessmen find trade associations and lobbies and even public relations offices useful” (p. 185). Dealers in illicit services, however, do not really need the “services” of organized crime; rather it is the latter which feeds off the former. The only real protection organized crime offers, apart from “protection” against itself, is against other rival extortionists; and this is because it is possible to tax people successfully only if one holds a monopoly over taxation, that is, if nobody else is taxing them at the same time (see also Buchanan 1973).

The crucial point of this argument is that dealers are willing to pay for protection just in order to stay in business. But as evidence of extortion this is open to challenge. In a protected market a potential dealer faces a cost of entry higher than the cost which would be strictly necessary were the market not protected. From the point of view of the new
entrant, this may look like extortion. But from the point of view of
those dealers already buying protection, the extra cost imposed on
the new entrant is precisely one of the reasons they pay for protection in
the first place: to deter new competitors. The matter is therefore one of
perspective. Whether we are dealing with extortion or genuine protec-
tion depends on whether we are the new entrant or the protected
dealer. In essence the two are equivalent, as it is impossible to protect
someone against competition without damaging competitors at the
same time. The same applies to lobbies, governments, and the mafia. In
short, there is no economic reason to prevent oligopolies from paying
organized crime for protection against competitors.

A further reason for the simplistic view that the mafiosi would them-
selves commit the crimes against which they claim to offer protection is
that evidence suggests crime is if anything more widespread where the
mafia is present. In 1990, for instance, Sicily, with only 9 percent of the
total Italian population, accounted for 24 percent of the nationwide
number of robberies. Although crime may be related to other causes
such as unemployment, it is natural to infer that mafia protection is
useless at best and possibly bogus. But even without the benefit of any
conspiratorial logic, there is a sound theoretical reason why the pre-

ence of the mafia encourages crime. This does not imply that mafia
protection is not effective; on the contrary, it is effective—but in pro-
tecting the wrong people.

Ordinary citizens dislike being cheated or robbed. But something we
tend to forget is that so do thieves: there is nothing like a dishonest fence
to spoil their sleep. They cannot resort to the law, and, being criminals,
they have an excellent reason not to trust one another. Thus, thieves
need protection badly and, as a result, become particularly eager cus-
tomers. Correspondingly, if protection is readily available, the tem-

tation to embark on a criminal career increases, since it becomes easier
to dispose of stolen goods or to avoid retaliation. So why should ma-
folios discriminate and systematically protect only the property rights of
the robbed against those of the robbers?

In an ordinary legal society everybody, like it or not, effectively signs
a contract by law and receives protection accordingly. But imagine in-
stead a society in which property rights are not defined and no one is
automatically protected. Here, property rights are acquired only by
actively signing a protection contract the terms of which are open to
negotiation. What is understood elsewhere as a crime is here regarded
as a particular kind of dispute between two parties. Legal convention

nearly distinguishes victims from perpetrators, but in mafia terms the
right not to be robbed (or kidnaped or cheated) is greater than the right
do rob or kidnap or cheat only if the victim's value to the protector is
likewise greater. In fact, there is no such thing as rights. If a thief pays
well enough, he qualifies for protection just like anybody else. Mafiosi
have no prejudices in this regard. Prerogatives are allocated to the high-
est bidder, who need not be the richest. The features which distinguish
a good customer are not ordinary ones; his wealth and potential ability
to pay—and consequently the quality of the protection he receives—are
assessed in ways not immediately apparent to conventional economic
understanding. The customer may simply be a party to a long-term
protection contract. He may be short of cash but capable of returning
valuable favors. Services not for sale elsewhere gain common currency
here: votes, marriage, murder, bureaucratic dispensations, credit facil-
ties, selective privileges of all sorts. Only so long as mafiosi serve
equally attractive customers will their intervention be fair.

An old argument contends that mafia have good reasons not to push
their demands too far because, as Franchetti ([1876] 1974) claims, "If
the villains made use of their destructive abilities to an extreme degree,
they would soon lack the very matter from which to steal" (p. 126).
This is less a theoretical than an empirical observation, for it does not
hold under all circumstances. The extent to which it does hold de-
deps on the mafioso's time horizon: as it shortens, the temptation to
prey grows. As with all dealers, if the future looks uncertain, protec-
tors will maximize present over future income. They will be more likely
either to sell bogus protection or to charge extortionate prices for it, or
both. Moreover, they will have an incentive to arbitrate between crim-
inals and victims rather than systematically protect the latter or, worse,
protect only delinquents. Finally, if customers know that the mafioso's
"life expectancy" is short, they will be reluctant to buy protection.
Consequently, mafiosi need to employ energetic forms of promotion. In
brief, as the time horizon shrinks, protection approaches extortion.
Conversely, mafiosi who see a long future in business ahead of them, or
ahead of their descendants, are less likely to harass customers for fear
of risking future income. They will also be more likely to protect victims
rather than robbers or cheaters, and, correspondingly, dealers will also
feel more relaxed about purchasing protection. The overall degree of
stability of the protection industry—an issue which concerns us in the
next two chapters—is, therefore, a crucial variable in predicting maf-
ioso behavior.