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# Destructive entrepreneurship : the costs of the mafia for the legal economy

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**ABSTRACT.**

This presentation focuses on the infiltration of legitimate businesses by the mafia and on the existence of "legal mafia-owned enterprises" (that is to say legal, declared enterprises owned – directly or indirectly - by Mafiosi). Crime economics often limits itself to the destructive aspects stemming from merely illegal activities. Mafia investments in the legal economy and the associated mafia entrepreneurship are also an underestimated source of latent conflict which is costly for the economy and society. The aim, here, is to show that mafia-owned legal enterprises have to be taken into account because they establish a lasting unproductive, and even destructive entrepreneurship. The mafia strives to create an artificial scarcity which affects only its non-members and, therefore, the mafia manages to dominate markets and other entrepreneurs. The mafia then turns from its initial appropriative functions into a rule-producing function in order to shape markets. Concretely, the mafia is setting the rules of the game in its territory.
***Keywords***: Artificial scarcity, Baumol, destructive entrepreneurship, mafia, mafia-owned legal entreprises.

## A. INTRODUCTORY REMARKS

In a paper published in 1990, Baumol raises the question of policy growth showing historical evidence of the fluctuations in the allocation of entrepreneurial activity between productive, unproductive, and even destructive contributions. He also links the observed kind of allocation at a particular time and place to the existing rules of the game determining the relative payoffs to different entrepreneurial activities.

The aim, here, is to apply the scheme of Baumol (1990) to a specific kind of organized crime: the mafia. The focus is on the Italian mafia as defined in the Italian Penal Code (article 416 bis), although similar types of organized crime can be found in countries such as Japan, China, and Russia (see Champeyrache, 2007, part five). The emphasis is put on mafia-type organized crime because its specificity is to operate in legal as well as illegal markets. In legal markets, the mafia uses firms known as 'mafia-owned legal enterprises' – enterprises with a legal, declared activity (such as transport, tourism, civil engineering, agriculture) but owned directly or indirectly (through figureheads) by members of the criminal association. Mafiosi owning such enterprises form what I call "mafia entrepreneurship", therefore limiting myself to the legal activities of the criminal association. Judicial evidence show that the infiltration of legitimate businesses by the mafia in territories of southern Italy such as Sicily, Calabria and the province of Naples is a lasting and expanding phenomenon. Part of its extent is revealed by the assets' seizures permitted by the Rognoni-La Torre since 1982 (for more data, see Transcrime, 2013). In these territories, growth is on average lower than in the rest of the country, even though, historically, the original places of mafia spreading (the Conca d'oro in Sicily, the port of Naples, Gioia Tauro in Calabria) where among the richest. With regard to such a context, Baumol (1990) might be of great help in order to start answering two main questions for a better understanding of what mafias are:

How can mafia entrepreneurship be best described? Mainstream economists focus on the pursuit of profit and on efficiency. The spreading of mafia entrepreneurship associated to low rates of regional growth in mafia-plagued territories challenges this viewpoint. The possibility for entrepreneurs to choose unproductive or even destructive activities is particularly interesting as far as the mafia is concerned.

What are the rules of the game in mafia-ruled territories? Or, more precisely, who is really setting them, maybe not officially but concretely? If the institutional background is decisive for the allocation of entrepreneurship, then, it is necessary to understand what are the relative rewards for the different kinds of entrepreneurship and if the presence of the mafia is able to change these payoffs.

The two issues above will guide the following contribution. The first part, indeed, will focus on mafia entrepreneurship, first by describing it more accurately (B.1), then by highlighting its unproductive (B.2) and even destructive (B.3) dimensions. The second part will deal with the rules of the game and their setting. A closer look at the means, goals and rewards for entrepreneurs in mafia territories (C.1) will give some clue that the mafia is, though unofficially, setting the rules and that, by doing so, it conquers a rule-producing function that goes beyond the mere appropriative function associated to coercive power and organized crime (C.2).

## B. BAUMOL (1990) AND THE INFILTRATION OF LEGITIMATE BUSINESSES BY THE MAFIA

In order to apply Baumol (1990) to the case of the infiltration of legitimate businesses by the mafia, a necessary preliminary step is to define more precisely what is intended by "mafia entrepreneurship". Then, its favorite fields of activities are examined in order to qualify them as unproductive and even destructive.

### B.1. MAFIA ENTREPRENEURSHIP

Mafias are economic actors. They obviously take part in illegal activities as organized

criminals. As such they have been analyzed by crime economists in the wake of Schelling's seminal papers (1967, 1971). Because they are illegal and therefore not registered for the calculation of national growth products, these activities are usually considered as unproductive. For the same reason, the term entrepreneurship does not really apply to this (dark) side of the economy.

Mafias truly stand as entrepreneurs when they operate in the legal field of the economy. In 1979 Anderson analyzes the main reasons why criminals may choose to infiltrate legitimate businesses (namely because legal activities provide legitimate incomes hiding true business; small shops, bars, restaurants cover activities related to loan-sharking or illegal betting; it is a way to integrate outputs and inputs needed in both legal and illegal activities (transportation, warehousing,…); money-laundering can be under control; the criminal organization can diversify its portfolio). According to her, the infiltration of legitimate businesses is merely functional to criminal activities, which implies that it is also secondary for organized crime. The first work to really deal with the notion of "mafia entrepreneur" is probably Arlacchi (1983). It focuses on the legal activities of the Italian mafia opening the way for a large field of research and showing that the mafia also owns legitimate enterprises, which I call "mafia-owned legal enterprises". According to Arlacchi (1983), the specificity of mafia entrepreneurship is the use of violence on legal markets. He even coins the term "entrepreneur with the Kalashnikov". However, even if violence has always been associated with the mafia, this association is not always valid. It may be associated with entry into legal markets but recurrent violence isn't conceivable if the aim is a long lasting infiltration of legitimate businesses because it would attract the attention of police. The point is that mafia infiltration of legitimate businesses is not a 'hit-and-run' strategy (enter the market, extract high profits, and leave) – it is a long-term strategy. Historically, Mafiosi enter markets as soon as possible, e.g., when capitalism replaced feudalism in Sicily, or when Russia abandoned the socialist system (Champeyrache, 2000). This strategy must not be misunderstood: legal activities in no way replace illegal activities. According to the Italian Penal Code, one of the mafia's major goals is to combine the two spheres. For instance, extortion on a systematic and regular basis (the Sicilian pizzo) is a fundamental mafia activity, even when it does not yield much financial reward.

Thereafter, the term "mafia entrepreneurship" refers to the presence of Mafiosi in legal markets and to the existence of mafia-owned legal enterprises, that is to say enterprises that have a legitimate and declared activity in various sectors such as the building industry, tourism, agriculture, retailing groups, etc. but whose owners are directly or indirectly members of a mafia. Knowing the object of analysis, the scope of this point 2 will be to qualify the mafia entrepreneurship using Baumol (1990)'s typology of "Productive, unproductive and destructive (entrepreneurship)".

## **B.2.** UNPRODUCTIVE ENTREPRENEURSHIP: MEDIATION AND APPROPRIATION

At first sight, mafia entrepreneurship may be labeled as unproductive entrepreneurship because it is associated to mediation (see, for example, Gribaudi, 1980) and appropriative functions.

Since the earliest years of its existence, the mafia has always been present in the economic – legitimate – life of its original territories. Since the nineteenth century, in western Sicily and in Naples, the local agriculture and industry are both widely, if not totally for some sectors, under mafia control. Mafiosi act in these sectors as guarantors for participants, be them sellers or buyers, and for exchanged goods. For instance, on wholesale markets, Mafiosi occupy an intermediate position between sellers and buyers. Thanks to it, they have a significant impact on the setting of prices, the distribution of goods, and the definition of times and modes for products deliveries. Seemingly, mafia's presence on wholesale markets could be considered as positive for the economy: the Mafioso mediator facilitates transactions that might not have taken place if he hadn't been there to guarantee them. In his book dedicated to the Sicilian Mafia, Gambetta (1992, p.7) describes the intervention of the Mafioso under the figure of "don Peppe".

In a context characterized by the fear for parties to a contract to be cheated, don Peppe sells a surrogate of trust because he offers himself as a guarantor. This doesn't mean he acts in favour of the reestablishment of interpersonal and generalized trust. The "service" he sells is trust "here and now": it is available for one specific transaction occurring between well-identified contractors. It is also not a free service, as trust would be if it was a public good like it should be in a "sane" society: according to Gambetta, the Mafioso takes a 2% commission from the import of the transaction. The intervention of don Peppe has nothing to do with the more common features of extortion for protection. Don Peppe doesn't offer his protection but rather information on participants to the exchange and also on the goods that are to be exchanged. If potential participants to transactions are still suspicious but nonetheless want to buy or sell goods, they can resort to the Mafioso for further service, obviously duly paying for it. The Mafioso, then, will personally guarantee for the seller (he will be paid) and for the buyer (he will get the products of the expected quality). This intermediation works on legal markets as well as outside of them, especially on clandestine and black markets, a conspicuous part of Southern Italy's economy.

In a context of generalized mistrust which is harmful to economic transactions, the mafia acts as a mediator guarantying transactions and, as a consequence, allowing them to exist. Economic agents living in Mafia-ruled territories still do not trust each other fully. In an intermediated transaction, the seller doesn't trust the buyer and vice versa, but both of them trust the third party to the contract, the Mafioso. It also means that what really matters is the mediation. The mediation is at the root of the surrogate of trust that enables the transaction. When left alone, without the Mafioso, there is absolutely no certainty that the same seller and buyer will contract again for a new transaction, even though they already did once with the Mafioso. Reiteration of transactions is linked to the continuing presence of the Mafioso. There is no building of trust through repeated interactions. The one and only vector of trust is the mafia, which means it will become the necessary partner of the whole economic life. By so doing, the mafia is paid for an unproductive and even parasitical task.

As a perverted mediator, the mafia also gives access to goods and services it doesn't even produce. It then turns into an unproductive entrepreneur who appropriates wealth detrimentally to others. Mafias, indeed, spread in originally wealthy territories where they establish systems of economic control by tapping into resources and draining them into the mafia network (Champeyrache, 2009). Then, they offer these resources without even transforming them or adding values to them. For example, in zones such as western Sicily or Naples access to nursery places or retirement homes is mediated by the mafia even though it isn't the mafia who creates them. Triads, the Chinese mafia, also offer services that already exist to the Chinese Diaspora taking advantage of existing wealth without creating any (Booth, 2001).

## **B.3.** DESTRUCTIVE ENTREPRENEURSHIP: A CONFLICTUAL ECONOMY

Far from being merely unproductive, mafia entrepreneurship is in fact destructive meaning that it has mainly a capacity to destroy rather than to create. More specifically the mafia in the legal economy actively participates in the destruction of trust, of talents in general and of wealth.

I already mentioned Gambetta (1992) and the mediation function of the Mafioso in a context of generalized mistrust. In Gambetta (1992)'s work, such mistrust is taken exogenously: the mafia takes advantage of an existing situation. Catanzaro (1988)'s approach reverses the point of view: Mafiosi create their own "market for protection" by destroying generalized trust and shaping therefore a need for protection and then offering their services. Obviously, private mafia-protection isn't for free and the pizzo (money paid in Sicily on an extortion basis but under the guise of money for business protection) constitutes an opportunity cost of foregone productive resources. For those who refuse to pay for private mafia-protection the risk is to suffer from various "incidents" such as finding glue in the locks of your shop or factory, arson fires set to your premises, destroyed machine tools and so on. All these "incidents" result in spending to the

detriment of productive investment. Another risk for those resisting the mafia is called in Southern Italy "environmental isolation". It means that, for example, customers – obeying the mafia watchword – will avoid the shop of a storekeeper refusing to pay the pizzo[1]. It results in a loss of activity.

Mafia entrepreneurship also generates a destruction of talents. Because entrepreneurs or potential entrepreneurs are aware of the presence of the mafia not only in illegal but also legal businesses, economic agents incorporate the mafia presence into their entrepreneurial choices. They know that the mafia has appropriative activities aiming at taking control over existing thriving enterprises or, at least, at extorting part of legitimate incomes in exchange for a fictitious protection. Legal mafia-owned enterprises as a consequence deter non-Mafiosi from freely developing activities and individual talents and diminish the options left to them. Two features are commonly observed in Mafia-ruled territories:

- Sterilization of entrepreneurial potentialities. This process results in the destruction of industry. Panel research conducted by the Italian research center Censis (2003) revealed that many owners of 'honest' enterprises had self-limited the economic expansion of their productive capacities to avoid Mafia attention. Some owners even had abandoned all entrepreneurial activity.
- Migration of talents. Arlacchi (1986) referred to this process, which involves the movement of entrepreneurs toward territories where property rights are more effectively enforced.

Both sterilization of entrepreneurial potentialities and migration of talents are evidence of the destructive power of mafia entrepreneurship in territories ruled by the criminal association. Destruction can be direct: Mafiosi entrepreneurs destroy talents and activities. It can also be indirect whenever Mafiosi manage to take control over existing "honest" enterprises because they can't be seen as alternate entrepreneurs from an efficiency viewpoint but rather as poorly-skilled substitutes in the way Falcone used to describe them (see for instance Falcone, Padovani, 1992).

Mafiosi entrepreneurs also destroy wealth because they drive non-Mafiosi entrepreneurs to spend money in order to protect their productive equipment and premises. It can be assimilated to some more opportunity costs of foregone productive resources due to the production of conflict technology (Hirshleifer, 1991). In 2003 a survey (Censis, Fondazione BNC, 2003) tried to quantify in monetary terms the "missed" development in Southern Italy due to the criminal presence. A panel of 760 entrepreneurs operating in the south of Italy answered a wide array of questions. Some results are worth mentioning even if 1) the research is not recent, and 2) such field-work is always biased in terms of sincerity in answering. Somewhat enticingly, researchers of the Censis use the term "cost of fear" to refer to the social and economic losses associated to organized crime. They estimate it following two leads:

- What could be the growth in turnover for southern Italy's enterprises without organized crime? (1)
- How many supplementary expenses do entrepreneurs incur to secure their enterprises? (2)

(1) The Censis estimates an average unrealized growth rate from data given by the interviewed entrepreneurs. 42.5% of them, indeed, declare that they would increase their turnover if they were rid of organized crime[2]. According to 15.9% of the interviewees the expected growth in turnover would exceed 10% and for 9% of them it could even amount to more than 20%. It comes to an average growth rate for the panel-enterprises of around 5.4%. By extrapolation researchers consider that for southern Italy the "loss" in turnover due to organized crime is the equivalent of around 7.5 billion Euros, which amounts to 2.7% of the GDP of southern Italy in 2001.

(2) The second axis is based on security costs incurred by southern entrepreneurs. Only

[1] It happened to Libero Grassi, a Sicilian entrepreneur, who defied the mafia and wrote a letter published in the *Giornale of Sicilia* entitled "Dear extortionist". He was killed in 1991.

[2] Such answers amount to 53.1% for building contractors. There is nothing surprising about this higher level as the building industry is one of the main targets for mafia infiltration.

32% of the interviewees didn't invest in security devices to protect their production tool. On average, for the panel enterprises, these unproductive investments amount to 3.3% of the turnover for the period 1999-2001. Once again by extrapolation, it means that more than 3.4 billion Euros were spent in order to protect southern enterprises, which represents 3.1% of the added value created in southern Italy in 2001. By further extrapolation, the Censis also gives an estimate of what the GDP in the south of Italy could have been without distortions on legal markets introduced by organized crime and compares it to the GDP of the rest of Italy and to the observed regional GDP of the Mezzogiorno. The comparison of effective data from 1981 to 2001 shows a stagnation of regional growth in the South and a clear backwardness with respect to the rest of the country. But if the potential regional GDP is taken into account, there is no more stagnation but a continuous growth and a process of catching up of the Mezzogiorno.

**Table 1. A comparison between Southern Italy and the rest of Italy. Effective and potential GDP per capita (Index Center and North base 100)**

| | Effective GDP per capita Center-North | Effective GDP per capita South | Potential GDP per capita South |
|---|---|---|---|
| 1981 | 100 | 57.4 | 59 |
| 1986 | 100 | 57.9 | 67.2 |
| 1991 | 100 | 59.9 | 78.8 |
| 1996 | 100 | 56.1 | 83.7 |
| 2001 | 100 | 57.5 | 97.1 |

*Source: Censis – Fondazione Bnc (2003)*

This estimate – though controversial – doesn't include other important aspects of the destructive nature of mafia entrepreneurship. In particular, mafia-owned legal enterprises are particularly associated to rent-seeking activities through the appropriation of public expenditure, notably in the building industry (Champeyrache, 2007). The achievement of works by mafia entrepreneurs is always characterized by budget overruns and a bad quality of the produced goods. For instance, the surfacing of highways by mafia-owned legal enterprises doesn't meet the quality standards of thickness and strength, and deteriorates prematurely which implies new and costly works of maintenance, achieved by the same enterprises. It all leads to a waste of resources in already deprecated parts of the territory.

## C. WHO IS (REALLY) SETTING THE RULES ?

Mafia entrepreneurship generates a loss for the economy of territories under its control: its whole impact is destructive in terms of trust, talents and wealth. Nonetheless, the infiltration of legitimate businesses by Mafiosi is a long-lasting phenomenon and mafia trials have shown that some non-Mafiosi entrepreneurs choose to accept the mafia or even to comply with its way of doing business. According to Baumol (1990), such an allocation of entrepreneurs in destructive activities is a result of the rules of the game and of the relative payoffs society offers to the different types (productive, unproductive, and destructive) of activities. Does it mean that there is a bias in favor of destructive activities in territories such as Sicily or Naples and Calabria (but it applies to other mafia-plagued countries such as Russia, Japan or China)? Why in some parts of Italy and not in the whole country? All in all, who is (really) setting the rules? To answer such questions, some enquiry into the means, goals and rewards for entrepreneurs in mafia-ruled territories is highly needed.

### C.1. MEANS, GOALS AND REWARDS IN MAFIA-RULED TERRITORIES

An assessment of what are the means, goals and rewards for mafia entrepreneurs helps understand the durability of mafia infiltration and why many non-Mafiosi apparently so peacefully coexist with the criminal organization.

Mafias are usually associated to violence and intimidation. It is a fact that Mafiosi are violent in their illegal activities and that they use violence to enter legal markets at the beginning of the process of infiltration, especially in a context of institutional vacuum induced by an economic transition. Sicily in the 19th century and Russia in the 20th are good examples

(Champeyrache, 2000). But soon, as mafias are well established on a territory, they tend to avoid the overt use of violence, in particular in the legal field. There are reasons for such a behavior, two are prevailing: the threat of violence is enough for a mafia to get what it wants from others; violence is too costly (as already mentioned, it attracts the attention of the police) with regard to other means of succeeding in infiltrating legitimate businesses. In mafia-ruled territories, violence is most of the time replaced by artificial scarcity conditioning the local legal economy. The functioning of artificial scarcity is described in Champeyrache (2014). It is a scarcity socially created by the mafia in order to obtain higher profits and to gain status. The mafia voluntarily and collectively creates scarcity in the markets it infiltrates to unevenly constrain individuals. This artificial scarcity has nothing to do with the 'natural' scarcity found in mainstream economics. It is constructed to establish segmentation among economic agents and discriminate those suffering from scarcity (non-Mafiosi) and those creating it (Mafiosi) by appropriating and concentrating resources. Mafiosi entrepreneurs have an easy and privileged access to goods and services. Non-Mafiosi must often ask the mafia for a facilitated access to the same goods and services. Therefore, the activities of non-Mafiosi entrepreneurs are constrained by the mafia. This latter can even, in some cases, asphyxiate the activity of an entrepreneur by cutting access to a crucial input. It explains why the mafia is expanding its presence in legitimate businesses and, as a consequence, why a destructive kind of entrepreneurship keeps on prevailing.

Baumol states that "If entrepreneurship is the imaginative pursuit of position, with limited concern about the means used to achieve the purpose, then we can expect changes in the structure of rewards to modify the nature of the entrepreneur's activities, sometimes drastically" (Baumol, 1990, p.909). I already dealt with the means, let's focus now on the two main other aspects: the aim of entrepreneurship and rewards.

The goal of mafia-owned legal enterprises is to make profits but, more importantly, to assert the power of the mafia over its territories. Violence and coercion are no more necessary because, thanks to artificial scarcity, the power of the mafia is increasingly secure and unnoticed. The mafia uses two of the social mechanisms identified by Dugger (1980, pp.902-903) to build an uncontested hegemony, that is to say emulation and mystification. Emulation refers to the possibility for an institution to become the source of status: in mafia-ruled territories, being affiliated with the mafia is a form of status. Mystification occurs through "emulation and distortion of symbols" (Dugger, 1980, p.903): the mafia has a capacity to transform negative values and make them seem positive as happens with the myth of Mafiosi as "men of respect" (Champeyrache, 2007, p.35 sq). Artificial scarcity drains goods, resources, and wealth to the Mafiosi, giving them social status, and therefore it increases the process of emulation and mystification. The resulting power is based on the same collective that builds the artificial scarcity. Mafia bosses (Riina, Provenzano now in jail, and Messina Denaro today) don't exercise individual power (that would be linked to their individual strength or will) but are powerful because of their institutional position (their position in the mafia organization chart).

The rewards for Mafiosi are obvious: thanks to their affiliation to the criminal association they escape suffering from artificial scarcity, and they obtain profits and a status they would never have gotten as individuals not affiliated to organized crime. It also means that Mafiosi as entrepreneurs in legitimate businesses exist only as part of the mafia: a Mafioso wanting to quit the mafia and remain an entrepreneur will certainly fail as mafia-owned legal enterprises primarily belong to the mafia and are recognized as such by the other economic agents. Non-Mafiosi, on an individually basis, are also encouraged to facilitate mafia entrepreneurship and to become accomplices of destructive activities so as to lessen the artificial scarcity constraint, and to benefit from a sort of trickledown effect. Cooperating with the mafia, indeed, is a way to gain access to goods, profits, and indirectly to public bids through subcontracting.

## C.2. THE MAFIA AS A RULE-PRODUCER

Mafiosi entrepreneurs have an impact upon non-Mafiosi entrepreneurs. Some mafia-owned legal enterprises are created by Mafiosi; others are existing enterprises taken over by Mafiosi. In this latter case, Mafiosi manage to expel non-Mafiosi from their businesses. Non-

Mafiosi who are trying to resist the mafia run the risk of being eliminated (literally or symbolically through the collapse of their firm). It means that the mafia is able to punish those who refuse to abide by its tacit law. Non-Mafiosi living in mafia territories know that such "sanctions" apply, they take them into account whenever making choices and taking decisions. It is even the reason why the anti-mafia association "Addiopizzo" ("farewell to extortion") was born in 2004. Some young inhabitants from Palermo were about to finish their studies and start some businesses and they knew that, sooner or later, they would have to cope with the mafia, in particular with request for "money for protection". They meant to refuse it but they knew they could only do so collectively in order to avoid being sanctioned by the mafia[3]. One of the most revealing aspects in the birth of Addiopizzo is the focus on the necessity to act collectively to counterbalance the mafia's pretenses. The existence of mafia-owned legal enterprises, indeed, emphasizes the unbalance on markets between a collectivized and a decollectivized side (Dugger, 1989). The asymmetry concerns the relations between sellers (collectivized) and buyers (decollectivized), but also, with the mafia, the relations between Mafiosi entrepreneurs (collectivized) and non-Mafiosi entrepreneurs (decollectivized). Obviously, the collective part is far more powerful than the (isolated) individual. This power, backed by the creation of scarcity, is largely unnoticed and even accepted more or less voluntarily. The law of supply and demand enforces this power by granting more wealth to the collectivized side of the market, that is to say to the Mafiosi. This wealth is a factor of emulation for part of the non-Mafiosi. Violence, threats and intimidation inspired fear and a biased respect toward the mafia; it still is the main way for Mafiosi to handle illegal markets. Coercion is indeed the one best way to rule the illegal sphere where there is no higher level of institution to set the rules of the game. In legal markets, the use of coercion would be counterproductive on the long run. An ever-conflicting situation is limited externally because it attracts the attention and repression of the police; it is also limited internally because it is costly to exert over time a "destructive coordination" (Vahabi, 2012). The use of artificial scarcity is, therefore, the expression of a specific characteristic of the mafia. Organized crime is known for its appropriative functions. A mafia can be defined as a type of organized crime which is not limited to appropriative function but also has a rule-producing function. Mafias are unofficial rule-producers on the legal side of the economy because they are able to shape markets and to shape the behaviors of others. It gives a deeper signification to the phenomenon of mafia infiltration of legitimate businesses. The existence of Mafiosi entrepreneurs (in legal activities) is part of a wider scheme for the mafia than just attracting public spending and making legitimate profits. By controlling markets, the mafia manages to control socially and politically a territory. The economy is merely a tool for a better-established de facto territorial sovereignty.

Thanks to artificial scarcity, Mafiosi entrepreneurs create new kinds of conflicts of interests which are non-violent. They also provide new working rules for non-Mafiosi in order for them to better cope with artificial scarcity if they want to go on actively playing the game. "Actively" meaning without losing their assets and without being constrained in their choices of investment and growth strategies.

The capacity of the mafia to manipulate norms and produce rules shows in particular in the field of property. Indeed, the mafia is able to "endogeneize property rights: by manipulation of prices [thanks to artificial scarcity], it manipulates the alienability right attached to the complete bundle of property rights. Once in the hands of Mafiosi, property rights cease to become alienable – the system of property rights is locked. Alienability turns out to be simply a formal right, whose effective significance is reduced to a unilateral transfer toward or within the Mafia network. The Mafia increases the fluidity of the property market because it constrains 'honest' entrepreneurs to transform their rights. At the same time, alienability becomes a unidirectional characteristic of ownership: as soon as legal enterprises are Mafia-owned, they cease to be effectively transferable, although they remain formally so. The inalienability of legal Mafia-owned enterprises largely stems from the criminal association's high level of willingness to pay (Arlacchi, 1983), and from the fact that the Mafia can avoid transferability by demanding disproportionately

[3] Their slogan, at first not signed, was nightly stuck on the walls of Palermo, saying: "An entire people that pays the *pizzo* is a people without dignity".

high prices for enterprises. Formally, de jure, the Mafia respects the property rights system, but there is a huge discrepancy between inalienability de jure and de facto: productive entities owned by the Mafia are de facto inalienable and property rights over them are locked within the Mafia network." (Champeyrache, 2014, p.). In order to regain some economic space, non-Mafiosi entrepreneurs are encouraged to tolerate and cooperate with Mafiosi rather than reject them as disruptive agents to the economic and social system. By the same way, some of the non-Mafiosi entrepreneurs choose to enter a logic of rent-seeking, resource destruction and tax evasion[4].

## D. CONCLUDING REMARKS

These first steps in assessing the costs for the economy of mafia entrepreneurship show that mafia entrepreneurs favor unproductive and destructive activities in mafia-ruled territories. But the power of the mafia is such that productive activities and entrepreneurship are also overthrown by Mafiosi who create an incentive for cooperation and assimilation of mafia ways of doing business thanks to the use of artificial scarcity: the constraint of artificial scarcity is lessened for those who – without affiliating the mafia – abide by the mafia rules and comply with the mafia pretenses. The mafia can even modulate the lessening of the constraint according to what it seeks and to the degree of resistance of the entrepreneurs. It explains why the infiltration of legitimate businesses by the mafia has to do with the failed or unsatisfactory development of some areas of southern Italy. It also contradicts the "redemption hypothesis" according to which it might be a good option to encourage criminals when they enter legal markets because it could lead them to abandon their illegal activities. Mafiosi enter legitimate markets to make money but, more than that, to strengthen the mafia power over its territory and turn the criminal organization into a shadow institution, that is to say an unofficial and illicit institution asserting its rules on a well-delineated portion of territory. The economic dimension is a tool in the hand of the mafia for a wider project of local sovereignty.

In terms of local growth, it means that mafia entrepreneurship has to be fought even more toughly than illegal activities: mafia entrepreneurship is destructive but it also contaminates the rest of the economy. Baumol's proposal that "it may be possible to change the rules in ways that help to offset undesired institutional influences or that supplement other influences that are taken to work in beneficial directions" (1990, p.919) can be adapted to mafia-plagued economies: the State must regain control of the setting of the rules of the game, protect non-Mafiosi entrepreneurs and improve the devices of seizure of mafia patrimonies.

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[4] Tax evasion is described as a way to counterbalance the costs of the *pizzo* in territories in which the State is considered as inefficient. For an analysis in terms of comparison between taxes and extortion, see for instance Grossman (1995) or Centorrino (1990), Centorrino, Signorino (1997).

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