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## Disorganized Crime: The Economics of the Visible Hand

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DISORGANIZED CRIME: THE ECONOMICS OF THE VISIBLE HAND.  
By *Peter Reuter*. Cambridge, Massachusetts: The MIT Press. 1983.  
Pp. xii, 233. \$17.50.

No nation can tolerate a highly structured monolithic underworld that circumvents the laws of society and directs criminal operations throughout the country. The problem has attracted much attention in the United States<sup>1</sup> because of a widely held perception

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1. W. MOORE, *THE KEFAUVER COMMITTEE AND THE POLITICS OF CRIME, 1950-1952*, 184 (1974) ("Public response to the hearings exceeded even the most optimistic predictions: Seventeen times as many people viewed the morning telecasts as watched the usual programs and over 80 percent of those who watched television observed the crime hearings. An estimated 20 million to 30 million people viewed the hearings across the nation."); *THE PRESIDENT'S COMMISSION ON LAW ENFORCEMENT AND ADMINISTRATION OF JUSTICE, TASK FORCE REPORT: ORGANIZED CRIME* (1967); J. MCCLELLAN, *CRIME WITHOUT PUNISHMENT* (1962); *THE KEFAUVER COMMITTEE REPORT: ORGANIZED CRIME* (1951); *Hearings before a Special Subcommittee to Investigate Organized Crime in Interstate Commerce. United States Senate*, 81st Cong., 2d Sess. & 82d Cong., 1st Sess., vols. 1-5 (1950-1951).

that organized crime does in fact exist in this nation. Peter Reuter<sup>2</sup> sets out to improve understanding of this perceived criminal substructure by examining illegal markets in the economic framework of industrial organization analysis. He attempts to discredit the standard orthodoxy "that illegal markets are typically dominated by a single group whose power rests on the control of corrupt public authority and the command of overwhelming violence" (p. 2).

Relying on data gathered from police files, confiscated records, and interviews with police, prosecutors, and criminal informants, Reuter makes a detailed economic study of bookmaking, numbers operations, and loansharking in New York City. No special training is needed to follow his arguments; even a reader who dislikes economics will find Reuter's description of illegal markets both comprehensible and enlightening. Reuter's clear and concise discussion of each market gives the reader a glimpse into a clandestine and often misperceived American subculture.

Reuter couples his examination of illegal markets with an analysis of the economic consequences of product illegality. He discusses the principles of industrial organization and then examines the effect of the illegal status of underworld markets on such organizations. Reuter argues that the need to escape police detection makes it impossible for criminal enterprises to take advantage of economies of scale and customer goodwill. In addition, the lack of legally enforceable contracts and auditable books cripples the criminal entrepreneur's efforts to obtain external finance. The author concludes "that numerous purely economic consequences, 'invisible hand' factors, lead to illegal markets being served by localized, fragmented, ephemeral, and undiversified enterprises" (pp. 130-31).

Reuter then examines countervailing forces that might overcome the economic factors that deter the mass organization of criminal activities. The accepted view is that corruption of public authority and command of overwhelming violence are necessary for the development of a criminal network and the monopolization of illegal markets. Reuter refers to these non-economic countervailing forces as the "visible hand" (pp. 2, 130, 177).

Arguably, the criminal organization that controls public authority will operate freely and be able to prevent the entry of others into illegal markets. Reuter asserts, however, that such a view ignores the complexity of current methods of enforcement. There are a variety of law enforcement agencies at the federal, state and local levels; the overlap of their respective jurisdictions makes it difficult for criminals to control law enforcement mechanisms effectively. This multiplicity of authority also increases the likelihood that corrupt of-

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2. Peter Reuter is a Senior Economist at the Rand Corporation.

ficials will be detected. Given the complex structure of the system, "corruption on the part of law enforcement agencies could lead to more decentralized market structures than a situation of no corruption and random enforcement" (p. 124).

Reuter is equally skeptical of the effectiveness of violence as a way to monopolize illegal markets. He examines, in the context of the criminal organization, the role of violence in dispute resolution, employee and customer control, advancement within the organization, and suppression of competition. Reuter argues that the costs of violent monopolization of markets as well as the increased threat of police action outweigh the monopoly returns from such markets. He claims that "only in very narrowly defined circumstances . . . is it advantageous for the illegal enterprise to use control of a dominant force, in effect an army, for the purpose of eliminating competition" (p. 132). The author therefore concludes that forces of corruption and violence do not overcome the tendency of illegal markets toward small and ephemeral enterprises: "[T]he invisible hand is victorious" (p. 2).

Reuter's examination of the role of violence in dispute resolution leads him to investigate the Italian syndicates and their mediation of underworld conflicts. This discussion leaves the reader with a sense of inconsistency in Reuter's work. During most of the book, Reuter seems intent on destroying any romantic perception of organized crime. In his chapter on Italian crime networks, however, he seems to legitimize the activities of the Italian syndicates.

Reuter asserts that the "Mafia" does not centrally direct a national conspiracy, but he does speak of loose relations between "Mafia" families throughout the nation. He then examines the "Mafia's" role as an arbiter of underworld disputes. In the course of his discussion, Reuter suggests that the "Mafia" is the only form of nationally organized crime and that it is primarily financed by funds that it earns from the provision of underworld quasi-judicial services. Reuter discusses the existence of the "Mafia" and asserts "its durability and stability" (p. 159) in a book that uses economic analysis to demonstrate the disorganized nature of crime. The Italian syndicates thus appear romantic; they organize and supervise despite economic disincentives that prevent organization of other groups in illegal markets. The Italian syndicates also appear desirable in that they limit the need for violence in dispute resolution: their decisions are self-enforcing due to the syndicates' reputation for violence, not necessarily their use of violence. These legitimating undercurrents are generally inconsistent with the remainder of Reuter's book.

Another unfortunate aspect of Reuter's analysis is that it attributes minimal importance to the impact that non-economic, irrational considerations have on underworld operations. The author does

note the difficulty in quantifying such factors, but his analysis cannot be complete without such consideration. For example, Reuter notes the significant roles of reward and intimidation in ensuring an employee's loyalty. He does mention the non-economic factor of family ties but fails to develop the point further. The author gives no other consideration to irrational factors as they relate to a criminal's loyalty, nor does he examine the role that the desire for power and prestige play in the development of a criminal organization. The discerning reader must question the wisdom of relying on rational models to explain criminal behavior.

A complete paradigm of criminal behavior requires attention to the sociological and psychological influences on the criminal subculture. In contrast, the author, in discussing the "Mafia," spends little more than a page addressing the factors underlying the peculiar success of Italian criminal organizations: the historical Sicilian suspicion of government, the reinforcement of that suspicion by America's response to waves of Italian immigration, the ambition of the young members of homogeneous criminal gangs, and the timing of Prohibition (pp. 159-60). Reuter dismisses this discussion as "little more than plausible speculation" (p. 160).<sup>3</sup> Later, he casually explains the Italian syndicate's failure to settle disputes in black and Hispanic communities as a result of ethnic behavior — the "greater willingness in the black and Hispanic gangs to make use of violence, seen as a very critical symbol of individual worth" (p. 171).<sup>4</sup> As the author moves from economic analysis to discussions about the sociological and psychological aspects of crime, the reader must increasingly question the validity of his analysis.

Although *Disorganized Crime* is an interesting academic exercise, most readers will ultimately question the book's accuracy. Reuter's economic arguments are seemingly sound, but his data base is highly suspect. Throughout the book, he notes the underlying assumptions and general weaknesses associated with his data. In conducting his research, for example, the author relied upon only seven informants on a continuing basis; he further acknowledges that only one of those informants "might be regarded as totally trustworthy" (p. 195). In addition, Reuter admits to being at odds with most of the authorities as to the implications of the information that he compiled. There is also no way to determine whether illegal business is accurately portrayed by the records on which the author relied. In short,

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3. Commentaries suggest that the link between "Mafia" success and these psychological and sociological factors goes beyond merely plausible speculation. See generally L. BARZINI, *THE ITALIANS* (1964); R. GAMBINO, *BLOOD OF MY BLOOD: THE DILEMMA OF THE ITALIAN AMERICANS* (1975).

4. In this instance, the author does note the "risk of making weak generalizations about ethnic behavior . . ." P. 171.

the evidence for Reuter's conclusions is weak. This indictment is particularly telling because Reuter himself criticizes official views on organized crime because of their poor supporting evidence (pp. 3-7).

Whatever their accuracy, Reuter's conclusions lead to a limited prescription. Since the author believes that illegal markets and organized crime are not integrally related, he asserts that separating the two problems "is a necessary condition for effective action with respect to either of them" (p. 177). Although Reuter's failure to make specific suggestions for dealing with either problem may be disappointing, the omission is excusable because his goal is merely to increase understanding of illegal markets. And understanding is, after all, the first step toward control.