

Economic Underdevelopment in Southern Italy: The Mafia Effect

by

Amanda Garofalo


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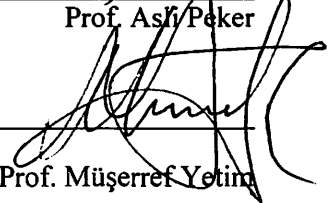
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Approved by:



Prof. Aslı Peker



Prof. Müşerref Yetim

## **Abstract**

The Italian economy suffers from extreme disparity between its northern and southern regions. Important contradictions between economic performance at state and regional levels are manifested through levels of poverty, unemployment, public spending, and quality of infrastructure. Policies and special incentives aimed at improving the economy of southern Italy have proven to be largely ineffective. A possible explanation for these acute regional variations is the presence of a robust network of sophisticated criminal organizations in southern Italy that have thwarted economic growth and development. This thesis analyzes the role of organized crime from an institutional perspective. It examines the asymmetrical power dynamic between local mafia organizations and formal government institutions, in which the former often prevails over the latter, at the expense of economic growth and development. The data presented here indicate a strong link between the activity of criminal organizations and stagnant economic growth in the south. Equally as important however, it sheds light on the inadequacies of local and state government institutions in region, which has resulted in further entrenchment of organized crime. In spite of increased levels of awareness and frustration in public opinion, the insistence on framing organized crime solely as a social phenomenon has proven to be detrimental – it must be re-framed as an economic crisis for measures to be effective. Strategies must include interventions aimed at limiting organized crime’s economic power and influence.

## TABLE OF CONTENTS

CHAPTER .....	Page
ABSTRACT.....	i
1. Introduction.....	1
2. Perspectives on Causes of Uneven Economic Growth & Development in Italy....	4
2.1 Socio-Behavioral Explanations.....	5
2.2 Industrialization and Policy Based Explanations.....	8
2.3 Analyses of the Role of Formal and Informal Institutions .....	11
2.4 Why Institution Based Explanations are the Best Fit .....	13
3. Evaluating the Effects of Organized Crime on Economic Growth and Development in Southern Italy.....	14
3.1 Why Italy?.....	14
3.2 Operationalization of Variables and Description of Indicators .....	15
3.3 Research Methods.....	16
4. Origins and Development of Organized Crime in Southern Italy .....	19
4.1 Explanations for Differing Paths of Political and Economic Evolution	19
4.2 Development of Market Based vs. Clientelistic Economies.....	20
5. The Nuts and Bolts of Organized Crime.....	21
5.1 Spillover and Competition .....	22
5.2 The Finances of Organized Crime .....	23
6. Organized Crime and Political Corruption .....	24
6.1 Organized Crime and Political Corruption .....	24
6.2 Public Spending, the Provision of Public Goods, and Incentives for Job Creation .....	27
7. Private Sector Economic Impacts .....	30
7.1 Impediments to Growth and Limits on Productivity .....	30
7.2 Manipulation of Government Bids .....	31
7.3 From Farm to Table: The Agro-Mafia Industry .....	32
7.4 Organized Crime and the Environment - EcoMafia .....	34
7.5 Organized Crime Infiltration into the Legal Economy .....	35
8. The Effect of Organized Crime on External Funding.....	37

8.1 Deterrents to Foreign Direct Investments (FDI).....	37
8.2 Misappropriation of European Union Funding.....	40
9. Attitudes, Expectations, and Incentives .....	43
9.1 Vox Populi .....	43
9.2 The Corruption of Youth .....	44
9.3 Organized Crime in Political Discourse .....	48
10. Conclusion .....	51
REFERENCES .....	54

## **Chapter 1 - Introduction**

There are few countries that have contributed more to the world's collective history than Italy. It was home to the Roman Empire, one of the greatest the world has ever known, and whose senatorial form of government was the inspiration for democracy as we know it today. It is the birthplace of Michelangelo, Da Vinci and Dante; music composed by Verdi, Puccini and Vivaldi continues to inspire generations. Italian engineers invented aqueducts and highways; modern banking and accounting techniques were developed by Italian monks in Medieval and Renaissance times. Italian immigrants helped build the countries they migrated to, and their descendants continue to make important contributions to the adopted nations of their ancestors. In spite of Italian history being one of remarkable ingenuity and entrepreneurial spirit, what Italy has given to the world, it hasn't been able to give to itself.

The World Bank ranks Italy's economy as the world's eighth largest in terms of GDP, and third largest in the European Union. It is a major player in the global automotive industry, and a world leader in exports such as such as agriculture, pharmaceuticals, complex machinery and refined petroleum. Italy is, furthermore, an open access society with high standards of living. In spite of this however, the well-being that normally results from such impressive economic performance does not benefit the country as a whole. The Italian economy suffers from extreme disparity between its northern and southern regions, which is manifested through levels of poverty, unemployment, public spending, and quality of infrastructure.

On a national level, the total rate of relative poverty in 2016 (families earning less than €1,050 p/ month) was 10.4%. Per se, is not exceptionally high, but what we see on a regional level tells a completely different story. According to data from Italy's National Institute of Statistics (ISTAT), of this 10.4%, over 60% lives in the south. In terms of absolute levels of

poverty, this amounts to 1.6 million families (approximate four million individuals) in the south vs. 667,000 in the north. The scenario for levels of unemployment is strikingly similar. Overall unemployment in Italy is 11.6%, but the average for north Italy is 7.5% while in the south it is 19.6%, with a peak of 24.5% in the region of Calabria. This data confirms the dualism of Italy's economy, which has become its defining characteristic. A March 2017 report prepared by Italy's Fiscal Assistance Center (CAF), based on data collected from the previous year's tax returns takes the division of Italy's economy a step further. According to this report, Italy is actually divided into five distinct categories based on per capita income, economic performance and social hardship. The categories are: 1) depressed provinces in slow decline; 2) fragile with strong levels of hardship; 3) dynamic areas with asymmetrical performance; 4) prosperous regions with widespread well-being; 5) industrial territories with resistant economies (Pini 2017). Not surprisingly, categories 1 and 2 were almost exclusively located in the south, whereas 3, 4, and 5 were all in the north.

The goal of this thesis is to develop further understanding of the dynamics behind inequality in economic growth and development in Italy. As such, it seeks to answer the following questions: 1) what explains the regional variations in economic growth and development in Italy; 2) what are the factors that contribute to such diverse outcomes in the south; and finally, 3) why do they persist. A possible explanation lies in the presence of a robust network of sophisticated criminal organizations in southern Italy that have arguably compromised economic growth and development. It is likely not a coincidence that the most economically challenged provinces of southern Italy (Calabria, Campania and Sicily) are also home to the some of the world's most powerful criminal organizations ('Ndrangheta, Camorra and Cosa Nostra respectively – collectively referred to as the Mafia). These organizations

constitute strong informal institutions whose activities are characterized by patterns of clientelism, corruption, and patrimonialism (Helmke and Levitsky 2004, 728), and who have created a parallel set of norms and violent sub-culture, particularly in communities lower on the socio-economic scale in southern Italy. They exist in direct opposition to local and state government institutions, and their success has depended in no small part on their ability to manipulate public officials through corruption and coercion. In a reality such as this one, it is not unreasonable to hypothesize a link between the activity of criminal organizations and stagnant growth and development in the south, which is the main argument of this thesis.

This analysis of organized crime's negative influence on economic performance in southern Italy, in conjunction with an examination of its effect on the quality of public administration, will be presented in the following way: the first section will be a review of the previous literature on unequal economic growth and development in Italy from the socio-behavioral, patterns of industrialization, and institution based perspectives. Following that is an overview of the research design, which is a mix of both quantitative and qualitative methods. This section is followed by a description of the origins and development of organized crime in southern Italy. Subsequent sections provide detailed descriptions of organized crime's influence on economic performance in the public and private sectors, as well as how it effects decisions to invest in southern Italy and use of external funds from sources such as the European Union. The final sections will be a summary of findings and conclusion.

## **Chapter 2 - Perspectives on Causes of Uneven Economic Growth & Development in Italy**

The uneven nature of economic growth and development in Italy is a well-known and widely accepted fact. The marked dualism of Italy's economy has been the object of much research, with a number of explanations offered as to why southern Italy, particularly the regions of Calabria, Campania, and Sicily, lags so dramatically behind northern Italy. Of the many schools of thought on this subject, there are three that provide the greatest possible explanatory power. The first of these focuses on the socio-behavioral characteristics of southern Italy, and the ways in which social capital, culture, and attitudes toward family and collective action impact levels of economic growth and development. The second school looks at the uneven process of industrialization in Italy in its post-unification (1861) history, and the policy measures developed to address the gap between north and south. Finally, we have the institution based explanations which evaluate the role of institutions, both formal and informal in southern Italy's inferior economic performance compared to the north.

While all three perspectives are compelling in their own right, it would appear that the institution base explanation bears the most weight in the context of slow economic growth in southern Italy. The antagonistic relationship between organized crime and government institutions has resulted in fierce competition in this region. The Mafia has repeatedly challenged the state's monopoly over the use of force, protection of private property, and contract enforcement. These organizations have engaged in the corruption and coercion of public officials in local government, with important consequences for economic growth and development. The correlation between organized crime, ineffective government measures, and stagnant growth in southern Italy makes the institutional argument the most convincing one, not just from a historical standpoint, but also in terms of its ability to explain the persistence of the phenomenon.



## 2.1 Socio-Behavioral Explanations

The socio-behavioral perspective addresses societal differences between north and south, and how these elements relate to the development of democratic institutions, economic growth and stability. Perhaps the most notable work in this camp as it relates to Italy, is Robert Putnam's *Making Democracy Work: Civic Traditions in Modern Italy*. Following a rational choice model, the basic premise of Putnam's work was to evaluate the role of civic community, and identify "the powerful constraints that history and social context impose on institutional success" (16). By examining the anomaly of Italy's marked divergence between north and south, Putnam tried to shed light on the importance of social capital in the creation of a functioning government and a prosperous economy. He pointed to the development of horizontal societies in the north versus vertical societies in the south as an important factor in the south's inferior economic performance. In general terms, the distinction between horizontal and vertical societies consists of the former being more democratic and based on norms of collectivism, whereas the latter has a more hierarchical structure with lower levels of cooperation. Putnam argued that contrary to the south, the development of horizontal societies in the north led to a greater propensity for civic engagement, social trust, and cooperation – all things which contribute to a more successful society, and economy. Why different types of societies developed in northern and southern Italy will be addressed further on.

Paolo Sylos Labini, renowned southern Italian economist, for the most part agrees with Putnam's thesis that civic backwardness has been detrimental to southern Italy's economic development, but he criticizes Putnam's emphasis on rational choice. He argues in fact, that the historical "occupiers" of Southern Italy (ex. the Normans) actively obstructed attempts to obtain economic and political independence. Spanish domination of southern Italy in the 16<sup>th</sup> and 17<sup>th</sup>

centuries, for example, was characterized by inefficient institutions and extractive practices that strengthened rent-seeking elites at the expense of small landowners and farmers (Di Liberto and Sideri 2015, 19). Being this the case, an argument based primarily on socio-behavioral elements falls somewhat short. It ignores the structural challenges that arise when institutions are prevented from developing, and it places the burden exclusively on societal factors for not creating mechanisms that would generate economic growth and promote development.

The “backward” nature of southern Italian society and its consequent impact on economic development is also the subject of Edward G. Banfield’s *The Moral Basis of a Backward Society* (1958). Per Banfield, southern Italy’s inferior socio-economic performance is the result of what he terms “amoral familism” (10). This concept refers to a supposed inherent inability of southern Italians to act collectively, or to look beyond the needs of the immediate family, considered absolute center of all economic and social activity. Unlike Putnam, Banfield believes this is not a product of rational choice, but rather a culturally specific behavior which is quite difficult to change. He writes, “economic development can take place only when bonds of custom and tradition which prevent the individual from acting rationally in his self-interest are loosened or broken” (166). The importance of social capital is further highlighted in Leonardi’s 1995 article *Regional Development in Italy: Social Capital in the Mezzogiorno*. This study focuses heavily on the “role of non-economic factors...as the vital components in promoting growth and adaptation of regions” (166). He expands on Banfield’s concept of amoral familism to explain how individual social norms are favored over collective social norms, which potentially hinder the effectiveness of government interventions aimed at promoting economic development and growth (171).

Along similar lines, Spooner (1984) indicates southern Italy's economic dependency on the north as a possible determining factor in its slow economic growth. He also points to amoral familism as an obstacle to growth, and frames the south of Italy as having a traditional, family based economy, with a social structure regulated by tradition, custom, and religion (12). He writes, "radical change would be needed in political relationships, with a severance of the patron-client system that underpins the current social and economic structure" (25). Per Spooner and Putnam, the different paths of political evolution in the two regions, particularly the feudal nature of the south's political system, and the "maladministration and inefficiency" (12) of Bourbon rulers, were decisive in the south's limited capacity for economic growth and stability. Interestingly however, in spite of the evident inefficiencies of a monarchical rule, southern Italians continued to prefer this type of government. In a 1946 referendum, Italian citizens were asked to choose between monarchical rule and a republican form of government. The outcome ultimately led to the creation of the Italian Republic, but a regional analysis of the results shows that an overwhelming majority of southern Italians voted in favor of a monarchy (between 77% and 85% in the regions of Campania and Sicily). There are different explanations for this. One points to the paternalistic traditions of a primarily agricultural society that historically favored monarchies, and the other looks to the different regional experiences during WWII.

The socio-behavioral perspective sheds interesting light on how social capital, culture, and traditions may be factors in differing levels of economic growth and development in the north and south. Putnam's explanation in particular, relies very heavily on the notion of horizontal vs. vertical societies as determinants of the effectiveness of institutions in the north and south respectively. While undoubtedly a groundbreaking study at the time of its writing, Putnam's findings are not quite as relevant today. It is true there is a greater tendency for

collective action in the north, but as we will see further on, the limiting factors in the south are more structural or institutional in nature than socio-behavioral. Evidence of this is found in the notable achievements of southern Italians who have migrated away from the economically compromised south. Many of Italy's most prominent politicians, magistrates, scientists, and entrepreneurs hailed from small towns in its southernmost regions. This contradicts arguments that point to a socially constructed explanation of an inherently backward south as the primary cause for this region's inferior economic performance compared to the north. Another problem with this interpretation, I would argue, is that it ignores the consequences of inadequate formal institutions in this part of the country. Banfield's offering of amoral familism as the explanation for southern Italy's backward economy does not consider that a lack of functioning institutions forced poor families to rely heavily on their own means for sustenance. In the post-World War II period analyzed by Banfield, during which southern Italy was heavily depressed economically, the focus was on survival, not on the creation of institutions to guarantee future economic prosperity. In this respect, to identify socio-behavioral characteristics as the determining factor seems to miss the mark because it does not capture the complexities of a society that was compromised by centuries of occupation and two world wars. A final criticism of this perspective is that it fails to explain why the gap continues to exist today.

## 2.2 Industrialization and Policy Based Explanations

Industrialization and policy based explanations point to the way specific points in Italy's history determined different paths of economic growth and development in the north and south respectively. Scholars here highlight distinct events, such as the unification of Italy in 1861, post WWI and II industrialization of the north, and decentralization of government in the 1970's as contributing factors to the economic gap between north and south.

Italy's process of industrialization intensified following its unification in 1861, and it heavily favored economic development in the north. Prior to this period, there was relative equilibrium in the economies of north and south Italy, but by 1913, gap between these regions reached 20% (Daniele and Marani 2011, 274). The inability of southern Italian infant industries in the mid-nineteenth century to compete with the more advanced industries of Piedmont in the north is cited as another possible explanation (Holland 1971, 71). It is further argued that the interwar fascist regime which forced the south into the role of "granary" for the north, also curtailed its process of industrialization. Targeted development policies aimed at bringing the south up to speed with the industrialized north were largely unsuccessful and resulted in few, if any long-term improvements to southern Italy's economy. Even during the time of Italy's so called "miracolo economico" (economic miracle), during the 1950's and '60s, what little economic growth it did enjoy was still less than 2/5 of the growth in the north (Holland 1971, 72). Not to be underestimated, is the impact that Italian industrialization had on south-north migration with thousands flocking to factories in the north for work. The loss of a large portion of its workforce significantly compromised southern Italy's potential for growth.

In 1967, Bhagwant Singh published a study entitled *Italian Experience in Regional Economic Development and Lessons for Other Countries*, intended to use the Italian experience as a policy development tool to aid countries in similar economic situations. Referring to the pace of the southern Italian economy as "backward and retarded" (315) compared to the forward thrust of economic growth and development in the north, Singh identifies the ineffectiveness of government measures in reducing the income gap as the cause. He conducted a detailed overview of the numerous policy and planning interventions aimed specifically at economic development reform in southern Italy, such as the Cassa per il Mezzogiorno (Development Fund

for the South), a multi-billion dollar, multi-year (1950-1984) project. He concluded that these interventions, while helping to improve general economic conditions, were ineffective in reducing the income gap. According to Singh's data, it would seem that these efforts had the opposite effect. By 1963, "per capita real income in the south was only 46.2 percent of the income in the north, as compared with 51.8 percent in 1951" (321). This is a clear indication that rather than promote growth, these policies ultimately hindered economic growth in the south.

The argument in favor of an uneven process of industrialization is a convincing one, but it still does not fully explain the persistence of slow growth in the south. There are undeniably points in Italy's history which heavily influenced the type of economic development in the north and south, but why hasn't southern Italy been able to catch up with the north, in spite of significant technological advancements, that would have favorably impacted even its primarily agricultural economy? Here again, the role of institutions is to a large degree overlooked. In the case of the oft cited Cassa per il Mezzogiorno, it has been argued that its less than successful implementation was due to the inefficiencies of the institutions managing it. "The Cassa was implemented by the government, not as a planning agency, but simply as an institutional instrument, that ultimately benefitted only other institutions" (D'Attorre 1987, 22). The public works projects it was intended to create, and the jobs that came with it were either short lived, or grossly inadequate (Bohlen 1996). That the "large scale capital-intensive projects...have served the needs of northern capitalists more than the South (Spooner 1984, 18), is arguably an institutional failure. Furthermore, southern Italy is replete with abandoned industrial areas that are ready for re-qualification. There is a massive need for improvements in both infrastructure and expansion of the agricultural industry. The south's ports, some of the largest in the world, are in dire need of an overhaul to accommodate larger container ships that would create jobs both

within the ports themselves and in the surrounding areas. These are all areas that require interventions at an institutional level, and this does not appear to be occurring.

### 2.3 Analyses of the Role of Formal and Informal Institutions

The importance of institutions in economic growth and development is not a new concept. Douglass North (1991) defines institutions as “humanly devised constraints that structure political, economic and social interaction...(which) consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). North’s view of institutions as being absolutely fundamental to economic growth and development and in the shaping of socio-economic outcomes is shared by many (Acemoglu and Johnson 2005, 950, Casson et al 2010, 137, Rodriguez-Pose 2013, 1036).

While the definition of formal institutions is relatively static, informal institutions can exist in many different forms and their interaction with formal institutions can lead to different outcomes. In this regard, Helmke and Levitsky make an interesting distinction between informal institutions that exist in concert with formal institutions (functional), and those that are of the problem creating type (dysfunctional). Functional “informal institutions...shape formal institutions...by creating or strengthening incentives to comply with formal rules”, whereas dysfunctional informal institutions engage in a more antagonistic relationship in which they attempt to substitute or compete with its formal counterpart (Helmke and Levitsky 2004, 728). Informal institutions also differ according to their role in either promoting or hindering economic growth (Marosevic et. al 2009, 707).

Southern Italy presents a very interesting case for an institution based analysis for a number of reasons. First, much of the literature on informal institutions focuses on their complementary relationship with formal institutions, and their potential to reinforce or even

support the activities of governments. In southern Italy, we are looking at an informal institution that has proven to possess considerable substitutive power, and whose relationship with formal institutions is decidedly antagonistic. Organized crime has engaged in frontal attacks on its formal counterpart, which has arguably undermined the legitimacy and credibility of government institutions in the eyes of the public. Second, the dynamic of the relationship between these institutions in southern Italy is typical of developing nations with weak democracies and primarily clientelistic economies, not a highly-developed state such as Italy. Furthermore, the strong networks of dysfunctional informal institutions present in southern Italy are generally characteristic of areas with low levels of democracy (Marosevic et al. 2009, 708). Finally, unlike other advanced democracies, Italy's diverse regional institutional history continues to influence performance today (Di Liberto and Sideri 2015, 15).

Organized crime's influence on economic growth and development in southern Italy can be a somewhat abstract concept. To place it in more concrete terms from an institutional perspective, Daniele (2009) reviewed a number of empirical studies which focused specifically on the relationship between organized crime and economic performance in southern Italy. Referring to the costs of organized crime as "negative externalities" (213), Daniele examined the costs associated with organized crime infiltration in public administrations, appropriation of public funds, market distortions which result a higher level of perceived risk for investments in legitimate enterprises. Through detailed analyses of these studies, Daniele quantified the impact on levels of productivity, lost investment opportunities (both domestic and foreign – ex. FDI), and compromised economic growth. This data was then viewed in relation to northern Italy where organized crime is present to a much lesser degree. He concluded that the illicit activities of local mafias have severely compromised the socio-institutional fabric of Italy's southern



regions, creating a “competitive disadvantage which limits opportunities for development” (231). Per Daniele, the inability of local and state-level institutions to effectively address the external costs of organized crime has resulted in a strengthening of organized crime as an institution in its own right.

#### 2.4 Why Institution Based Explanations are the Best Fit

There are undoubtedly myriad factors which influence uneven economic growth and development in Italy. Socio-behavioral attributes, social capital, and attitudes toward civic engagement are important to the success of democracy and economic prosperity. A country’s path of industrialization and the impact of development policies also play a vital role. All of these however, are directly affected by the quality of institutions, be them formal or informal. And while the regional economic impact of dysfunctional informal institutions such as organized crime in developed, industrialized states such as Italy has been largely overlooked, institution based explanations still go the farthest in explaining the gap between the economies of northern and southern Italy, and why it continues to exist today.

This thesis seeks to address the gap in literature regarding the impact of dysfunctional relationships between formal and informal institutions in advanced democracies such as Italy. As such, I will examine the interplay of organized crime and government institutions from this perspective, with particular emphasis on the disruptive nature of organized crime on the economy of Italy’s southern regions. The effect of the abject failure of formal institutions to counter this disruption has arguably compromised economic growth and development for almost 50 years. Italy’s mismatched institutional framework has arguably contributed to the development and strengthening of organized crime. This can occur when a government has a system of political constraints in place, but does not effectively enforce them, either by choice or

due to an institutional inefficiency (Williamson 2009, 375). As we will see in the following sections, this is an accurate description of the institutional landscape in southern Italy.

### **Chapter 3 - Evaluating the Effects of Organized Crime on Economic Growth and Development in Southern Italy**

There is relatively wide consensus that institutions matter where economic growth and development are concerned. The abundance of well-received theories and empirical evidence spares us from having to re-prove this. We know that the relationship between formal and informal institutions plays an important role in the development of democracy and path toward prosperity. The relative strength or weakness of these institutions can have a significant impact not just on the development of an economy, but also on its long-term stability and capacity for growth. To illustrate this, the literature looks at the interplay between formal and informal institutions and this helps understand where nations, both developed and developing, are in their stages of development. Helmke and Levitsky (2004) describe these relationships as either complementary, accommodating, substitutive, or competing, based on the strength of formal institutions and the extent to which desired outcomes of formal and informal institutions are convergent or divergent. This distinction between types of relationships is underrepresented in the literature, and the research is very limited where cases of dysfunctional relationships between formal and informal institutions in advanced democracies, such as Italy, are concerned.

#### **3.1 Why Italy?**

The case of Italy is compelling for a number of reasons. The first is the marked socio-economic regional divide that exists in Italy. Any holistic analysis of the Italian economy will result in distorted data because of the pronounced disparity in economic performance between north and south. Some degree of dualism exists in most advanced economies, but in the case of

Italy, the inequality in economic well-being between north and south is extreme. The second reason, which is also the main focus of this thesis, is the competing and substitutive nature of the relationship between formal and informal institutions in southern Italy, something typically found in developing nations with weak democracies. While this in itself is anomalous, what makes it even more atypical is the absence of this type of relationship in northern Italy. How do we explain the co-existence of such diverse institutional interactions in a unitary state? The main argument of this thesis is that this dual institutional dynamic is the result of a particularly strong Mafia presence in southern Italy that does not exist in the north (or is present in a much weaker form). In this part of the country, in fact, there would appear to be intense competition between government institutions and organized crime whose desired outcomes are divergent.

Dramatically different levels of economic growth and development between north and south would seem to indicate that criminal organizations have been able to capture the economy of southern Italy through their illicit activities, and as a result, heavily compromised its potential for progress.

### 3.2 Operationalization of Variables and Description of Indicators

To put things in the context of institutional impacts on the economy of southern Italy, I have operationalized my variables in the following way: formal organizations refer to national and local government institutions, and informal organizations, this case of the dysfunctional type (problem creating, characterized by clientelism and corruption – Helmke and Levitsky, 728), refer to criminal organizations in southern Italy. This thesis will focus specifically on the regions of Calabria, Campania and Sicily, as these are the areas with the strongest criminal organizations - the 'Ndrangheta, Camorra, and Cosa Nostra respectively – collectively known as the Mafia.

To demonstrate the negative impact of organized crime on economic growth and development in southern Italy, I will use the following indicators which will be measured against data in northern Italy: levels of unemployment, percentage of population with income below the poverty line, levels of public spending, investment in private enterprise (ex. number of startups or expansions), and percentage of FDI inflows. The data will be supported by reports published by the Italian National Institute of Statistics (ISTAT), the Italian Ministry of Economic Development, the OECD and World Bank.

While admittedly difficult to quantify, I will also analyze levels of political corruption by using court documents which contain data on local municipalities under investigation for infiltration by organized crime, politicians indicted for association with members of organized crime, and contracts which have been annulled because of suspected involvement of organized crime in the bidding process.

### 3.3 Research Methods

My research methods will be a mix of quantitative and qualitative. In essence a single case study on southern Italy, it is also a comparative study of the economies of northern and southern Italy in the period following the decentralization of government in 1970. The comparison is necessary to fully grasp the determinants of the uneven economic growth and development between the two regions. The qualitative portion of this study will include a historical analysis of southern Italy's socio-political development, aimed at understanding the origins of organized crime, and what made this region more susceptible to its influence than northern Italy. Through unstructured interviews with residents of Naples in particular, I will incorporate anecdotal evidence that supports the notion that organized crime has permeated the society of southern Italy in a number of different ways, largely determining the informal

institutions, i.e., culture and the belief system, that guides individual behavior at the micro level. While limited in scope, these conversations provided very valuable insight as to the reactions of residents to the strong presence of organized crime, and their expectations concerning the role of government, both local and national, in contrasting this phenomenon.

Discourse analysis will also be used as a tool to gain further awareness of the present-day role of organized crime, and how it plays into attitudes of those effected both directly and indirectly by their activities. In this respect, I rely heavily on documentaries about organized crime and interviews with affiliates of these organizations. Particularly important here are interviews with young recruits who were hired to perform a wide range of illegal activities which span from petty theft and drug dealing to enforcing various types of punishment, which range from bodily harm to outright executions. I also analyze local newspaper articles and commentary by local politicians as ways to gauge their perspective on the extent to which organized crime affects their legitimacy in the eyes of the general public.

The methods described above undeniably focus heavily on the role of organized crime in southern Italy's poor economic performance. I do not intend to imply that this is the only determining factor, far from it. My analysis of organized crime will hopefully also bring to light the responsibility of formal institutions and public officials who have been to a large degree ineffective in battling Mafia organizations. I would argue, based on my observations, that the widespread economic impact of the organized crime's subversive activities has not been given the proper type of attention. It has been viewed as a mainly social phenomenon which has been detrimental to the fabric of society, an attack on democracy, if you will (Daniele 2009, 212). Greater weight needs to be placed on economic losses and forgone opportunities which have

resulted from the hijacking of southern Italy's economy by individuals whose illicit business ventures enjoy enormous success.

## **Chapter 4 - Origins and Development of Organized Crime in Southern Italy**

Before analyzing the ways in which organized crime exerts a negative influence on economic growth in southern Italy, it is important to provide some background on its origins and evolution as a powerful, informal institution. Equally as important in this regard is understanding what factors made southern Italy more susceptible to the influence of organized crime compared to the north.

### **4.1 Explanations for Differing Paths of Political and Economic Evolution**

Governed by distant and foreign powers that preserved obsolete feudal rights far into the 19th century, local communities in Southern Italy were deprived of a consistent network of social, economic, industrial and political structures that, in the rest of Western Europe, marked the progress of modern states since the Peace of Westphalia (1648). The state was often seen as a greedy and hostile entity imposing taxes without providing services, and the extended family was considered the only reliable point of reference.

This excerpt from Europol's 2013 report, "Threat Assessment – Italian Organized Crime" effectively illustrates the mechanisms that contributed to the development of a more vertical type of society as described by Putnam. The political and economic evolution of Northern Italy, on the other hand, progressed along a different path. In the 18<sup>th</sup> century it was already adopting a more sophisticated form of agriculture and capitalistic economy, more consistent with that of the rest of Western Europe. Furthermore, as described by Putnam, the development of horizontal societies in the north vs. vertical societies in the south contributed to the different socio-economic outcomes in these regions. When the feudal agrarian estate system began to collapse in the south, there was an unravelling of the relationship between feudal lords, small landowners and farm workers, necessitating ad-hoc measures to protect land and property. Compared to the north, the end of feudalism came late to southern Italy (beginning 19th century). The sudden abundance of unrestricted land without a strong system of formal property right enforcement,

created a market for private property protection providers who grew in strength and acted with high levels of autonomy (Gambetta 1998, 80). This development gave rise to criminal organizations, such as the Camorra and the Mafia, which to this day, continue to represent one of the greatest obstacles to economic growth and development (Sylos Labini 1970, 10).

#### 4.2 Development of Market Based vs. Clientelistic Economies

Northern and southern Italy also differ in the types of economies that developed in each region respectively. In northern Italy, we find a primarily market-based economy in which contracts are enforced through formal mechanisms, what Acemoglu and Johnson (2005) refer to as “property rights institutions” (949). In those areas of southern Italy where organized crime is particularly strong, there is a robust clientelistic economy that exists alongside its market-based counterpart. In this type of economy, which was typical of the feudal period and characteristic of the “politics of redistribution” in developing countries today, enforcement mechanisms are often regulated socially, and not by the state or local municipalities. The liberal values that are typical of advanced democracies, and widely accepted as being fundamental to economic development, are also missing in clientelistic realities such as those dominated by organized crime in southern Italy (Mousseu 2003, 10-2).



## **Chapter 5 - The Nuts and Bolts of Organized Crime**

Cloward and Ohlin (1960) categorize organized crime as a “delinquent subculture” (173), whose structure is complex and multifaceted. It is “a continuing criminal enterprise that rationally works to profit from illicit activities...Its continuing existence is maintained through the use of force, threats, monopoly control, and / or the corruption of officials” (Albanese 2011, 4). The primary activity of organized crime is the production and distribution of illegal goods and services, such as drug trafficking, gambling, prostitution, and extortion. Its structure is characterized by “dual development where progressive professionalism at the top is accompanied by the growth of unskilled ‘criminal workers’ at the bottom”, (Grieco 1966, 139). Similar in structure to a corporation, at the helm of these organizations, there is the equivalent of a chief executive, or boss, and his chief advisor. Reporting to them are underbosses, accountants, foot soldiers, and finally associates who control territories at a micro-level. Criminal organizations have demonstrated exceptional skill in annihilating competition, removing or raising barriers to entry, guaranteeing compliance with their rules of the game, and ensuring loyalty and respect for norms and codes of conduct. Their enforcement mechanisms for non-compliance are coercion, intimidation and brutal acts violence which often result in death of the “offender” or a close relative, regardless of age. Members of the ‘Ndrangheta, Cosa Nostra, and the Camorra are almost public figures. They stay in the shadows only if they are the object of well publicized investigations, and even then, they are able to operate remotely, and with considerable success. Their identities and whereabouts are known both by private citizens and law enforcement agencies. Inefficiencies of the Italian judicial system and widespread corruption of public officials has made it difficult to hold them accountable for their crimes, which has emboldened them considerably.

## 5.1 Spillover and Competition

The reach of organized crime goes beyond the purely illegal sphere. There is notable spillover into the legitimate spheres of the economy and politics. This has created a situation in which formal and informal institutions compete with each other for control over territory, and influence in both illegal and illegal enterprises. The pervasiveness of organized crime in multiple sectors of the economy, and the success with which it has been able to influence the functioning of public administration is the subject of Diego Gambetta's *The Sicilian Mafia, The Business of Private Protection*. Through a detailed account of the far reach of organized crime in everyday life in Sicily, Gambetta explains how the Mafia has replaced the state by providing services such as "protection" from violence, enforcement of business and private contracts, job placement and market regulation (8). Echoing the concepts introduced by Diego Gambetta, fieldwork done by Roberto Saviano in the city of Naples and its surrounding areas, provides concrete examples of the ways in which organized crime has supplanted formal institutions. In *Gomorra* (2009) Saviano details the extensive involvement of organized crime in local political institutions in a region with the highest number of local municipalities under observation for Camorra infiltration (46). He does a deeper dive into the world of organized crime, and paints a very descriptive picture of how its primary activity, drug trafficking, is only one of the ways the Camorra has penetrated the formal economy. They operate through a wide variety of channels such as garbage collection and toxic waste disposal (the effects of which will be discussed later). Manipulation of contracts for services such as the wholesale food supply to school lunchrooms, or maintenance jobs in public buildings are just some examples of the ways in which the Camorra engages in "legitimate" activities. The data provided by both Gambetta (1993) and Saviano (2009) very effectively illustrates the potentially devastating economic impact of an

asymmetrical power relationship between formal and informal institutions, with the former often prevailing over the latter, at the expense of economic growth and development.

The massive negative impact of organized crime activity on the economy of an entire geographic region of one of the most industrialized countries in the world is often overlooked in favor of an emphasis on the societal impacts. The goal of this thesis is to bring attention to the ways in which organized crime has penetrated sectors of the formal economy through its activities in the underground economy, and how this has been, and continues to be, detrimental to levels of economic growth and development in southern Italy. The following sections will provide detailed descriptions of the mechanisms through which this occurs.

## 5.2 The Finances of Organized Crime

Organized crime, like any other business, has operating expenses. There are employees to pay, politicians and judges to buy, bribes to finance, as well the other typical overhead expenses associated with running a business. The activities of the Camorra, Cosa Nostra, and 'Ndrangheta, which are financed almost exclusively through illicit channels, require vast sums of money to sustain them. Perhaps the most significant source of income for the various local Mafias in Italy is drug trafficking. The 'Ndrangheta, for example, has a yearly income from the wholesale cocaine business of €27 billion (Europol 2013). In areas controlled by the Camorra, other important revenue generators are money laundering, counterfeiting and contraband cigarettes, which represent 2.4 percent of Italy's GDP (state.gov 2015). The trafficking of toxic waste and other environmental crimes, referred to as Eco-Mafia, has provided organized crime with additional profits totaling approximately €22 billion. Guaranteeing the continuation of this revenue flow is of primary importance to organized crime, who have significant interests to protect. The next sections detail how organized crime ensures its survival.

## **Chapter 6 - Organized Crime and Political Corruption**

Measuring corruption is a daunting task, and it is difficult to quantify with any mathematical certainty. Before attempting to calculate levels of corruption, we must first define it as a concept. In general terms, corruption can be defined as illegal, bad, or dishonest behavior, especially by people in positions of power.

When evaluating the role of corruption in negative outcomes in economic growth and development, it is often assumed that the two are inversely related; higher levels of corruption lead to lower levels of performance. But is this always the case? Not necessarily, because corruption exists in many forms. Some have as their end goal a mere skirting of the rules to facilitate, for example, the process of obtaining a work permit, or getting around regulations to hire low wage, often illegal workers. This type of corruption may actually result in an increase in productivity, and cashflow for the economy at large (Mo 2001, 66). Corruption, furthermore is a subjective concept linked with socially accepted norms. According to the social constructivist perspective, the fluidity of social norms implies that, “corrupt is that which is considered corrupt at a certain place and a certain time” (de Graaf 2007, 43). The one universally accepted aspect of corruption is that it is wrong – what varies is the degree to which a particular act is considered corrupt.

### **6.1 Definitions and Mechanisms**

Political corruption, defined by Transparency International as: “a manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth” (transparency.org) is rampant in southern Italy. According to Italy’s highest Court of Appeals (Corte di Cassazione), 63% of all political corruption trials occur in the south, and the

phenomenon appears to be on the rise. This quote from national prosecutor, Giuseppe Pignatone, illustrates why corruption is increasingly becoming the weapon of choice for the Mafia:

Nowadays, mafia organizations don't need to resort to violence. They prefer to engage in corruption because it is not viewed as unacceptable in the eyes of the public. It is simply interpreted as a way to get around the system (translated from Italian – [ilfattoquotidiano.it](http://ilfattoquotidiano.it) – February 2017)

Political corruption has a direct effect on the public's confidence in institutions. Consequently, expectations concerning the effectiveness of government interventions aimed at combatting organized crime are influenced by attitudes toward corruption (Newell 2008, 5).

Examples of the mechanisms through which political corruption occurs are the bribing of judges, payoffs to local politicians for "help" getting awarded public contracts, or obtaining permits or licenses which can be a very lengthy process through legal channels. Gjalte de Graaf (2007) suggests that there are at least six different causes for corruption, which he breaks down into theoretical categories and levels of analysis: public choice theory, bad apple theories, organizational culture theories, clashing moral values theories, the ethos of public administration theories, and correlation theories. Viewed in the context of corruption of public officials, two of these hold the most explanatory power. The first of these is public choice theory, which is based on a rational choice model. According to this perspective, a public official weighs the decision whether or not to engage in corrupt behavior on a calculated cost-benefit analysis. If this analysis results in the consideration that the benefits of corruption outweigh the costs, corrupt behavior will ensue. Another important factor in this cost-benefit analysis is trust. Where there is a public lack of trust in the state's ability to enforce protection of personal and property rights, corruption is facilitated (Gambetta 1993). The second, organizational culture theory, identifies a

malfunctioning of institutions as a catalyst for corrupt behavior. Here we see a group dynamic prevailing over calculations of personal gain. According to this theory, an established culture or practice within the administration's structure leads to a situation in which corruption breeds corruption.

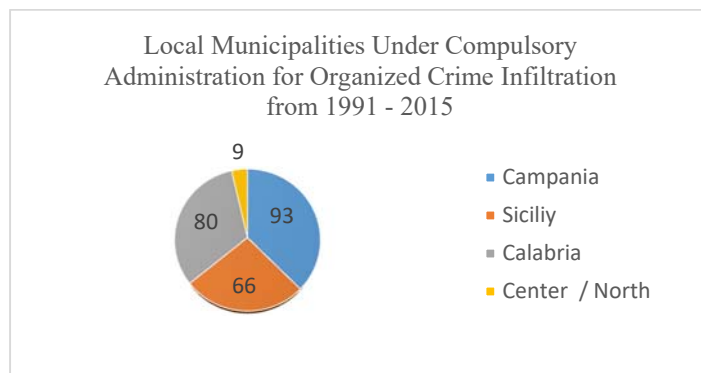
Form of government can also be a determining factor in the frequency of corruption. It is generally accepted that democracies are typically less susceptible to corruption, but high levels of decentralization in even the most advanced democracies may actually increase its likelihood, because of ready access to local politicians and familiarity (Del Monte and Papagni 2007, 381). Studies have also shown that a country's history of institutional development may play a role in the degree of propensity for corruption (Di Liberto and Sideri 2015, 5). Both aspects are pertinent to southern Italy, independently from, and in comparison to, northern Italy. In 1970, Italy transitioned from a primarily centralized form of government to one in which its 20 regions were granted considerable amounts of autonomy. Because of their different paths of institutional development, north and south Italy reacted very differently to this new power. In the north, a region which was historically more horizontal in structure, the local municipalities were already more equipped to deal with the transition of power. The south, on the other hand, due to long periods of Norman and Bourbon rule, maintained a more vertical structure, and the institutions that developed there were inherently weaker and less prepared to govern autonomously. As we saw earlier, this this vertical structure also contributed to the formation and entrenchment of organized crime, who in origin were hired by the monarchies and landowners to provide protection (Putnam 1993,125-126).

The effects of corruption on economic growth is manifested in different ways. Per Mo (2000) higher levels of corruption are a function of institutional inefficiencies, and the instability

that results from political corruption in particular, reduces economic growth. Because of uncertainty regarding the protection of property rights, it creates a disincentive for private investment, reduces productivity growth, and limits job opportunities (Mo 2000, 72-74). So, what does this all mean in the context of the economic consequences of corruption on economic growth and development in southern Italy? The following section will address the specific impacts of organized crime infiltration in the administration of local municipalities.

### 6.2 Public Spending, the Provision of Public Goods, and Incentives for Job Creation

The link between organized crime and the corruption of public officials has perhaps the most direct impact on the local population through public spending practices. Here again, we see a marked disparity between north and south Italy. This difference can be measured through a comparison of levels of corruption in local municipalities in these regions respectively, based on the number of municipalities placed under compulsory administration. The investigative branch of Italian Parliament places municipalities under compulsory administration following investigations for suspected criminal activity such as extortion, trade in arms or drugs, and also unsolicited resignation of a public official which is deemed to be the result of pressure by organized crime. The chart below, compiled from data obtained from Italy's Ministry of Internal Affairs, is an illustration of the number of local municipalities placed under compulsory administration for infiltration by organized crime:



Looking at these numbers, the first observation we can make is that levels of political corruption are significantly higher in the south. But what does this mean in terms of outcomes for economic growth and development? According to an Italian law introduced in 1991, the immediate consequence of compulsory administration is a freeze of all public spending activities. When a local government is dismissed because of its ties to the mafia, in fact, one of the first acts of the external administrators appointed by the central government is the suspension of spending on local public work and investments. The result of this spending freeze is a 20% reduction in growth rates, and a complete halt in projects such as street upkeep, public lighting, maintenance of water systems, public parks and even cemeteries (Acconcia et al. 2014, 2193-2194).

A secondary impact of organized crime's influence on public administration is the "capturing" of business subsidies or special financing incentives offered to firms who generate local employment opportunities. (Barone & Narciso 2015, 99). The primary effect of such activities is a loss of funding opportunities in areas which are desperately in need of new investments to ensure economic growth and development. Monies intended to create new jobs are appropriated by organized crime who instead use them to finance their illicit enterprises through the creation of phony companies that exist on paper only. This results in a further loss for local municipalities who, in addition to losing capital, also lose revenue in the form of taxes which would have been paid on the revenue of newly created companies, as well as income tax on wages. This inefficient management of public investment expenditures further compromises prospects for growth because it results in a disincentive to start business in this area (Del Monte and Papagni 2001, 14). The disincentives to investments which are a result of the "crowding out of talent from entrepreneurship" (Barone and Narciso 2015, 109) create additional long term effects on economic growth and development in those areas of southern Italy whose economies



are already depressed. As we will see in the next section, levels of entrepreneurship are dramatically lower in the south, which is arguably a consequence of the barriers to entry created by organized crime. Finally, the lost opportunity for job creation has a negative impact on the circular flow of income in southern Italy because part of the wages earned by workers would have flowed back to into the economy through the purchase of consumer goods (Investopedia.com).

## **Chapter 7 - Private Sector Economic Impacts**

The mechanisms through which organized crime influences the private sector are numerous and costly. It is estimated that the presence of organized crime results in a loss of GDP in southern Italy that hovers around 16% (Pinotti 2015, 230). This section will analyze these mechanisms and their consequences for economic growth and development.

### **7.1 Impediments to Growth and Limits on Productivity**

As mentioned, the ability of the mafia to manipulate the distribution of funds aimed at stimulating growth through the establishment of new businesses has quite possibly dampened entrepreneurial spirit in southern Italy. Data from the Italian Ministry of Economic Development's 2016 annual report, which measures the creation of innovation based start-ups show the center-north leading the south by double digits (71% vs. 29%). While there is no direct evidence that would indicate a causal relationship between organized crime and lower levels of requests for government guaranteed financing for start-ups in the south, it is nonetheless plausible that this may be a consequence.

There would also seem to be a link between levels of output and labor productivity and organized crime. According to statistics, the regions of northern Italy have levels of output that are approximately 10% higher than the national average, while the lowest producing regions of the south come in at 16% lower. This gap in labor productivity, which amounts to approximately 29% between north and south, is a factor of a number of variables such as inferior infrastructure, socio-environmental conditions, lack of credible enforcement of property rights, and high levels of crime (Aiello and Scoppa 2000, 283-7). In particular, it would appear, that barriers to competition raised by organized criminal activity have depressed productivity which has resulted a loss of GDP and loss in jobs in southern Italy (Daniele 2009, 218-19). Forcing the creation of

jobs where there are none (Buscaglia 7), and putting pressure on firms to purchase overpriced inputs from mafia sponsored suppliers, results in higher production costs with no consequent increase in output (Pinotti 2013, 175,).

Another form of employment interference is pressure to hire individuals who lack the proper skill set or competencies. The result of these practices is a workforce that in part either lacks the skills to perform at maximum levels of productivity, or the incentive to perform at high levels due to a sense of protection from disciplinary action by virtue of their association with organized crime. The loss of productivity and higher costs has forced companies out of business, causing a loss of jobs and consequent increase in unemployment levels, in an already economically depressed region.

## 7.2 Manipulation of Government Bids

Criminal organizations also penetrate the private sector through corruption of public officials to guarantee the awarding of lucrative contracts to affiliates. Government employees are frequently “bought off” or “encouraged” to give favorable inspection results, ignoring potential hazards of sub-standard, non-compliant materials for use in, for example, construction projects such as improvements to existing infrastructure, or new building projects. An example of this is the 2009 earthquake in L’Aquila which caused 309 deaths, 1,600 injured and 80,000 homeless. The majority of these victims were caused by the collapses of a newly constructed university dormitory, a hospital wing, and even the local police station, all of which had documentation attesting that anti-seismic construction requirements had been respected. Investigations led to the arrest of five public officials for corruption related to the awarding of construction sub-contracts to companies with ties to criminal organizations, and issuing of permits for work that was never actually done. It was later discovered that columns and retaining walls which were verified to be

anti-seismic had actually been filled with sand, rather than reinforced concrete (repubblica.it 2016).

Construction projects are only one of many sectors “infiltrated” by criminal organizations. Other preferred activities involve the provision of goods and services, such as public transportation contracts, waste disposal, and health and social services. Through political corruption, the Mafia is able to manipulate the bidding process and guarantee the awarding of lucrative contracts for their affiliates, creating a significant barrier “honest” firms and subsequent job creation.

### 7.3 From Farm to Table: The Agro-Mafia Industry

A sector which is particularly hard hit by organized crime infiltration is agriculture. Home to 60% of agricultural firms compared to 24% in northern Italy (Istat.it), agriculture is a fundamentally important industry for southern Italy in which a large portion of its population is employed. In spite of its predominance in this sector, southern Italy lags behind the north in levels of productivity. According to data from Italy’s National Institute of Statistics (ISTAT), northern Italy generates 53% of total national agricultural production vs. 35% generated by southern Italy. What explains this considerable difference in productivity? One possible explanation is highly mechanized production techniques and advanced levels of technology employed in northern agricultural firms which generally operate on a larger scale compared to their counterparts down south. This explanation, however, leads to another question: why aren’t agricultural firms in southern Italy operating at the same capacity and with the same technology as northern Italian firms? The answer to this question may lie in organized crime’s deep involvement in the agriculture industry, now commonly referred to as “Agro Mafia”.

In March 2017, Coldiretti, Italy's National Association of Agricultural Businesses, together with the European Institute of Political, Economic, and Social Studies (EURISPES), and Italy's Scientific Committee on Agricultural Crime released their fifth joint report on the Agro Mafia phenomenon. According to this report, compared to 2015, revenue generated through Agro-Mafia activities increased by 30%, from €22 billion to over €28 billion. This is almost double the 2014 figures, which amounted to €15 billion, indicating a disturbing upward trend of organized crime's interests in this sector.

The president of EURISPES, Gian Maria Fara, refers to this increased scope of criminal activity as Mafia 3.0. It is a sophisticated operation which operates on a vast scale, and across all stages of the supply chain, from the harvesting of crops to the restaurant plate. It begins with the exploitation of migrant workers ("caporalato") which keeps crop prices artificially low and then extends to price fixing, control of shipment, distribution on both small and large scale, management of supermarket chains, and the export of sub-standard products which end up in markets across the globe. Italian anti-mafia authorities have recently discovered that over 5000 restaurants all across Italy are managed by Cosa Nostra, the 'Ndrangheta and the Camorra,

The mechanisms through which organized crime has penetrated the food industry include coercive tactics such as theft of machinery, destruction of property and livestock, and hijacking of shipments. Many smaller firms lose their entire production at the hands of the Mafia, and are then forced to shut down. The success of the Agro-Mafia speaks directly to the ineffectiveness of formal institutions to protect private property and small business interests, which as we have seen, has a negative effect on economic growth and development. Italian Minister of Justice, Andrea Orlando, expressed his concern regarding the inability of government to challenge organized crime's AgroMafia activities:

We, and by we, I mean Europe, not Italy, are not equipped with adequate means to monitor this phenomenon in a timely and effective manner. We need European legislation, even if Italy is on the front lines of this battle. There is still much resistance from the rest of Europe because many countries are afraid of what strict rules might mean for their respective economies. (regioneambiente.it)

In reality, however, Italy has yet to approve its own anti-AgroMafia legislation. To place the burden on European institutions is indicative of the ineptitude of Italy's state and local governments. This is a phenomenon that deprives southern Italy of €30 billion in revenue that, through tax payments, would provide much needed funding for public spending.

#### 7.4 Organized Crime and the Environment – Eco-Mafia

Further damage to the agricultural economy of the south has been caused by the dumping of toxic waste in some of the most fertile land in the Campania region of southern Italy. In an area called “Terra dei Fuochi” (Land of Fire), the Camorra has contracted with industries in both northern and southern Italy for the handling of toxic and radioactive waste. The illegal dumping of highly hazardous substances, such as industrial and medical waste in fields dangerously close to those used for the cultivation of crops and aquifers is referred to as Eco-Mafia. In a report published in February 2015, the Italian Environmental League (Legambiente) estimated that in 22 years, over 10 million tons of toxic waste have been dumped in the southern provinces of Naples and Caserta alone, with inestimable damages to the economy and population. The contamination of millions of acres of farmland, heightened risk of aquifer pollution, and hundreds of deaths from cancer have been linked to exposure to the radioactive materials dumped by the Camorra. According to the Italian Institute of Health (Istituto Superiore di Sanita’) deaths from tumors in 2016 in this region were 11% than the national average, and the incidence of cancers in young children up to age 14 were 45% higher (iss.it). Unfortunately, the handling of toxic waste is a profitable business that Mafiosi are simply not willing to forgo.

According to Legambiente the revenue generated by organized crime from Eco-Mafia activities amounted to over €340 Billion between 1992 and 2014. This is income literally stolen from the economy of southern Italy, with considerable consequences for job creation and provision of public goods which would have been financed by tax revenue if these activities had taken place in the formal economy.

In addition to the material loss of business to organized crime, negative publicity generated by the media's attention to the effects of toxic waste dumping in these agricultural areas has also impacted trade. In 2015, the agricultural industry in southern Italy lost almost €100 million in sales because of concerns regarding the safety of agricultural products from this region (Pignataro 2015).

The infiltration of organized crime into the agricultural industry is just one of many ways they spread their reach into southern Italy's formal economy. The following section describes other tactics employed by the Mafias of southern Italy to finance their activities through involvement in the formal economy.

### 7.5 Organized Crime Infiltration into the Legal Economy

As previously discussed, organized crime, like any other organization, needs to finance its operations. One of the most effective ways for them to do this is by extending their operations to the legal economy. In 2016, the United Nations Interregional Crime and Justice Research Institute (UNICRI) published a report entitled, "Organized Crime and the Legal Economy: The Italian Case" detailing the mechanisms through which criminal organizations have "polluted" the legal economy. Stimulated by the need to cover up illicit activities such as money laundering and drugs and arms trafficking, organized crime has attempted to "diversify" its investments by

engaging in the legal economy. According to this report, there are a series of factors which make it possible for organized crime to enter the legal sector:

1. the possibility of exploiting relations with corrupt or complacent politicians and business managers;
2. the availability of contacts maintained by the criminal group and to access, for example, public procurement;
3. Irregular competition and access to massive liquid assets or to financial resources available without interest.

These factors give organized crime a competitive advantage for organized crime, which arguably constitutes a barrier to entry for those wishing to operate lawfully. The report further specifies the criteria according to which organized crime chooses which sector to “invest” in:

1. Small in size;
2. Belong to a traditional and/or low tech sector;
3. Involved in strictly local/in-country activities;

If we look at these characteristics in the context of southern Italy, we gain a better understanding of why the agricultural industry has not yet enjoyed the technological advancements of northern Italy, and continues to operate on smaller scales. It is in the best interest of organized crime to keep enterprises small and low-tech. We can speculate that the pace of economic growth in southern Italy is kept artificially slow by organized crime, much in the same way monarchical rulers in feudal times place strong limits on attempts by more entrepreneurial minded farmers gain economic and political independence.



## **Chapter 8 – The Effect of Organized Crime on External Funding**

External funding is an important source of financing for developing and developed nations alike. While development financing is primarily directed toward less developed countries (Kharas 2014), industrialized nations are often the recipients of private capital inflows such as foreign direct investments (FDI). European Union member states are also provided funding opportunities through various types of structural and cohesion funds which are intended to provide financial support for public works projects and job creation incentive programs. The precarious state of infrastructure and high levels of unemployment in southern Italy make this external funding particularly important. The presence of organized crime in this region, however, has significantly compromised its ability to attract FDI inflows and to make efficient use of EU funds.

### **8.1 Deterrents to Foreign Direct Investments (FDI)**

Foreign Direct Investment (FDI) is a fundamental component for the economic growth and development of developing economies. Per the OECD, the benefits of being an FDI recipient are many, such as advancements in technology, formation of human capital, support for a more competitive business environment and increased opportunities for the development of private enterprise (OECD 2002). It is not, however, the exclusive domain of the developing world. According to the United Nations Conference on Trade and Development, in 2015, France was the recipient of \$43 billion in foreign direct investments, Germany, \$31 billion, and the US receives \$380 billion. FDI inflows directed at Italy amounted to \$21 billion. While significantly less than its transalpine neighbors, this in itself is not significant. What is significant, however, is the distribution of FDI within Italy. A report published by the Italian Stock Exchange reveals that 98% of FDI inflows go to northern and central Italy and only 2% reach southern Italy. How do

we explain this, and what are the consequences for this region of Italy which is in dire need of revenue to make improvements to its failing infrastructure and stimulate business opportunities?

Not surprisingly, institutions matter to FDI as well. The quality of institutions in southern Italy makes this region significantly less attractive to foreign investors compared to the north. This is manifested in a number of different ways. One of the least attractive aspects of southern Italy for foreign investors is the perception of risk, a well-known deterrent to Foreign Direct Investment (FDI). This can be a function of lack of credibility in contract enforcement, protection of private property, and high levels of crime against property and people (Darby et al, 156). Per Daude and Stein (2007), there are two channels through which “bad” institutions impact investments: 1) they represent a tax on the cost of doing business and 2) weak contract enforcement leads to uncertainty regarding returns on investment. Corruption, furthermore, can reduce the propensity to invest because of the additional costs resulting from, for example, having to pay bribes to get licenses and permits (Daube and Stein 2007, 318).

In southern Italy, organized crime has a heavy hand in all of these areas. Illegal activities such as racketeering, pressure on firms to contract with certain suppliers, and the manipulation of hiring practices, results in an unfavorable business environment. This creates a disincentive for investment. If we add to the equation the perception of corruption of politicians who should be protecting investors interests, we can see how the possibilities for FDI in the south are negatively impacted by the presence of organized crime.

Studies on the dramatic regional variance in FDI inflows to Italy have demonstrated a strong negative correlation between organized crime and foreign investments. One reason for this is the effect such organizations have on the socio-institutional environment and, consequently, on transaction costs. Trust, reputation, accountability, and credibility are key

factors in the decision to invest (Seyoum 2011, 923), all of which are either supported or undermined by informal institutions, depending on the type (functional or dysfunctional). Furthermore, a positive institutional environment must present the following characteristics for FDI to be considered viable: effective, impartial and transparent legal system, adequate protections for property rights and individuals; stable public institutions, and a credible, honest government which guarantees free and open markets (Globerman and Shapiro 2002, 1915). Many of these are lacking in southern Italy.

As we have seen, corruption is rampant in regions such as Campania and Sicily, where organized crime is particularly entrenched. In Campania, for example, 89 out of 92 local municipalities have, at some point, been under investigation for infiltration by the Camorra. Of these, 71 were ultimately placed under compulsory administration, resulting in the dismissal of all elected officials and their replacement with appointees sent by the central government in Rome (Saviano 57). Climates such as this one reflect negatively on the perceived institutional quality in the region, thus increasing the perceived risk associated with investing there.

In a 2010 study, Vittorio Daniele and Ugo Marani provide data to support the comparative disadvantage of the south compared to the north, and its impact on FDI inflows. Southern Italy collectively represents the largest domestic market, or 35% of the national total. It has a skilled workforce with lower average labor costs. and there are vast areas available for industrial development. Possibly most importantly, because of the central government's apparent commitment to furthering economic growth and development in these regions, there are a number of financial incentives to be had. Such conditions would normally be considered attractive for FDI, but the numbers tell us something different.

Using data from the Italian Institute of Statistics, Daniele and Marani measured FDI inflows against the incidence of crimes which are typically associated with organizations such as the Mafia, such as extortion, bombings and arson which are “carried out to threaten and intimidate the economic operators and politicians” (13). In each of these categories, the crime rates per 10,000 inhabitants were at least double, if not more, in the south. The highest rates were present in Calabria, Campania, Sicily and Puglia, where organized crime is at its strongest, pointing to a strong negative correlation between organized crime and FDI inflows. This point is further reinforced by data from Transparency International, which measures corruption across the globe. Italy scores very low on almost every measurable index, and is 60th overall on the 2016 World Corruption Perception Index (the lowest in Western Europe).

## 8.2 Misappropriation of European Union Funding

Funding from the European Union has played a vital role in the financing of public works projects throughout Europe. Poland, for example, has been able to re-build its economy through improvements to infrastructure and the creation of new jobs in both the public and private sector. From 2007 – 2013, thanks to €80 billion in funding from the EU’s Structural and Cohesion Funds, and special loans to stimulate growth in its agriculture and fishing industries, Poland has created more than 300,000 jobs and 25,000 new companies. They have built new roads, bridges, and railways and purchased new vehicles for public transportation. Finally, they have opened new schools, museums and delivered ultra-modern technology to hospitals (Cimmino 2014).

We see something dramatically different in Italy, and southern Italy in particular. While Poland used 97.5% of the €80 billion it received, Italy spent only 58% of the €27 billion in structural funds granted by the EU in the same period. Of this, northern Italy used 73% of the funds it was designated, and southern Italy 57% (Dell’Olio 2014). Considering the dramatic

state of infrastructure, difficulties in the provision of public services, and dire need for job creation in southern Italy, leaving so much money unspent is hard to rationalize.

One possible explanation is the prevalence of municipalities under compulsory administration for organized crime infiltration. As described earlier, when a local municipality is placed under compulsory administration, there is an immediate freeze on public spending, which includes the disbursement of EU funds. An example that illustrates this point quite effectively is the case of the Port of Naples, one of the largest in Europe. In 2012, the city of Naples received approval for a project to improve the infrastructure of its commercial port. The amount awarded was €240 million and the project was to be completed by 2015. President of the Campania Region at the time, Stefano Caldoro said proudly, "This project will make our port an international hub of Mediterranean traffic". In 2014, Caldoro was placed under investigation for abuse of power and suspected association with the Casalesi Clan, one of the most powerful organized crime families in the region. On December 31, 2015, of the €240 million, €150 million were returned to the European Union for non-use (Pane 2015).

To imagine that organized crime would not attempt to get its hands such an abundant source of free money would be decidedly naïve. Together with Poland and Spain, Italy is one of the largest recipients of European Structural and Cohesion Funds, but as we have seen, they are not used effectively. In 2011, the European Parliament's Directorate General for Internal Policies published a study entitled "How does Organised Crime Misuse EU Funds?" According to this study, fraudulent use of EU Structural Funds stems from the following activities:

1. Attempted subversion of tendering processes through false or exaggerated bids, cartel bids, illegal or irregular sub-contracting, etc.;
2. False or exaggerated, even double/triple cost claims for inputs or services
3. Fraud and irregularities resulting from situations of conflict of interest which there are either no or insufficient administrative structures to combat

Not surprisingly, Italy is among those countries where the majority of cases occur, the others being Greece, Spain, Bulgaria and Slovakia. The report attributes the ability of the Italian mafia to penetrate the funding process to the passage of Law 488 in 1992 which put regional politicians in charge of determining how, and to whom funds would be allocated. Loopholes in this legislation facilitated fraudulent access to funds which led to a loss of €2 billion in European funding between 2006 and 2010 (European Parliament's Committee on Budgetary Control 2011). This is the same mechanism employed by organized crime to appropriate public funding and special financing initiatives offered by the Italian government to stimulate economic growth in southern Italy, as described in a previous section.

## **Chapter 9 – Attitudes, Expectations, and Incentives**

Up to this point, the emphasis has been primarily on the institutional impact of organized crime on economic growth and development in southern Italy. We must not forget however, that the effectiveness (or lack thereof) of formal institutions, and the relative strength of organized crime is also a function of those most directly affected by them. In this regard, the attitudes, expectations, and incentives of citizens play an important role in determining the balance of power between these two competing factions.

### **9.1 Vox Populi**

Perhaps one of the most perplexing questions about the pervasiveness of organized crime in southern Italy is why it persists. These criminals are not unknown to the law or to the general public. People know where they live, what activities they are involved in, and who their friends and enemies are. A series of informal interviews I conducted with residents of this part of the country revealed the degree to which the presence of organized crime has been normalized. What prevailed in almost every conversation was an attitude of complacency – people were no longer shocked by the subversive, illegal, and often horrifically violent behavior of these individuals.

Another common theme was low levels of trust in formal institutions. Local and national government bodies are viewed as having very little credibility, and the populations of southern Italy have low levels of faith in their ability (or desire) to contrast these powerful criminal organizations. The conversations also exposed a shared strong sense of doubt surrounding the incentives of public officials to take a hard line against organized crime. Their general attitude was defeatist, because they simply had no trust in the institutions. Interestingly, the tone was not one of anger or indignation, it was very “matter of fact”, as if organized crime was just an unpleasant part of society whose existence they had metabolized. I was nonetheless surprised by

what I perceived to be either a lack of awareness, or interest, in the widespread economic damage caused by organized crime. The primary concern was their personal well-being, or that of their families. This attitude lends credence to Putnam's theory that social capital impacts economic growth and development, and it also reinforces the notion of amoral familism put forth by Banfield. What makes this different, however, is that the sentiments expressed were a reaction to a perceived failure of formal institutions. They did not accept the existence organized crime because of some inherent social construct – they accepted it because they had no expectations that local politicians would do anything about it. This sentiment is supported by data presented in Transparency International's Global Corruption Barometer, according to which 70% of Italians have a negative opinion of governments anti-corruption efforts.

This last point is particularly important because expectations, like institutions, matter. In *the Elusive Quest for Growth*, William Easterly speaks of the effects of low expectations of peasants in the less developed world who simply learn to live with adversity. We find something very similar in lower classes of southern Italy, because low expectations have effects that go beyond complacency. A more tragic consequence is that the expectation-void left by formal institutions is often filled by criminal organizations who become a viable alternative to rule of law, and a source of employment for youth who would otherwise have little, if any prospects for the future.

## 9.2 The Corruption of Youth

Organized crime's role as an informal employment agency constitutes a significant risk for the youth of southern Italy's most vulnerable populations. Faced with a dearth of prospects, increasing numbers look to the local mob boss for work. Higher levels of poverty in southern Italy create a favorable situation for organized crime because it guarantees an abundant labor



supply (Buscaglia and van Djik 2003, 7). The employment opportunities offered by Mafiosi have no minimum education requirements, pay significantly more than their equivalents in the formal economy, and are almost always available. The prospects for making a decent living in the legal sector are vastly outweighed by the lucrative opportunities offered by local crime bosses to engage in illicit activities. Take for example, the salary earned by a warehouse employee who works in the formal economy; the average wage for this type of work is €1000 a month. The same job in a Camorra drug warehouse pays €1000 a week, in cash (Saviano 2008, 76). The risks associated with this type of work are high - many young men end up in jail, or worse, dead. These risks are well known, so what makes these opportunities so attractive?

Albert Cohen's subcultural delinquency theory is helpful in understanding this phenomenon. According to this theory, living in a society or group in which violent behavior is the norm results in an increased propensity for an individual to engage in violence him or herself (de Graaf 72). If we compare membership in an organized crime family to gang membership, Cohen's theory fits quite well with the behavior of those youth in southern Italy who participate in the underground economy of the mafia:

The characteristic pattern of delinquent gang behavior is a collective reaction to problems or dissatisfaction experienced by boys forced to adjust to a culture dominated by middle-class norms...The gang or delinquent subculture provides criteria of status which working-class boys can meet. Because of the frustrations growing out of failure to move into the middle-class world, the hallmark of the delinquent subculture is the explicit and wholesale repudiation of middle-class standards and the adoption of their very antithesis. This type of behavior gives respectability and status in the eyes of fellow delinquents (Cohen 132-5).

The perception that the state has failed or abandoned youth has further contributed to the development of a relationship of dependence on crime bosses, and a consequent sense of loyalty or gratitude, so much so that they are willing to give up their lives for them. This brings to light an interesting analogy with explanations concerning the radicalization of youth to terrorism that

are based in relative deprivation theory. This theory, developed by Thomas Gurr in 1970 maintains that individuals have a subjective sense of deprivation which is derived from what they perceive to be their state of welfare compared to others. Used by Meierrieks and Krieger (2016) to explain susceptibility to radicalization, there is a “frustration-aggression mechanism” (7) which is manifested in its most extreme form through acts of violence. The coercive, violent tactics of organized crime allow us to draw some parallels to southern Italian youth who are recruited to be mob foot soldiers. The psychological explanations for susceptibility to recruitment to terrorist organizations could just as easily be applied to organized crime. This excerpt from Saviano’s *Gomorra* (2009, 129), which is a letter from a Camorra foot soldier in jail to his priest, illustrates this concept:

Everyone I know is either dead or in jail. I want to be a boss. I want to own supermarkets and stores, and factories - I want to have women, and at least three cars - I want people to respect me when I walk in...and when I die, I want to die like a man - I want to be killed.

Studies on radicalized youth in Western Europe help us better understand this notion of the quest for status and self-realization that is evident in the passage above. According to many, in fact, radicalization is often a response to internal conflicts concerning self-image and a need for self-esteem. The sense of belonging that is perceived to be satisfied by joining these radical organizations, also give them a sense of purpose. (Roy 2007, 55; Venhaus 2010, 2; Benslama 2016, 79).

In the context of organized crime, we can see how this fits. Young members of organized crime are often called upon to carry out executions. Because of their extremely young age, these young men who come largely from marginalized urban areas that are controlled by Mafia organizations, are commonly referred to as “baby-killers”. Caught in what Easterly defines a poverty trap, they are faced with significant constraints to economic improvement if they rely

solely on opportunities offered by the formal economy. The resulting matching mechanism leads to a perpetuation of involvement in organized crime and limited incentives to search for lawful alternatives (Easterly 2014, 166-7). A case which drives this point home is that of Scampia, just outside the city of Naples. Home to one of Italy's largest public housing projects, Scampia has earned the distinction of being the fifth largest drug dealing areas in the world, based on number of drug dealers per resident. The majority of these drug dealers are young men, as young as 13 who have embarked on a career in the drug business after being recruited by local mob bosses. (Saviano 2009, 31)

The corruption of southern Italian youth is a popular topic amongst Italian investigative journalists. In 2016, Michele Santoro, released the documentary "Robinú" about youth involvement in organized crime in southern Italy. In a clip entitled "Kalash" (short for Kalashnikov), 16-year-old Mariano Abbagnaro, currently in jail for a mob killing, talked about his relationship with his Kalashnikov. In his words, it is, "the most beautiful thing there is, it's like embracing a beautiful woman. When you have a "kalash" in your hands, you're not afraid of anything". Another young man, who joined the Camorra at the age of 13, and also in jail for murder, describes how he started his career by committing armed robbery. Like Mariano, he equated having a gun with being a man. That gun, he said, makes it possible for him to have everything he wants in life: power, women, and money. These baby killers are part of a growing cadre of young men recruited through the lure of easy money and social status which they gain vicariously through their association with powerful mob bosses. Their need for status and drive to climb the ranks of mob families, has turned these young men into ruthless criminals who represent a great risk to society, but also to themselves. What they often fail to realize in fact, is that they are recruited because they are deemed to be expendable.

In terms organized crime's impact on economic growth of development, the corruption of youth has potentially long lasting, devastating effects. The sense of abandonment by the state, and lack of prospects for the future has resulted in a loss for southern Italy. Many of these young men will never be reclaimed by the formal economy, which shrinks the talent pool society can draw from to build its future. From fiscal perspective, their participation in the underground economy draws tax revenue away from the state and local municipalities because they are not paying income tax.

### 9.3 Organized Crime in Political Discourse

The Camorra is a State. A dictatorship without bureaucracy. We are the subversive ones who rebel against this dictatorship, but we are understaffed and held back by bureaucracy. - Sergio Di Mauro, Vice Police Commissioner of Afragola – a municipality just outside the city of Naples with a strong organized crime presence - (Repubblica Inchieste, 2014 “Luca Ferrari)

The quote above has been repeated by many politicians in one form or another, implying that in southern Italy, the asymmetrical battle between formal institutions and organized crime is being won by the bad guys. During a speech commemorating the victims of organized crime, Italy's Head of State, Sergio Mattarella, whose brother was assassinated by Cosa Nostra in Sicily, said, “We need to drain the swamps of inefficiency, unlawfulness, clientelism, and favoritism, of corruption and the absence of State which is the natural climate in which Mafia lives and prospers” (March 2017). There are two noteworthy points in this brief passage. The first is Mattarella's reference to the absence of State. The phrase “Lo Stato e' Assente” (the State is absent) has become almost a slogan to describe the failures of government in Italian discourse. It is printed on banners and flags displayed during protests against anything from factory closures to immigration, and, as relevant here, the seemingly unchecked power of organized crime. Mattarella's choice of words aligns him with the people, and is an acknowledgement of

responsibility. The second point is his description of Mafia as a living being that is prospering thanks to institutional failures. Here again, this would appear to be an admission of guilt on behalf of the political class, which is quite a powerful statement. Powerful as it may be, it is also an indication of lack of credibility suffered politicians and law enforcement. This was a recurring theme in my conversations with local residents, and it is something government officials are painfully aware of. Piercamillo Davigo, President of the Italian National Association of Judges, in a recent interview commemorating the Mani Pulite (Clean Hands) investigation which broke up a ring of corruption involving high ranking government officials and high profile businessmen, commented that the Italian people are in a state of desolation because of the lack of convictions for corruption. Many are accused, but few are found guilty, he said, and the public has little, if any faith, that things will ever change ([ilfattoquotidiano.it](http://ilfattoquotidiano.it) – February 2017).

Other politicians, such as the Mayor of Naples, Luigi De Magistris, have taken a different approach. In January 2017, a ten-year-old girl was wounded by a stray bullet during a shooting in an outdoor market. It was quickly ascertained the Camorra was behind the shooting, intended to “punish” a street vendor for not paying for protection. Following this episode, De Magistris engaged in a war of words with author Roberto Saviano, who spoke out against what he viewed to be the manifest inability of institutions to battle organized crime. De Magistris accused Saviano of taking advantage of Camorra crimes to sell his books, and claimed he was ruining Naples by drawing attention to negative events. A similar argument took place between De Magistris and documentary director Michele Santoro following the release of his film *Robinu'*, the subject of which was youth involvement in the Camorra. The reactions to these exchanges that appeared on Twitter and Facebook were mixed in terms of who they were defending or criticizing. What they shared was a condemnation of institutions, at either the local or the state

level. The comments of those coming out in defense of Saviano and Santoro revealed that the public is increasingly weary of the presence of organized crime, and want more decisive action by local authorities. Those taking the side of De Magistris seemed to express a frustration with being defined by organized crime, and they placed the responsibility with state authorities who are perceived to have left Naples to defend itself. That De Magistris reacted more strongly to Saviano's comments than the to the fact itself speaks volumes to the challenges faced by the local population, and the degree to which local politicians have avoided assuming responsibility for the devastating effects of organized crime on both societal and economical levels.

## **Chapter 10 - Conclusion**

The disastrous impact of organized crime on economic growth and development in the southern Italy is supported by the statistics and data presented in this thesis. The extent of this damage is arguably a product of the relative impunity with which organized crime operates in the territories they occupy. Their activities include the manipulation of market mechanisms, “guaranteeing” law and order, and the provision of a host of other public services the state is perceived to be deficient in providing, such as managing unemployment, protection of private property, and enforcement of contracts. The provision of these services, however, comes with a hefty price, and the penalty for non-payment is often destruction of property, various forms of intimidation, and personal harm. Compounding the problem, is the matter of organized crime’s hijacking of public funding intended to stimulate economic growth in the private sector. The massive infiltration into industries such as agriculture has cost the economy of southern Italy €30 billion in revenue this year alone. The tax revenue lost to organized crime has forced both local and national government to make spending cuts to vital services such as maintenance of public schools, research and development, and infrastructure improvements. The result is a vicious cycle which simultaneously deprives honest citizens of much needed public services and puts them at the mercy of criminal organizations.

So why does inequality in economic growth and development in Italy persist? It would seem, based on the evidence provided in this thesis, that the entrenchment of criminal organizations is due at least in part to an inability of both local and government to contrast it effectively. There is an apparent lack of adequate anti-corruption enforcement, as indicated by Italy’s low score of 57% on Transparency International’s Control of Corruption index. In a reality such as this one, where the lines between formal and informal institutions are decidedly

blurred, it is not difficult to understand how the economic activity of southern Italy fails to improve the well-being of the population at large. There is little incentive to invest in measures for economic growth and development while criminal organizations and complicit politicians continue to increase their wealth.

The empirical evidence presented here strongly supports my thesis that organized crime has negatively impacted economic growth and development in southern Italy. There can be little doubt that the activities of organized crime have indeed dramatically compromised this region's economy and severely limited opportunities for growth and improvements to well-being for the disadvantaged members of its society. What has also emerged from this thesis however, is the direct responsibility and failure of formal institutions, both at the local and state level in contrasting organized crime. Members of these subversive organization have been emboldened by the manifest ineffectiveness of government policies, which according to many are either grossly limited in scope, or so complicated that even when mobsters are apprehended, it has been extremely difficult to make charges stick. Compounding this problem is the widespread corruption of government officials who get cases involving members of organized crime thrown out of court with alarming frequency. This speaks directly to the lack of confidence in public officials and dramatically low levels of credibility in the eyes of the public.

There does seem to be a slight shift in the tide that has come primarily from the emergence of a new political party, the Five Star Movement (Movimento Cinque Stelle). From its inception, this party has campaigned aggressively against institutional corruption. They have called for an attitude of zero-tolerance for elected officials who have been found to have connections with agents of corruption such as organized crime. In the past few years, Italy has seen scandal upon scandal involving politicians from central government being caught in



flagrante delicto accepting bribes from known affiliates of organized crime. Transcripts of telephone calls in which discussions about deals between mob bosses and politicians to assign contract bid for public works have been released and aired on national TV. There has been a slow, but gradual shift in the perceived social norm surrounding corruption and accountability, but what must come next is a change in formal institutional behavior. Enforcement mechanisms must lead to definitive action for trust to be earned.

Furthermore, the insistence on framing organized crime as a social phenomenon has proven to be detrimental. It must be re-framed as an economic crisis for measures to be effective. Strategies must include interventions aimed at limiting organized crimes economic power and influence. But equally, if not more important, is the need for a dramatic paradigm shift. Italian judge, Nicola Gratteri, who has been living under police protection since 1989 because of his anti-mafia stance, says it best:

To defeat the Mafia, we need to stop spending money on anti-Mafia conventions, and start spending it on culture and education. We need to counter the appeal of organizations like the 'Ndrangheta whose omnipotence attracts disenchanted youth. That is where we need to concentrate our efforts.  
(translated from Italian – L'Inkiesta.it – February 2016)

The true battle is against complacency. Greater awareness of the economic disaster being perpetrated by organized crime is absolutely necessary, but this must be coupled with credible actions by local and state government. Only when this happens can we expect a shift in public opinion which will tilt in the balance of power in favor of institutions.

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