doi:10.1017/S0003055411000335

Governance and Prison Gangs

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How can people who lack access to effective government institutions establish property rights and facilitate exchange? The illegal narcotics trade in Los Angeles has flourished despite its inability to rely on state-based formal institutions of governance. An alternative system of governance has emerged from an unexpected source—behind bars. The Mexican Mafia prison gang can extort drug dealers on the street because they wield substantial control over inmates in the county jail system and because drug dealers anticipate future incarceration. The gang's ability to extract resources creates incentives for them to provide governance institutions that mitigate market failures among Hispanic drug-dealing street gangs, including enforcing deals, protecting property rights, and adjudicating disputes. Evidence collected from federal indictments and other legal documents related to the Mexican Mafia prison gang and numerous street gangs supports this claim.

How can people who lack access to effective governmental institutions establish property rights and facilitate exchange? For markets to operate effectively they require governance institutions to define and enforce property rights, adjudicate disputes, and mitigate the harms of negative externalities. Nearly half of the world's governments—comprising nearly two billion people—fail to do this well, so it is important to understand how governance institutions arise and function in the absence of strong government (Leeson and Williamson 2009). This article examines the system of governance that has emerged among rival criminal groups in California, and it argues that the Mexican Mafia prison gang facilitates trade by Hispanic drug dealers in Los Angeles. This unique context affords the opportunity to advance our understanding of how people define and enforce property rights and how trade takes place when individuals cannot rely on an effective governmental legal system.

Centralized governments and competing, overlapping governance organizations can both provide governance institutions that resolve disputes, secure property rights, and limit negative externalities (Hooghe and Marks 2003). Laboratory experiments show that self-governance is possible (Ostrom, Walker, and Gardner 1992), and history provides many examples of the private provision of governance (Grief 2006; Ostrom 1990; Stringham 2007). Centralized and decentralized governance organizations both require resources, which they can acquire in three ways: relying on people's inherent cultural preference to contribute, increasing the quality or quantity of the good to entice contributions, or using threats and violence against people who do not contribute.[1]

Examining illicit organizations provides two benefits for understanding governance institutions. First, drug dealers and prison gangs cannot rely on contract law. This ensures that criminals must provide some governance themselves, though clearly this takes place nested within state-based institutions.[2] Second, illicit groups have access to a different range of instruments for financing governance, including greater use of threats and violence.

Past research on governance has examined organizations that deploy terrorist tactics. Hamas and Hezbollah induce contributions by providing valuable mutual aid, which a participant will lose access to if he or she fails to contribute (Berman 2009). These organizations also require costly sacrifices that signal a potential member's level of commitment; once deemed acceptable, the recruit gains access to the local public goods (Berman and Laitin 2008). Culture, too, can play an important role either by inculcating a preference for contributing or through norms that disapprove of withholding (Munger 2006). Ethnic homogeneity and religion can facilitate within-group cooperation for those operating outside of the legal system (Bernstein 1992; Landa 1981).[3]

Whereas past work focuses primarily on how groups fund governance by increasing the benefits of participation and inherent preferences, this article examines the use of threats and violence as a third instrument. Instead of increasing the benefits of group participation, some groups successfully obtain resources by increasing the cost of refusing to participate. The first

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The author thanks the co-editors, three referees, Peter Boettke, Tyler Cowen, Marek Kaminski, Peter Leeson, Mike Munger, Benjamin Powell, Matt Ryan, Doug Rogers, William Shughart, Emily Skarbek, Dan Sutter, and Virgil Storr for helpful comments. The author thanks the Searle Foundation and the Horowitz Foundation for Social Policy for financial support.

[1] Wintrobe (1990, 1998) analyzes dictators' use of two instruments, repression and loyalty.

[2] Correctional officers do provide some governance to inmates, but because of a lack of resources or unwillingness to govern illicit exchange, they do not provide all of the governance that inmates demand (Sykes [1958] 2007, 40–63).

[3] Related research examines the choice to engage in terrorist activities and a population's beliefs about the tradeoff between safety and civil rights (Davis and Silver 2004), people's reaction to terrorism as feeling either threatened or anxious (Huddy *et al.* 2005), and the relationship between terror campaigns and the instigation of popular mobilizations (Bueno de Mesquita and Dickson 2007). Government action can also influence a terrorist organization's ability to identify and recruit high-quality members (Berman 2009; Bueno de Mesquita 2005). The use of terrorism more broadly is a rational and strategic use of threats and violence to induce action from non–group members (Berman and Laitin 2005; Pape 2003).

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

contribution of this article is to show how the Mexican Mafia prison gang uses threats to acquire resources and provides governance to Hispanic drug dealers, thereby facilitating the Los Angeles drug trade. Effectiveness in the face of both violent intergroup hostilities among drug dealers and the active suppression of the industry by the government indicates the robustness of this system of governance.[4]

Criminal groups often facilitate exchange in pockets of anarchy by creating and administering governance institutions.[5] Important works by Bandiera (2003) and Gambetta (1993) show that early Sicilian Mafiosi protected land and enforced contracts. Organized crime provides similar services in Japan (Hill 2006; Milhaupt and West 2000), post-Soviet Russia (Varese 2005), and northern Italy (Varese 2006). Membership in Los Angeles street gangs increases in response to violence rather than precipitating it, suggesting that people join gangs for safety when the state does not provide it (Sobel and Osoba 2009). Consistent with this finding, protection is a common reason given for joining a gang (Melde, Taylor, and Esbensen 2009), and protection was found to be one of the most common services provided to members (Jankowski 1991, 122–23). Tilly (1985) similarly argues for the analogy between states and organized crime. Organized crime provides extralegal governance to protect property rights and enforce contracts in power vacuums where legitimate governments cannot or will not do so, and a genuine, long-term demand for governance exists (Skaperdas 2001; Varese 2011).

The second contribution of this article is to identify the specific incentives that generate the provision of the system of governance among rival Los Angeles drug dealers. Olson's "stationary bandit model" (McGuire and Olson 1996; Olson 1993, 2000) predicts that the encompassing interest of the Mexican Mafia prison gang, their long time horizon, and their ability to extort Los Angeles drug dealers will lead them to provide governance, including enforcing deals, protecting property rights, and adjudicating disputes. The article examines the claim that the prison gang can credibly threaten and extort drug dealers because they wield control over inmates in the county jail system and drug dealers anticipate future incarceration or have incarcerated associates vulnerable to the prison gang.

Despite the considerable influence of prison gangs, almost no research exists on their governance institutions and relationship with the broader community.[6] A major obstacle to understanding the organization of criminal enterprises is obtaining information about their internal operations. Past work relies on historical documents (Leeson 2007a), ethnographic research (Levitt and Venkatesh 2000), and court testimony (Gambetta 1993). These methods are infeasible in the study of prison gangs because of restricted access to correctional facilities and the greater secrecy of prison gangs (Fong and Buentello 1991, 66). To overcome this problem, this article relies on primary source evidence collected from criminal indictments and other legal documents from the United States District Court for the Central District in California against the Mexican Mafia prison gang and numerous street gangs, including the 18th Street, Avenues, Black Angels, Eastside Rivas, Florencia 13, MS-13, and Varrio Hawaiian Gardens street gangs. Files made available by the Federal Bureau of Investigation under the Freedom of Information Act also provide evidence. The excellent firsthand accounts of former law enforcement officers, gang investigators, and Mexican Mafia members corroborate these official documents and provide additional evidence, especially on the internal governance of the Mexican Mafia (Blatchford 2008; Mendoza 2005; Morales 2008; Morrill 2005; Rafael 2007).

Each of these sources is imperfect and subject to bias, but the diversity of sources helps to establish the facts of the governance system. Law enforcement testimony agrees in numerous independent court cases, and the affirmation of this testimony during appeals suggests that it is reliable. Declassified internal FBI reports are likely to be relatively unbiased and informative. Prison gangs attempt to (and often do) kill former members who cooperate with authorities, so the people involved consider informants' accounts accurate enough to warrant serious action. These sources rely on many agencies that have investigated different aspects of various street and prison gangs over an extended period, so despite their imperfections, they provide a rich description of criminal enterprise capable of addressing the institutional questions examined in this article.[7]

MEXICAN MAFIA PRISON GANG

In 1956, Hispanic inmates in the Deuel Vocational Institute (a prison in Tracy, California) banded together to protect themselves from predatory inmates (Mendoza 2005, 16–20). The group quickly grew in power and adopted the name the Mexican Mafia. Law enforcement officials report that they are now the most powerful gang within the California prison system (*United States* v. *Flores et al*. 2008, 15). Estimates indicate there are currently 155–300 official members of the Mexican Mafia and 993 associates, who assist the organization in carrying out its illicit enterprises and aspire to become full members (*People* v. *Parraz* 2008; *United States* v. *Shryock* 2003). Members reside both

[4] This relates more generally to the economic, political, and legal institutions necessary to generate economic development in potentially violent situations (Coyne 2007; North, Wallis, and Weingast 2009).

[5] Theoretical research models organized crime as quasigovernments and competitors of government (Alexeev, Janeba, and Osborne 2004; Grossman 1995; Skaperdas and Syropoulos 1995) and relates to a broader literature on self-enforcing exchange and private ordering (e.g.. Benson 1989; D'Amico 2010; Leeson 2007b, 2008; Powell and Stringham 2009; Schaeffer 2008).

[6] Two recent exceptions examine the internal governance institutions of a prison gang (Skarbek 2010) and the dynamics of prison gang expansion in a variety of countries (Lessing 2010).

[7] Conversations conducted by the author with employees at San Quentin State Prison provide additional confirmation of the information found in these sources.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

in correctional facilities and on the street. Most Mexican Mafia members previously participated in a street gang, but they must be loyal to the prison gang once they join. The prison gang also requires its members to continue working for it once released. Street gang members consider membership in the Mexican Mafia as an elevated position in the criminal underworld. According to the gang czar in the Los Angeles City Attorney's Office, the Mexican Mafia prison gang is the "the single most organized criminal enterprise in America today" (Blatchford 2008, 300–301).[8]

The Mexican Mafia prison gang engages in activities in prison and on the street that fall into two broad categories. First, they participate in conventional crimes, such as distributing narcotics, armed robbery, and murder. Second, the Mexican Mafia administers a system of governance institutions that facilitate illicit market exchange by protecting property, enforcing agreements, and adjudicating disputes among street gangs.

Hispanic street gangs in southern California fall under the umbrella term *Sureños* (Spanish for "Southerner"). There are approximately 21,000 Sureño gang members composing 400 different gangs in Los Angeles County (Los Angeles Police Department 2006). These street gangs are neighborhood-based and their primary revenue source is selling narcotics (*United States* v. *Alfaro et al*. 2008, 7; *United States* v. *Pantoja et al*. 2007, 7). Sureño street gangs and the Mexican Mafia are ethnically homogenous, consisting almost entirely of Hispanic members. When Sureños enter correctional facilities, they put aside their rivalries and obey the Mexican Mafia. Sureños compete with each other for illicit drug market territory, as well as with other drug suppliers. Because of their illicit status, drug dealers cannot rely on the police to secure their property or depend on courts to resolve disputes.

After several years of the Mexican Mafia operating loosely within California prisons, two well-respected members created a more formal organizational structure. There is only one official rank, each member has one vote, and no one can give another member an order (Mendoza 2005, 16). In reality, some members have more influence on the organization than others (Rafael 2007, 244), and a former member explains that "leaders naturally assumed their roles and would come to a point of pretty much dictating policy at the given prison or location within the prison setting or on the outside" (Mendoza 2005, 107). The internal organization of the Mexican Mafia functions much like a traditional cooperative. The prison gang lacks clearly defined control rights and a clear residual claimant. The prison gang is worker-owned, each member has a vote, and the gang relies on an internal rule structure and prohibits a secondary market for membership.

Prison gangs must limit free riding by members.[9] Incarceration makes monitoring costly, so the gang relies, in part, upon filtering out low-quality recruits before they join. To gain membership, an inmate must have demonstrated his high quality within a street gang and assisted the Mexican Mafia in jails and prisons (Blatchford 2008; Mendoza 2005). A current member must sponsor a recruit, and the gang holds the sponsor liable for the recruit's behavior. The gang typically requires unanimous support from members in the sponsoring location (Blatchford 2008, 5, 43, 165; Mendoza 2005, 19).[10] Recruits must take the "blood in, blood out" oath, which requires assaulting or killing an enemy of the gang to join and a promise of lifetime membership, which if violated is punishable by death (Blatchford 2008, 44). These practices reveal information about the recruit's abilities and dedication. Clubs commonly require costly sacrifices and stigmas as mechanisms to improve member quality and limit free riding (Berman 2000; Berman and Laitin 2008; Iannaccone 1992).

A constitution outlines the Mexican Mafia's internal governance institutions (Blatchford 2008, 44; *United States* v. *Aguirre et al*. 1994, 7):

1. A member may not be a homosexual.
2. A member may not be an informant.
3. A member may not be a coward.
4. A member must not raise a hand against another member without sanction.
5. A member must not show disrespect for any member's family, including sex with another member's wife or girlfriend.
6. A member must not steal from another member.
7. A member must not interfere with another member's business activities.
8. A member must not politic against another member or cause dissension within the organization.
9. Membership is for life.
10. Membership mandates assaulting/killing all drop outs.
11. The Mexican Mafia comes first—even before your own family.

The constitution creates common knowledge about what members can expect of others and therefore reduces conflict within the group by aligning expectations and coordinating enforcement of the rules (Leeson and Skarbek 2010; in the political context, see Weingast 1995). It also prohibits member activities that generate external costs, such as informing to law enforcement, acting cowardly, or engaging in homosexual activity, which the criminal culture reportedly views negatively (Davidson 1974, 75). The organization's rules limit rent

[8] This article takes as given that powerful prison gangs currently exist. To understand the environment in which prison gangs arose in the 1950s and the substantial differences facing inmates more recently, see Irwin (1980). Davidson (1974) provides an ethnographic study of the nascent Mexican Mafia in San Quentin State Prison.

[9] See Hansmann (1988) on cooperatives and Cornes and Sandler (1996) on the organizational problems of clubs.

[10] In another context, it appears that as few as three votes were sufficient to induct a new member (*United States v Aguirre et al.* 1994, 3-4), yet as will be documented shortly, other instances reveal that unanimous agreement is required. The evidence is insufficient to determine whether the gang does not enforce the unanimity rule in some contexts or whether unanimous approval among a group must come from at least three members.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

seeking by prohibiting physical conflict and disrespect, theft from other members, interfering with other's business, and politicking.

The gang votes on important decisions, including who can become a member. The FBI recorded a meeting where about a dozen members debated accepting a new recruit. The recruit's sponsor petitioned the group to vote "yes" (Blatchford 2008, 163–64):

> This motherf—r is sharp. He's taking care of a lot of business and I want to make him a *carnal* [member] . . . I know you *vatos* don't know him, but take my word for it, the motherf—r's down. I'm not talking just about violence either. He takes care of business real good, and he has downed a whole lot of motherf—rs in the last year. And he went against his whole neighborhood for us. He's been fighting with them, he's down. And when . . . his homeboys killed that one-year-old baby a few months ago, he's the one who took care of 'em [the recruit stabbed the person thirty-five times] . . . I've raised my hand [voted] for the *vato*.

He argues that the recruit has already demonstrated his high quality by engaging in violence, earning in illicit enterprises, and following the Mexican Mafia's orders. The recruit is eventually voted in unanimously and advised, "there are certain *reglas* [rules] and guidelines that we go by . . . and we're real serious about it" (Blatchford 2008, 165). The punishments for violating these rules include fines, assaults, stabbings, and death (Federal Bureau of Investigation 2009a, 43; 2009b, 17). The Mexican Mafia often votes on whether to kill people (including members who have broken the rules), and members invoke the constitution in intragroup conflict. For example, members voted to kill another member who had been politicking and had inducted new members without following the appropriate procedures (*United States* v. *Shryock* 2003). The FBI attributes the effectiveness of the organization to the "discipline that its members had built over the years through enforcement of their internal laws" (Federal Bureau of Investigation 2009b, 1).

INCARCERATED BANDIT: THEORY AND HYPOTHESES

Mancur Olson's stationary bandit model shows that a ruler with an encompassing interest, a sufficiently long time horizon, and the ability to extract resources from a community will maximize revenue over future periods by providing services that facilitate exchange and then extracting resources from the increase in wealth generated (McGuire and Olson 1996; Olson 1993, 2000).[11] On the other hand, a roving bandit with a short time horizon will extract all resources from the community and therefore discourage wealth creation.

For the stationary bandit to provide market-enhancing governance institutions, it must have the ability to forcibly extract resources from members of a community. Given the limitations that incarceration imposes on a prison gang, it seems paradoxical that the Mexican Mafia would be able to extort drug dealers outside of prison. This section identifies a mechanism of jail-based extortion that allows the Mexican Mafia to act as an "incarcerated bandit" and develops several empirical propositions about the system of governance that will result.

FIGURE 1. Decision Tree of an Extortion Target

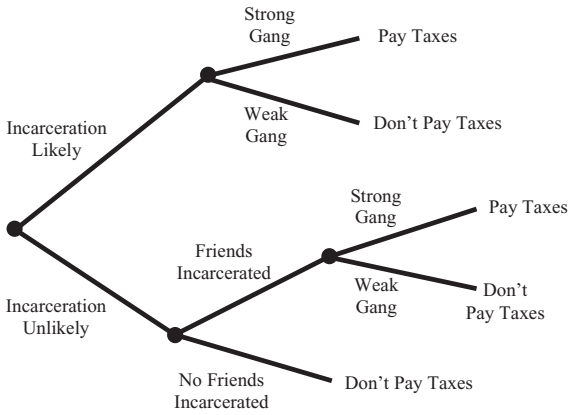


Figure 1 presents the decision tree for a nonincarcerated individual faced with a prison gang's extortion demand to "pay taxes." Each branch of the tree designates the individual's belief about a state of the world and subsequently dictates the action to take. The first branch identifies the individual's belief about his likelihood of future incarceration. If incarceration is likely, then the individual forms a belief about whether the prison gang will be a danger to him once he is incarcerated (either a strong or a weak gang). If the individual does not anticipate incarceration, but has known associates who are incarcerated and whose welfare he cares about (friends incarcerated or not), he will form a belief about how much of a threat the prison gang presents to them.

This theory suggests five related hypotheses about whether the Mexican Mafia prison gang will be able to extort nonincarcerated people. The first two hypotheses will receive the most focus in the article because they explain when jail-based extortion is successful, which is the mechanism that generates provision of the system of governance.

Hypothesis 1. *The prison gang will extort people who anticipate future incarceration and believe that the prison gang is dangerous.*

This hypothesis depends on establishing a key strategic relationship: People who (1) anticipate future incarceration (2) pay "taxes" to the Mexican Mafia because (3) they pose a credible threat to harm inmates in Los Angeles County jails.

Hypothesis 2. *The prison gang can extort people who do not anticipate incarceration if they have known associates*

[11] See also Bates, Greif, and Singh (2002) for a similar model.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

who are incarcerated, whose welfare they care about, and who are vulnerable to the prison gang's violence.

This hypothesis similarly requires showing that the Mexican Mafia poses a credible threat of violence behind bars. Evidence that the prison gang targets the incarcerated associates of noncompliant street gang members and drug dealers voicing concern about this threat will support this hypothesis.

Hypotheses 1 and 2 identify who will pay gang taxes; the following three related hypotheses distinguish between several reasons that the Mexican Mafia cannot extort some people.

Hypothesis 3. *Prison gangs cannot extort people who anticipate incarceration but will be safe from the gang's violence behind bars.*

People who can ensure their own safety once incarcerated will not pay taxes to the Mexican Mafia because the prison gang's threat is not credible. Evidence of people who can independently secure their safety in jail but who still pay taxes will refute this hypothesis.

Hypothesis 4. *Prison gangs cannot extort people who do not anticipate future incarceration or who have no known associates who are incarcerated.*

We can reject this hypothesis if law-abiding citizens are subject to systematic extortion by the Mexican Mafia. Prison gangs can also more easily extort criminals who engage in voluntary, cash-based enterprises, and whose business requires being relatively immobile (Schelling 1971).

Hypothesis 5. *The Mexican Mafia can only extort criminals who live in a jurisdiction that will lead to incarceration in a facility that the gang controls.*

If an extortion target will not enter a correctional facility controlled by the Mexican Mafia, then their threat lacks credibility. Evidence that the Mexican Mafia can extort people residing outside of the regions and facilities that they operate in would refute this hypothesis.

With the ability to extract resources, a long time horizon, and an encompassing interest, the Mexican Mafia has an incentive to provide a system of governance to extortion victims to increase wealth creation and subsequent tax revenues. This suggests two related hypotheses about who will receive the Mexican Mafia's governance services.

Hypothesis 6. *The Mexican Mafia will provide governance services to inmates who pay taxes.*

Hypothesis 7. *The Mexican Mafia will withhold governance services from inmates who do not pay taxes.*

Evidence on the Mexican Mafia and Hispanic drug dealers in Los Angeles provides the opportunity to asses these seven hypotheses.

POWER TO TAX: EXTORTION IN LOS ANGELES

The Mexican Mafia would have no incentive to provide governance institutions without the ability to extract resources from drug dealers, so it is important to examine the first two hypotheses thoroughly. For Hypotheses 1 and 2 to be accepted, the evidence must support the three related arguments made in this section: Drug dealers pay gang taxes, the Mexican Mafia has a credible threat behind bars, and drug dealers anticipate future incarceration or have associates behind bars who are vulnerable.

Drug Dealers Pay Gang Taxes

Law enforcement officials in numerous agencies agree that Hispanic drug dealers pay taxes to the Mexican Mafia. A Special Agent with California's corrections department explains why gang members on the street comply with the demands of incarcerated Mexican Mafia members.

> A street gang member knows, "If I don't do what I'm told to do on the streets, that [*sic*] when I hit the jail, or when I hit the prisons, there are those who are so loyal to the Mexican Mafia that they're going to assault me." So you're going to do exactly what you're told, when you're told to do it and how you're told to do it, and not ask any questions about it (American Public Media 2008).

A federal indictment reports,

> The Mexican Mafia is able to assert control and influence over gang members outside the penal system because the gang members do not want their members in the penal system to be assaulted, and because the gang members know that, if they are incarcerated, they will need the protection of the Mexican Mafia while they serve their sentences (*United States* v. *Aguirre et al*. 1994, 4–5).

According to the FBI (Federal Bureau of Investigation 2009a, 45), the Mexican Mafia "had come to the realization that if the fear of the prison inmate is controlled, it must be necessarily so that the criminal operating in free society, who is in constant fear of returning to the prison system, must also be aware of this power."[12]

The Mexican Mafia designates a representative in a Sureño neighborhood to collect payments—known by participants as "gang taxes"—from neighborhood drug dealers. The representative is usually the leader of a Sureño gang or a paroled member or associate of the Mexican Mafia (see Blatchford 2008, 123; Mendoza 2005, 308; *United States* v. *Aguirre et al*. 2009, 11; *United States* v. *Alfaro et al*. 2008, 8; *United States* v. *Eastside Rivas* 2010, 18–20; *United States* v. *Flores et al*. 2008, 9; *United States* v. *Pantoja et al*. 2007, 6–7). A drug dealer's size and earnings determine the tax requirement, usually 10–30% of revenues, which he pays

[12] Sociological research also identifies the growing influence of prison gangs in particular neighborhoods. See Hagerdorn (1998) and the citations therein.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

monthly or weekly (Blatchford 2008, 123; *United States* v. *Aguirre et al.* 1994, 38). Sureños also send payments to incarcerated members of the Mexican Mafia with money orders and to the gang's associates and family members (*United States* v. *Pantoja et al.* 2007, 47–50, 81–82).[13] The Sureño representatives who collect taxes on the street do so voluntarily and can receive substantial compensation in the process.

Wiretapped phone conversations provide compelling evidence about the internal operations of criminal enterprises because the individuals recorded are unaware that law enforcement is listening, so their conversations, in which members frequently incriminate themselves, reveal information about the gang's internal operations. Indictments detail conversations in which Sureños arrange to tax drug dealers and send money to the Mexican Mafia. For example, one gang member tells another that two incarcerated Mexican Mafia members granted him authority to run the gang's taxation scheme in a particular neighborhood (*United States* v. *Flores et al.* 2008, 75, 77). In another instance, two Mexican Mafia members talked to each other about how the tax collectors from the Avenues street gang know the taxes they collect are not their property and that they receive a fixed salary as compensation (*United States* v. *Aguirre* 1994, 35). The prison gang directs the taxation scheme and street gang members follow its orders.

Sureños maintain a distinct role for the individual in charge of collecting gang taxes. Law enforcement descriptions of the Varrio Hawaiian Gardens street gang (VHG) typify many Sureño gangs:

> At any given time, one or more members of the Mexican Mafia has control over the VHG Gang's territory and is empowered [by the Mexican Mafia] to receive the drug "taxes" from the VHG Gang and to issue orders and instructions to the VHG Gang. A Mexican Mafia member with authority over the VHG Gang's territory typically enlists the assistance of a VHG Gang member and authorizes that VHG Gang member to act in the name of the Mexican Mafia member. . . . [He] is empowered to collect drug "taxes" for that Mexican Mafia member from VHG Gang members and drug traffickers selling drugs in [the city of] Hawaiian Gardens. . . . (*United States* v. *Flores et al.* 2008, 15–17)[14]

The representative for the Columbia Little Cycos (CLCS) gang "would maintain an accounting of the [tax] amounts paid to the CLCS Organization by narcotics distributors during each [tax] collection period, and calculate the percentage of the illicitly obtained proceeds that the CLCS Organization was required to pay to Mexican Mafia Member 1" (*United States* v. *Pantoja et al.* 2007, 81).

The notorious street gang MS-13 also pays taxes to the Mexican Mafia. As an indictment explains, "each clique contributes a portion of its profits towards a tax paid by MS-13 to the Mexican Mafia. Like all gangs associated with the Mexican Mafia, MS-13 is required to pay a specified sum of money on a regular basis to a member of the Mexican Mafia" (*United States* v. *Alfaro et al.* 2008, 8). The indictment explains, "A single powerful MS-13 member in Los Angeles has been appointed to act as MS-13's representative to the Mexican Mafia" (ibid.).

The Mexican Mafia has an incentive to monitor who collects these taxes, and they use severe punishments to deter imposters. For example, law enforcement recorded a meeting in March 1994 where Mexican Mafia members decided they should kill someone named Valerio who had collected taxes under the false pretence of being a Mexican Mafia member. Eight months later, according to a wiretapped phone conversation between two Mexican Mafia members, "Castro called Rodriguez to advise him that the police had arrested Valerio and he was in jail, so R. Castro now had the opportunity to kill him. During subsequent conversations, R. Castro devised a plan to kill Valerio while in custody" (*United States* v. *Shryock* 2003, 10).

Taxpayers also have an incentive to monitor to whom they pay taxes. First, drug dealers have an incentive to certify the legitimacy of the tax collector so that they get credit for paying. In one instance, a Sureño falsely claimed to be a tax collector for the Mexican Mafia. The people he was taxing became suspicious and "telephoned around" to determine if he was authorized to collect taxes. When they learned that he was not, they stopped paying him. This also alerted a paroled member of the Mexican Mafia, who then shot the imposter in the chest (*People* v. *Torres* 2009). Second, having an established representative to collect taxes from a gang makes it easier to identify a fake tax collector. The prison gang often designates members who are from local gangs to be the tax collectors and representatives for that gang. For example, a Mexican Mafia member who was an Avenues gang member will collect taxes from them. These representatives know the street gang members, their business, and the social networks in which they operate. This lowers the cost of collecting taxes, recording who fails to pay, and communicating this information to incarcerated members. Contraband cell phones present a third important way of obtaining intelligence about this taxation scheme, and correctional officers confiscate thousands of cell phones from California inmates every year, suggesting that the prison gang can easily obtain them.[15]

According to law enforcement officials at the local and federal levels, correctional officers, and gang

[13] Although an inmate's consumption basket differs from the typical consumer's, he still has many options. He may buy from the commissary and the underground inmate economy, where both legal and illegal items are available (Davidson 1974, 101–48; Irwin 1980, 206–12). Inmates also have access to bank accounts through which they can transfer funds to noninmate accounts or invest in financial assets, such as CDs and government treasury bonds (American Public Media 2008; Blatchford 2008, 264; Rafael 2007, 304).

[14] Additional legal documents provide evidence on the VHG gang (*United States* v. *Barajas et al.* 2008; *United States* v. *Henley et al.* 2008; *United States* v. *Sotelo et al.* 2008).

[15] The cost of obtaining information about a street gang's business activity varies by gang. The largest, most prominent street gangs will be easiest to identify and obtain information about, and these are also the gangs the Mexican Mafia will find the most lucrative to tax.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

members, the Mexican Mafia systematically taxes drug dealers. A court of appeals opinion for a case involving the Mexican Mafia writes, "Overwhelming evidence in the record shows that Appellants conspired to extort money and firearms from various street gangs" (*United States* v. *Shryock* 2003, 11). A seventeen-year veteran of the Mexican Mafia who became an informant describes the success of the extortion endeavor. He explains, "Tens of thousands of gang members adhered to what we said. . . . And it was then that we realized the true potential of the Mexican Mafia . . . because of the finances generated by taxation: Taxation, extortion, protection—they all fall under the same umbrella" (American Public Media 2008).

Control of Cellblocks

The second component of Hypotheses 1 and 2 argues that the Mexican Mafia poses a credible threat to assault gang members in jail. Inmates entering a facility have few resources to defend themselves with because they arrive alone and unarmed, and are unfamiliar with the environment. The overcrowding in California's correctional system means that new inmates often sleep in large dormitories that hold over 100 inmates and provide few means of protection. They encounter organized prison gangs who are armed and knowledgeable about the correctional facility. The prison gang assaults or kills Sureños who refuse to pay taxes.[16]

The Los Angeles County jail system sorts Sureños from all over the county into a few dangerous environments controlled by the Mexican Mafia. The county jail system has seven different facilities for men, and the entire jail system currently houses approximately 15,000 male inmates. The Men's Central Jail is the largest facility in the system. In late 2009, it housed 4,608 inmates for an average of 61 days. Narcotics-related crimes represent the most common charge for inmates, followed by murder and attempted murder. Of all Hispanics incarcerated in the Los Angeles County Jail system, 27.4% reside in the Men's Central Jail.

The Mexican Mafia wields a prominent influence in the Men's Central Jail because of the large concentration of gang associates housed there and their ability to traffic narcotics inside (*United States* v. *Aguirre* 1994, 31–41). The facility is adjacent to the Central Arraignment Courthouse of Los Angeles, and because Mexican Mafia members and associates are frequently on trial, many reside in the Men's Central Jail for extended periods (Blatchford 2008, 99). Some Mexican Mafia members choose to represent themselves in court, which allows them to subpoena fellow gang members and enemies to the county jail from state and federal prisons, ostensibly to act as witnesses, but also to conduct gang business (Blatchford 2008, 95–99; *United States* v. *Shryock* 2003, 9).

Newly arriving Sureño inmates cannot rely on other prison gangs or inmates for protection from the Mexican Mafia, in part because of racial segregation within California correctional facilities. California prison gangs are racially homogenous groups, and the entire prison society runs both formally and informally along racial lines. A United States Supreme Court case (*Johnson* v. *California* 2005) revealed that correctional officials do not house inmates of different races in the same cell and segregate dormitory assignment (Trulson *et al.* 2008).[17] Inmates also self-segregate in prison yards by race and prison gang affiliation, and inmates report that interacting with other races will result in violence from people of one's own race to maintain segregation.[18] Simply walking past an inmate of another race or in an area claimed by a rival prison gang can elicit a violent assault (Blatchford 2008, 39). The Mexican Mafia's control of Men's Central Jail and the formal and informal racial segregation that permeates life in correctional facilities make it a dangerous environment for Sureños who have not paid gang taxes.

Law enforcement documents reveal instances of Mexican Mafia members contacting inmates to assault Sureños. According to telephone wiretaps, in October 1994 a nonincarcerated Mexican Mafia member spoke with an associate in the Los Angeles County Jail and advised the inmate of which street gangs the Mexican Mafia was authorizing assaults against (*United States* v. *Aguirre* 1994, 31–32). Several days later, another Mexican Mafia member was recorded asking who on the A and B Rows in Los Angeles County Jail could assault a particular inmate who was housed there (*United States* v. *Aguirre* 1994, 32). In November 1994, an inmate was ordered on two different occasions to assault another inmate for not paying gang taxes (*United States* v. *Aguirre* 1994, 33–34). The Mongols, a Hispanic outlaw motorcycle gang that traffics narcotics in southern California, has feuded with the Mexican Mafia for several years over paying taxes. Phone conversations between leaders of the Mongols gang reveal that the reason they eventually agreed to pay taxes was that the Mexican Mafia forced Mongol members to enter protective custody while in prison to avoid assaults (*United States* v. *Cavazos et al.* 2008, 67). Fears of reprisals while incarcerated—not on the street—were the threat that induced compliance.

The prison gang can also put a "green light" on a gang member or an entire street gang, authorizing anyone to kill those individuals without fear of reprisals from the Mexican Mafia (*United States* v. *Flores et al.* 2008, 16; *United States* v. *Pantoja et al.* 2007, 42). In fact, assaulting enemies of the Mexican Mafia improves one's status in the criminal underworld (*United States* v. *Alfaro et al.* 2008, 6; *United States* v. *Barajas et al.* 2009, 3–4). Street

[16] See, for example, the punishments for nonpayment documented in *People* v. *Moreno* (2010); *United States* v. *Aguirre et al.* (1994, 4–5); *United States* v. *Alfaro et al.* (2008); *United States* v. *Flores et al.* (2008); *United States* v. *Hernandez et al.* (2009, 5); *United States* v. *Pantoja et al.* (2007).

[17] Deciding on *Johnson* v. *California* (2005), Justice O'Conner in the majority opinion notes that the informal policy of racial segregation might "breed further hostility among prisoners and reinforce racial and ethnic divisions" (1147) and Justice Edwards in the concurrence identifies a similar likelihood (1157).

[18] Kaminski's (2004) fascinating analysis of prison life documents the importance of an inmate adapting to prisoners' norms.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

gangs often fear the Mexican Mafia enough to harm their own members when conflict with the prison gang arises. For example, the 18th Street gang killed one of its own members to appease the Mexican Mafia and remove a green light against the gang (*United States* v. *Pantoja et al.* 2007, 42). Self-ordering institutions often allow decentralized punishment mechanisms, including this type of "community responsibility system" (Greif 2006).

Anticipation of Incarceration

The third component of Hypothesis 1 requires that taxpayers anticipate future incarceration. The recidivism rates of released inmates provide a good estimate of the likelihood of future incarceration for Sureños, because a large proportion of them have already served a criminal sentence. The California Department of Corrections and Rehabilitation recorded the recidivism rates for all paroled felons released from prison for the first time in 2004. For Los Angeles, 49.51% of all paroled felons returned to prison within three years. For inmates incarcerated for a variety of drug-related offenses, 45–66% returned within three years. Within only one year, 28.82% of felons sentenced for sale of controlled substances and 45.43% for possession of controlled substances returned to prison. For all offenders across California, 58.73% of male inmates released return to prison within three years. Based on two-thirds of all inmates released from prisons across the country in 1994, within three years officials rearrested 64.6% of Hispanic inmates and 66.7% of inmates for whom their most serious offense was drug-related (Langan and Levin 2002).

Recidivism for inmates affiliated with a gang and the narcotics trade is substantial. Within 750 days of release from Illinois prisons, law enforcement arrests 75% of gang members, and the average time from release to arrest is less than eight months (Olson, Dooley, and Kane 2004). Drug dealing presents a risky activity as well. For instance, drug dealers in Washington D.C. spend three months of the year, on average, incarcerated (Kleiman 2009, 70–71). Personal accounts from Sureño gang members in Los Angeles confirm that they anticipate going to prison and even see it as a badge of honor and akin to attending college (Blatchford 2008, 32; Mendoza 2005, 79). Incarceration presents the opportunity to increase one's human capital[19] and associate with high-ranking gang members, is recognized as part of the "life of crime," and provides an important signaling function in the underworld (Gambetta 2009).

Hypothesis 2 predicts that drug dealers will pay gang taxes if their associates are incarcerated and subject to violence. Incarcerated gang members become vulnerable hostages, and therefore can motivate Sureño gang members who might not anticipate future incarceration to pay taxes. Phone calls to incarcerated Mexican Mafia associates that identify the entire gang—rather than particular gang members who have not paid taxes—suggest that this plays an important role. In November 1994, a phone call from one Mexican Mafia member to another in the Los Angeles county jail authorized assaults against members of the Clanton, Hang Out Boys, and Flats street gangs because they had not paid their taxes (*United States* v. *Aguirre* 1994, 34). Indictments also reflect this, noting for example, that failure to pay taxes results in "a general order from the Mexican Mafia to assault or kill any incarcerated MS-13 in any facility controlled by the Mexican Mafia" (*United States* v. *Alfaro et al.* 2008, 8). Though drug dealers may anticipate incarceration, these examples suggest that the prison gang can credibly threaten all members of a gang and that targeting all members of the gang can induce compliance by particular gang members. Even if a drug dealer does not anticipate incarceration, these examples suggest that the prison gang can credibly extort taxes from him.

Street gang members would like to act strategically to avoid this, but the economics of the drug trade makes this infeasible. To establish a profitable drug dealing business, street gangs must protect their product and convince consumers to buy from them. A common method of accomplishing this in situations of impersonal exchange is to establish a reputation that both signals the gang's dangerousness to potential competitors and thieves and signals the quality of their product to consumers. Because of their permanence and visibility, tattoos are a credible and effective method of signaling one's gang affiliation to others (Gambetta 2009). As a result, however, drug dealers cannot easily hide their gang membership to avoid becoming hostages when incarcerated. To capture the profits of illicit trade, street gang members must adopt mechanisms that make them vulnerable to jail-based extortion.[20]

Who Does Not Pay Taxes?

The mechanism of jail-based extortion also distinguishes three reasons that some people will not pay gang taxes. First, prison gangs will not be able to extort from people who anticipate incarceration but who can protect themselves from the Mexican Mafia behind bars (Hypothesis 3). For example, black prison gangs, such as the Black Guerrilla Family, provide protection to black inmates. Black drug dealers in Los Angeles anticipate incarceration in the county jail system, but the Mexican Mafia cannot credibly threaten them. There is no evidence of black drug dealers in Los Angeles paying taxes to the Mexican Mafia, and black drug dealers do not have access to the Mexican Mafia's system of governance, as discussed below (*United States* v. *Flores et al.* 2008).

Second, prison gangs cannot extort from people who do not anticipate future incarceration or have known

[19] Bayer, Hjalmarsson, and Posen (2009) find evidence of peer effects among incarcerated juveniles for burglary, petty larceny, felony and misdemeanor drug offenses, aggravated assault, and felony sex offenses.

[20] Costly signals also promote internal governance by revealing a member's dedication to the gang. Other methods of claiming gang affiliation exist, but precisely because they are less costly and visible, they are also less useful as signals.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

associates who are incarcerated (Hypothesis 4). There is no evidence that people engaged in legal businesses pay taxes to the Mexican Mafia. In addition, if the Mexican Mafia cannot easily detect and monitor a criminal's activities, it will be too costly to tax them. In alerting potential customers to their presence, drug dealers also alert the Mexican Mafia. Drug dealers conduct business every day, with voluntary consumers, in cash, and are neighborhood based. This makes it relatively easier to tax them than those committing crimes that by their nature are done surreptitiously, such as burglary (Schelling 1971).

Third, the Mexican Mafia can only tax people who live in the jurisdiction that would lead to incarceration in a facility that they control (Hypothesis 5). The prison gang's threats are not credible to drug dealers in other regions. For example, they do not tax Hispanic drug dealers in Northern California because these drug dealers will not enter the Los Angeles County jail system when arrested. In fact, the *Nuestra Familia* prison gang, which controls jails in Northern California, taxes local Hispanic drug dealing street gangs and produces governance, in much the same way as the Mexican Mafia does (Fuentes 2006). This supports Hypothesis 5 and provides out-of-sample confirmation of the jail-based extortion mechanism.

Despite the much larger number of street gang members than prison gang members, several strategic factors prevent their joint refusal to pay taxes. First, in Los Angeles there are approximately 400 Sureño street gangs composed of more than 21,000 gang members, and their conflicting business interests create substantial costs of collective action that prevent them from refusing the Mexican Mafia's demands (Olson 1971). Each gang may prefer that the Mexican Mafia not tax them; however, each has an incentive to free ride on overthrowing the taxation system.[21] Second, prison walls and armed correctional officers protect the incarcerated Mexican Mafia members from a "popular revolt" by nonincarcerated Sureños. They cannot storm the prison *en masse* and kill the members of the Mexican Mafia without evoking a massive law enforcement response. Third, incarcerated Sureños who have already paid gang taxes receive protection, so they have little incentive to challenge the Mexican Mafia. In doing so, they would bear all of the costs. Finally, incarcerated Sureños who have not paid gang taxes face an organized prison gang with many associates who will willingly assault an enemy of the gang to gain its favor and improve their own status in the underworld (*People* v. *Moreno* 2010). A Sureño street gang consists, on average, of 52 members, and only a small fraction are likely to be incarcerated in a particular facility at the same time. Sureños go to jail alone and unarmed, so Sureños lack the people and resources needed to challenge the Mexican Mafia prison gang once they are behind bars.

[21] Historically, popular revolutions against traditional nation states have faced this same problem, so it is not surprising to find it difficult in this context as well (see, e.g., Tullock [1974] 2005).

A GOVERNANCE SYSTEM FOR CRIMINALS

The Mexican Mafia has an encompassing interest in the Los Angeles drug trade because the jail houses drug dealers from the entire county. The gang has operated since the 1950s, and prosecutors consider it the most powerful prison gang in California (*United States* v. *Flores et al.* 2008, 15). Many of its members are serving long or life sentences, and members join the gang for life. In short, Mexican Mafia members have long time horizons. The stationary bandit model predicts that the Mexican Mafia will provide governance institutions that benefit taxpaying Sureño drug dealers and improve their ability to conduct business if it increases tax revenues (Hypothesis 6). Drug dealers who do not pay gang taxes will not receive the benefits of governance (Hypothesis 7).

The Mexican Mafia can increase its tax revenues by providing three types of governance institutions. First, the Mexican Mafia protects Sureño street gang members while they are incarcerated. Law enforcement investigations describe the widespread influence of the prison gang. They note, for instance, that "the Mexican Mafia provides protection to all MS-13 members incarcerated in county, state, and federal prisons and jails in California" (*United States* v. *Alfaro et al.* 2008, 8; see also *United States* v. *Eastside Rivas* 2010, 18–20; *United States* v. *Pantoja et al.* 2007, 14, 20). The Mexican Mafia provides protection by not harming Sureño taxpayers and by protecting them from other inmates. A Sureño will not pay gang taxes if other inmates still assault him. Extortion requires monopoly power over a resource (Demsetz 1972; Schelling 1971)—in this case, violence behind bars—so the Mexican Mafia must control violence against Sureños to induce them to pay. If safety in jail is one of the services provided to those who pay gang taxes, then failure to pay taxes means that the Mexican Mafia will withhold this service. If the prison gang withholds protection from taxpayers, the marginal benefit behind bars of paying taxes falls to zero.

Second, the Mexican Mafia needs to safeguard the source of its tax revenues, so it has an incentive to protect taxpaying drug dealers on the street from other criminals. One Mexican Mafia associate testified in court that his job was to give drug dealers "a safe haven from other dealers and gangs. It was easier for them [the drug dealers] to pay than get bothered. We protected them from other thieves" (Rafael 2007, 340). An indictment explains that the "Mexican Mafia ensures that no other gang operates in MS-13's territory or otherwise interferes with the criminal activities of MS-13 . . . [and] resolv[es] disputes between MS-13 cliques and members" (*United States* v. *Alfaro et al.* 2008, 8–9). They sometimes also provide protection when Sureños conduct illegal operations, such as delivering narcotics (*United States* v. *Hernandez et al.* 2009, 7).

Street gang members display their receipt of Mexican Mafia protection to potential thieves and competitors in a variety of ways. Gangs use the number 13 to identify an affiliation with the Mexican Mafia because M is the thirteenth letter of the alphabet. Some gangs add "13" to their name (for example, MS-13),

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

and gang members tattoo the number prominently on their bodies, necks, and faces (*United States* v. *Alfaro et al.* 2008, 5). These practices provide the most deterrence because they are so visible, but members and associates of the Mexican Mafia can also easily observe these on people in jail and on the street. To free ride on the Mexican Mafia's governance services requires taking actions that Mexican Mafia members can easily observe, so street gangs cannot falsely claim to have their protection.

An individual drug dealer faces two costs that make it difficult for him to free ride on the governance system by falsely claiming to be a member of a taxpaying gang. First, each street gang has an incentive to monitor who claims affiliation to internalize the benefits of membership and prevent low-quality people from diluting the gang's reputation. Because street gangs are neighborhood-based, they can monitor claims of association most easily where people have the most knowledge of the reputation (where free riding is most valuable). For example, to free ride on the reputation of the Florencia 13 gang, one must do so where people know the reputation—in the neighborhood where Florencia 13 operates. Florencia 13 members can most easily identify fake members here, and they have an incentive to punish imposters. Second, rival gangs unintentionally monitor each other's reputations by attacking people who claim an affiliation with a rival gang. It is costly to claim affiliation with a gang because the gang's enemies might believe you. These practices limit the strategic actions that drug dealers can take to avoid paying gang taxes or free ride on the governance system.

Lacking access to courts of law, rival drug dealers often use violence to resolve disputes (Miron 1999). Based on the financial records of a drug dealing street gang, Levitt and Venkatesh (2000) identify several costs of gang wars. The demand for drugs falls because customers do not want to risk their lives to acquire them. Dealers' expenses increase because they hire people and buy weapons to protect territory. Violence brings greater police attention to drug dealing areas. Tribute to the gang hierarchy declines during times of gang warfare.

The Mexican Mafia's taxation revenues decline when gangs go to war, so the third form of governance they provide is adjudication of disputes. According to a summary in a 2004 Court of Appeals judgment, a Mexican Mafia member testified that the prison gang "actually strove to minimize inter-gang violence so each gang would be more efficient in its drug-selling activities and would pay more taxes to the [Mexican Mafia]" (*United States* v. *Fernandez et al.* 2004). Prior to the dispute resolution mechanisms of the Mexican Mafia, Hispanic gangs engaged in greater amounts of violence with each other (Rafael 2007, 10).

The Mexican Mafia adjudicates disputes among numerous Hispanic drug dealing street gangs in Los Angeles (e.g., *United States* v. *Alfaro et al.* 2008, 8–9; *United States* v. *Hernandez et al.* 2009, 6).[22] In February 1994, Mexican Mafia members met with representatives of the 18th Street gang and MS-13 to resolve fighting that began when one gang member killed a rival gang member (*United States* v. *Aguirre et al.* 1994, 27). By organizing a meeting to discuss the dispute, the Mexican Mafia averted a gang war that would reduce tax revenues. In January 1995, a Mexican Mafia member "negotiated a territory dispute" between Sureños (*United States* v. *Aguirre et al.* 1994, 50). In May 2006, Sureños met under the direction and authority of the Mexican Mafia to reach an agreement to stop fighting, and according to a letter written three months later to an incarcerated Mexican Mafia member, the previously hostile Sureño gangs were now working in concert (*United States* v. *Pantoja et al.* 2007, 26–27). Mexican Mafia members also resolve disputes among Sureño inmates (*United States* v. *Aguirre* 1994, 37).

In addition, the Mexican Mafia regulates drive-by shootings, which bring law enforcement and media attention (Rafael 2007, 37). Because any particular street gang only suffers a portion of the increased attention of law enforcement from drive-by shootings, each street gang has an incentive to do too many (Buchanan 1973). In 1992, Mexican Mafia members sent notes throughout the prison system and Sureño neighborhoods that any gang member participating in an unauthorized drive-by shooting would be killed (Blatchford 2008, 122). Shortly after the Mexican Mafia announced this rule, drive-by shootings declined. Compared to the previous year, there was a 15% decrease in Hispanic gang–related homicides in all of Los Angeles County, and in some areas, the decline was as much as 50% (Blatchford 2008, 124). Hutson et al. (1995) found for all ethnicities in Los Angeles County from 1992 to 1994 a decline of approximately 28% in gang drive-by shootings leading to homicides and only a 5% decline in gang homicides overall. These estimates do not account for many other factors, and reported drive-by shootings did not fall to zero. However, the decline in drive-by shooting homicides and the Mexican Mafia's active attempt to prohibit drive-by shootings both appear consistent with the predictions of the stationary bandit model.

Consistent with Hypotheses 6 and 7, the evidence shows that receipt of these governance services is contingent on having paid taxes. For example, a wiretap documents a Mexican Mafia member warning a drug dealer that because the prison gang receives taxes from a third party, any disputes that arise between the two should be brought to him first (*United States* v. *Hernandez et al.* 2009, 9). The Mexican Mafia assault Hispanic drug dealers from Northern California if they enter Los Angeles County jails, and they seek out and attack black drug dealing gangs. The prison gang can increase tax revenues when the gangs they tax do more business, so they have an incentive to deter non-Hispanic drug gangs. The Varrio Hawaiian Gardens gang

[22] Street gangs might be able to avoid conflict by making credible commitments to each other by intentionally having a member arrested and held as a hostage in the county jail system, although there is no evidence to suggest this happens.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

actively sought out and attacked black people in their neighborhood (*United States* v. *Flores et al.* 2008).

The Mexican Mafia is in a unique position to provide these services because of its ability to extract resources from drug dealers. A group consisting solely of nonincarcerated members would be incapable of generating a credible threat to induce payment from gangs across the entire geographic region. Drug dealing street gangs in Los Angeles are geographically dispersed, mobile, well armed, and experienced in acts of violence. For an organization in the community to provide these governance services, it would need to be capable of making credible threats against these gangs. Street gangs expand business and violently take territory when they have the power to do so. The inability of a single street gang to control the Los Angeles drug market suggests significant diseconomies of scale in the provision of violence in this context. In fact, the Florencia 13 street gang, the second largest Hispanic gang in Los Angeles, controls only three square miles in south central Los Angeles—a meager portion of the county's 4,000 square miles (Morales 2008, 82; *United States* v. *Vasquez et al.* 2007, 2). An organization composed of nonincarcerated members lacks the encompassing interest and threat needed to provide governance across the entire county.

The Mexican Mafia lacks the incentive to vertically integrate with Sureño drug-dealing gangs. Because the Mexican Mafia incurred the cost of establishing the prison gang's power behind bars, they now face low marginal costs of making credible threats against Sureños. The ability to threaten Sureños earns them 10–30% of drug dealing revenues. If they were to begin managing the daily operations of the roughly 400 Sureño gangs spread across Los Angeles County directly, they would face significantly higher costs. Acquiring and using information about market conditions from behind bars is more costly. The need for additional members performing more complex and less easily monitored activities raises the costs of internal governance, which present especially difficult problems in the criminal context (Leeson 2007a; Leeson and Skarbek 2010). The magnitude of these costs outpaces the increase in revenues, so the Mexican Mafia maximizes profits by simply taxing Sureño revenues.

If considered as a purely voluntary relationship rather than a coercive extortion scheme, economic theory suggests that the Mexican Mafia will not vertically integrate with street gangs (Dick 1995).[23] Firms vertically integrate when it lowers transaction costs relative to independent, market exchange (Williamson 1985). An important source of transaction costs is the degree of asset specificity in production of a good, such as when a firm invests in production capabilities to make a product that only one buyer demands. This asset-specific investment has substantially less value in other uses once it is made, so the buyer may have an incentive to renegotiate a lower price ex post. If a buyer cannot credibly commit not to bargain ex post, then the firm will not make the investment, or if it does, resources may be used in a costly renegotiation. Vertical integration solves the hold-up and ex post bargaining problem. This problem is also mitigated when firms have long time horizons, because a buyer may be able to commit credibly not to renegotiate because of the allure of future benefits of exchange with the other party. The retail drug market is labor-intensive, it does not require substantial asset-specific investments, and many alternative buyers exist. Therefore, the bargaining costs that vertical integration solves are absent and the scale and scope of the Mexican Mafia's organization appears efficient.

INDUSTRIAL ORGANIZATION OF PRISON GANGS

The Mexican Mafia is not the only prison gang to provide these types of extralegal governance institutions beyond prison walls. Comparable systems of governance exist in other regions, provided by the Nuestra Familia in Northern California, La Pura Vida in Texas, the Barrio Azteca in Western Texas, the Mexikanemi in Southwest Texas, the United Blood Nation in New York, and the Black Guerrilla Family in Maryland. Given that these groups provide similar governance institutions, perhaps it is useful to develop a more general picture of the organizational structure common to these gangs.

Two types of internal governance rules can constrain and coordinate a group's operations. Explicit rules are written, detailed constraints. Implicit rules include norms, corporate culture, habits, and shared understanding. It is too costly to codify every aspect of an organization in an explicit rule, so all groups rely, in part, on implicit rules. An organization can choose to implement or promote a particular practice with either an explicit or an implicit rule.

The Nuestra Familia (NF) prison gang is a Hispanic prison gang operating in California correctional facilities. When the NF formed in 1966, they developed an extensive written constitution that outlines three important aspects of the organization: the expected behavior of members, the organizational structure, and operational protocols (Fuentes 2006; Skarbek 2010). NF uses explicit rules to outline each of these aspects. The Mexican Mafia, on the other hand, relies on explicit rules to delineate only the expected behavior of members and uses primarily implicit rules for the other two functions. This provides an excellent opportunity to compare briefly the effectiveness of explicit and implicit rules.

Both gangs define, in writing, the behaviors they forbid in personal and commercial relationships, and these behaviors serve to coordinate productive activity, limit external costs, and mitigate rent seeking. However, it is prohibitively costly for gangs to address every possible behavior in these documents. The cost to the gang of detailing what they expect of members' hygiene or dress, for example, is too high to warrant enumeration. Gang leaders expect members to be able to identify

[23] See related work by Leeson and Rogers (n.d.).

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

the appropriate behavior in a particular situation, even if there is not an explicit rule about it. For example, according to an indictment, a Mexican Mafia leader ordered that any members who appeared on an MSNBC "Lockup" documentary "were to be killed because such activity violated the code of conduct" (*United States* v. *Ojeda et al.* 2010, 35). The gang's constitution does not explicitly forbid members to appear on a documentary and the original members in the 1950s could not have reasonably foreseen this specific situation, but members are expected to adhere to a broader behavioral standard. The gangs define the most important behaviors in explicit rules and leave others implicit.

The gangs differ in choosing explicit or implicit rules to define operational protocols, but the two gangs exhibit similarities in what the rules actually accomplish. Both prison gangs face similar organizational challenges because of the context in which they operate. For example, the high cost of exit associated with incarceration raises the threat of internal predation by higher-ranking members against lower-ranking members (Skarbek 2010). Given the costliness of exit, both groups have mechanisms that allow members to voice dissatisfaction (Hirschman 1970). The NF has an explicit protocol for filing complaints about predatory superiors and investigating grievances. The Mexican Mafia has a rule that requires a unanimous vote to have another member killed and an implicit rule of appealing to influential members to replace ineffective leaders. For example, a Mexican Mafia member at Corcoran State Prison felt the gang leader was doing a poor job, leading to too many inmate stabbings. He petitioned influential gang members in other facilities in an attempt to have him replaced (Johnson 2011). Similarly, coordinating the activities of fellow gang members across facilities is difficult, and both groups use a variety of codes, ciphers, hidden messages, and smuggled notes to communicate with each other. Both groups have rules for who can become members and what the process of doing so is, and vote on both membership and important gang decisions. The Mexican Mafia relies primarily on implicit rules to define these operational protocols, but the two gangs adopt similar solutions to commonly shared problems.

Explicit rules are only effective when they are consistent with the underlying, implicit rules. The NF adopted an explicit organizational structure that designates four levels of authority within the hierarchy: soldiers, lieutenants, captains, and generals. This differs from the Mexican Mafia, whose explicit rules identify only one official rank. As noted above, however, some members have more influence than others do, and "leaders naturally assumed their roles and would come to a point of pretty much dictating policy at the given prison or location within the prison setting or on the outside" (Mendoza 2005, 107). These positions of leadership lack a written mandate, but the consent of the members to this convention of informal hierarchy dictates that those who are charismatic, high earners, and longtime members will play a significant role in guiding the gang's operations (Blatchford 2008, 46). Similar to the NF, in each correctional facility, a gang member is designated as the "shot caller" and is responsible for regulating the interactions of Hispanic inmates and conducting business in contraband markets (Johnson 2011; *United States* v. *Aguirre et al.* 1994, 34). Whereas NF members have an actual election to determine their leaders, Mexican Mafia members give an informal vote of confidence in support of leaders. The actual rule in use indicates three tiers of hierarchy: leaders, members, and associates. Some Mexican Mafia members gain status and leadership positions within the gang and can direct operations; any full member can give orders to associates of the gang. Gang leaders exist in both gangs and perform similar functions, but the Mexican Mafia is somewhat more flat, having three instead of four tiers within the hierarchy.

The two prison gangs have similar internal governance structures, but they rely on different combinations of implicit and explicit rules. The general structure common to both is a type of cooperative ownership, with important leadership positions at the level of the correctional facility or cellblock (where populations are most stable), and relatively dispersed and autonomous decision making between different subgroups. Each group contains mechanisms for voicing dissatisfaction from within. Criminal groups often use this type of structure because it economizes on communication costs, limits the need for visible assets subject to seizure, and mitigates disruption when members drop out, are arrested, or are locked in an isolated cell. Cooperatives are frequently the most effective way of providing mutual aid and other club goods in legitimate contexts as well. Law enforcement estimates that the Mexican Mafia and NF are the first and second most powerful prison gangs in California, suggesting that this general organizational structure is effective and that relying heavily on implicit rules will not necessarily impede operations (Federal Bureau of Investigation 2008, 13; *United States* v. *Flores et al.* 2008, 15).

The prominence of prison gangs in California correctional facilities stands in contrast to their absence for the first 100 years of the correctional system's operation. Prison gangs arose originally to provide protection and mutual aid to inmates (Blatchford 2008, 5; Davidson 1974, 8; Morales 2008, 1, 55). Prior to the late 1950s, inmates relied on decentralized norms to govern the inmate social system (Irwin 1980). However, norms became ineffective at providing governance because of three demographic shifts. First, the inmate population increased dramatically during this period, from fewer than 10,000 inmates prior to 1947 to over 170,000 in 2007. Decentralized governance is less effective in larger, more anonymous communities because keeping track of people's past behavior is more difficult. Second, correctional facilities began to experience severe overcrowding, reflecting increasing scarcity of inmate resources and a greater need to protect them. Third, an increase in the number and percentage of inmates incarcerated for narcotics-related crimes led to a thriving demand for illicit drugs. This created profit

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

opportunities for groups that had a credible threat of violence and could deter opportunistic behavior during illicit exchange. As norms failed, inmates sought alternative governance institutions in the form of racially based, hierarchical prison gangs. The transition by large and growing populations from decentralized norms to centralized governance mechanisms is quite common historically (North 1987).

The California Department of Corrections and Rehabilitation now identifies seven distinct prison gangs. Not all inmates join gangs, and inmates cannot join all gangs. Prison gangs exclude inmates of different races and often those from different geographic regions. For example, the Aryan Brotherhood does not allow black inmates to join, and the NF and Mexican Mafia recruit Hispanics from northern and southern California, respectively. Inmates typically view prison gang membership as a prestigious position in the criminal world, and many inmates compete to earn the favor of a prison gang. As a result, prison gangs in California enjoy some monopsony power—there is not a competitive market in prison gangs. Prison gangs also use violence to control contraband markets and to prevent entrance by new inmate groups who seek to capture illicit market share. Prison gangs' rise to prominence has led to unanticipated consequences in the broader criminal world, including a system of governance for Hispanic drug dealers in Los Angeles that emerged from jail-based extortion.

The power of prison gangs behind bars results from the current legal institutions, and policy changes might reduce their influence. Incarcerating fewer people less frequently, providing inmates with more safety, and filtering people into either more jails or facilities that are less geographically centralized would disrupt the jail-based extortion mechanism. However, each of these policy changes generates notable costs along other margins, such as more behavior that the current legal system deems socially harmful (e.g., drug use), increasing corrections cost, and placing a burden on families who would have to travel farther to visit inmates. More generally, curtailing the activity of current prison gang members will be ineffective if these groups represent a rational and efficient response to genuine demands by inmates for extralegal governance in the inmate social system. If law enforcement stops the current groups from supplying governance, then new groups will form to do so.[24]

CONCLUSION

Prison gangs engage in violence, brutality, and a myriad of criminal activities, but they also play an important role in administering governance services in illicit markets. This article provides a mechanism to explain the endogenous formation of governance institutions among Los Angeles drug-dealing gangs. The Mexican Mafia can extort from drug dealers because they pose a credible threat to harm people in the county jail system and drug dealers anticipate future incarceration or have associates in jail who are vulnerable. Given the prison gang's ability to extort drug dealers, a long time horizon, and an encompassing interest, it has an incentive to act as an "incarcerated bandit" and provide a system of governance. By defining and enforcing property rights and adjudicating disputes, these governance institutions increase wealth creation among drug dealers and increase the prison gang's extortion revenues.

This analysis has several implications for the study of governance institutions. First, because these institutions operate effectively among hostile rivals and under the suppression of the government, this article shows that self-governing institutions can be more robust than suggested by previous research in contexts where property rights are insecure (Adolphson and Ramseyer 2009; Anderson and Hill 2004; Leeson 2009). In addition, these mechanisms are robust to groups composed of individuals biased by a willingness to break commonly held moral norms and facing substantial constraints because of incarceration. Second, like norms within small communities (Ellickson 1991), embedded governance institutions based on property rights assignments that are inconsistent with the de jure legal system can persist in illegal markets as well. Moreover, unlike those discussed by Ellickson (1991), these institutions persist and operate in a large anonymous community of more than 20,000 gang members. Third, the interaction of formal and informal institutions generates complex outcomes. Criminal groups have a remarkable ability to use formal institutions, such as county correctional facilities, to further their illicit enterprises. Ironically, it is because of their incarceration, rather than despite it, that the Mexican Mafia administer this unusual legal system.

The article provides evidence suggesting that the "dark side of private ordering" (Milhaupt and West 2000) can lead to the provision of governance services typically provided by government, though without the assistance of those who receive the service or the intention of benefiting them. On the contrary, the self-interested desire to extract resources from vulnerable inmates unintentionally creates incentives for the predator to benefit the prey in a systematic way. Governance institutions that rely on coercion rather than voluntary enticement do not require a large-scale enforcement apparatus. Highly constrained people who are relatively small in number can effectively enforce the rules of the game if a suitable filtering mechanism exists. Membership estimates for prison and street gangs are imprecise, but it appears that the Mexican Mafia organization is 5% of the size of the Sureños it governs, yet it does so effectively. The incarcerated bandit leverages its position behind bars and the filtering mechanism of arrest and incarceration to provide a system of governance to a large population of rival criminal groups.

[24] Correctional officials may act complicity with these inmate groups. Corrupt correctional officers can actively cooperate with gangs by smuggling in contraband. To the extent that prison gangs regulate the inmate community, correctional officers may also passively or tacitly approve of or even encourage prison gang activity.

https://doi.org/10.1017/S0003055411000335 Published online by Cambridge University Press

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