Understanding criminal organizations:
The Gangs of Medellín, Colombia

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This talk

- Today, I'll discuss a collection of topics and findings—some descriptive, following 6+ years of work on organized crime in Medellín:
  - Business lines and internal organization
  - Market structure
  - Different forms of criminal collusion
  - Gang governance

- Builds on a broad literature on:
  - Origins and internal organization of criminal groups (Schelling, 1971; Fiorentini and Peltzman, 1997; Konrad and Skaperdas, 1998; Levitt and Venkatesh 2000)
  - Organized criminal groups as primitive states (e.g., Tilly 1985, Olson 1993, Grossman 1996, Acemoglu and Robinson 2006, North et al. 2009, Sánchez de La Sierra 2020)
  - Criminal governance (e.g., Arias 2006, Lessing et al. 2019, Lessing, 2020, Melnikov et al. 2020, Gambetta 1996, Skaperdas 2001, Skarbek, 2011)
  - Rebel rule and other non-state actors as state substitutes (e.g., Berman et al. 2011, 2013, Arjona 2016, Kasfir 2015, Berman and Laitin 2008, Kalyvas 2006, Acemoglu et al 2020)

Qualitative interviews 2016–22 plus survey and administrative data

- Qualitative interviews
  - 109 gang members in 35 groups
  - 147 community leaders and members
  - 40 experts and public servants

- Plus survey and administrative data:
  - 7,000 residents and businesses in 2019
 - Representative of all 223 low- and mid-income neighborhoods in Medellin

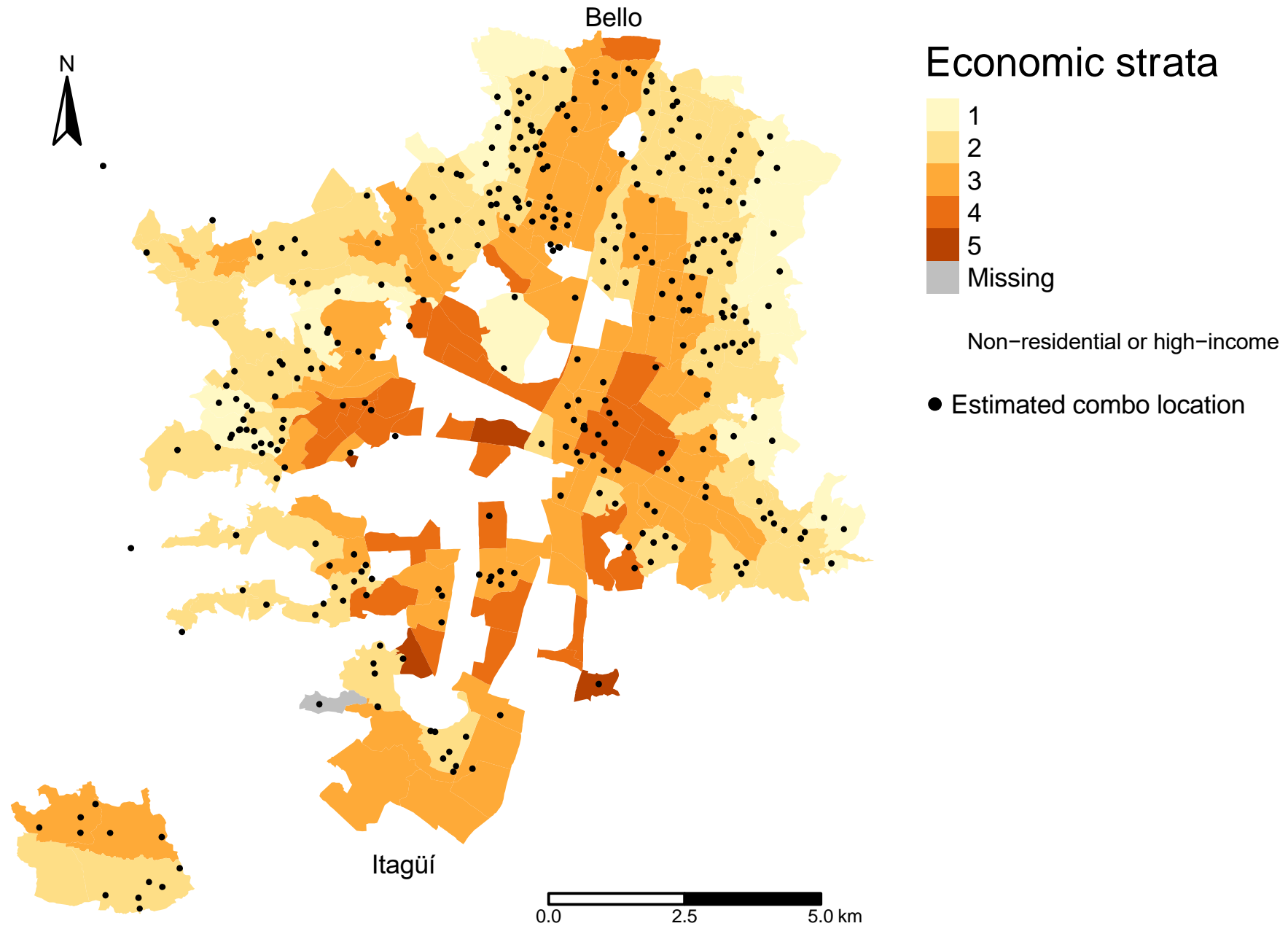|	Respondent type	Total # of participants
Criminal actors	Incarcerated subjects:	
	Active or former combo	39
	Active or former razón	13
	Other illegal organization	3
	Subjects outside prison:	
	Active combo member	18
	Former combo member	12
	Active razón member	3
	Active faction member	1
	Other illegal organization	20
Community	Member	124
	Leader	17
Experts	Criminal group experts	9
	Other	1
Public servants	City officials	21
	Police (active or former)	15
	Prosecutor (active or former)	4
Total		300

Topics

1. Context: Medellín

Medellín:

- Roughly 4 million people in the metropolitan area
- One of the nation's industrial and commercial centers
- Annual income of roughly $11,500 per capita (US$ PPP)
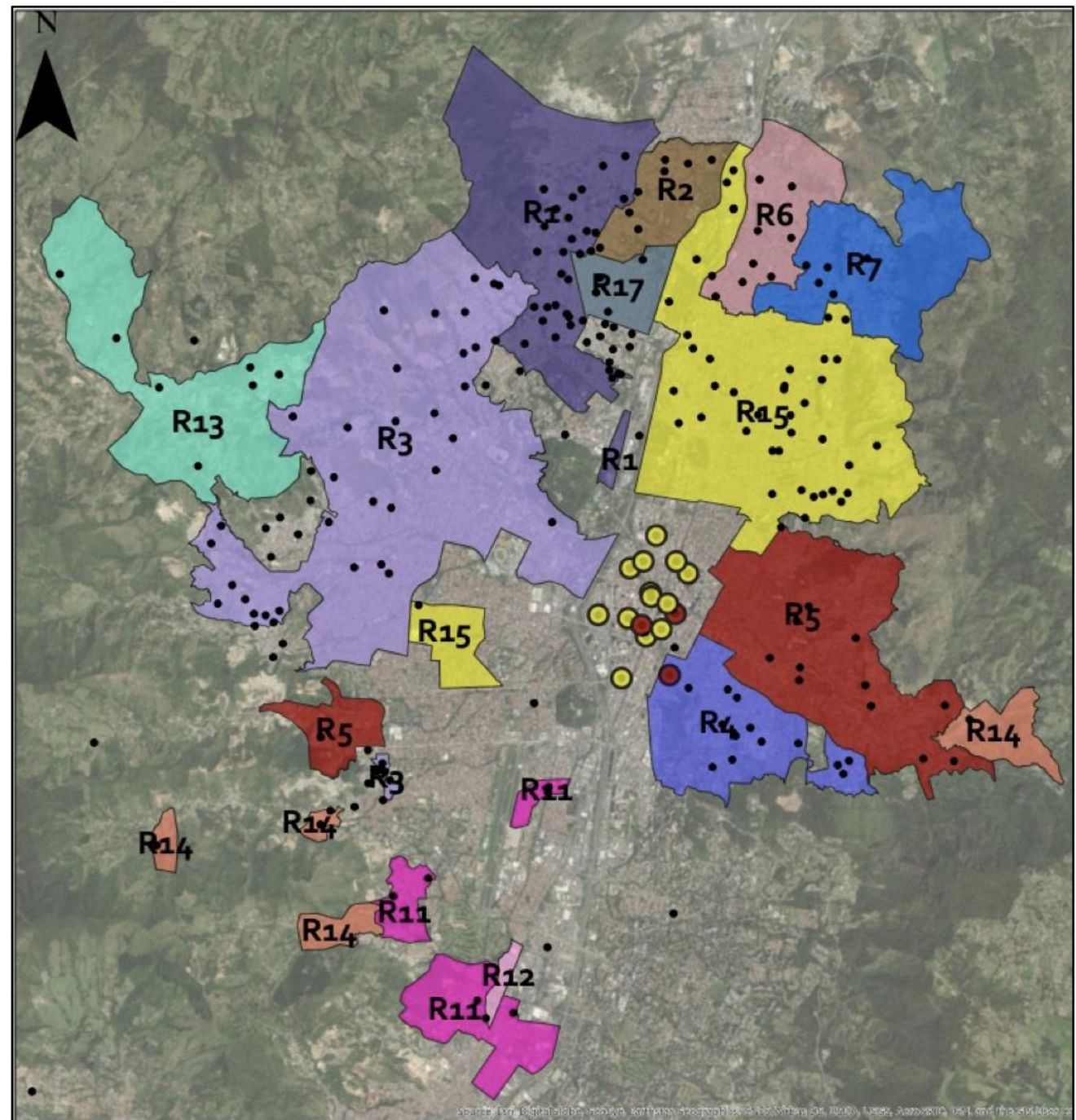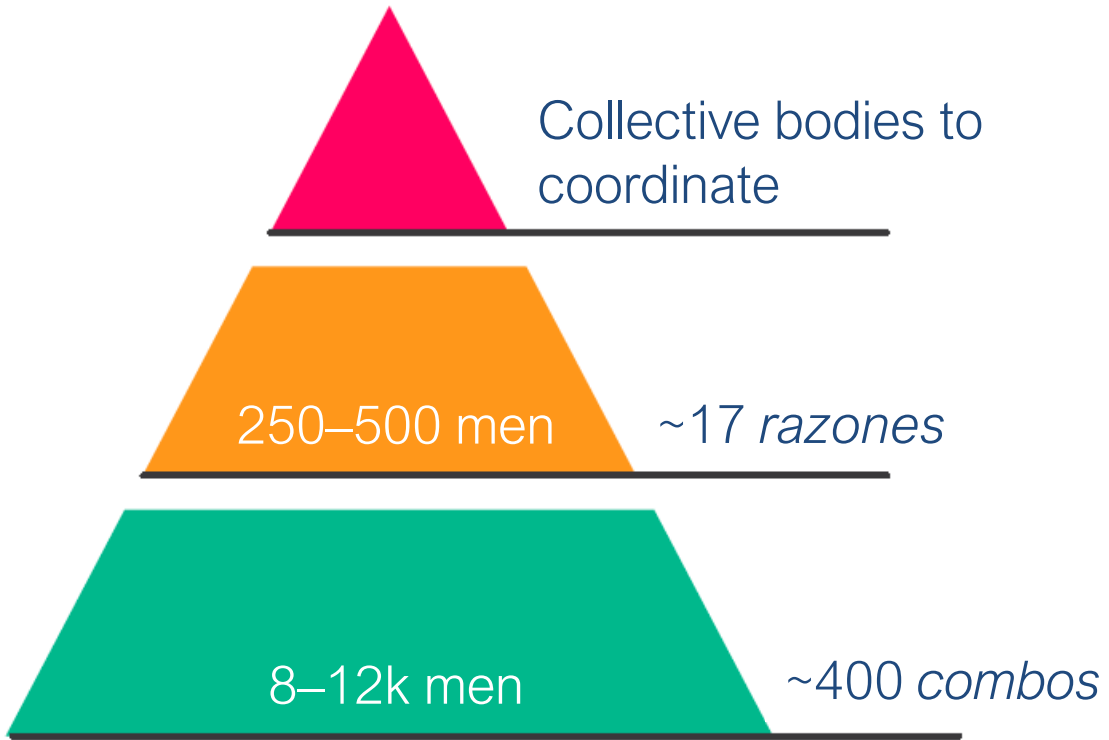- Has a well-organized bureaucracy with high tax revenues and public service
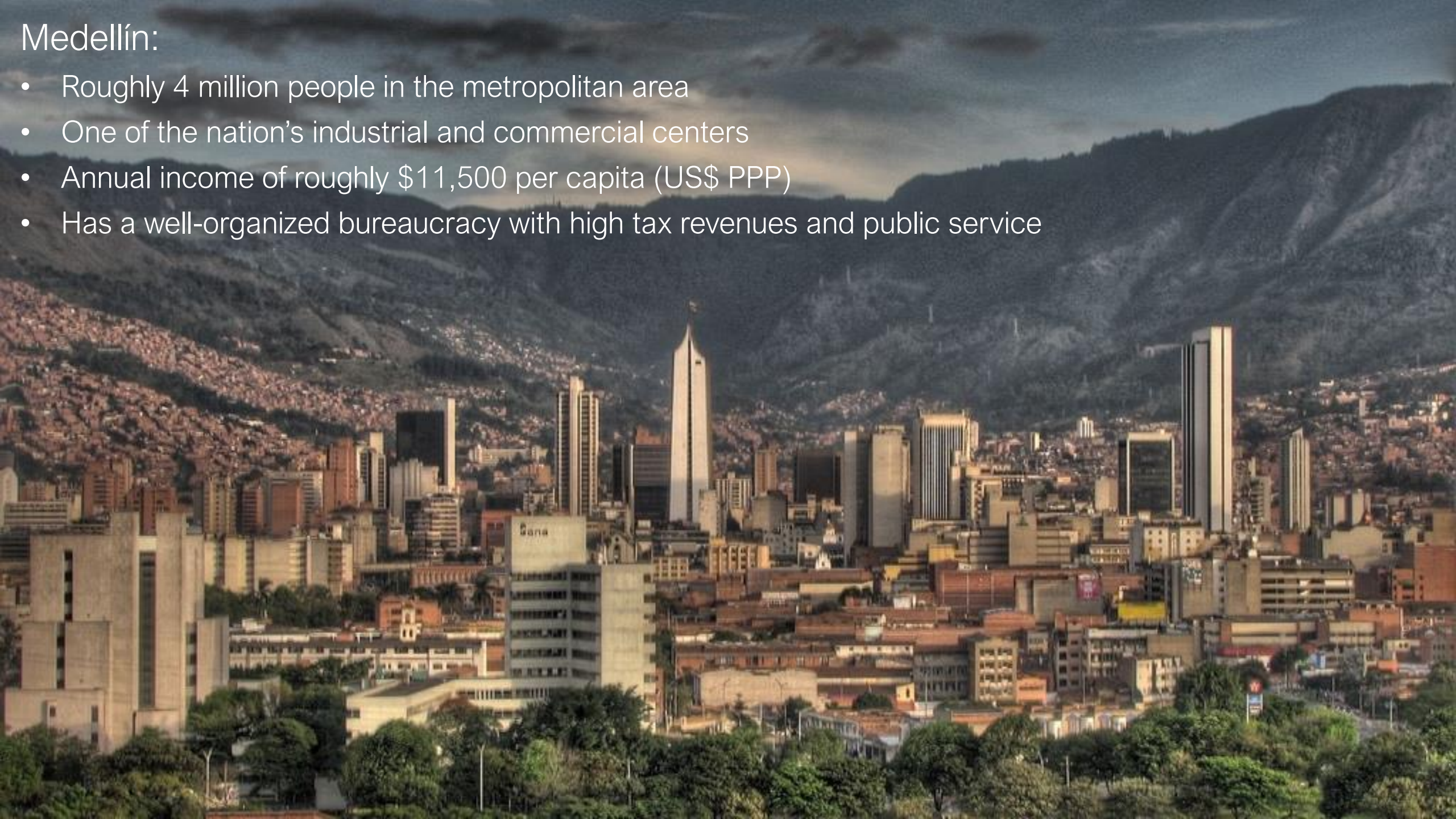
Virtually every low- and middle-income neighborhood in Medellín has a neighborhood gang called a "combo"

- We've identified ~400 though our combo census

- Existed for decades

- Well-defined borders

Economic strata

- 1
- 2
- 3
- 4
- 5
- Missing

Non−residential or high−income

● Estimated combo location

Bello

Itagüí

N

0.0   2.5   5.0 km

Hierarchical alliances
Business chains and military alliances

Collective bodies to coordinate

250–500 men   ~17 *razones*
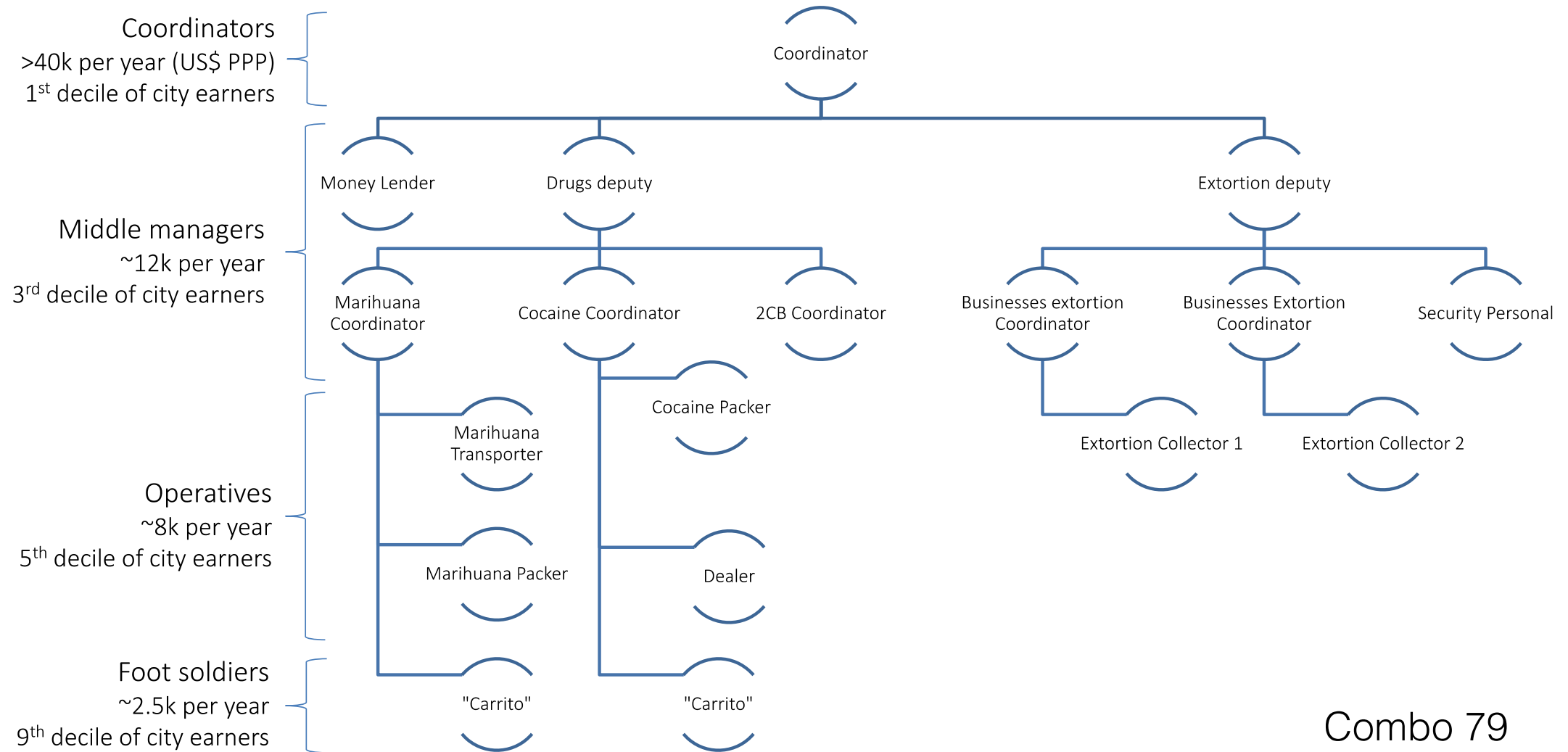
8–12k men   ~400 *combos*

Topics

Combos and razones differ in their position in the value chain, in profitability of their business lines, and in dependence on territorial control for rents

	Combo (local monopolies)	Razón (less territorial services)
Illicit goods	Drug retailing	Drug wholesaling
Extortion, protection	Local retailers Bus lines	Large firms & construction projects
Coercive services	Loan sharking Contract killings Debt collection	Debt collection Contract killings Large-scale loan sharking
Legal good monopolies	Licensing sale of many consumer goods	Intermediary between suppliers & combo (e.g. gas canisters)
Other	Theft, robbery, etc. outside of the neighborhood	Money laundering

Within the "firm" as employees
Outside the "firm" as independent entrepreneurs/contractors, paying a tax

Combos tend to be small and hierarchical, paying salaries above the outside option (in striking contrast to what Levitt and Venkatesh 2000 find)… razón members earn well above

Coordinators
>40k per year (US$ PPP)
1st decile of city earners

Coordinator

Middle managers
~12k per year
3rd decile of city earners

Money Lender

Drugs deputy

Extortion deputy

Marihuana Coordinator

Cocaine Coordinator

2CB Coordinator

Businesses extortion Coordinator

Businesses Extortion Coordinator

Security Personal

Operatives
~8k per year
5th decile of city earners

Marihuana Transporter

Cocaine Packer

Extortion Collector 1

Extortion Collector 2

Marihuana Packer

Dealer

Foot soldiers
~2.5k per year
9th decile of city earners

"Carrito"

"Carrito"

Combo 79

Topics

1. Context: Medellín

2. Business lines and internal organization

3. Market structure (and theory of the criminal firm)

Three major types of combo-razón relationship in Medellín
High variation within and between razones

1. Tight, relational contracts
   – Independent firms in a repeated interaction
   – Combo coordinador takes a salary and is the residual claimant on profits
   – Coordinador (and combo members) are from local neighborhood
   – The razón has some but limited influence over who is made leader

2. Vertically integrated "firm"
   – Only two main instances of vertical integration
   – e.g., one outstanding razón known as *Los Triana:*
     • Coordinadores are <u>not</u> from the neighborhood – are appointed from razón and are rotated
     • The razón is residual claimant on profits, coordinadores paid by salary and performance bonuses

3. Autonomous/independent combos (very few in number)

Several forces push toward vertical and horizontal integration

1. Competition among many small organizations in quasi-anarchy have problems:
   - Drives rents towards zero
   - Absent enforcement and rules, this competition can become inefficiently violent

2. Integration can facilitate collusion
   - Reducing inefficient conflict
   - Coordinating to charge monopolistic prices
   - Potentially coordinating to be a criminal monopsonist as well (of criminal labor and retail goods)

3. Also, cannot ignore the (idiosyncratic) non-material preferences of some leaders
   - For glory, control

At least three major forces push against this integration

1. "Risk of expropriation"
   - Key risk is penalization and capture of high-level leaders and product
   - Larger organizations with more people and records are vulnerable to law enforcement
   - Clandestine organizations must also limit damage of one arrest or informant

2. Information/agency problems
   - Key activities require intense local knowledge and are difficult to observe and contract on

3. Scarcity of human and managerial capital
   - Lack of skills within razones in managing large, complex organizations
   - Hard to accumulate this human capital because of #1

Topics

How razones manage a city-wide cartel absent integration

- Most retail drug transactions are local and repeated because of…
  - Transport costs for customers
  - More importantly, in an illicit market, trust between consumer and dealer comes from repeated interaction

- Hence competition is mainly between nearby combos (competing for loyal costumers)

- We observe razones using their coercive and coordinating power at a local level to set prices and quality

Example: Barrio Antioquia

- Largest retail drug market in the city
  - 56 *plazas de vicio* with 34 managers
  - 7 combos and 1-2 razones

- What happened after a positive supply shock to high-quality marijuana?
  - Initially, a new and scarce product sold for roughly $1/packet
  - As production increased, producer prices fell
  - One plaza decreased price to ~$0.66
  - Other plazas complained to razon
  - Razon coordinated a meeting
  - Discussed supply shock and optimal strategy and all coordinated on a price of $0.66

Topics

All the ingredients are there for breakdowns in peaceful incentives

In absence of a third party enforcer, a situation of "anarchy" with a number of risk factors (Blattman 2022):

1. **Agency problems:** War has negative externalities not internalized by the combo leader

2. **Violent preferences:** Vengeance, glory

3. **Irrational behavior:** Anger, overconfidence

4. **Information asymmetries:** "Rational reputation"

5. **Commitment problems:** Rapid shifts in power, especially from shifts in alliances (problems of coalition formation)

Razones appear to solve bargaining problems, playing the same function as peacekeepers, mediators
(Fortna 2007, Beber 2013, Blattman 2022)

1. Reduce imperfect information
   – Provide a bargaining forum

2. Resolve commitment problems
   – Enforce borders, contracts, and other commitments

3. Compel leaders to internalize the negative externalities from violence
   – Threaten and discipline in order to correct for
     • Unchecked leaders who ignore broader costs of their actions
     • Tastes for violence (vengeance glory)
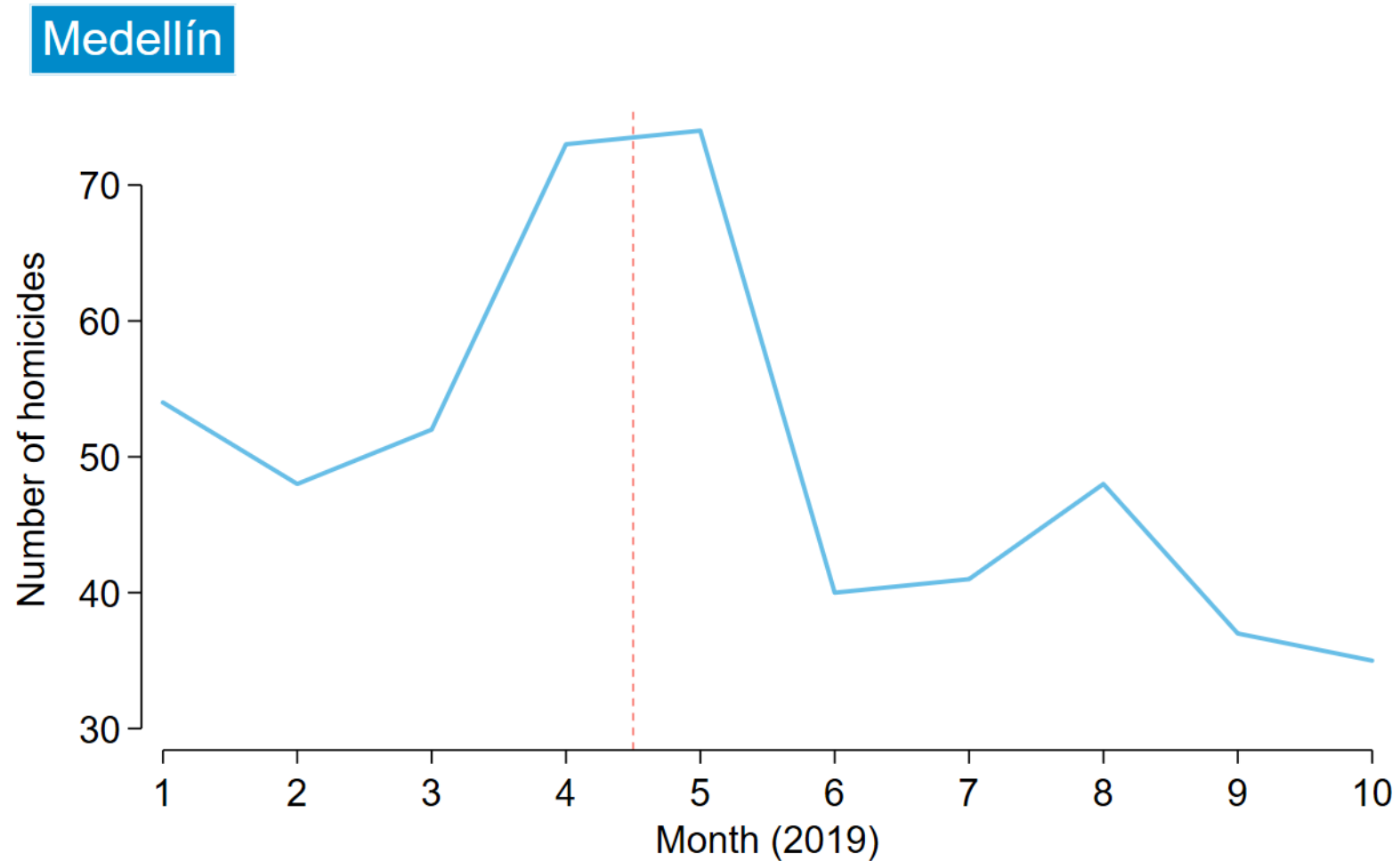   • Irrational or emotional decisions

This system has maintained the peace, to a degree

Homicide rate, 1985-2021
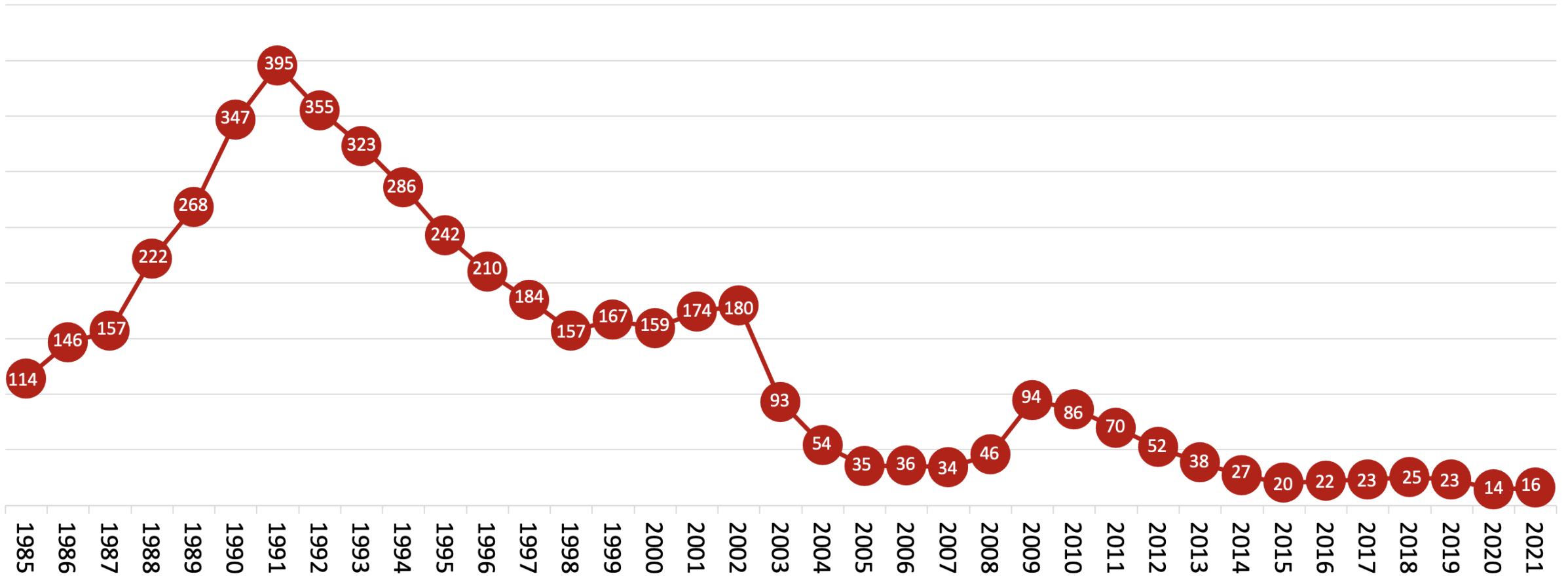
How the state uses the power of razones and the prison system to facilitate the peace:
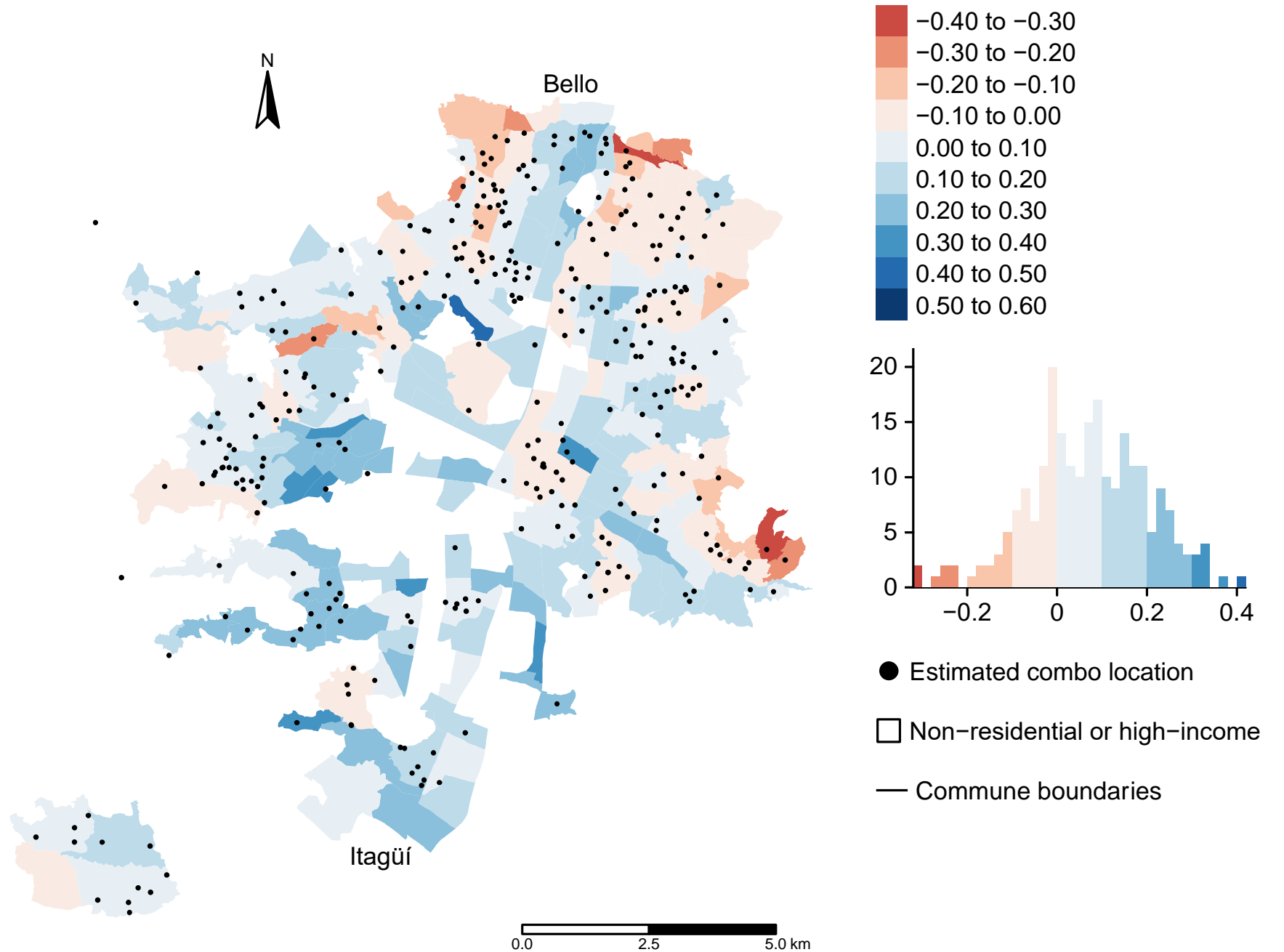The example of negotiations in La Picota prison, 2019

Topics

Most neighborhoods have a duopoly of protection services
2019 survey of 4,598 residents & businesses, representative of all 223 low- and mid-income barrios

| | Frequency/Rate (0-1 Scale) | | | | State relative to combo |
| | State | | Combo | | |
	Estimate (1)	SD (2)	Estimate (3)	SD (4)	Difference (5)
Governance Index	0.41	0.27	0.33	0.29	0.08
How often they intervene when:					
HH: Someone is making noise	0.42	0.38	0.19	0.30	0.23
HH: Home improvements affect neighbors	0.41	0.37	0.24	0.33	0.16
HH: There is domestic violence	0.50	0.37	0.33	0.37	0.16
Biz: Someone disturbs a business	0.50	0.38	0.36	0.38	0.14
HH: Two drunks fight on the street	0.52	0.36	0.39	0.37	0.13
Biz: You have to react to a robbery	0.53	0.37	0.39	0.39	0.13
Biz: It is necessary to prevent a theft	0.46	0.36	0.37	0.39	0.09
Biz: Businesses in this sector are robbed	0.43	0.39	0.35	0.38	0.07
HH: A car or motorbike is stolen	0.47	0.37	0.41	0.38	0.05
HH: People smoking marijuana near children	0.30	0.36	0.25	0.36	0.05
HH: You have to react to a robbery	0.46	0.36	0.44	0.38	0.02
HH: Someone is threatening someone else	0.41	0.36	0.40	0.37	0.01
HH: Someone is mugged on the street	0.39	0.36	0.40	0.38	-0.01
HH: It is necessary to prevent a theft	0.39	0.36	0.41	0.38	-0.02
HH: Kids fight on the street	0.28	0.35	0.31	0.36	-0.03
Biz: Someone does not want to pay a debt	0.18	0.31	0.24	0.35	-0.06
HH: Someone refuses to pay a big debt	0.21	0.31	0.36	0.37	-0.16

Relative state governance

Averages conceal high variation across barrios

Bello

Itagüí

	−0.40 to −0.30
	−0.30 to −0.20
	−0.20 to −0.10
	−0.10 to 0.00
	0.00 to 0.10
	0.10 to 0.20
	0.20 to 0.30
	0.30 to 0.40
	0.40 to 0.50
	0.50 to 0.60

● Estimated combo location

☐ Non−residential or high−income

— Commune boundaries

N

0.0   2.5   5.0 km

We use our survey to empirically study the effects of long-run proximity of security and dispute resolution services on gang governance

- For every 100 meters closer to the state:
    - Unsurprisingly, survey reports of state governance improve by 11% at the median
    - More puzzling, gang governance also improve by 18% at the median

- Why would state and gang governance comove?
    - Heterogeneity analyses suggest that gangs respond strategically to protect other illicit rents
        - i.e., we only observe the strategic response by gangs in places with high-value drug markets

Topics

Policymakers face a "terrible tradeoff," with no easy and probably context-specific solution

A continuum of policy alternatives

Complete crackdown on criminal groups

Quid pro quo negotiations

Increase violence in the short term, improve long term state legitimacy

Decrease violence in the short term, damage long term state legitimacy

Unclear which extreme leads to higher, long term aggregate welfare… hence the solution is probably somewhere in the middle, but hard to know where

Topics

What does it take to do research in clandestine, complicate, dangerous settings?

Requires setting up research infrastructure and relationships that:

- Understand the system BEFORE designing interventions

- Can collect and integrate diverse data sources

- Can educate and empower legitimate local actors to make decisions

- Can support multiple investigators and projects

- Innovate and pilot multiple approaches before testing/evaluating

- Is focused on serving policymaker needs on demand, and not merely on papers

Generally, we believe this means long-run region- or city-specific "Urban Labs" modeled like the UChicago Crime Lab, IPA's post-conflict country offices, or Marakuja in Eastern-DRC

To be continued…