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The Bootlegging Business: An Economic Analysis of Organized Crime During Prohibition

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The Bootlegging Business:

An Economic Analysis of Organized Crime During Prohibition

Leslie Logan
Abstract

The subjects of organized crime and economics seem two very different topics for research. This paper is an attempt to reconcile the two in order to examine organized crime in the framework of economic analysis. In specific, it deals with the organized criminal activities during the period of prohibition.

The central task of the paper is to determine whether or not organized criminals used economic patterns in establishing the very lucrative trade in illicit liquor during the period. In order to achieve the fullest understanding of this, the paper also includes discussions of the history of prohibition in America, a summary of the economy of the period, and a brief history of organized crime. However, the true body of the work is found in the section The Link, which is the analysis of criminal activity using economics.

The analysis shows a clear linkage between the business patterns prevalent at the time and those activities undertaken by organized criminals. Consolidation and monopolization are the most common similarity. However, tools such as the dominant firm model are also utilized successfully. Specialization is a major topic of discussion, and a major tool used by organized crime.

The hypothesis that organized criminals during prohibition used economic reasoning to plan their activities is clearly supported. The differences between the organized criminals and legitimate businessmen of the day seem to be the former’s penchant for violence and willingness to repeatedly break the law.
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Introduction

Economics and organized crime seem, at least on the surface, to be two subjects which have few common themes. How, then, can organized crime be analyzed using an economic framework? This paper is an attempt to answer that question. Very little has been written on the subject of organized crime which involves economic analysis. The vast majority of the work centers around a style which can be considered popular history. Driven by the legends and the folklore which are prevalent in American society, organized crime and its notorious faces have become very famous. Work of a more theoretical nature is also in existence, attempting to define and explain the phenomenon that has become American organized crime. Frederic Homer’s *Guns and Garlic* is one very good example of this.

However, research confined to organized crime in the period of prohibition yields little of value. The historical works on the period vary. Those written almost immediately after prohibition are complimentary of the experiment and virtually ignore the ramifications and existence of organized crime. Later works highlight such activities at the risk of overemphasis. None of them specifically deal with organized crime during prohibition in an economic context. Perhaps Humbert Nelli’s *The Big Business of Organized Crime* comes closest, emphasizing the entrepreneurial tendencies and motives of gangsters. The shortcoming in Nelli’s work, however, is that he specifically limits his research to Italian organized crime. By doing so, he has eliminated many of the noteworthy players of the period and presented a somewhat disjointed chronology. The best work on the subject of organized crime during prohibition is Herbert Asbury’s *The Great Illusion*. This book provides a chronological look at prohibition and the
temperance movement. However, there is little specific reference to the economic aspects of these events.

Did the activities of organized criminals during prohibition mirror established economic patterns? Did they involve economic innovations? The attempt to answer these questions is the basis of this work. To that end, a series of other questions must first be answered. Firstly, one must discern how and why prohibition was adopted and why the adoption occurred in the 1920s. Secondly, the impact of prohibition, especially on the economy, must be understood. However, to adequately analyze the affect on the economy, the economic context must be decided. At this point it becomes necessary to examine the nature of organized crime. The links to other countries and other time periods must be made. The differences between these manifestations of organized crime and those which occurred during prohibition are essential as a starting point for deeper analysis.

The focus of the paper is organized criminal activity which occurred between January of 1920 and 1932. For practical reasons, the analysis will be limited to activities in New York and Chicago, both of which were major crime centers of the era. This activity will be presented chronologically. The famous faces and events of the era will also be a focus.

The paper will then move to the central question. The basic economic functions of criminal organization, as theorized by Frederic Homer, will be presented examined with narrowed focus on the period of prohibition. I will argue that criminal organization mirrored other economic organization of the period.

Based on this analysis of organized crime and available statistics, prohibition will be critiqued, in an attempt to highlight possible reasons for the rather obvious failure of the legal
experiment. An examination of the enforcement practices of the federal and state governments will be the focus of this section. Also central to this section of the paper is the question of whether or not prohibition was responsible for the growth in organized crime which occurred. It is possible that there are other factors which caused organized crime to expand during the period, despite the fact that most scholars point to prohibition.

The basic hypothesis of the work is that criminal organizations act with a definite plan, much the same as business. The motivations of the organization are to create and maximize profits. Being unlimited by legal considerations, such tactics often look very different from those utilized in the business world. However, several of the tactics used by organized crime are direct parallels to strategies which benefit legitimate corporations. During prohibition, profits were available at levels sufficient to induce a rapid modification and expansion of such strategies. Thus, prohibition was a prerequisite for the explosion of business oriented organized crime.

The Drying of America

Before understanding what prohibition was and how it affected America, it is necessary to understand how it came about. There were numerous roots and causes for the temperance movement in America. Throughout the years the public image of alcohol and drinking changed dramatically. The progression from the early stages of the United States’ temperance efforts to prohibition is of vital importance for understanding the role prohibition played in American society.
Early America was far from dry. Everyone drank alcohol in some form, regardless of age or sex. Puritans, staunch believers in self-control, were the first of America’s distillers (Asbury 8). Alcohol was considered “God’s gift to mankind and a panacea for almost every type of ailment” (Behr 7). Alcoholic drinks were an essential part of cultural life. Any houseguest was immediately given a drink and considered rude if he refused to drink it. It was not uncommon to receive part of one’s wages in kind, with goods or services being substituted for money. Often these payments included alcohol (Asbury 8). In many of the colonies it was used as a form of currency, easing this arrangement. Employers and employees had a kind of “unwritten agreement” that certain days were allowed off so that one could drink heavily without suffering consequences (Behr 9).

Americans loved their drink and the profits it brought so much that in 1794 many of them rose in rebellion when the newly formed federal government attempted to tax this substance. Farmers on the western edge of the frontier had found that it was far more profitable to convert their unused grain into whiskey. Often this was their only opportunity to gain cash. Without whiskey there would be no influx of money to them. It was also easier to ship across the rugged terrain than bulk grain and the demand was high. When the government attempted to take a piece of this profit, settlers began what has come to be known as the Whiskey Rebellion. Though the uprising was successfully squashed by the new American forces, it remains indicative of the attitudes about alcohol which were prevalent at the time.

The clergy were certainly no exception to the rule of free flowing drink. Clergymen drank along with their congregations. Some even ran their own distilleries. There were those in the clergy, however, who realized the social and moral problems created by alcohol. Perhaps the
first to decry the amount of drinking in the new world was Increase Mather, who prophesied in 1673 that “the flood of excessive drinking will drown Christianity” (Behr 13). There came increased pressure for drinking to be limited in the early 1800s. During this time Justin Edwards became the first to address drinking as a moral sin (Behr 21). Around that same time John Asbury, a member of the Methodist clergy, began to urge his colleagues to abstain from alcohol. His reasons were moral and proved to be the starting point for the temperance movement that would follow.

The temperance movement did not only follow a moral track, however. From the time of the Continental Congress there were those, most notable among them American Revolution hero Dr. Benjamin Rush, who began to examine the scientific outcomes of alcohol consumption. The Continental Congress attempted on February 27, 1777 to ban the manufacture of whiskey in the new country (Behr 14). Though they failed, many of the arguments they considered would remain in debate for years. Dr. Rush believed that liquor’s curative powers had been overstated. He devised a chart which listed the vices and illnesses caused by alcohol. These ranged from idleness to murder and sickness to madness (Behr 16). Though some of the predictions seem illogical today, they were very persuasive to Rush’s contemporaries.

The process of building a singular temperance movement was one which involved many cycles. Throughout the 1800s, organizations sprang up across the country which encouraged temperance. After several years of prominence most fell into disfavor. Many of these organizations were religious in nature, following Asbury’s example. Still others, such as the Washingtonians, formed in Baltimore in 1840, gained membership from reformed drinkers. Each had the common theme that drinking was a moral danger and most certainly deleterious to
Perhaps most vocal among these groups were those which were comprised of women. Alcohol was the first topic which united women into what could be called a “women’s movement” and the first issue which was tackled using non violent protest (Behr 35). Though the movement was waged by women, its inspiration was a man, Dr. Dioclesian Lewis. Dr. Lewis was a homeopathic doctor from Harvard who also worked as a preacher, reformer, and feminist. He worked on several different issues before turning his attention to alcohol temperance, including the removal of tight corsets and long skirts from the standard costume of the American woman (Behr 36). During the 1860s he began the practice of praying for those who ran saloons. This activity was spread to women with the conversion of Elizabeth Thompson to the temperance movement. Mrs. Thompson, a middle class woman, followed Lewis’ example and began to organize “visitation bands” to convince saloon keepers to give up their profession (Behr 36). The movement quickly moved to more established venues. In 1874 the Presbyterian church organized the National Women’s Christian Temperance Union which the following year would petition Congress for national prohibition. Perhaps the first victory for the group, however, was the incorporation of anti-alcohol education in mainstream schools. Such instruction was dramatic, even if it had little other value.

Teacher would place part of a calf’s brain in an empty glass jar. After discoursing on the nature of the brain and the nature of alcohol, she would then pour a bottle of alcohol into the jar. The color of the calf’s brain would turn from its normal pink to a nasty gray. And that, the teacher would conclude in sepulchral tones, is what would happen to her pupils’ brains if ever they drank Satan’s brew. (Behr 40)
Though this was, for obvious reasons, probably effective, its scientific merits are somewhat dubious. Another branch of the women’s temperance movement, perhaps the one for which it is best known, was the one-woman show of Carry Nation. A violent prohibitionist, Nation traveled around the country using her hatchet to destroy saloons, an act which soon became known as “hatchetizing” (Behr 40). Though she fell into obscurity later in her life, Carry Nation remains the best known of all the female temperance crusaders.

Most temperance organizations pushed for local or state actions to curb the influence of saloon owners and distillers. Virtually all stopped short of calling for national legislation, however. Perhaps because of their grounding in religion, the temperance leaders preferred moral suasion over legal mandate.

In 1862, however, the Federal government adopted the Internal Revenue Act. This tax on liquor to support the Union war effort was significant for temperance leaders. It allowed future arguments against national prohibition to include reasoning that such legislation would cost the federal government money (Asbury 63). It also sent those temperance leaders who had begun to lean in the direction of national legislation into fits. Their sentiment was expressed clearly by Kansas Senator Samuel C. Pomeroy when he decried the Act as a “national licensing law” and called instead for national prohibition, the first such public call (Asbury 63). In fact, the tax did prove to be lucrative for the federal government, comprising almost one fourth of revenue, according to Dr. D. Leigh Colvin, a prominent twentieth century prohibition supporter, in years right after the law’s passage (Asbury 63).

The drys of the early 1900s not only faced a battle from a government reluctant to forego revenue, but from an economically powerful business, as well. Saloon operators, restaurant
owners, distillers and brewers all had highly vested interests in preventing prohibition. To ensure that these interests were protected the brewers formed the United States Brewers’ Association. Each faction lobbied heavily for continuing the status quo. Understanding that a large number of the drinkers in America were immigrants, they courted many of these peoples and attempted to gain their favor. Also aware of the huge importance of the women’s temperance tendencies, such organizations actively rallied against women’s suffrage, attempting to minimize their impact (Behr 47). Each presented evidence that prohibition would cost them dearly and harm the economy by destroying their capital investments. These investments were substantial. In 1914, the Brewer’s Yearbook estimated that the capital investment in liquor was around $1,294,583,426 (Asbury 111). United States Census Bureau numbers from that year, while lower, seem to support the claim of huge losses of investment. The Census Bureau estimated capital investment at $915,715,000 (Asbury 111). Temperance supporters were thus forced to acknowledge the huge costs of prohibition.

However, the Anti-Saloon League, a non-religious organization formed in 1893, insisted that the cost to society of continued alcohol consumption far outweighed that which would be borne by those involved in the industry. There was, at the time, a prevalent saloon society. Prior to Prohibition there was one saloon for every three hundred citizens (Behr 49). A later study in Chicago at the beginning of Prohibition found there were 7094 saloons and that of these 445 “contributed to the delinquency of 14,000 girls every 24 hours” (Asbury 115). This study confirmed the public fears that alcohol contributed to other problems such as prostitution and to the lowering morals of the working class as a whole. The actions of the Anti-Saloon League would eventually bring national prohibition into reality.
It was the ASL’s behind the scenes leader, Wayne Wheeler, who was most responsible for this success. The graduate of Oberlin was discovered at his alma mater where he acted as a preacher and organizer of temperance activities. In his early days Wheeler was known for his tireless efforts to persuade the hearts of Ohioans. Door to door on his bicycle, he lobbied for the Haskell bill, which allowed a county to become dry with a simple majority vote (Behr 55). In 1898 he became the attorney for the ASL and moved temperance forward a great deal by making organizational appointments without regard to party affiliation. Uncovering the tactics and ideas of his opponents was also very important to Wheeler and a large reason for his success. By the middle of the decade, Wheeler realized that drys controlled six of Southern state legislatures and began to move from the local or county initiative to state wide laws against alcohol (Asbury 121). Because of Wheeler’s narrow emphasis on the temperance issue he was very successful in having more and more drys elected into Congress.

For the ASL the year 1913 was very pivotal. It was in this year that Congress outlawed the shipment of mail order alcohol into states which were dry. The Webb-Kenyon law was passed over the veto of President Taft on February 28 (Asbury 124). Following that victory, the ASL hinted they might try for national prohibition in order to gage public response. In a New York Times article thirteen years later, Wheeler said of this response, “The overwhelming urge was for national prohibition. The canvass of public sentiment was astounding in its approval of the idea” (Asbury 125). The election of 1914 proved to be the opening temperance workers needed. Prior to the election, workers of the ASL were mobilized like never before by their leader. They succeeded in picking up several seats and later that session attempted to pass their prohibition bill. Though they failed, they were heartened by the result of a simple majority.
With the convening of the special session of Congress in March of 1917 to decide on America’s entry into World War I, the drys knew they had the chance to make their move. They seized on the new sense of patriotism and anti-German feeling to demonize beer and alcohol drinkers. Playing on the worst of emotions, the drys attempted to paint beer, and by association all alcohol, as a German vice. To allow alcohol to remain legal was to allow the Kaiser into America. The Germans who were subject to such prejudice and speculation have been called “Prohibition’s first victims” (Behr 63). Pointing to cities with large German populations such as Cincinnati, where beer consumption was four times the national average, drys cried out for protection of “American” ideals and customs (Behr 65). The campaign provided just enough advantage.

With some skillful maneuvering by Wheeler, the final version of the Eighteenth Amendment was passed in the House on December 18, 1917 (Asbury 132). Following this passage, the amendment was sent to the states for ratification. Though some feared that it would fail because the time to ratify had been limited to six years, it passed - in just over a year (Asbury 132). In May of 1919, over President Wilson’s veto, the Eighteenth Amendment was passed by both the House and the Senate.

The Eighteenth Amendment mandated that “no person shall manufacture, sell, barter, transport, import, export, deliver, furnish or possess any intoxicating liquor except as authorized in this act” (Behr 78). Over the protests of the liquor industry, many immigrant groups, and several concerned about personal liberty, Prohibition had come to pass. Though William Howard Taft warned the measure was “against the views and practices of a majority of people in many of the large cities,” the Eighteenth Amendment went into effect on January 17, 1920.
Tax Payer
and Philanthropist
Pay Drink's Bills

Black sections show percentages due directly or indirectly to drink:

- Poverty 25%
- Pauperism 37%
- Child Misery 45.8%
- Insanity 25%
- Crime 50%
- Divorce 19.5%

How Much of This Do You Pay?

"If the alcohol question were solved there would still remain other social questions to be solved, but it is also true that as things stand today no other question of social welfare can be taken up with any prospect of securing effective results until the alcohol question is solved." — Julius Herman Pappen, Hamburg, Germany.
HOW DRINK LEADS TO IMMORALITY

A careful scientist has called Alcohol the indispensable vehicle of business of the white slave traders. Without it this trade could not long continue.

JANE ADDAMS, McClure's Magazine, March, 1912

WHY AMERICA WENT DRY

Beer Doubled
The Child Death-Rate
IN THE FIRST FIVE YEARS OF LIFE

All in the same village. Beer practically the only drink used by the parents and not always immoderately.

Children of Sober Parents
23% DIED
(18.6% in first year)

Children of Beer Drinkers
45% DIED
(36% in first year)

Alcohol whether in Beer or in Whisky is an Enemy to Child Life.

120 Sober Families with 420 Children.
18 Beer-Drinking Families with 126 Children.
All strictly comparable and free from hereditary disease.

Adolph Kick: Alcohol and Child Mortality in Durrenberg, Austria
Scientific Temperance Journal, Dec. 1914
SERIES E. NO. 76

COPYRIGHTED 1920
BY SCIENTIFIC TEMPERANCE PUBLICATIONS
BOSTON, MASS.

THE AMERICAN ISSUE PUBLISHING CO.
WESTERVILLE, OHIO
WHY AMERICA WENT DRY

Prohibition
Brought Prosperity

Banks Instead of Saloons are Crowded Saturday Nights.

Prohibition brought More and Larger
Bank Accounts; More Sales of Luxuries and Necessities, More Home Building.

Alcohol, Even in Wine and Beer, Cuts Down Health and Ambition, Earnings and Savings

Denver Labor Bulletin, etc.
W. J. Johnson: The Question answered, 1917

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BY SCIENTIFIC TEMPERANCE FEDERATION
BOSTON, MASS.
THE AMERICAN ISSUE PUBLISHING CO.
WESTERVILLE, OHIO
However, the major Prohibition battles were yet to be waged.

The Backdrop

Prohibition was not placed into a vacuum. As with any other law, it was passed and then enforced with human beings, all of whom had their own opinions. In addition, the world around prohibition was a dynamic and quickly shifting place. Society was changing in response to the changing events it was forced to face. The economy of the world and the United States also experienced rapid change in the twelve years of prohibition. Governmental actions and attitudes toward the economy were a shaping force. The ebb and flow of expansion and recession were experienced several times during the period. Obviously, such events had an affect on the attitudes of Americans. To understand their responses to prohibition it is necessary to understand the events which helped to shape them.

Prohibition began just after the close of the American involvement in World War I when the Volstead Act took effect. However, in order to fully understand the economic forces at work during the decade that was to follow, it is necessary to understand the nature and scope of the economy just prior to this period, as well. With the European war in 1914 the economy of America was seriously changed. Though Americans were not themselves directly involved in the war in 1914, they provided supplies to those countries which were. This lead to a net gain in exports between 1914 and 1917 that has been estimated at between $4.5 billion and $5 billion (Soule 47). The influx of money into the United States to pay for exports led to higher domestic
consumption and investment.

With American involvement in 1917 came several dramatic changes in the economy. Firstly, there was a shift in labor supply away from the private sector with the onset of conscription. It is estimated that the war decreased the labor force by almost sixteen percent (Soule 38). Secondly, the federal government drastically increased its spending for wartime supplies. For example, on food and housing alone, it is estimated that the federal government expenditures were almost $6.25 billion (Soule 37). This spending was largely financed through increased taxes. The exemption for married couples was cut from $4,000 to $2,000 in 1917 and the taxation rate was doubled from two percent to four percent (Soule 48). Nevertheless, the government operated with a large deficit throughout the United States’ involvement in the war.

A third very important change in the economy brought about by the catalyst of war was the increased government organization. This was largely an innovation brought about by necessity. It was critically important that the armed forces be able to receive the supplies they needed without delay. To this end, the purchase of goods for all the branches of the military was consolidated and the transportation of such goods was improved through agencies such as the Railroad Commission. Of vital importance to these economic preparations for war was the existence of the Federal Reserve. This agency allowed the government to exercise some control over the economic impact of war, and also facilitated the sale of bonds to finance the war. A major side effect of this was produced by the 1916 amendment to the Federal Reserve Act, which allowed expansion and rediscounting on the collateral of government bonds (Soule 52). Such practices allowed for the increased expansion of credit to businesses that desperately needed the funds for investment in order to meet wartime demands. Lending institutions took full
opportunity in using this tool, causing the reserve ratio of Federal Reserve banks to fall from 80 percent to 50 percent from April of 1917 to November of 1918 (Soule 52).

Largely because of this expansion of business credit, most industries were able to facilitate the expansion in demand caused by the war. Agriculture, however, was not. Planning time for increased production in agriculture is substantial and was lacking during this period. Nevertheless, the largest portion of the economy benefited tremendously from the war. Consequently, the gross national product, as expressed in percentage above 1914 figures, was fourteen percent higher in 1916 and twenty percent higher in 1917, but fell back to fifteen percent higher in 1918 (Soule 55). In addition to this increased growth rate, the economy of the United States retained several innovations made during the war. In production, interchangeable parts, standardized systems, and scientific management made a lasting impact (Soule 59). There was also a large increase in manufacturing capital in the overall economy which would facilitate later economic activities (Soule 60). Lastly, the automobile industry experienced significant growth during this period, as did complimentary industries such as oil and petroleum (Soule 60).

During the United States’ involvement in World War I, there were also several advances made on the behalf of workers. Many of these changes were due to the labor shortage experienced at the time, which was not only a product of conscription, but of lower immigration, as well. Because there were fewer workers to fill positions, companies rushed to compete with one another for labor. This competition led to increased wages and shorter hours. It was during this period that the work week became standardized at forty-four hours, with a half day of work on Saturday (Soule 73). The labor shortage was certainly instrumental in this change. However, another wartime phenomenon was also critical - the government contract. Federal government
contracts gave the government power to request concessions by their contract holders which would otherwise have seemed absurd (Soule 73). Because such contracts were highly profitable, these concessions were usually made.

Higher wages, however, did not always translate into a higher quality of life. There were shortages in many consumer goods including sugar, meat, and coal (Soule 76). There was also a severe shortage of affordable housing (Soule 76). In addition, those workers who were salaried had no access to collective bargaining arrangements and, therefore, saw little rise in their own incomes. Government workers who were salaried, for instance, saw their purchasing power fall thirty-two percent by 1918 (Soule 76). Conversely, most farmers saw a substantial increase in their real income. Though many were unable to adjust their production to meet all the increase in demand, they benefited from rising prices, regardless. Agricultural prices rose considerably being (expressed as a percentage above 1913 prices) 82 percent higher in 1917 and 106 percent higher in 1918 (Soule 77). However, much of this increase in real income would later be lost to land speculation or over-expansion.

With the close of World War I, the United States’ economy faced a serious problem. Almost four million men were dismissed from the military and about nine million people were left jobless by the war industries’ closure (Soule 80). Government programs, involving both economic control and military contracts were ceased almost immediately, leaving a huge void. However, despite production declines in late 1918, the economy seemed to recover remarkably, beginning in the second quarter of 1919 and continuing through 1920. The reasons for this are numerous. The production of ships intended for military use was continued, with the vessels being used in private industry. Unemployment was curbed by the three to four million people
who did not continue to seek employment following the war, a large percentage of whom were women and others who had previously not been employed (Soule 84). Plants and manufacturing capital which had been built with war industries in mind were easily converted into peacetime endeavors. Aided by the pre-existing shortage in housing, excess labor and removal of barriers, the construction industry began to boom. Governmental loans to Allies for the reconstruction and aid of their countries provided ready cash, most of which would be spent in the United States. The federal government financed its own deficit by selling Victory bonds, which could be discounted and used as a source of loanable funds to private investors.

Expansion of private credit was a characteristic of this post-war expansion. Largely because of Allied purchases, facilitated by government loans, domestic businesses were provided with both a means and an incentive for expansion. Feeling they could easily profit of the sale of goods as prices continued to rise, they rapidly expanded their inventories. The expansion was so substantial that the Federal Reserve, in June of 1919, encouraged member banks to curtail the expansion of speculative credit in an attempt to stop prices from climbing. However, businesses continued to receive credit and expand their inventory, further speculating that prices would continue to rise. The result of this inventory speculation was an erratic movement in price relationships, especially those of raw materials.

In 1921, this post-war expansion came to an abrupt end with one of the most severe price crashes in American history. According to George Soule, the economy was forced to absorb, in less than one year, a reduction in purchasing power that was equal to one fourth of the national income (Soule 97). This was the result of both governmental policies and private sector expansion activities. The government began to pursue a balanced budget, which necessarily
meant higher taxes. Taxes were once again doubled, from four percent to eight percent (Soule 97). Banks had exhausted all their credit abilities and were running dangerously close to legal reserve requirements. Because much of the credit previously extended had been used for speculation, it had provided little useful output for the economy. Allied demand for American agricultural goods began to decline dramatically, causing a fall in prices. This lower demand, coupled with the wartime expansions, created a surplus of agricultural goods. The inventory speculation which had been common collapsed. Consumers had experienced a decrease in purchasing power, which meant surplus inventories continued to increase.

In the early part of 1922, the economy once again began to expand. Though specific causes of this are somewhat nebulous, there are some generalities which can be examined. Firstly, businesses began again to expand their production. It may be assumed, then, that businessmen saw the opportunity to make profits because they remained in possession of large amounts of inventory which had been devalued, if on paper only. The prices between raw and finished goods remained sufficiently different to create profitability. A large portion of the expansion of 1919 was actually due to price increases alone. Of six billion dollars worth of expansion, four billion were actual gains in product, while two billion were due to price increases (Soule 112). As prices began to fall, the general public saw an increase in its purchasing power which was largely sufficient to allow for the purchase of many of the excess inventories. There was also a fifty percent increase in durable goods spending during this expansion which provided a stimulus to business (Soule 116). Many new durable goods became available during this period like the radio and the refrigerator. There was also an increase in automobile purchases, which would later impact state and local government spending on such things as roads and bridges.
Thus, new spending patterns led businessmen to believe that they would receive profits off new inventory purchases, fueling the expansion.

Also vital to the expansion of 1922 was the increased building of private homes. This building boom utilized labor which had previously been unemployed and helped to further increase the purchasing power of the public. In addition, there were substantial gains in efficiency and productivity. As production in the overall economy increased and labor remained constant, there was a necessary rise in the ratio of production per unit of labor. Consequently, there was a rise in the productivity of the labor force. Also contributing to this gain was the increased usage of electrical operations in manufacturing, usually from an outside provider. Horsepower per worker also increased. Because of a shortage of low-skilled, usually immigrant labor, machines were increasingly utilized to fill such roles. All these innovations furthered the efficiency gains in the economy.

During this expansion, businesses received sufficient funds to finance their own expansionary endeavors. This freed banks to provide loan funding to other outlets. The increase in the availability of funding for loans facilitated an increase in stock and land speculation. While stock speculation continued throughout the decade, land speculation fell off very quickly as the result of failed endeavors in Muscle Shoals, Florida, and California.

The governmental decisions of the decade also largely facilitated the growth of business in the economy. The Fordney-McCumber Tariff Act of 1922 allowed for tariffs that would bring the cost of foreign goods into line with those of domestic goods for American consumers. While it did not include many important industries such as automobiles, the tariff did signal a growing trend in United States’ legislation. Another sign of the pro-business atmosphere was the
appointment of Andrew Mellon as Secretary of the Treasury under both Harding and Coolidge. Mellon, very conservative in his economics and one of the richest men in the country, instituted and supported policies including the reduction of taxes in the highest brackets, governmental surplus, and retirement of the debt (Soule 131). Calvin Coolidge was also largely responsible for the economically conservative policies of the time. He was opposed to both social reform and government spending. However, this is not always reflected in the actual expenditures of the federal government from 1920 to 1930. Only expenditures on health and welfare, interest on the debt, and public works were reduced, while law enforcement, shipping subsidies, and Department of Commerce programs all saw increases (Soule 132). Some of the increases, however, appear to be rather unavoidable. Law enforcement, for instance, increased due to the demands of prohibition. A large part of the decrease in public works can be explained by an increased action by the states and local governments in the areas of road and building construction. In 1930, the total tax burden from federal, state, and local requirements was $10.3 billion, fifteen percent of which went to rural road construction and fourteen percent of which went to other city expenditures (Soule 133). Consuming more capital and labor than any other industry of the period, road and building construction was truly an important part of the economy from 1920 until 1930 (Soule 133).

As part of the conservative approach to business and economics, the administrations of the twenties enforced antitrust regulation only mildly. During the era from 1925 to 1929, seventy-five cases were pursued. Thirty-seven ended in consent decrees, while another twelve were dropped (Soule 134). The Federal Trade Commission, begun in 1915 to regulate unfair competition, was largely unsuccessful in enforcing the newer Clayton Act requirements and only
mildly successful in prosecuting common law breaches. The Supreme Court appeared to share the conservative bent, upholding the practices of the United States Steel Corporation in 1920, despite the fact that the company controlled over fifty percent of the market share and had been created by a questionable merger (Soule 139). The conditions of business and antitrust regulation during the twenties made tacit collusion and price publishing schemes easy and acceptable. High entry barriers into large manufacturing endeavors, caused by the expense of machinery and other fixed costs, also contributed to the atmosphere of big business.

A last important trend in the economy of the twenties was the expansion of consumer credit through installment payment plans. Companies began to use such plans as the reliance on financial and other credit agencies became more acceptable. It was utilized for the purchase of large durable and semi-durable goods, including radios and other new electrical appliances. It was estimated that in 1929 the cost of installments payments in the economy was roughly seven billion dollars (Soule 157). While this aided in business expansion and appeased the appetites of consumers, it would prove to be a costly mistake for the economy as a whole. Businesses failed to realize that durable goods would not be replaced at their initial purchase rate, which led to overproduction.

These conditions prevailed largely uninterruptedly throughout the decade of the nineteen twenties. The expansion was somewhat slowed by a mild recession in 1924, from which the economy had recovered by 1925. Following this, the economy grew substantially and provided sufficient fuel for this expansion until 1929. Around this time there was some indication that the economy was slowing. However, no one foresaw the stock market crash of 1929 that would come to be known as the catalyst that moved the economy from the roaring twenties into the
Changing Times

The passage of national prohibition was met with wide-ranging sentiments. The drys heralded it as the beginning of a newer, cleaner, and holier era. The wets decried the law as an imposition and a farce. When the law went into effect on January 17, 1920 the Anti-Saloon League of New York praised it and prophesied that “a new nation will be born” (Asbury 142). However, the American Federation of Labor denounced the act and the Central Federation Union coined the phrase “No Beer, No Work” (Merz 46-47). There were other, more lavish, displays of emotions as well. Billy Sunday, a noted evangelist and dry worker, held a mock funeral in Virginia for John Barleycorn, praising his death and proclaiming his wickedness (Asbury 144).

Wets chose much the same fashion of display to mark the end of their drinking days. In many of the hotels, cabarets, and restaurants of large cities such as New York and Chicago, there were funerals held for alcohol. Some were lavish displays including favors for guests and free champagne. Others involved the passing out of such items as flasks, which would certainly find good use shortly.

The parties, however, seem to have paled in comparison to the predictions of the news media and others of the time. Police were stationed throughout cities, anticipating an increase in the amount of drinking, traffic, and general lawlessness. However, the short supply of alcohol put a serious damper on these activities. Because people had begun to stock up on their personal supplies weeks before, most establishments had a difficult time getting their hands on enough
liquor to put on a major party. However, some did manage to find just enough to meet their own needs. These owners raised the prices drastically, further reducing the amount of drinking taking place on the night of the sixteenth of January. For example, prior to prohibition, the price of a cocktail at a high class bar was fifteen cents; that night such drinks ran seriously higher, with an ounce of low quality whiskey going for up to three dollars (Asbury 150). The atmosphere in New York seems to have been most affected, with the *New York Tribune* reporting the “sad scenes witnessed on Broadway” (Asbury 151). However, there may be a further explanation for this. Apparently, mother nature did not support the cause of the wets and sent a twenty degree, windy, snowy night over the city.

Immediately after prohibition went into effect, there began to be problems enforcing it. Many of these problems appear, in hindsight, to be inherent in the enforcement system that was created. Firstly, there were no additional jails, courts, or United States attorneys added in the expectation of increased case loads. This would prove to be a serious flaw. Furthermore, as Herbert Asbury has noted, the Prohibition Bureau was designated as a part of the Department of the Treasury rather than the Department of Justice (173). This would cause endless problems of non-cooperation throughout the term of the law. An additional problem was that the Bureau was staffed by employees who were not considered civil servants. Therefore, many of the positions went to party or political appointees as favors and this led to serious problems of bribery and corruption (Asbury 173).

There were also many readily available sources for illegal liquor. One of the loopholes in the amendment was that there was an allowance for use of medicinal liquor to continue if prescribed by a physician. Widespread abuse of this allowance followed, with many doctors
writing fraudulent prescriptions for a fee. In addition, there was an allowance for “near” beer, with an alcohol content less than one-half of one percent. In order to create this drink, the fermentation process must produce alcohol of illegal levels. Enforcement of this was limited, and there was much near beer that was very close to its predecessors. Brewers were also known to sell alcohol that could be used to up the percentage of near beer following its inspection. Smuggled liquor was another major problem in enforcement of prohibition. Given the long boundaries of the United States with Canada and Mexico, the officers stationed in these areas were sadly insufficient in numbers and their actions were not well coordinated with other agencies (Merz 67). Industrial alcohol provided a fourth source of illegal liquor. Given the increased chemical industry in the United States following the war, there was a large supply of alcohol available for usage. However, this alcohol contained toxins and required denaturing to prevent death, which often never occurred. The last important source of illicit liquor was the still. A five hundred dollar still could make fifty to one hundred gallons of liquor a day, at a cost of fifty cents a gallon. This liquor could then be sold at anywhere from three to four dollars per gallon.

However, the sources for illegal liquor would have been unimportant had there not been a demand for it. Though many dry leaders believed the national sentiment to be behind them, they misjudged the public seriously. Colonel Daniel Porter went so far as to proclaim “There will not be any violations to speak of,” believing the penalties were so severe as to prevent this occurrence (Asbury 142). The common person of the day, while holding little hard alcohol at home, was a beer and other light liquor consumer. Furthermore, they had the knowledge to allow them to brew their own supplies fairly easily. Many found the law so odious as to break it
without consideration. Senator Owen Stanley demonstrated this sentiment when he read into the Congressional record the *Song of the Moonshiners*, a popular song of the day. “My country tis of thee/ land of grape juice and tea/ of thee I sing/ land where we all have tried/ to break the laws and lied/ from every mountainside/ the bootlegs spring” (Behr 131). This sense of disobedience shocked law enforcement officials of the time, for they believed it would lead to a more general rash of lawlessness. Perhaps they were right. People began to judge the norms of society differently than they had prior to prohibition. Bootleggers and smugglers were not criminals, but mere businessmen, providing a service which should never have been outlawed in the first place. Pocket flasks and home stills became hot commodities throughout the country, despite their illegal status. Women, just enfranchised, flocked to bars and speakeasies in numbers that would have been appalling just weeks earlier. Drinking had become socially acceptable and, in some quarters, expected. College boys, who before would never have thought to bring alcohol on a date, let alone offer it to a girl, were thought ungentlemanly if they did not do so. Not only did drinking move into the female sector, it moved to the younger population as well. Speakeasies and stills were set up just off of college and high school campuses, for the easy consumption of the students. Alcohol was a popular drink and status symbol. The common boast from boys everywhere was, “Boy, did I tie one on last night” (Asbury 160). During all this, the demand for illegal liquor rose, as did the profits to those who provided it.

Those establishments which wished to remain within the bounds of the law, however, suffered. Hotels which had counted on the revenues from their bars to keep them operating were hurt badly. Restaurants could not make a profit from food alone and were forced to close without their most profitable menu item. The Broadway district of New York was extremely
hard hit. Its reputation preceding the Volstead Act had been one of raucous entertainment. However, within six years after the passage of prohibition "virtually everything that had made Broadway famous was gone" (Asbury 190). These establishments were replaced by low cost operations which cheapened the atmosphere considerably. They included night clubs (often with a backroom speakeasy), drug stores, and lunch counters. Such famous landmarks as the Hotel Knickerbocker, Manhattan Hotel, and the Park Avenue were closed. Others, such as the Astor and the Vanderbilt, remained opened but leased out parts of the space to vendors of candy and other favors.

The benefits of prohibition were also well noted. Professor Irving Fisher claimed that prohibition led to increased labor productivity. These gains, according to Fisher, were only half of the six billion dollar benefit caused by prohibition (Feldman 235). The Scientific Temperance Federation released a pamphlet which claimed that prohibition had been responsible for the turn-around in the U.S. economy, leading to larger bank accounts and increased consumption. Labor turnover was also a significant gain, according to proponents of prohibition. Apparently, it was believed that less drunkenness led to fewer firings and, thus, created a stable labor pool.

The passage of prohibition had undoubtedly changed American society. However, the full affect of that change would not be felt for years. With drys heralding the dawn of a new age and wets preparing their speakeasies and stills, the country was pushed into a new social atmosphere. Bootleggers, rumrunners, and tommy guns were not far off, but for the moment America waited.
The Organization

In the atmosphere of prohibition organized crime gained a foothold. However, organized crime is a rather vague term. Is any group of criminals an organization? Most of the time the reference to organized crime is to a group of criminals that styles itself on the tradition of the Italian mafia. Modern examples of organized crime have challenged this assumption, but for the period of prohibition it remains valid. If American organized crime was based, admittedly loosely, on the structure of the mafia, it is necessary to understand the causes and history of this phenomenon.

Through movies, popular fiction, and events such as the Kefauver hearings, organized crime has become legendary in America. It has also come to be synonymous with the mafia and Italian-Americans. However, this equation is somewhat dubious. Throughout the years, several ethnic groups have been dominant in organized crime. At any given time, people of all ethnicities are involved. It is useful to examine the roots of the Italian mafia, however, in order to evaluate whether American organized crime has significant similarities to it.

In order to understand the origins of the Sicilian-based mafia, it is necessary to dissect the Southern Italian psyche in the nineteenth century. Perhaps the factor most responsible for molding this rather unique mind set was the political upheaval that was almost constant in the region. For centuries, both Sicily and Southern Italy were subjected to a succession of invasions. Each of these left behind a government which cared little for the native peasantry. This was especially so during the time between the Congress of Vienna and the 1860s, during which time
the Bourbons fled (Nelli 5). The rule by the Bourbons had been haphazard at best. Corruption, weakened governmental power, and overall lawlessness marked the period (Nelli 5). However, even the later unification of Italy provided little relief for the Southern poor. Elizabeth Latimer wrote in the 1890s that "the Sicilian and Neapolitan peasantry have been a disaffected population ever since the formation of the Kingdom of Italy (Nelli 5). Under this new unified government some classes of Italians prospered while others suffered. Economic hardship was especially prevalent in the agricultural south. Farmers there were subjected to incredibly high rates of taxation and usurious rates for the privilege of borrowing money. The result was a barrier to economic self-improvement and an increased distrust of government.

The Southern Italians and Sicilians turned instead to their immediate families to provide the protection and opportunities a just government would have. These family units became powerful within the communities and attempted to alleviate some of the governmental burdens. In exchange, all members of the family were expected to protect other members and hold family secrets in strict confidence. Outside the immediate family, all people were regarded with distrust. What emerged from this environment was one man who was protector of and speaker for many, called capo mafioso (Nelli 7). He then led the mafia, which operated as a kind of new government.

From this new government, which often ignored the laws of the legitimate government, the mafias’s criminal nature grew. Most chapters were rural and operated within their own town. They provided their services to collect rents, organize labor, and protect business, backing their authority with violence (Nelli 11). The economic and social structures continued by the mafia were much like feudalism and slowed market development in Sicily (Nelli 13). To protect their
interests they bought local officials by bribing them and then using a demand of returned favor to get what they wanted (Nelli 13). This technique would become ever more important in America.

However, this analysis is only one theory of the development of the mafia. There are numbers of contradictory ones. Some date the origins of the mafia to the early or middle nineteenth century. One of the most colorful examples of a theory was retold by Joe Bonanno in his *A Man of Honor*. According to this legend, the mafia was a revolutionary response to the rape of a Palermo bride on her wedding day by a French soldier. Italians began to slaughter other soldiers in response and violence spread through the country. It is also said that mothers cried in the streets “My daughter, my daughter” or “*mafia, mafia*” (Sifakis 210). Obviously, those involved with present day mafia activities prefer this noble tale to one of savage and greedy criminals.

As difficult as pinpointing the historical origins of the mafia is determining its true relationship to American organized crime. Some scholars have hinted that the present structure is merely a transplant of the Italian-based criminal activities, brought by immigrants. However, there are several problems with this hypothesis. Firstly, there are the various regional origins of the most notable Italian-American crime bosses. Vito Genovese, for example, was a Neapolitan. This area was largely known, not for the mafia, but for a criminal ring known as the *Camorra* (Homer 38). Frank Costello’s origins, however, were Calabrian. Calabria was far from Sicily and the mafia. Indeed, it was noted for a gang know as the *Onorata Societa* (Homer 38). If the mafia in America were merely a transplant of a single organization in Italy, one would expect the leaders who set up the American structure to at least be from the same general region. The second major problem with the assumption that the American mafia is merely a duplicate of
another system is that any number of ethnicities have been prominent in organized crime in America throughout the years. Italians were by no means predominant in the nineteenth century and there is some doubt that they were at any point. In fact, as Carl Sifakis points out, in 1931 when Lucky Luciano was attempting to take syndicate crime national, it is quite possible that Jewish criminals outnumbered Italians (207). What, then, determines the ethnic make up of organized crime? Frederic Homer in *Guns and Garlic* identified four requirements that may signal an ethnic proclivity for organized crime: 1) hostility toward government 2) social norms of secrecy 3) systematical violence 4) entrepreneurial tendencies (67). From merely a brief history of Italy it may be reasonably assumed that each of these are present. It is also apparent, however, that Italians are not the only ethnicity for which that is true. Perhaps that may provide an explanation for the involvement and control at various times by other groups such as the Irish or Jewish. Like the Italians, for instance, both the Irish and the Jews had been oppressed economically in Europe. The Irish arrived earlier and this may explain their early predominance in crime. Both the Italians and the Jews began to arrive in large numbers around the same time and, perhaps consequently, became involved in organized crime during the same era. Like virtually all ethnic groups which came in mass to America, these groups were ostracized and confined to ethnically bounded neighborhoods. Sometimes involvement could also be attributable to certain skill, such as brewing, which come to be an important element in crime.

However, this explanation of ethnic succession fails to explain why the Italian mafia has become synonymous with the organization in America. Carl Sifakis offers an explanation for this which, while far from completely explaining the phenomenon, does offer a contributing factor. His theory is that with the coming of the Great Depression, Italians and Jews were unable
to move out of the ghettos and, therefore, remained involved in organized crime longer than would have been usual (Sifakis 208). Not to be underestimated in this association of the Italian with organized criminal is the popular culture. Movies, books, television shows- all reinforce the idea that the mafia is organized crime in America. With all the confusion, even in academic circles, it is simple to see why this myth has stuck.

The Practice

Long before prohibition was even contemplated, organizations such as the mafia had begun to operate in the United States. These gangs were smaller and less focused on monetary gain than their descendants would be, but they provided useful practice for the young gangsters who would come to rule during prohibition. Control of the docks and labor slugging provided perhaps the first indication that crime could be run as a business. Other endeavors taught more specific lessons. All these things, however, produced a generation of criminals that was eager and able to take over the sale of illicit liquor in order to gain huge profits.

Organized crime established itself within American society well before Prohibition became law. The large majority of participants in these illegal activities were members of distinct ethnic groups and newly immigrated (Nelli 103). While the majority of new immigrants encouraged their children to work hard and assimilate themselves into society, some of these children found that difficult. Especially for the poorest, the immersion into the crime-ridden slums so affected them that they failed to see the value in slow and hard work which brought
small earnings. Often their difficulties, both with language and culture, led to ostracism from mainstream American society. The children who turned to crime usually found school within the foreign environment exceedingly difficult. These young men joined street gangs, which were common in American cities around the turn of the century. Such gangs would become the recruiting grounds of large syndicate crime during Prohibition. One such gang was the Five Points Gang, which has been called the “last great pre-Prohibition gang in New York” (Sifakis 121). Members of this gang included Lucky Luciano, Al Capone, and Johnny Torrio, all of whom would become infamous following the passage of the Volstead Act. Largely Italian, this gang was very different from the majority of street gangs which had ruled the streets of American cities around the turn of the century. It was from this gang that more modern day gangs would come following the advent of Prohibition, and its identity has greatly influenced the concept of American organized crime (Sifakis 121).

Prior to the lucrative trade in illicit liquor that was created by passage of the Volstead Act, organized crime focused its attention on a number of various endeavors. Perhaps the earliest of these, and the ones most closely related to mafia activity in Italy, was control of docks and their workers through union and labor racketeering. Surprisingly, this undertaking was first almost solely the realm of Irish leaders. According to The Longshoremen, a study by Charles B. Barnes, almost ninety-five percent of dock workers in 1920 were Irish (Nelli 109). However, other ethnicities began to enter the industry rather quickly. One of the most notable persons among these was Paul Kelly. Kelly was the leader of the Five Points Gang, which was also notable for its violence. In his position of leadership, Kelly was involved prior to World War I in hiring out his troops to the union organizers and busters alike. Following the eventual collapse
of his gang, Kelly moved into a new field, one which Humbert Nelli has called “lucrative”, that of labor racketeering (Nelli 109). Using his power over labor, Kelly was able to hold potential strikes over employers’ heads in order to extort money from them. The change from Irish control to Italian brought several innovations with it. Italians used superior organization and an increased indifference to violence in order to produce an industry which became highly profitable, especially in its more nefarious aspects such as smuggling.

Also essential to pre-Prohibition organized crime was its involvement in various industry competitions. Especially during the “newspaper wars” such involvement was apparent. One such encounter came to light during the 1951 Kefauver hearings. During 1913, the Cleveland newspaper industry was involved in fierce competition, divided between the News and the Leader and their rivals the Plain Dealer and the Press (Nelli 110). During this period various small time organized criminals were hired to manage groups of other gang members. These bands of boys were subsequently used to run the rival newspaper boys off their corners. Consequently, there was less circulation for rival newspapers. This was not at all uncommon in American cities during the period, and it provided a useful model for future organization endeavors.

Perhaps most lucrative and widespread, however, was the organized criminals’ involvement in prostitution and gambling. Such endeavors were the mainstay for the organized criminal before illicit liquor provided a fertile field for profit. Essential for the working of such industry was the existence of the political machine. Such machines required huge voter turn out in order to be successful. The organized criminals agreed to provide such a turn-out in exchange for a blind eye turned upon their gambling or prostitution houses. In addition to guaranteeing a
high favorable voter turnout, such criminals were also instrumental in keeping away negative voters for those politicians who agreed to be less than vigilant in their law enforcement duties. Not only did criminals receive a ticket to operate their illegal businesses from the political machine, but they were often given appointments as favors as well.

Though gambling was probably just as profitable, it never truly became a focus of social outcry as did prostitution. In 1897, it was estimated that in New York City alone there were 30,000 prostitutes (Nelli 115). Numbers from the city of Chicago a few years later prove that prostitution was a very lucrative industry. In 1911 the Vice Commission of Chicago said prostitution was a “commercial business of large proportions with tremendous profits of $15 million a year” (Nelli 115). Even using the more conservative estimate of the Department of Justice’s Howard Woolston that there were 100,000 prostitutes in the United States between the years of 1911 and 1913 the estimated profits produced would be considerable (Nelli 115). Often the contemporary discussion of prostitution centered around the concept of white slavery. Widely accepted, white slavery was a belief that thousands of innocent girls were being held against their will in the life of prostitution. Though not all operators of prostitution houses were directly tied to what is traditionally thought of as organized crime, several notable ones were. According to Humbert Nelli the “first and largest” prostitution ring was that which belonged to Jim Colosimo and Johnny Torrio (119). Torrio, born in Italy and raised in New York, was a member of the Five Points Gang and operated several saloons in Brooklyn. When brought west to Chicago by Jim Colosimo, Torrio quickly developed into the great criminal mind which would later make him famous. Quickly gaining Colosimo’s respect, he began to be the real driving force behind Colosimo’s prostitution empire. Jim Colosimo had built his criminal career by becoming a bribe
“collector for two infamous, corrupt aldermen, Michael ‘Hinky Dink’ Kenna and Bathhouse John Coughlin” (Sifakis 83). He later moved on to be a bagman for the numerous brothels who bribed Kenna and Coughlin for their complacency. Colosimo’s big break, however, came when he met Victoria Moresco, a madam. She made Jim her husband and the manager of her brothel and soon its business was booming. Of every two dollars a prostitute brought in, Colosimo took $1.20, and quickly became a millionaire (Sifakis 84). He also became a target for Black Hand extortionists. Black Hand operations were the first involvement of Italian Americans in organized crime. They involved extortion, almost always targeted at other successful Italians. Fearing they would eat away his fortune, Colosimo brought Torrio to Chicago in 1909 to act as his protector. Torrio would soon take over the true operations of the crime ring and lead it in a new direction.

Though Colosimo’s group was probably the largest of its time, with his income estimated at about $600,000 a year, it was certainly not the only crime ring involved in prostitution (Nelli 122). Italians alone were involved in prostitution rings in Philadelphia, Boston, Milwaukee, Denver, and San Francisco. When one considers the other ethnic groups and individuals which were also involved, it become clear that prostitution was a huge criminal moneymaker. It is also quickly apparent that many of those involved in prostitution would later move on to bootlegging following Prohibition. Lucky Luciano, Jim Colosimo, and Johnny Torrio are examples of this, as is Anthony Parmagini, a whorehouse operator and future bootlegger in San Francisco (Nelli 121). Such endeavors involved not only the day to day maintenance of prostitution houses and their inhabitants, but the organization of numbers of such establishments and the exchange of girls in between the various houses. Apparently the clientele, especially that of higher class
establishments, liked variety in their prostitutes and were willing to pay for it. To that end, several of the larger prostitution rings cooperated with each other to exchange girls between them (Nelli 122).

Other illegal activities provided valuable experience for the criminals who would later organize and profit from the illegal sales of liquor. Counterfeiting, though mostly a small operation, was a part of the organized criminal’s repertoire prior to Prohibition. The experience this provided would prove to be highly lucrative as one could counterfeit liquor labels and consequently sell rotgut liquor at exorbitant prices (Nelli 125). In addition to specific skills, criminals also learned a great deal about organization during this time. Though the union involvement prior to World War I had provided much of this, their training was not complete. Much of that came with the organization and professionalization of gambling by John “Old Smoke” Morrissey (Nelli 126). He was a useful example, if not the first, to attempt such an endeavor. The honor of being first goes to Michael Cassus McDonald, Harry Varnell, and the Hankins brothers of Chicago who, in 1870, organized gambling interests to elect a sympathetic mayor and monopolize the industry (Nelli 127).

Indeed, much of the framework for the big organized crime rings of the twenties and thirties was laid in the first decade of the century. Crime and its ceremony, so important to the immigrant youths, began to take on the kind of social importance which would later accompany the flashy weddings and funerals in crime families. The pay structure of the organization was also clearly established within this time period. Leaders were paid a percentage of the groups earnings, with their power increasing as their wealth did. Several early endeavors provided specific know-how and opportunities for experience in organization and illegal profit making.
Gangland Founder

Five Points gang leader Paul Kelly

from: The Business of Crime by Humbert Nelli, p.108
As Humbert Nelli has put it, “adjustment to American values became an effort to apply certain big business practices” to criminal activities (139). Thus, the coming years would see highly organized groups of criminals using ideas of efficiency, specialization, and monopoly through elimination to profit from illegal liquor sales.

The Game

The criminals who came of age just prior to the passage of prohibition were a remarkable combination of brains and violence. Together they would use these characteristics in concert to create the very lucrative business that bootlegging soon became. Before one can understand, however, the methods which such men used to run their business, it is necessary to outline some of the faces and events that were central to the crime culture of the time. This will provide the activities for analysis.

Virtually no one saw prohibition as a panacea. Most people knew and accepted that there would be those who broke the newly established law. However, the majority failed to foresee the full extent of the lawlessness which would sweep the largest American cities. Almost all of the major urban areas in the country had their problems with bootlegging and gangs. Detroit became a port of entry for Canadian alcohol. Cleveland, with its long history of beer-drinking, was far from dry. New York was a city full of both smuggled and bootlegged liquor. However, perhaps no other city is associated with the organized crime of the era more than Chicago.

Other cities had rival gangs and big name leaders. They had their raids, their wars, and
their flashy social events. However, they did not have Al Capone and they never experienced the kind of gang warfare that would mar Chicago in the late twenties, with an estimated 1000 men dying (Sifakis 44). Between October of 1923 and October of 1926, Chicago saw the killings of 215 gangsters (Landesco 97). It was in Chicago that the St. Valentine’s Day massacre, perhaps the most notable event in organized crime, took place. Chicago was not the birthplace of American organized crime. However, it did provide the template for many of America’s myths about organized crime and criminals. It was there that the gangster became legend and the twenties really roared.

Perhaps Chicago would not have become any of these things without the leadership of one man. Johnny Torrio, well-known for his brains and tact, brought in to protect Jim Colosimo from extortionists, would prove to be the spiritual and intellectual leader for the new Chicago mobster. With news of impending prohibition, Torrio immediately sensed that there were immense profits to be made in bootlegging and other related activities. He attempted to persuade the master of Chicago’s prostitution rings to diversify his interests and move into alcohol. Colosimo, distracted by his interest in a new love, refused Torrio’s suggestion. Enraged by his boss’s response, Torrio began to make his own plans.

He contacted his former partner, Frankie Yale, a small time gangster in New York and Brooklyn. Much the same as he had been called west by Colosimo, Torrio brought Yale to Chicago. In 1920, Yale arrived. He would prove to be Torrio’s answer. On May 11, for a reported ten thousand dollars, Yale shot Jim Colosimo to death in his own cafe (Asbury 294). Torrio, now the leader of the largest prostitution ring in the Midwest, was free to enter any business he chose. His choice was a wise one.
In 1920 Torrio began to organize his operation, the former Colosimo prostitution ring, for expansion into the business of bootlegging. The first, and probably one of the most important, decisions Torrio would make that summer would be to supply Al Capone with a job in Chicago. The young man, then twenty-three, was working in one of Yale’s establishments in Brooklyn. He had written Torrio asking for a job, which Torrio gladly gave him, knowing his skills with a pistol and penchant for violence. Initially, Capone was employed as a bouncer in one of Torrio’s brothels (Asbury 295). However, he moved up quickly, and was soon the manager of the Four Deuces, another Torrio establishment. In just over one year he would ascend to a spot as Torrio’s chief gunman.

Torrio also busied himself with the organization of the illegal liquor industry in Chicago. By the time he was free to enter the business, prohibition had already taken effect. However, throughout the country manufacture and sale of illicit alcohol was going on, if only on a small scale. Those brewers who did not wish to remain in operation were eager for buyers, almost as eager as Torrio was to buy (Landesco 97). The Unione Siciliana, an “Italian fraternal group” was supplying alcohol compliments of their influence (chiefly extortion threats) over other Italian citizens (Nelli 135). Small time gangsters throughout the city were attempting to take their share of the profits to be made in bootlegging. However, there was no organization to any of these schemes. This would prove to be Torrio’s strength. Fearing law enforcement little, boasting “I own the police,” Torrio proceeded to make his first big move (Asbury 296). Deciding that beer was the drink of choice in Chicago, Torrio attempted to gain influence over the small number of breweries that had continued to operate following the incorporation of prohibition. Torrio also formed an alliance with the Unione Siciliana, and added their alcohol production to his supply.
Connecting himself with Joseph Stenson, owner of five Chicago breweries, he immediately took them over for his own operation (Asbury 297). The alliance would prove profitable for Stenson, as well. His prohibition era income was estimated at almost twelve million dollars a year (Landesco 91). Gradually, Torrio absorbed most of the formerly legitimate breweries and distilleries in Chicago.

The acquisitions would be of little use, however, if Torrio could not convince other gang leaders to cooperate with him. This ability alone was what would single Torrio out as a great organizer. He convinced the other gang leaders of Chicago that the area should be divided into sections, with each gang having supremacy in one section and the rights to its profits. Promising the men that they would “all make millions,” Torrio further solidified the compact (Sifakis 322). However, the enforcement behind the deal was Torrio’s all but explicit threat that “the alternative...was war and he would win that” (Sifakis 322). Chicago and the Cook County area, therefore, were divided.

Dion O’Banion and his gang, specialists in robbery, were given control of the lucrative North Side. O’Banion was a ruthless, but well-protected, killer. According to the Chicago police, he had participated in the killings of at least twenty-five men (Asbury 298). It was furthered rumored that O’Banion committed these acts “with a rosary in his pocket and a carnation in his buttonhole” (Sifakis 247). However, he was never held accountable for his crimes, at least not by the police. The West Side was divided among Torrio, Myles and Klondike O’Donnell, Frankie Lake and Terry Druggan, and the Genna brothers. The Genna brothers were high officials in the Unione Siciliana, and already busy manufacturing alcohol. With the division of power and territory, they were allowed to continue their activities and in time would become
the most prolific bootleggers in Chicago. By 1925, they had amassed a fortune of five million dollars and were making $350,000 a month off illegal liquor, one hundred fifty thousand dollars of which was said to be profit (Asbury 298). By passing out stills to Italian immigrants and extorting the liquor, the Gennas were able to keep their costs low, assuring themselves of profit. The South Side also remained under Torrio’s control. Al Capone was employed to rule over it for him. Pieces of the territory were parceled out to Danny Stanton, Ralph Sheldon, Polack Joe Saltis, and Frank McErlane. McErlane, called by the Illinois Association for Criminal Justice “the most brutal gunman who ever pulled a trigger in Chicago,” was an easily identifiable figure with his ruddy complexion and small, piggish eyes (Asbury 298).

As brilliant as Torrio was, he did make a mistake in dividing Chicago, one that would be costly. Because Spike O’Donnell was in jail at the time, Torrio neglected to provide his brothers, Steve, Walter, and Tommy, with any territory. Working only under Spike, the three brothers had become pickpockets and robbers. However, they did not protest about Torrio’s treatment of them. When Spike was pardoned in 1923, he was outraged that Torrio had ignored his presence, and set out to get even. He hijacked Torrio trucks filled with booze and began to run beer in through Joliet to the South Side, infringing on the McErlane area (Asbury 299). Torrio, unwilling to compromise the existing negotiation, ordered his gunmen to control the situation. McErlane and a gang of gunmen surrounded five members of the gang, but only managed to kill one (Asbury 299). Though they would kill others in the months to come, they never succeeded in killing Spike. He left Chicago to return shortly and become a member of Capone’s organization.

During the O’Donnell war, Torrio began to see Cicero, a suburb of Chicago, as the logical area for expansion of his activities. The town of fifty thousand had numerous saloons which had
remained open following prohibition and were an outlet for Myles and Klondike O’Donnell (Asbury 301). Initially, Torrio planned to send prostitutes into the area, expanding his still existing ring. The only block to his expansion was the slots machines in the town run by Eddie Vogel. When Torrio sent in prostitutes, these machines were promptly confiscated in the subsequent raid, leading to Vogel’s objection to Torrio’s presence. Though Torrio continued to send in women, they were all removed from the area. Seeing the opportunity for another compromise, Torrio agreed to let Vogel’s slot machines operate without his interference, secured exclusive liquor privileges for the O’Donnell’s, and maintained for himself gambling rights, agreeing to make no more attempts to bring in prostitutes (Asbury 301).

Eventually, Capone was put in charge of the Cicero operations. He would be influential in the mayoral race of 1924, securing the office for Joseph Klenha by the employment of over 200 gunmen (Asbury 302). With a sympathetic administration in place, gangsters throughout the Chicago area saw Cicero as a safe haven for their leisure activity. The city saw its saloons multiply by five times and was home to two hundred gambling houses (Asbury 302). The prostitution and gambling houses of the area were owned or operated by the Torrio-Capone organization, and generally paid them about fifty percent of their earnings (Asbury 302). In Cicero, Torrio and Capone had found a golden goose. Capone’s net income was estimated at sixty million dollars a year, at least two thirds of which was from bootlegging (Asbury 292). With the small administration securely in their pocket, they were free to run their operations as they saw fit. Torrio ran beer through Cicero at fifty dollars a barrel, which included a charge for protection (Landesco 86). With Capone, he owned twenty-five brothels, fifty gambling houses, sixty-five breweries, and several distilleries (Asbury 303). By 1923 Torrio’s payroll was $25,000
a month (Landesco 89).

This was the highest time in Chicago organized crime. There was peace in the division provided by Torrio, now that Spike O’Donnell had been contained. Virtually all participants were making millions. The police were of little or no concern, with most of them in the gangs’ pockets. However, this peace could not last. The alliances formed by Torrio were enforced by threat of violence only. Eventually, someone would test this threat.

Dion O’Banion would be this man. Upset that his help during the Cicero takeover had been largely ignored, O’Banion threatened to upset the order of gangland. Torrio gave him a large stake in Cicero, but he still remained indignant. He accused the Gennas of selling poor quality liquor in his territory and undercutting his prices. Torrio did nothing to help. O’Banion set out on his own to reclaim his territory. He hijacked the Gennas’ trucks and stole their alcohol. The Gennas reacted by swearing to kill O’Banion. They were stopped only by Torrio and Mike Merlo, head of the Chicago Unione Siciliana (Asbury 303). Angry that Torrio had interfered, O’Banion double-crossed the leader in a liquor deal. After selling a brewery he owned to Torrio, O’Banion informed federal agents that Torrio would be there leading to his subsequent arrest for a second prohibition violation (Asbury 304).

Unwilling to see the peace he had worked so hard for disappear, Torrio did not retaliate. Hymie Weiss, a member of the O’Banion gang, urged his leader to rejoin the peaceful gangland order. However, Dion refused. Making a fatal mistake, he replied in anger, “Oh, to hell with them Sicilians!” (Asbury 304). Seeing this as an ethnic slur, Italians in the ranks of other gangs began to plan O’Banion’s death. With the death of Merlo in 1924, the gangs lost their peacemaker and O’Banion lost his last chance. Around noon on November 19, O’Banion was
working in his flower shop when three men entered. He greeted them in what appeared to be a friendly manner, according to a witness. As they shook hands, one of the men pulled O’Banion off balance and the others shot him to death (Asbury 304). It is widely believed that the chief gunman in the operation was Frankie Yale, once again called to Chicago on Torrio’s wishes (Asbury 305).

In true gang fashion, Hymie Weiss vowed to avenge O’Banion’s death by killing Capone, Torrio, and the Gennas. Though Torrio was frightened and took a trip abroad for almost two months, upon his return to Chicago, the North Siders made good on their threats. On January 24, as he crossed the street by his house, Torrio was shot five times (Asbury 305). Hit in the jaw, chest, arm, and stomach, Torrio spent several weeks recuperating. Following his release, he served nine months in jail for the prohibition violation set up by O’Banion. While in jail, Torrio transferred his properties to Al Capone in a deal worth millions. The organization Capone took over that day employed 1,000 men with a weekly payroll of $300,000 (Sifakis 61). Torrio fled to Italy and never returned to Chicago following his release from jail.

War had come to gangland with the killing of O’Banion and the retaliation against Torrio. The alliances which had kept crime relatively peaceful were broken with the ascension of Capone to the role of leader. Capone lost several loyal allies to the North Siders, including McErlane and Klondike O’Donnell. Following the redrawing of sides, it became apparent that the indifference Torrio had shown to ethnicity had vanished. Frederic Homer has pointed to this distrust of other ethnicities as a constant and historical problem within Italian organized crime (Homer 73). Crime was now “more or less the Italians and Sicilians against the field” (Asbury 306). Weiss and his allies tried futilely to kill Capone. In September of 1926, they attacked the Hawthorne
Inn in Cicero, Capone’s headquarters. Though civilians were injured and bullet holes peppered the area, Capone escaped unharmed.

The police, sensing that what little order had existed was slipping away, called a meeting between the two criminal factions. Capone offered peace, but Weiss refused unless Albert Anselmi and John Scalisi, the men he felt were responsible for O’Banion’s death, were turned over to him (Asbury 308). Unwilling to sacrifice useful allies, Capone refused and Weiss turned his back on peace. On October 11, 1926 Weiss met his own violent end when he was machine-gunned by Capone gunmen on his way to O’Banion’s flower shop (Asbury 308). Following a short and unremarkable period of leadership by Schemer Drucci, the North Siders came under the control of Bugs Moran.

It was in the new headquarters of Moran that the climax of the gangland beer wars would occur. On February 14, 1929, several of Moran’s members and one civilian fascinated with gang life arrived in the garage to await a shipment of liquor from Detroit. Outside a car stopped, and six men dressed as policemen exited. After entering the garage, the men pulled guns and disarmed the gangsters. The North Siders were lined up against the wall and each one was shot, first by machine gun spray, then by shotgun, and finally by a single pistol shot to the head (Asbury 308). Moran, however, was not present and escaped death.

Public outrage against this event was strong. The change in mood was sufficient to warn gang leaders throughout the country. Aware that the alliances that had more or less held together throughout the decade were corroding, the leaders of gangs nationwide held a conference in Atlantic City. In May of 1929, there was reallocation of power in Chicago and a new division of power on the East coast (Asbury 309). For years the gangs would abide by these treaties, despite
minor outbreaks of violence.

Not to be outdone by Chicago, New York was also a major center for prohibition era crime and gangs. If Chicago’s fame was based on violence, New York’s was based on big names, flashy clubs, and lots and lots of money. Organized crime in New York was also far more ethnically diverse than Chicago’s with Irish, Jewish, and Italian criminals working together.

The list of who’s who in New York’s organized crime bears this out. Perhaps most influential was Arnold Rothstein, a well known gambler. Rothstein, as revealed after his death, was the man responsible for fixing the 1919 World Series. During prohibition he was the backer for numerous criminals, as well as the owner of several well know clubs and speakeasies such as the Cotton Club. Known as the “underworld’s big money man,” Rothstein was a sort of lending institution for criminals and gangs (Asbury 201). In exchange for his money, Rothstein demanded an exorbitant interest rate as well as a large portion of the profits of any endeavor. His investments were protected through threat of violence - he always got his money.

Owney Madden was one of Rothstein’s partners. Madden was born in Hell’s Kitchen and made his name as a pickpocket and extortionist. Known as the “little bandy rooster out of hell,” Madden had already established himself well before prohibition began (Sifakis 204). Though he was in jail at the beginning of prohibition, he did not miss his chance to get involved following his release. He became partners with Rothstein in the famous Cotton Club and quickly reinforced his reputation (Asbury 204).

Another well known nightclub owner and underworld leader was Dutch Schultz. Schultz was perhaps the most unpredictable of the organized criminals, apt to do or say anything. He was the owner of the Embassy Club (Asbury 202). A penny-pinching, profit driven criminal, Schultz
quickly gained power. Before the end of prohibition he controlled the majority of the beer trade in the Bronx. However, his reckless behavior made him a liability to the organization and he was shot to death.

Though not explicitly agreed upon, New York had its geographical divisions for bootlegging in much the same manner as Chicago. Like Schultz, certain gangsters gained preeminence in various regions of the city. Frankie Yale, the man whose services Torrio so often relied on, gained power in Brooklyn. He was the first of the New York gangsters to bring liquor into the city from the rum fleets which floated in the harbor (Asbury 203). His position as owner of the Harvard Club also allowed him a ready outlet for his products. Manhattan was controlled by Frankie Marlow. Marlow began his career with Yale, but quickly gained his own reputation and power. In time, he handled all beer sales from Harlem to Forty-Second Street (Asbury 203).

Other New York gangsters specialized in the importation of illicit alcohol. Larry Fay was one such criminal. Fay was a small time thug who owned a sometimes legitimate taxi cab company. With the advent of prohibition, Fay found a niche for himself. Using his taxis, he could easily smuggle Canadian liquor into New York for resale inside the city. Even more colorful, however, were the methods of Waxey Gordon. Gordon was mostly involved in crime in the New Jersey suburbs of the city. He smuggled his liquor from both Nova Scotia and the Bahamas. He faced problems with the law, despite his payoffs to those in power, however. In response Gordon bribed the city officials in Elizabeth, Paterson, and Union City, ran a huge pipe system through the sewers and pumped the liquor in through it (Sifakis 142).

The real brains behind New York’s organized crime, however, belonged to two lifelong friends. Lucky Luciano and Meyer Lansky met when Luciano attempted to beat up the much
Al Capone (left) and Johnny Torrio established organized crime in Chicago.

from: *The Mafia Encyclopedia* by Carl Sifakis, pp. 60, 322
The Northsiders

Clockwise: Dion and Viola O'Banion, Hymie Weiss, Bugs Moran, and Schemer Drucci

from: Mr. Capone by Robert Schoenberg
The Genna brothers (top), Terry Druggan (left), Frank Lake, Klondike and Myles O’Donnell (bottom)
from: *Mr. Capone* by Robert Schoenberg
The Southsiders

Frank McErlane (top), Danny Stanton (left), and Joe Saltis

from: *Mr. Capone* by Robert Schoenberg
Leaving Spike O’Donnell (left) out of the division of power led to the brutal St. Valentine’s Day Massacre (right).
from: Mr. Capone by Robert Schoenberg
New York's Names

Owney Madden (right), Dutch Schultz (top), and Arnold Rothstein

from: Mr. Capone by Robert Schoenberg and The Mafia Encyclopedia by Carl Sifakis
Frankie Yale

from: Crime Incorporated by William Balsamo and George Carpozi Jr.
Meyer Lansky (top) and Waxey Gordon

from: *The Mafia Encyclopedia* by Carl Sifakis
Lucky Luciano

from: Crime Incorporated by William Balsamo and George Carpozi Jr.
smaller Lansky when both were children. Lansky proved to be a worthy opponent and the two became allies. Luciano was a top man in the Masseria organization during prohibition. Masseria was warring with the rival Maranzano organization, and Luciano saw his opportunity to remove the old gangsters from the American crime scene. He engineered a way in which both bosses could be eliminated and then took over the operations for himself and the younger generation. This new era of gangster cared little for the ethnicity of their partners, as long as the alliance was profitable. Luciano can thus be said to have created the American form of organized crime. In combination with Luciano, Lansky built an empire of organized crime using his superior intellect and business sense. He often bragged, “We’re bigger than US Steel,” (Sifakis 177). They created a organization ready to confront the business world. Then they set it in motion.

The Rules

It may at first be difficult to see the order which structured organized crime in all the chaos which was created. How could a massacre be related to economics? The motives become clear fairly quickly. What remains more nebulous is the goal which such violence served. What was the driving force of organized crime during prohibition? It was essentially the same force that had driven organized crime for decades - money. However, during prohibition, the available profits were significantly higher, driving a more violent and complex set of activities. How did
the increased opportunity to profit change the organization of crime?

“I call myself a businessman. I make my money by supplying popular demand. If I break the law, my customers are as guilty as I am. When I sell liquor it’s bootlegging. When my patrons serve it on silver trays on Lake Shore Drive, it’s hospitality,” (Asbury 291). Al Capone protested vehemently to being called anything other than a businessman. He truly believed that he supplied a demand and that this fact alone should be sufficient to legitimize him and his endeavors. That assumption seems, on the surface, to be somewhat doubtful. However, Capone is not alone in voicing the opinion that criminals may be classified, at least loosely, as businessmen.

Frederic Homer, in *Guns and Garlic*, has said that “the organized criminal is just providing services citizens demand but by the quirk of law have been categorized as illicit,” (53). Even without making a judgement as to the legitimacy of organized crime, it is clear that the activities do closely mirror those of business. Certainly the major goals of organized crime are economic. Organized criminals do not act out violent scenes in a fit of passion or rage. At all points they are attempting to either gain new profits or protect existing. Consequently, the actions and schemes which organized criminals pursue often parallel the strategies and organizations of legitimate corporations. These similarities must be examined individually to fully understand how closely they match those of the business world.

Frederic Homer has identified seven economic services which are provided by the criminal organization. Firstly, the organization provides protection of economic interests (Homer 95). This was especially important during the period of Prohibition. With rival bootleggers kidnaping each other and hijacking the alcohol, retaliation and protection became an even more
integral part of organized crime. Serious losses of profits would have occurred had rivals been allowed to hijack alcohol without recourse. Secondly, the organization provides mediation of disputes between members (Homer 96). During Prohibition this, too, became increasingly important. With gangs carving up territory in order to profit, there were unavoidable disputes which had to be settled peaceably in order to prevent bloodshed and subsequent increased police attention. The dissolution of the Torrio pact and the resultant gang warfare merely illustrates this point. Thirdly, the organization is large enough to hold considerable sway over politicians and law enforcement (Homer 96). Bribes were another essential brick in the building of organized crime during the twenties. This was a significant cost for the organized criminal. The organization headed by Luciano and Lansky, for instance, was estimated to spend five million dollars a year in payoffs to police and politicians (Sifakis 47). Had each individual criminal been required to submit a separate bribe, it is doubtful that the same adherence would have been given. Fourth, the syndicate held economic opportunity in the form of franchise operations which allowed small members to create their own profits (Homer 96). By giving individuals the rights to a specific activity or territory, the organization acted much the same as a franchise corporation which allows independent operators to carry the corporation’s name. This was also an essential division of labor within the organization which freed the boss from the most mundane of daily duties and allowed for a developing system of seniority which is very similar to a management structure. Fifth, the organization made available to these same people the capital and labor needed to run their criminal enterprises (Homer 96). Within the organization there were funds and workers available for those who would agree to be loyal to the gang. This further allowed small operations to flourish under the organization’s leadership. Sixth, the organization provides
social services which may be required by the members (Homer 96). This would include provision of legal assistance or provisions for widows or wives and families left behind by jail sentences. It could also be extended to include the charitable giving undertaken by many gangsters during the Depression. Though the motives were self-serving, the results helped many. Lastly, the grouping of the organization minimizes the risks faced by any one individual (Homer 96). By pooling capital and providing blanket security from law enforcement the organization insured that it would continue to be profitable in the future.

In addition to these economic benefits, which continue to be relevant, there are several economic structures which were more prevalent during the period of Prohibition. One of the changes which played a large role in increasing the efficiency of organized crime was vertical mergers. A vertical merger involves the melding of both upstream and downstream industries into a single corporation. In the case of bootlegging this would have involved a merger between a group of criminals solely involved in production or smuggling of liquor, a group involved in transport and packaging, and a group that was actually involved in speakeasies or other direct distribution. By combining their efforts under the name of a single organization these individual groups could gain several things.

Firstly, they could be party to mediations of their differences provided by the organization. This would prevent bloodshed and interruptions by law enforcement. Mediation could also insure that the interests of the whole were placed above the interests of any singular group. If the interests of the smugglers, for instance, were counter to those of the whole, the bosses would weigh these interests. That is not to say, however, that the bosses had no favorites. Certainly old ties and influence played a role in the assignment of duties and the settling of
disputes. However, in the end the new generation of gangsters would almost always favor profit over loyalty.

Secondly, the merger of vertical operations would insure a consistent demand for those upstream and a consistent supply for those downstream. The smugglers had little problem finding demand during the period of Prohibition. Those who operated downstream had considerable difficulty in finding alcohol that was of good quality. Consequently, downstream operators benefited more from these mergers. By operating only within the organization they gained the assurance of not only quantity but price. Those who operated in the middle - transporters, those who diluted alcohol, and the packagers - were also safeguarded in terms of price. Had they been forced to purchase their alcohol straight from the black market and then resell it to distributors they could easily have been caught in a price squeeze. With the high demand for both smuggled and bootlegged alcohol, the prices rose steadily and the mark up was high. Consumer demand was also high and one would expect prices received at speakeasies and saloons to remain sufficient to bring middle profits. However, if the differential in the price received by smugglers and bootleggers and the price paid by saloon and speakeasy owners decreased at all, the middle men would lose profits. By combining under a single organization, all involved were assured their monies.

Another economic innovation which aided the development of organized crime during Prohibition was specialization. As implied by patterns of vertical merger, there were specific groups within crime which were involved in specific activities. This phenomenon actually predated the passage of the Volstead Act. Long before alcohol was illegal, there were gangs that had made their names in very specific areas. Torrio and Colosimo were known for prostitution,
Paul Kelly was known for labor racketeering, and the O'Banion gang were known for their skills as robbers. There is some indication that ethnic traditions could be a determinant in the role a particular gang played. It is hypothesized, for instance, that Italians and Irish were especially involved in alcohol manufacture because they already, as a group, possessed the know-how for this activity (Homer 72). However, there were certainly people from all ethnic backgrounds and heritages involved in organized crime. Those who did not have previous knowledge learned as they went.

Specialization also resulted from the amount of capital to which an organization had access. It obviously took more money to smuggle alcohol across the United States’ borders than it did to provide home stills to produce alcohol. The previous influence of the gang was also be an explanation for specialization. The Unione Siciliana was able to extort alcohol production in Italian neighborhoods simply because they had an already established reputation within the area.

Whatever their reasons for specializing, organized criminals gained much from the endeavor. Minimizing their exposure to law enforcement by only being involved in one phase of the process created fewer opportunities for arrest by the few officers that remained committed to the law. Prolonged involvement in a single aspect of production also produced gangs which were experts in their fields. Those who smuggled knew what was necessary to protect their investment as did those who produced alcohol in the tenements. They were able to find the most efficient ways to fulfill their roles. Specialization also freed them to expand their endeavors. Because they were only involved in smuggling or bootlegging and did not have to worry about packaging or selling, the gangs had more time and capital to devote to their main activity.
The final, and most notable similarity between the business world of the twenties and the structure of the crime of the period is the tendency toward monopoly exhibited in both. During the early part of the twentieth century, American business was marked by several large corporations which dominated their respective industries. Standard Oil, US Steel, and American Tobacco are perhaps the most famous of the trusts. The trend toward concentration continued into the twenties through use by businesses of mergers, predatory practices, and other schemes to eliminate their competition.

Organized crime followed this same trend. Obviously, it was not constrained by the limits of law. Despite the lack of enforcement, there was antitrust law in existence in the period of Prohibition. Organized crime did not have to worry about such illegalities, however, because few would have thought to prosecute them, or even analyze them, in such a manner. Perhaps the most apparent manner by which criminals eliminated their competition was violence. It was this pattern which led Lucky Luciano to kill the Mustache Petes rather than set up his own organization separate from them. As criminals killed off their competition they also benefitted from the reputation for violence which they gained. The intimidation which accompanied such acts was essential for the bullying of other competitors. Had criminals been forced to resort to violence to end all competition they could never have hoped for law enforcement to remain neutral.

Despite the heavy reliance on violence used by crime organizations, more conventional forms of monopolization were also present. Most clearly used by the organizations were exclusionary practices. Banned by the Clayton Act of 1914, exclusionary practices are artificial barriers which prevent entry into an industry or area by other firms. In the case of bootlegging...
such practices would act to prevent small operators from starting operations or at least from gaining a major foothold within the area. There are two such practices which are especially applicable to the organized crime of the twenties. The first are geographical or territorial boundaries which act to constrain a firm’s market. Such arrangements are obvious throughout organized crime. The Torrio pact was essentially such an agreement. Each gang was given a specific region in which to operate. No other gangs were allowed to infringe upon their competitors’ territory. In addition, gangs were given only particular rights within those territories. One gang was assigned liquor rights, another would be given the right to run prostitution. Another example of geographical constraints within organized crime was the agreement reached by all interests in New York near the close of Prohibition. This nationwide territorial division was intended to maintain peace within gangland, always a concern.

Another instance of exclusionary practices used by criminals during Prohibition was the constraint of exclusive dealings. Exclusive dealings involve the seller or distributor refusing to sell to a firm which handles other brands as well. In organized crime, this would be manifested as an agreement between a saloon or speakeasy operator and a bootlegger or smuggler in which the bootlegger refused to supply alcohol unless the saloon operator handled no other bootlegger’s alcohol. This function was largely negated vertical mergers, which melded the organization into a continuous line of production. However, organized criminals also gained sole access to small independent operators through this method as well. The reputation for violence as an enforcement measure was also essential in this instance because other criminals had no legal right to be in business and, therefore, no recourse.
Also applicable to the structure of the alcohol market during Prohibition is the dominant firm model (see Graph 1). In this model there exists one large firm with sufficient market power to set its own price. There also exist, however, several smaller firms. These firms, by nature of their size and market power are forced to be price takers, that is, subject to the price of the market. As time progresses, the dominant firm sets their price. As this becomes the market price, smaller firms are forced to take it and then set their output at a level where that price is equal to their marginal cost. Each one of the small firms sells their chosen output. However, the large firm is free to supply the remaining demand. Small firms are limited not only by price, but by the output which they can produce as well.

There was a dominant organization in virtually every city or section of a city in the United States. Because the major organization had the size, market power, and reputation to maintain their status, they were free to set their own prices. Consequently, any independent operators who were allowed to continue without violence were still subject to competition with the much larger organization.

While each of these practices alone would probably be sufficient to define the illicit alcohol market of the twenties as monopolistic, still other factors existed which undoubtedly contributed to the ability of the organized criminals to pursue such activities. Entry barriers to the illicit alcohol market were high. This is a major determinant as to whether an industry is monopolized. Essentially, entry barriers are anything which makes it difficult for a new firm to begin operation within an industry. In this case, such barriers were numerous. Anyone wishing to enter the alcohol business in the major cities had the option of allying himself with the organization or attempting to operate independently. To go in alone would necessitate several
things. It would mean breaking the law without the protection and legal assistance provided by the organization. Independence would also require an investment which, while not necessarily large, would be unprotected from loss by the pooling of assets. The independent bootlegger would also face enormous intimidation by the criminals within the organization who were his competitors. Joining with the gang would also not be easy. Organized crime in America has a history of distrust. One would first have to prove himself able and willing to use violence and to be loyal to the organization at all costs.

Collusion was also a prevalent tool used by bootleggers in order to protect their business interests. Collusion involves an agreement, tacit or overt, to maintain prices at a given level. Through collusion, competitors neutralize the consumer’s choice by agreeing to charge the same price for a good. Because of the high level of cooperation within organized crime it was fairly simple for collusion to take place. Many of the operators acted as franchises of the larger organization and were, therefore, indebted to the gang. Any attempt to not follow given prices would bring immediate retribution. However, it was also fairly easy for criminals to cheat within their cartel. Such instances usually involve one competitor lowering his price in order to gain a larger number of products sold. As in most collusion systems, this was fairly common. Such a price cutting scheme contributed to the Chicago gang wars when the Gennas began to move cheap liquor into the territory of Dion O’Banion.

Several negative outcomes are associated with the monopolistic market that prevailed. Firstly, rather than setting their price at the intersection of their marginal cost (the cost to produce one additional unit of a good) and the demand for that good, as competitive markets do, monopolists set their price where their marginal cost intersects marginal revenue (the additional
revenue gained by producing one additional unit). (See Graphs 2 and 3) This results in a loss of consumer surplus. Consumer surplus, defined as the difference in what one is willing to pay and one actually must pay, is used to determine whether a market is allocatively efficient (See Graphs 4 and 5). Because there is deadweight loss in the monopolistic market there is no allocative efficiency. In addition to being allocatively efficient, the perfectly competitive market will also be productively efficient, that is, firms will produce a quantity of goods consistent with the minimum of their long run average cost (See Graph 6). Monopolistic markets do not follow this pattern, usually producing less of the good. Thus, the monopolistic market is neither allocatively or productively efficient.

While economic models can define and describe these phenomena and discern that they are present within the perfectly competitive market, they have some difficulty in establishing whether or not their absence is necessarily negative. The lack of consumer surplus within the illicit liquor market meant that consumers were restricted by price from buying as much alcohol as they would have wished. Given the illegal status of alcohol, however, it would seem that the lack of consumer surplus was positive. Certainly higher prices helped to curb the consumption of alcohol somewhat. This was assistance that law enforcement badly needed. To the consumer who saw prohibition as a farce, however, higher prices certainly were a burden. The question of whether consumer surplus was negative in this case thus becomes a question of perspective.

In addition, there could have been a shift in the demand curve which would have negated any effects on consumer surplus caused by price. It is generally thought that the actual number of people who considered drinking acceptable and drank increased during the period of prohibition. If this is true, the demand for alcohol rose, modeled by an outward shift in the demand curve.
Thus, a higher price coupled with higher demand would not necessarily decrease the consumer surplus. In fact, if the shift in demand was greater than the increase in price, consumer surplus could actually have risen. It is extremely difficult to measure accurately changes in demand, however. Nevertheless, assuming all other things remained constant, the increase in price meant a loss in consumer surplus.

In practice, these theoretical predictions were often born out in the business of illicit liquor. Because there were so few organizations with such concentrated control of the market for alcohol, they were able to set their price, rather than being forced to accept the competitive price equal to their marginal cost. Thus, organized criminals were free to maximize their profits by setting their price far higher than the competitive standard. Consumer surplus is much harder to ascertain. While is it certain that the prices for alcohol were high, it is difficult to know what the demand for that alcohol actually was. To simply say it was high is not enough. What is really needed is the differential between the price people would have paid and what they actually did pay. Despite the difficulties in quantifying this, one may safely say that prices were sufficiently high to cause some loss in allocative efficiency.

It is apparent that the criminal organization can indeed be analyzed as a business venture. The motives of such illegal endeavors are clearly profits. In addition, it is fairly clear that the pattern which the organizations tend to follow is one of monopolization. Several of the methods which are utilized are, at least in theory, no different than those used by legitimate corporations. Thus, it would seem that the organization’s destructive characteristics are the pursuit of illegal activities and the heavy use of violence, and not the economic practices employed.
Graph 1

DOMINANT FIRM MODEL

$\text{Sf} = \text{SUPPLY CURVE OF THE FRINGE}$

$\text{Qf} = \text{QUANTITY SUPPLIED BY THE FRINGE}$

$\text{P} = \text{PRICE LEVEL}$

$\text{D} = \text{MARKET DEMAND CURVE}$

$\text{Qd} = \text{QUANTITY DEMANDED BY THE MARKET}$

RESIDUAL DEMAND IS THE AMOUNT OF DEMAND NOT SATISFIED BY THE FRINGE
Graph 2

PERFECTLY COMPETITIVE MARKET

$ \text{P} = $ PRICE LEVEL
$ \text{MC} = $ MARGINAL COST
$ \text{MR} = $ MARGINAL REVENUE
$ \text{D} = $ MARKET DEMAND
$ Q^* = $ EQUILIBRIUM QUANTITY OF OUTPUT
PERFECTLY MONOPOLISTIC MARKET

$P = \text{PRICE LEVEL}$

$MR = \text{MARGINAL REVENUE}$

$MC = \text{MARGINAL COST}$

$D = \text{MARKET DEMAND}$

$Qm = \text{MONOPOLY LEVEL OF OUTPUT}$
CONSUMER SURPLUS IS THE AREA BETWEEN THE DEMAND CURVE AND THE PRICE LEVEL.

D = DEMAND    P = PRICE LEVEL

CONSUMER SURPLUS IS THE AREA BETWEEN THE DEMAND CURVE AND THE PRICE LEVEL.
Graphs 5 and 6

ALLOCATIVE EFFICIENCY

PRODUCTIVE EFFICIENCY

$ P = \text{PRICE LEVEL} \quad MC = \text{MARGINAL COST} \quad LRAC = \text{LONG RUN AVERAGE COST}$
The Results

Obviously, organized crime was a significant problem during prohibition. The entrepreneurial tendencies of the criminals led them to pursue money with a new vengeance. This led to more violence and an increased emphasis on cooperation and organization. However, organized crime was not the only blot on the record of prohibition. From the onset, problems plagued the noble experiment, dooming it eventually to be reversed. What was it that caused prohibition to fail?

On December fifth, 1933, the Twenty-first Amendment was adopted as part of the United States Constitution and prohibition came to an end. Undoubtedly, this period in American history had significant impacts on the society as a whole. The large majority of the population would come to view prohibition as an utter failure, and a costly one, at that. There is little doubt that prohibition failed to meet its main objective of stopping consumption of alcoholic beverages. However, there is some debate as to why this was the case and still further debate on whether prohibition was responsible for the huge outbreak in crime experienced during the period.

Why did prohibition fail? The answer is perhaps so simple as to require no explanation at all. Prohibition failed simply because the American public was unwilling to forego their alcohol consumption. Yet, this truly seems too easy an answer. Certainly demand played a large role in the failure of prohibition. However, it seems fairly clear that the desire to drink extended during the period of prohibition to people who never before would have considered such actions. It is
likely that the forbidden fruit phenomenon played a significant role in this. People began to drink because they were not allowed to do so, and breaking such a rule gave them a new feeling of excitement. The surface flash of organized crime added to this sense. Gangsters in their expensive suits and bulletproof cars did little to inspire a law-abiding public.

Another significant factor in the failure of prohibition would appear to be the underestimation of alcohol sources by its proponents. It seems fairly obvious that those who supported the cause of the drys seriously misjudged the ability of the people to fulfill their desires for alcohol. The exemptions provided by the Volstead Act for pharmaceutical, sacramental, and low percentage alcohol proved fertile ground for those wishing to break the law. There was also substantial knowledge about brewing and distilling among the population as a whole. These factors, combined with the ingenuity shown by those who smuggled alcohol across the borders created an enforcement problem which those who had proposed prohibition had failed to foresee.

Perhaps the final reason for prohibition's failure was the poor funding provided for enforcement of the law. Wayne Wheeler initially believed that enforcement would require a yearly budget of only five million dollars, and although this had grown to twelve million by 1927, the monies still proved woefully inadequate (Asbury 171). Low funding meant there were very few enforcement officers on the streets and that those that were had huge territories to cover. At the beginning of prohibition, 1500 officers were allotted to enforcement of prohibition crimes (Asbury 141). National leaders seriously misjudged the number of offenses that would occur and consequently appropriated far from enough money and staff to handle the load. Even with the lax enforcement, the number of prohibition violations was substantial. By 1924 the number of persons incarcerated in federal prisons had doubled and U.S. Attorneys were spending over
fourty-four percent of their time of prohibition cases (Asbury 169-170).

These problems had significant impact on the era of prohibition. Drinking during prohibition was quite high, with Americans consuming 200 million gallons of hard liquor, 684 million gallons of malt liquor, and 118 million gallons of wine (Behr 158). The fatalities and injuries suffered by those who drank were also high. Due to the high demand and lack of regulation the quality of alcohol sold on the black market was often of poor quality. Sometimes it was even deadly. Industrial alcohols were sold without being denatured, resulting in toxic poisoning. The drys had lobbied against warnings on such alcohol and the results were tragic. Almost 600,000 gallons of denatured alcohol were sold a month by 1926, and a large portion of this may be assumed to have gone for personal consumption (Behr 163). Other methods of brewing also created toxic results. The death tolls prove that breaking prohibition could prove fatal. In January, 1927, forty-seven people died in New York from poison alcohol and in 1926 there were 750 deaths (Behr 221). The public outcry from such deaths was a substantial factor in the repeal of the law. Even Americans who were willing to say alcohol should be banned were reluctant to see fellow citizens die unnecessarily.

Americans were also unwilling to see lawlessness spread any further than it already had. Crime, not just that stemming from large criminal organizations, was on the rise during the twenties. This was a costly trend. Increased enforcement, jails, and court overloads proved expensive for the American economy. It was estimated at a loss of almost ten billion dollars a year by Louis Seibold of the Evening Post (Feldman 351). There were some disparities in this trend, however. For instance, there was a decrease in the number of commitments to jail for drunkenness (Feldman 354). This could be explained, however, by the amount of bribery or
other lax enforcement procedures which have been well-documented. Perhaps most surprising is that the number of people in jail for all offenses actually fell from 479,787 in 1910 to 357,493 in 1923 (Feldman 357). Why, then, is there the general consensus that the twenties was a period of increased crime?

The answer lies not in the number of crimes committed, but in the type of crimes committed. Drunkenness is a relatively minor crime. Other crimes such as burglary, trespassing, and fraud are generally regarded as non-violent. These are the crimes which were less prevalent during the twenties. What was more prevalent was homicide, robbery, and rape (Feldman 358). These crimes are much more violent in nature and tend to draw more attention. Also important to the attitudes about crimes during the twenties was the nature in which these crimes were committed. A brawl in which one participant is killed is somehow less disturbing to the national psyche than an execution style murder, such as the St. Valentine’s Day massacre. The brutal and senseless nature of the crimes associated with the twenties overshadows the reality that crime on the whole decreased.

Was prohibition responsible for this? Perhaps. Maybe the huge profits to be gained from illicit liquor were too strong an incentive for those involved in crime. The spirit of lawlessness which came from breaking the prohibition provisions may have spread enough to allow such events to occur. In the end, it did not matter whether prohibition caused these problems. It was prohibition that was blamed. A country struggling in depression was no longer willing to see gangsters grow rich off the profits of illegal liquor. It was no longer willing to see blood on the streets and people dying from poison alcohol. And so, prohibition was ended.
Conclusion

Organized crime and economics are two subjects with more in common than is apparent. Organized crime is motivated by the search for profits. These are also the basic goals of any corporation. The patterns of organized crime during prohibition closely mirror several well-established models of economic behavior.

Organized crime during the period used vertical mergers to gain market power and control of the illicit liquor industry. Secondly, organizations became increasingly specialized in order to gain a more efficient production process. The third and most prevalent economic behavior was the attempt by organizations to gain monopolies in the area of illicit liquor. These attempts followed several patterns which were paralleled in the larger economy of the period as the trend toward concentration took form. Through careful analysis of the causes, atmosphere, and events of organized crime during prohibition, it becomes obvious that the criminals of the period had much more in common with legitimate businessmen than anyone would cared to have admitted.

Was the similarity particular to the period? Probably not. Criminals had shown their proclivity toward business organization long before prohibition went into effect. However, without prohibition the great incentive of profit would have been decreased and the changes and innovations which came to organized crime would probably have occurred more slowly. Nor did
this behavior end with the demise of prohibition. Gangsters continue to play a strong role in
many legitimate industries and operate the majority of their endeavors for the sole purpose of
profit. Thus, prohibition, while not the cause of organized crime’s activities, was certainly a
catalyst for the new pattern of American crime.

Neither can organized crime be blamed for the end of prohibition. Problems with the law
existed at the most basic levels. Loopholes and lax enforcement did nothing to deter those who
wished to break the already weak law. The government failed to accurately assess the violations
which would occur and then failed to appropriate sufficient funds to handle those that did. With
the coming of the Great Depression, Americans’ patience grew increasingly short. No longer
were they willing to see criminals benefit from the sale of alcohol, sales which would bring no
tax revenue to the national coffers.

What then is the significance of the experiment that was prohibition and the crime that
marked its existence? Mostly, its legacy is legend. Darkened speakeasies, dapper gangsters,
thrilling shoot-outs, and lawmen that won out in the end. These are the immediate associations
the mind makes with prohibition. Those who participated have become legends in their own
right. Lucky Luciano, Al Capone, Johnny Torrio, and Meyer Lansky are names that will not soon
be forgotten. The American fascination with the mafia can trace its roots to these men and their
counterparts.

American society was shaped by prohibition. The individualism that most people prided
themselves on proved ill-suited to such legislation. The public reacted by changing its drinking
patterns. No longer was it taboo for women or schoolboys to drink. In fact, it became an
admirable activity, at least in some circles. Perhaps the memory of prohibition has faded
somewhat, but maybe it lingers more than America would care to admit.

Underneath the movie plots and legend, however, there are serious lessons which can be learned. Profit motivates crime. Laws which create ready-made industries in which criminals can find their fortune should be assumed to produce violations. Enforcement must be supported wholeheartedly if the efforts are to succeed. Humanitarian notions cannot be assumed to be sufficient to produce lawfulness. Laws must be openly and honestly debated and critiqued in order to assure the needed provisions.

Could prohibition happen again? Probably not in exactly the same manner as it did during the twenties. However, there are situations which could create similar outcomes. Banning cigarettes is one example. The American public has proven ambivalent on this issue at best. Certainly black market cigarettes could prove immensely profitable for those willing to take the risks. Proponents of drug legalization also point to this argument. Drugs certainly create huge profits for those who sell them. Society must weigh the crimes this motivation creates with the value of making drugs illegal.

The lessons of prohibition remain valuable to the present day. It is unlikely that an exact replica of the era will occur sometime in the future. However, similar situations may present themselves at any time. If the lessons are forgotten, they will simply have to be relearned. Much better to overestimate the minds of criminals than to underestimate them and reap the consequences. Perhaps one FBI agent said it best when he spoke of Meyer Lansky. “He would have been chairman of the board of General Motors if he’d gone into legitimate business” (Sifakis 177).
Bibliography


