Gangs of Medellín: 
How Organized Crime is Organized

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Abstract: Criminal organization are clandestine, and so we know little about the market structure, competition, performance management, labor markets, community relations, or governance of these firms. This paper reports on 3 years data collection in Medellín, including repeated in-depth interviews with 56 senior and middle-ranking members of 35 gangs and mafias. We combine this with city-wide representative surveys and administrative data to analyze the industrial organization and political economy of crime. Medellín’s criminal market includes nearly 400 young street gangs with well-defined territories and numerous legal and illegal business lines. Despite the intense competition for territory between these enterprises, the city is relatively peaceful. Seventeen mafia-like organizations manage city-wide dispute resolution and conflict, as well as a city-wide retail drug cartel. Most gangs and mafias, however, are small in size and have low levels of vertical and horizontal integration, largely due to a mix of principal-agent problems, low organizational skills, and the risk of arrest and prosecution. Their main profits come from local taxation (extortion) and retail drug sales. A city-wide cartel is maintained largely through informal coordination. Given their bargaining power, even low-ranking members generally earn high performance-based wages. High-ranking members are amongst the city’s top earners. In return for their “taxation”, many gangs also govern local civilians, providing policing, dispute resolution, and regulatory services. In some ways the gangs resemble not just firms, but primitive states. They do not seek political hegemony, but rather exist in an uneasy duopoly of violence with the national police and city government. We conclude with how our analysis provides new perspectives on fighting organized crime.