The Political Economy During The Prohibition Era:
Bargaining & Decision-Making Strategies of the Chicago Syndicate

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INTRODUCTION

The 18th Amendment of the Constitution of the United States of America banned the sale of alcohol from approximately 1920 until 1933. Until the ratification of the 21st Amendment which nullified the 18th Amendment, criminal organizations across the U.S. recognized an opportunity to excel in a forbidden business. Their ability to successfully operate and profit from the illegal distribution of alcohol was due to the cooperation among groups of criminals throughout the U.S., intelligent negotiation and decision-making strategies, and the state of the political economy. It was the nationwide ban on the sale, production, importation, and transportation of alcoholic beverages which manifested one of the most affluent times in U.S. history for criminal organizations.

Accordingly, the foundation of the research will contain a brief history of the Prohibition Era, Chicago, and the criminal organization that existed within the timeframe. It will then proceed to enhance the article with an in-depth discussion upon how the political economy was a desirable environment for Chicago’s syndicate. Thereafter, the current article will describe negotiation, bargaining and decision-making strategies of the city’s Mafia, roughly from 1920 to 1933; by providing information in regards to the specific activities of the criminal organization in Chicago.
THE HISTORY OF THE PROHIBITION ERA IN THE UNITED STATES OF AMERICA AND CHICAGO, ILLINOIS

There were efforts as early as the Continental Congress that focused on prohibiting the production and distribution of alcohol. A federal tax in 1789 on the importation of alcohol was aimed at encouraging temperance, and several other amendments that included a movement towards prohibition were introduced in Congress starting in 1885. The move towards temperance established prohibition in a handful of states before 1919. By June 1917, twenty-four of the forty-eight states had adopted dry laws. Several of the most populous states, however, including New York, California, Illinois Pennsylvania, and Ohio, had experimented with and repealed dry laws in the mid-nineteenth century. Still, temperance supporters were active in Illinois during the years immediately before the Eighteenth Amendment,¹ but in Cook County, the city of Chicago was predominantly against prohibition up until the amendment passed legislation.

Still, in Illinois, ratification was remarkably swift. Prohibition had already made inroads in the state-fifty-four of the state's 102 counties were dry in January 1918-and, according to one estimate, 74 percent of the state's population outside Chicago lived in dry territory. The 1918 state election, moreover, had tipped the legislature in favor of Prohibition. Eighty-five of the 153

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state representatives supported the dry law while the “Senate never [was] in question.” And while the Illinois Constitution mandated that, “the General Assembly shall apportion the state every ten years . . . [and] no district shall contain less than four-fifths of the senatorial ratio,” Illinois’ legislative districts had not been reapportioned since 1901. Thus, while Chicago was avowedly wet—the city had nearly 7,000 of the state's 9,800 saloons—it was severely underrepresented in the legislature. In 1920, the city had nearly half of the state's population but less than one-third of its legislative seats. With these forces at work, the Senate easily ratified the Amendment 30 to 15. The House followed suit with a vote of 84 to 66. Shortly thereafter, prohibition became part of the Constitution of the United States of America, in 1919 and went into effect on January 16, 1920. The 18th Amendment reads as follows:

- Section 1. After one year from the ratification of this article the manufacture, sale, or transportation of intoxicating liquors within, the importation thereof into, or the exportation thereof from the United States and all territory subject to the jurisdiction thereof for beverage purposes is hereby prohibited.

- Section 2. The Congress and the several States shall have concurrent power to enforce this article by appropriate legislation.

- Section 3. This article shall be inoperative unless it shall have been ratified as an amendment to the Constitution by the legislatures of the several States, as provided in the Constitution, within seven years from the date of the submission hereof to the States by the Congress.

As to what was considered an illegal alcoholic substance, the 18th Amendment needed clarification. After the Act’s sponsor, Minnesota Representative Andrew Volstead, the Volstead

Act arrived at the national level on October 28th, 1919. While it was the 18th Amendment that established Prohibition, it was the Volstead Act (passed on October 28, 1919) that clarified the law. The Volstead Act stated that "beer, wine, or other intoxicating malt or vinous liquors" meant any beverage that was more than 0.5% alcohol by volume. The Act also stated that owning any item designed to manufacture alcohol was illegal and it set specific fines and jail sentences for violating Prohibition. Moreover, the Act defined intoxicating liquor as any beverage with more than one-half of one percent of alcohol. Neither the 18th Amendment nor the Volstead Act mentioned the consumption of alcohol. There was also no stipulation concerning doctor’s prescriptions for alcohol, which was commonplace at the time for such ailments as depression, indigestion, and cancer.

Additionally, it placed enforcement responsibilities with the Commissioner of Internal Revenue, reserving a smaller role for United States Attorneys. First time violators could be fined up to one thousand dollars or up to six months in prison. A second violation against the law could carry up to a two thousand dollar fine, or five years in prison. In Illinois, a Search and Seizure bill was drafted

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by the Anti-Saloon League and introduced in the Senate Committee on Licenses in February 1919.66 The act made it a crime to manufacture, possess, or use intoxicating liquor.6 Thus, granting state officials the right to seize liquor if it appeared to be intended for consumption.

Yet, in Chicago, as in many other urban areas at the time, organizations formed by criminals that typically had focused their ambitions on prostitution and gambling, noticed the disproportion of supply and demand; and took advantage of the market economy. Appearing to be a lucrative business decision, Johnny Torrio, a wealthy Chicago crime boss began purchasing alcohol through criminal lawyer and ex-pharmacist, George Remus.7 As a bootlegger, Remus found Torrio as an important business partner in the distribution of alcohol in Chicago. Illegal producers inside the U.S., along with manufacturers in Canada and Latin America supplied Remus. In the early 1920’s, Torrio hired Al Capone, who had experience in criminal activities, and turned out quite useful in Torrio’s organization.

To Johnny Torrio and Al Capone, the rackets spawned by enactment of the Prohibition Amendment, illegal brewing, distilling and distribution of beer and liquor, were viewed as “growth industries.” Torrio, abetted by Al Capone, intended to take full advantage of opportunities. The mob also developed interests in legitimate businesses in the cleaning and dyeing field and cultivated influence with receptive

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public officials, labor unions, and employees’ associations. Along with gambling and prostitution, the distribution of alcohol vested Torrio’s criminal organization in Chicago with enormous fortune. The negotiation, decision-making and bargaining strategies of Torrio were the cornerstone of their success. Through cooperating with other syndicates within the U.S. and distributors throughout the Western world, Torrio established Chicago as home to the Prohibition Era’s most well-known criminal organizations.

In 1925, Torrio decided to retire from the criminal organization, and handed his entire criminal organization to Capone. Capone had worked for Torrio for quite some time, and he had learned a great deal from his predecessor. Capone had built a fearsome reputation in the ruthless gang rivalries of the period, struggling to acquire and retain “racketeering rights” to several areas of Chicago. That reputation grew as rival gangs were eliminated or nullified, and the suburb of Cicero became, in effect, a fiefdom of the Capone mob. Withal, the political economy of the U.S. during the Prohibition Era gave way to such a profitable endeavor for the Chicago syndicate; up until violence disrupted their illegal business operations.

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THE POLITICAL ECONOMY

“The drawback to a completely rational mind is that it is very apt to assume that what is flawless in logic is therefore practicable.” ~ G. FIndly Shirras

The entrance into the war diverted the attention of the public from the implementation of the 18th Amendment. Prohibition was of little importance to the nation because of the international involvement of the U.S. The war had also accustomed the public to radical legislation which empowered the Federal Government. As Frederick Lewis Allen illustrated:

- It necessitated the saving of food and thus commended prohibition to the patriotic as a grain-saving measure. It turned public opinion against everything German- and many of the big brewers and distillers were of German origin. The war also brought with it a mood of Spartan idealism of which the Eighteenth Amendment was a natural expression. Every-thing was sacrificed to efficiency, production, and health. If a sober soldier was a good soldier and a sober factory hand was a productive factory hand, the argument for prohibition was for the moment unanswerable. Meanwhile the American people were seeing Utopian visions; if it seemed possible to them that the war should end all wars and that victory should bring a new and shining world order, how much easier to imagine that America might enter an endless era of efficient sobriety!

Utopian visions were much of the reasoning behind economists of the time as well. The promise of prohibition providing a productive society was the proclamation of the American Economic Association.

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“Economists helped establish the case for prohibition during the Progressive Era, a time when they were professionalizing their discipline and when a movement toward government internationalism and socialism, promoted by the German Historical School, was displacing the classical liberal approach to political economic theory in favor of the study of history and institutions. Derived from German romantic philosophy (Hegelian determinism) the School advocated the use of laws as a means to social reform.”¹¹ Richard T. Ely, along with other graduates from the German Historical School founded the American Economic Association in 1890. “Ely is considered the dean of American economics for his development of political economic theory. As an instructor at several major universities, he became a popular writer and lecturer. His students included Woodrow Wilson, sociologist Albion W. Small, economists John R. Commons and Edward A. Ross, and historian Frederick Jackson Turner. He influenced a whole generation of economists and political leaders. In so doing, he initiated reform, generated discussion and controversy, and did his best to fulfill his goal of changing the world for the better.”¹²

Simon N. Patten was also one of the optimistic economists, and a founding member of the American Economic Association. Patten was described as an agnostic misfit, handicapped by poor health and eyesight. Patten was also a pluralist, meaning that he did not believe that any one particular policy is neither all good nor all bad. Along with several other founding members,

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Patten had an evangelical outlook, as well as a severe dislike of alcohol. Patten believed that prohibition was both desirable and inevitable in America from Patten's evolutionary perspective. Patten based his conclusion on three main factors: (1) severe weather variation in America results in heavy and irregular alcohol consumption; (2) the custom of "treating" in America results in people consuming a greater quantity and variety of alcoholic drinks than if they relied solely on their own decisions; (3) technological advance resulted in the production of higher-potency and lower-quality alcoholic beverages. All three of these conditions were relative to conditions in Germany, where Patten was trained and where prohibition was apparently unnecessary. Patten seems to argue that prohibition must be adopted if we are to "survive."

He stated that there is no equilibrium in consuming alcohol. In his opinion, people must either abstain completely from alcohol consumption, or be a drunkard and destroy themselves.

Furthermore, Patten suggested that temperate people will "outcompete" heavy-drinking societies in terms of longevity, prodigy, and wealth. Temperate societies will overcome the intemperate because a given amount of land can support two temperate people or one heavy drinker. America will decline as the soil is exhausted in an attempt to support a nation of drunkards. For Patten, prohibition is a great evolutionary battleground because America must go dry if it is to survive and prosper: "Separate out the good in society from the bad, and you take from the bad many of the restraints which keep them from crime. In this way every measure that makes the good better makes the bad worse. The sharper the lines are drawn between the two classes, the more will the good progress and the quicker will the bad run through their downward course. With prohibition it is easier to be good and more dangerous to be bad." For Patten,

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alcohol is a product with no equilibrium in consumption. One is either good and abstains from alcohol, or one becomes a drunkard and self-destructs.  

He furthered his argument by suggesting using marijuana leads to heroin addiction. His overall conclusion, which was also shared by his peers, was the Darwinian concept of “survival of the fittest”, and that those who sustain from drinking alcohol will rid the world of drunkards. More so, he seemed to blame almost every problem in society on alcohol. Primarily on these points illustrated above, Patten was one of the first to advocate for Prohibition.

Other important American economists, such as Irving Fisher who promoted Prohibition, invited economists, American teachers of statistics, and the like to debate with him against Prohibition. He stated that he could not find anyone that was willing to argue from an economic standpoint. Although Fisher was very intelligent and made very good points, his arguments regarding a decrease in crime, greater respect for law, and an overall harmonious life for all. It appears he was too optimistic with his desire for an utopian society arising from ridding the world from the poisonous drink. This outlook would typify his work in economics and social policy. "Men cannot enjoy the benefits of civilized liberty without restrictions. Law and Order must prevail, else confusion takes their place, and, with the coming of Confusion, Freedom vanishes" (quoted in I. N. Fisher 1956, 13). 

This was the typical stance of American economists in the beginning of the 19th century, and the majority voice of the American Economic Association which argued for Prohibition in the U.S.

BARGAINING, NEGOTIATING, AND DECISION-MAKING STRATEGIES OF CHICAGO’S CRIMINAL ORGANIZATIONS

Torrio and Capone’s illegal operation was not the only one in the Chicago area. Several other Chicago-based criminal syndicates rushed to carve out a share of the lucrative alcohol business for themselves. Early on, Torrio recognized that the best way to maximize profit and avoid problems was to divide the city between these powerful gangs. In this strategy Torrio was similar to business titans such as J. P. Morgan. These business leaders felt that competition was a bad thing because it endangered profit. In Torrio’s case, it also endangered lives, because the gangs usually settled matters with guns. A skilled diplomat, Torrio convinced the other mob bosses that cooperation was the road to riches, and their uneasy alliance held from 1920 to early 1923.\(^\text{16}\) They focused on their shared interests in separate areas within Chicago, without much dispute between the various organizations. Reconciling interests rather than positions works for two reasons. First, for every interest there usually exist several possible positions that could satisfy it. In negotiation, interests are what motivate one’s actions, but a position is already decided.

upon. Reconciling interests rather than compromising between positions also works because behind opposed positions lie many more interests than conflicting ones.\(^{17}\) Torrio’s ability to maintain cooperation with other criminal organizations, politicians, and other public officials highly relied on his negotiation strategies.

Abhinay Muthoo argues in “A Non-Technical Introduction to Bargaining Theory” that the main issue that confronts the players in a bargaining situation is the need to reach agreement over exactly how to co-operate. Each player would like to reach some agreement rather than to disagree and not reach any agreement, but each player would also like to reach an agreement that is as favourable to her as possible. It is thus possible that the players will strike an agreement only after some costly delay, or indeed fail to reach any agreement—as is witnessed by the history of disagreements and costly delayed agreements in many real-life situations (as exemplified by the occurrences of trade wars, military wars, strikes and divorce).\(^{18}\) Torrio’s awareness of the interests of all of those involved in the illegal activities in Chicago was the framework for his prosperity through the distribution of alcohol.

Also, the corruption that overtook society existed not only in gangs living outside the law but also in public institutions. The plan was aided by Chicago mayor “Big Bill” Thompson. Notoriously corrupt, Thompson’s administration allowed the gangsters to buy complete protection from prosecution. Distilleries ran around the clock, making no effort to disguise their activities, and fleets of beer trucks traveled regular routes with no fear of arrest.\(^ {19}\) Cops also took a laissez-faire attitude toward the gang wars that frequently broke out over the control of alcohol-

distribution territories. In 1923, Thompson decided not to run for re-election which was a cause for concern for Chicago’s syndicate.

Withal, Thompson was not the only politician that was involved with criminal organizations. Even the U.S. President Warren G. Harding, from 1921 to 1923, and his administration played a role in this corruption. Harding appointed “cronies and crooks” from his home state of Ohio to office (Mordden 42). These men, friends of Harding who comprised the so-called “Ohio Gang,” used their power to benefit themselves (Sann, The Lawless Decade 53). For example, in what became known as the Teapot Dome Scandal, Harding’s Secretary of the Interior Albert B. Fall secretly sold government-owned oil reserves to oil companies that had bribed him with Liberty Bonds and cash (Allen 113–15). Gangsters thrived in this environment of pervasive corruption, moral decay, and lawlessness. When William Dever took Thompson’s place as Chicago Mayor, it changed the way that the city operated, which caused problems for the criminal organizations. As John Landesco explained in his article entitled, “Prohibition and Crime”:

- Immediately after the Volstead Act went into effect, Torrio, a lieutenant of Colosimo, the pre-Volstead, South Side Vice Syndicate boss in Chicago, organized a city-wide syndicate for the operation of breweries and the convoy of trucks. Torrio’s city-wide rule

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lasted until the end of the first two Thompson Republican administrations (1915-23). Then Dever, a sincere reform Democrat, was elected. He believed in the enforcement of law though he did not believe in prohibition. His policy was to prosecute the big violators instead of the "small fry." It was his chief of police that raided the Sieben brewery, May 19, 1924. This arrest disclosed a convoy composed of gangsters from all of the gangster areas of Chicago, standing by to conduct cargoes to their respective territories. In the list of those indicted appeared the names both of pre-Volstead brewery owners and of gangster chieftains. In the due course of the prosecution of this case the names of pre-Volstead brewers disappeared, but Torrio and two of his subordinates were convicted.21

Once this occurred, Torrio’s ability to manage operations began to weaken. His operation was no longer the only powerful one in the Chicago area. Of the various outfits involved in Chicago bootlegging, two had emerged as rivals to the Torrio organization. The first was the so-called Terrible Gennas, a group of Sicilian brothers who specialized in distilling industrial liquor. The other was the North Side Gang, a mix of Irish, Polish, Jewish, and Italian immigrants headed by Dean O’Banion, a longtime street tough who also had a great love of flowers. He operated his own floral shop on North State Street.22 Torrio remained well respected, as everyone in Chicago recognized him for the crime boss that he was.

The names which loomed large in the chieftainship of the bootlegging industry were traceable to gambling and vice syndicates which existed under dynasties of rulers or bosses for years prior to prohibition. In gambling in Chicago, the entire period of the thirty years of our study could be traced through one life history-that of Mont Tennes, who began by owning one gambling saloon and ended as a monopolist of gambling through the ownership

of the wires for dissemination of gambling news. In the changes of political control there were often exposes and prosecution, but Tennes knew how to readjust himself.23

Another important aspect of how Torrio was revered and respected by society (especially other criminals) was his credibility. He knew how to build his reputation in Chicago. Any business that wants to remain in business must develop and maintain a reputation. Businesses go about this in various ways. One way is simply to produce high-quality products and then to rely on word of mouth to spread this information. This generates a positive reputation that allows firms to retain existing customers and attract new ones.24 If the product is not up to par, it can destroy the credibility of the business. Torrio established a positive reputation with his cliental. He also built his reputation with other services that he offered the public.

Contrastingly, Capone came into Cicero by negotiation with officials. He displaced a small-time gambler by the name of Ed Vogle who collected from a large number of small gambling houses operating around the industrial plants and offered immunity. Capone at first continued the status quo. Later, through the police of the village, he closed up the small places and opened three or four very large gambling houses owned

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by a syndicate of wealthy gamblers. Capone’s methodology included a much more violent approach towards other criminal organizations, and government officials. He lived extravagantly and embraced his position as he quickly became known throughout Chicago.

The impression that “Chicago was afflicted with such an epidemic of killings as no civilized modern city had ever before seen” and that “a new technique of wholesale murder was developed” make clear that the morality of certain circles in America had collapsed (Allen 216–17). Gangsters had never functioned on such a major scale, and the boundary between the “underworld” and the “upperworld” became blurred (Fox 11).

Additionally, the question of morality, which the Progressive Era’s economists had used to reason prohibition, persuaded the public to view the criminal activities in Chicago much more loosely. In relation, John Landesco argued:

- It has been said that organized crime, inter-organized with officialdom through politics, can thrive in the central rackets-gambling, vice, and booze—because of the moral support this traffic receives from a large following of good citizens who do not believe in moral laws. It can thrive in the racketeering of labor unions because archaic restraint-of-trade laws make possible the injunction which brings methods of violence and the gangster to the ascendancy and causes the peaceable union leader who believes in conciliation and arbitration to recede. The sentiment of the class struggle supports the gangster who by violence is effective in getting results. Organized crime can thrive in the racketeering of merchant associations because the same confusing and archaic restraint-of-trade laws make price agreements illegal in the stabilization of business, and all business, large and small, violates restraint-of-trade laws.27

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Given the deterioration in economic conditions, this is somewhat surprising because many criminologists believe crime is partly caused by macroeconomic conditions. Miron (1999) has advanced the hypothesis and provides evidence that enforcement of alcohol Prohibition induced a rise in criminal activity, particularly homicides. Popular culture certainly depicts the Prohibition Era as characterized by violent turf wars between criminal gangs battling over markets, smuggling of alcohol, and widespread illegal production and distribution.\(^{28}\)

Also, prohibition unseated this image and its related presumption that morality and social standing (or lack of them) were determined by feature and skin tone. The growing realization that gangsters were no longer manifest thugs likewise destabilized neat definitions of legal and illegal, acceptable and unacceptable, good and bad. On the one hand, the public's thirst for illegal alcohol liberated criminals from the high-risk, low-return crimes that were the foundation of this image. On the other hand, many drinkers who had previously thought of themselves as upright and law abiding were turned into lawbreakers by their desire for alcohol.\(^{29}\)

Furthermore, signaling theory can also help explain Torrio’s predominantly successful business operations; especially his ability to secure tolerable relations with fellow criminal organizations. Intent signals indicate future action, possibly conditional on the receiver’s


response. Thus, for example, when a firm is quick to implement a response to a competitive action initiated by a rival it may signal toughness and resolve that the firm will not roll over easily in that market (Baum & Korn, 1999). Camouflage signals disguise a potential liability. These are different from other signals insofar as they are designed to divert attention away from a potential vulnerability toward some other characteristic. For example, Dacin, Oliver, and Roy (2007) describe how firms expanding internationally may be subject to liabilities of foreignness, so they use strategic alliances to draw attention away from those liabilities by signaling organizational legitimacy. Need signals communicate requirements to the receiver. Thus, for example, in a firm with multiple divisions or subsidiaries, each is responsible for signaling its need for common funds and resources, and headquarters is in the position of deciding which are signaling the greatest need (Gupta et al., 1999).  

In contrast to Capone, Torrio knew how to orchestrate operations as a businessman. This enabled similar criminal constraints that caught up with Capone much sooner. Moreover, Capone’s greatest mistake was the St. Valentine’s Day Massacre. His desire to kill an Irish gangster, by the name of George “Bugs” Moran, resulted in the death of seven of Moran’s associates. Moran was not present at the time, but the story of the slaughter received national attention. Shortly thereafter, Capone was arrested on charges of tax evasion and sentenced to prison. Capone was never

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linked to the deaths of anyone that was believed to be murder by his hand; or by his direction.

CONCLUSION

Lastly, given the continuing public policy interest in prohibitions of tobacco, guns, and drugs, a careful measurement of the economic consequences of a long prohibition could inform the current debate. Annual net social benefits of repeal are estimated at $432 million in 1947 prices or $3.5 billion in 2012 prices, amounting to about one-third of 1% of gross domestic product (GDP) in 1934–1937, with a significant increase in motor vehicle accident costs offset by surplus gains from increased alcohol consumption, alcohol tax revenues, and reduced crime costs. Alcohol consumption increased following repeal, which tends to increase violent crime, but the homicide rate fell at the same time the nation confronted mass unemployment and economic hardship. It seems unlikely that repeal played a role in reducing crime. The bottom line is that repealing Prohibition was socially efficient, with annual net benefit of $432 million. Not quantified is the lasting legacy of organized crime (Sinclair 1962, 415) or the freedom of consumer choice denied by prohibition. Vehicle accident external costs are $2.767 billion while excise taxes are only $1 billion, suggesting that alcohol was not being appropriately taxed in order to internalize its full social cost. After thirteen years of prohibition, the U.S. government quickly reversed the law in hopes of vanquishing crime, and to profit from the taxation of alcohol.