

The Organization of the Yakuza

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Abstract

This article uses the Leeson-Rogers framework to examine the organizational hierarchy of the *yakuza*. When in contestable industries, the *yakuza* need to collude to preserve their returns. But they must do so without falling prey to the trembling hand problem. Applying the Leeson and Rogers theory of criminal organization, I find their theory explains the internal organization of the *yakuza*. Additionally, I find the costs of violence are large and the organization of the *yakuza* is the key to self-regulating intergang violence.

Keywords: *Yakuza, organized crime, organizational hierarchy, violence, contestability*

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I. Introduction

The *yakuza* are among the world's oldest and largest criminal organizations. Their success is often credited to their strong loyalty and hierarchical structure. Why are the *yakuza* organized hierarchically? I argue that the contestability of the industries in which the *yakuza* operate leads to their hierarchical structure.

To date, there is little economic analysis on the *yakuza* and its institutions. Becker first examined criminal behavior with rational choice theory in his seminal paper "Crime and Punishment: An Economic Approach" (1968). Much of the literature focuses on the economic impact of crime, profit-maximizing practice of criminals, and reasons for the emergence of criminal enterprise. But not enough attention has been paid towards examining the organizational forms of criminal enterprise. Furthermore, the literature examining the *yakuza* is small. Kaplan and Dubro (2003), Hill (2003), and Baradel (2020) have substantial accounts of the history and actions of the *yakuza*. But none examines the *yakuza* from an economic point of view.

I contribute to both literatures by examining the *yakuza* as a case study of the Leeson-Rogers framework of criminal organization.² I find the *yakuza* organize hierarchically in contestable industries and flatly in industries with high barriers to entry.

I begin by explaining who the *yakuza* are and what they do. I then briefly summarize the Leeson-Rogers framework and apply it to the *yakuza*. Afterwards, I test the theory with different scenarios. Finally, I conclude by offering some areas for future research and some implications.

² As per their request in their paper.

II. Who are the Yakuza?

Yakuza is a blanket term referring to organized crime groups in Japan. The National Police Agency of Japan (NPA) records membership numbers of the *yakuza*. As of 2020, total *yakuza* membership is 28,000, down from its peak of 184,100 in 1963 (p. 28-9). There are currently 24 designated *yakuza* syndicates by the NPA, and they operate primarily in major Japanese cities. *Yakuza* syndicate size varies. The *Yamaguchi-gumi* are the largest syndicate with 4,100 members while the *Nanadaime Aizu Kotetsu-kai* and the *Kyudaike Sakaume-gumi* are the smallest syndicates, each with 30 members (NPA, 2020, p. 29). Unique to the *yakuza* is their quasi-legal status (Baradel, 2020, p. 27). It is not illegal per se to be a member of the *yakuza*. *Yakuza* headquarter addresses are on the NPA website and *yakuza* leaders pass out business cards with their syndicate's logo (Adelstein, 2015).

The *yakuza* come from gamblers known as the *bakuto* and street peddlers known as the *tekiya*. They originated in early seventeenth century Japan (Kaplan and Dubro, 2003, p. 7). With time, the *bakuto* and *tekiya* grew and organized for mutual benefit. The Japanese began referring to them as *yakuza*. Post World War 2, Japan's economy was destroyed and there was an extreme food shortage. The Japanese state rationed food. In response, 17,000 black markets run by the *yakuza* emerged and provided necessities (Hill, 2003, p. 43; Dower, 2000: pg. 99-100, 140). During the 1950s as the Japanese economy recovered, the black markets for necessities disappeared; however, demand for gambling and prostitution rose. Racketeering and extortion also became viable as people had more wealth to extort. The *yakuza* switched industries. *Yakuza* gangs began to fight over territory. The NPA refers to this period as the Gang War Period (1950-1963) (Hill, 2005, p. 98). Post-Gang War Period, the *yakuza* consolidated, and the current

hierarchical structure of the *yakuza* emerged (Hill, 2003, p. 47; Baradel, 2020, p. 58). *Yakuza* gang size also dramatically increased.

The foundation of *yakuza* structure is the traditional Japanese *oyabun-kobun* relationship, literally translated to, “father role—child role” (NPA, 1989; Gragert, 1997, p. 165; Hill, 2003, p. 67; Baradel, 2020, p. 46-7). An *oyabun* provides “advice, protection, and help” and in return the *kobun* swears “unswerving loyalty and service” (Kaplan and Dubro, 2003, p. 8). The National Police Agency refer to the *oyabun-kobun* relationship as “absolute beyond reason” (1989). Many layers of this relationship create the pyramid structure of the *yakuza* (NPA, 1989; Gragert, 1997, p. 165; Hill, 2003, p. 68; Baradel 2020, p. 326). In a given *yakuza* family, there is a head *oyabun* called the *kumicho*, who is analogous to a mafia godfather. A *kumicho* has two types of *kobun*, the *shatei* or “younger brothers” and the *wakashira-hosa*, or young assistant leaders. One *wakashira-hosa* is appointed the *wakashria* who serves as the *kumicho*’s second in command. The *wakashira* also succeeds the *kumicho* upon his retirement or death. The *wakashira-hosa* and *shatei* have many *kobun* (children) underneath them. Those *kobun* are *oyabun* to their own subordinates.

Income flows from the bottom of the pyramid to the top. *Kobun* are required to send monthly payments to their *oyaban* (NPA 1989; Gragert, 1997, p. 166; Kaplan and Dubro, 2003, p. 117; Hill, 2003, p. 90; Baradel 2020, p. 59). This flow of money aims to grant higher ranking members plausible deniability of participation in criminal activity (Baradel 2020, p. 110). Thus, the degree of involvement by higher level organizations in deciding how smaller gangs obtain their funds is small (NPA 1989). Instead, higher level organizations focus on succession of leadership and dividing up gang territory.

The *yakuza* collect revenue both through legal and illegal means. Legally, they operate waste management plants, do construction, and run shops and restaurants. Illegally, they obtain money through protection racketeering, prostitution, illegal gambling, extortion, loansharking, blackmailing, smuggling, drug trafficking, and most recently scamming the elderly (Gragert, 1997, p. 179; Kaplan and Dubro, 2003, p. xviii; Baradel, 2020, p. 110, 327). The three main sources of revenue for the *yakuza* are protection racketeering, gambling, and drug trafficking with drug trafficking earnings holding the largest share at 34.8% in 1989 (NPA 1989, Kaplan and Dubro, 2003, p. 131; Hill, 2003).

The *yakuza* also have strict rules and odd traditions. New *yakuza* recruits are initiated through a ceremonial exchange of sake cups with their soon to be *oyuban*. Initiates must swear to obey a few basic tenants. Though tenants may vary across different groups, six are common: “(1) never reveal the secrets of the organization; (2) never violate the wife or children of another member; (3) no personal involvement with narcotics; (4) do not withhold money from the gangs; (5) do not fail in obedience to superiors; and (6) do not appeal to the police or law” (Gragert 1997, p. 167; Kaplan and Dubro, 2003, p. 125; Hill, 2003, 72-3). Those who break the rules undergo *yubitsume*—the severing of a joint on the pinky—as punishment. *Yubitsume* as a practice was inherited from the *bakuto*. Also inherited from the *bakuto* are the elaborate tattoos the *yakuza* carry. Estimates show roughly 70% of the *yakuza* are tattooed (Gragert 1997, p. 171; Hill, 2003, p. 89).

III. A Theory of Criminal Organization

Criminal organizations engage in illicit behavior. Any violence they commit is relatively less costly because they already break the law. Hence, criminals have a lower opportunity cost of

violence. Criminal firms use violence to provide “services” like extortion, enforce collusion, and resolve internal disputes. But violence is costly. It is destructive, diverts resources away from production, and draws attention from the state (Rogers 2012). Organization and practices of criminal firms mitigate such costs of violence.

Leeson and Rogers (2012) find criminals organize hierarchically when their industries have low natural barriers to entry. Additional entry drives down profit. Thus, criminals in contestable industries have an incentive to enforce collusion through violence to preserve returns (p. 95). Criminal collusion terms are ambiguous, leading to erroneous violent punishment (p. 96). This is known as the “trembling hand”. With more enforcers, the potential for erroneous violent punishment increases; there are more hands that tremble. Erroneous violence incites retaliatory violence which incites further retaliatory violence.

But violence is costly. Therefore, “criminals organize cartels through hierarchical firms instead of forging collusion contracts with one another through the market” (Leeson and Rogers, 2012, p. 97). Criminals need a hierarchical firm with a boss who enforces collusion and holds violent enforcement power. The hierarchical firm shrinks the number of enforcers, therefore reducing the likelihood of erroneous violence punishment. Interfirm collusion also becomes viable. Rather than many criminals colluding, only their bosses need to collude. Furthermore, a “super-boss” may arise to enforce collusion among multiple criminal firms (p. 98).

Criminal enterprises with high natural barriers to entry do not organize hierarchically. Adopting hierarchy incurs the cost of boss self-dealing. Economists have previously detailed corporate governance costs (Djankov et. al., 2008). Such costs extend to criminal firms. Industries with naturally high barriers to entry do not require collusion to preserve returns.

Hence, there is no need to incur the cost of boss self-dealing and criminals organize ‘flatly’ instead (Leeson and Rogers, 2012, p. 99-100).

IV. The Yakuza’s Organization Hierarchy

A: Reduced Violence

If Leeson and Rogers are correct, then the *yakuza*’s hierarchy implies their industries are contestable. Additionally, one would expect greater levels of intergang violence prior to the *yakuza*’s hierarchical organization and reduced violence post hierarchical organization. Leeson and Rogers are correct.

Yakuza revenue streams are highly contestable. Consider protection racketeering, gambling, street level drug trafficking, and more recently, fraud. Each has low physical capital requirements: protection racketeering merely requires a gun (Leeson and Rogers, 2012, p. 101), gambling only uses a deck of cards or some dice, and fraud only requires cell and internet service (Baradel, 2020, p. 110, 114). Street level drug traffickers require narcotics to sell, but obtaining narcotics is surprisingly easy as wholesalers seek out retailers. *Yakuza* revenue streams also do not have high labor requirements. A single person may serve as a bodyguard, a single person may serve as the dealer for a gambling scheme, a single person can sell narcotics, and a single person can make a phone call. Finally, it is not difficult to identify a ‘customer’ base for the above criminal activity. Drug users and gamblers seek out drug dealers and gambling spaces. It is also easy to find individuals and businesses to intimidate and extract revenue from (Leeson and Rogers 2012, p. 102). Fraudsters only need phone numbers of the elderly to scam the elderly.

Prior to consolidation, *yakuza* gangs fought over territory. *Yakuza* gangs attempting to collude would monopolize territory (Hill, 2003, p. 59). After a gang had sole control over a

territory, they were able to charge monopoly prices for gambling, protection, and narcotics. But colluding *yakuza* gangs had ambiguity in their collusion contracts. Colluding gangs were bound to fall prey to the costs of the trembling hand. Alternatively, stronger gangs destroyed weaker ones and monopolized illicit markets (Hill, 2003, p. 46; Baradel 2020, p. 58). Either way, there was more violence. From 1960-1963, the number of *yakuza* intergang conflicts hovered around 120 per year (Hill, 2003, p. 47). Hence the NPA refers to the period as the Gang War Period.

The Japanese public pressured the Japanese state to quell the gang violence. In response, the state implemented the ‘summit strategy’, a series of coordinated gang arrests targeted at higher ranking *yakuza* members (Hill, 2003, p. 47). State crackdowns decreased gang conflicts from about 120 per year to about 10 per year, but afterwards conflict spiked again in 1970 (Hill, 2003, p. 47). Only after persistent violence and major crackdown by Japanese authorities, did syndicates like the *Yamaguchi-gumi* expand their numbers and implement strict hierarchy (Hill, 2003, p. 48; Hill, 2005, p. 99). After the *yakuza* organized hierarchically, intergang conflicts dropped and they stay consistently low at around 20 per year (Hill, 2003, p. 47).³ Between the years 1992 and 2001, the average number of fatalities *and* injuries ranged from 3.1-11.5 by the *yakuza* (Hill, 2005, p. 109).

B: Additional Tests

1: The Headless Hierarchy

Thus far, examining the *yakuza* reveals after the *yakuza* organized hierarchically, violence decreased. To further evaluate the effect of hierarchy on violence, I examine what happens after

³ Empirical work on the subject could fit in the paper here.

yakuza hierarchy is disrupted rather than instituted. I find more violence occurs because a singular violent enforcer of collusion is lacking and the incentive of being the boss who self-deals creates infighting amongst previous lower tier bosses in a *yakuza* syndicate.

As a *kumicho* (super-boss) dies with no successor, so does the violent enforcer of collusion die, leading to the costs of the trembling hand reemerging. As a solution, the *yakuza* delineate succession after a *kumicho*'s death or retirement. The *wakashira* is second in command and succeeds the *kumicho* after their departure. But if both the *kumicho* and *wakashira* die in quick succession, then who becomes the next super-boss is ambiguous. There is no single violent enforcer of collusion, and the trembling hand effect leads to more violence.

Kazuo Taoka was the *kumicho* of the *yakuza*'s largest clan, the *Yamaguchi-gumi*. Taoka was known as the “Godfather of Godfathers” and called *Kuma*, translated to “The Bear”⁴ (Kaplan and Dubro, 2003, p. 74, 135). Taoka died of a heart attack in 1981 (p. 114). His *wakashira*, Yamaken died of liver failure soon after (p. 115). Eight bosses took over for a short transition period, but the *Yamaguchi-gumi* needed to decide on a new *kumicho*. In 1984, two men, Yamamoto Hiroshi and Takenaka Masahisa were the last candidates, and a vote by the bosses of 57 to 19 selected Takenaka (p. 120). Yamamoto alleged bribery and intimidation, and he refused to submit to Takenaka. Yamamoto seceded from the *Yamaguchi-gumi* and created his own clan called the *Ichiwa-kai*. About half of the 13,000 men in the *Yamaguchi-gumi* joined Yamamoto. Six months later, *Ichiwa-kai* grunts assassinated Takenaka and two of his highest gang bosses (p. 121). Gang war ensued. After much violence, Ishii Susumu, the leader of the *Sumiyoshi-kai*, the second

⁴ This is because he would claw the faces of his opponents.

largest *yakuza* clan in Japan, would broker a peace deal between the *Yamaguchi-gumi* and the *Ichiwa-kai*.

The Yama-Ichi war was one of the deadliest gang wars in *yakuza* history (Kaplan and Dubro 2003, p. 121; Hill, 2003, p. 50). I identify two factors that caused the war. First, with no super-boss, there was no enforcer of collusion; hence, Yamamoto could break with the *Yamaguchi-gumi*. Additionally, because boss self-dealing is beneficial for the boss, individuals will act opportunistically to become the next boss. Yamamoto received a clear incentive to secede and become a new super-boss.

An implication for policy is to not kill the hierarchy head. Hierarchy is observed as a response to a contestable industry. If the hierarchy is artificially removed, it does not remove contestability. Gangs will still attempt to collude, fall prey to the trembling hand problem, and more gang violence ensues. Moreover, as was seen with the *Yama-Ich* civil war, removing the head boss and his successor, will incentivize additional gang war as lower-level bosses fight to achieve higher status.

2: Drug Trafficking

To further examine Leeson and Roger's theory of organizational hierarchy in the *yakuza*, I examine *yakuza* involvement within the drug market and examine what happens when the *yakuza* operate in an industry with high barriers to entry.

The East-Asian methamphetamine trade is one of the most profitable illicit drug industries in the world (Kaplan and Dubro, 2003, 243). Meth is not produced in Japan, it is imported from Southeast Asia (NPA, 1991). There are large barriers to entry to be an importer of narcotics. There are many actors in a drug trafficking scheme and transporting massive quantities of drugs

without being caught logistically-complex. Hence, *yakuza* members which import drugs do not bring their hierarchy to the high-level drug. Instead, they function as “independent entrepreneurs or freelancers” (Baradel and Breuer, 2024, p. 237). Furthermore, the 1991 White Paper of the Japanese police find no organization involved in all phases of production for meth (NPA, 1991). In the high-level drug trafficking industry, evidence of *yakuza* hierarchy disappears.

The *yakuza* obtain substantial portions of their revenue from drugs trafficking. Additionally, half of all drug arrests in Japan are *yakuza* members. (Baradel, 2020, p. 113). Such data suggests the *yakuza* possess collusion privilege in the drug trafficking industry. But street dealers and high-level deals are different. They face different barriers to entry. Most *yakuza* arrested for drug charges are street level with “90 per cent” dealing one gram or less (Hill, 2003, p. 102). Empirically, the *yakuza* preserve returns in street level drug dealing through their organizational hierarchy. The higher-level bosses determine where lower-level *yakuza* members can operate and thus sell narcotics. But as *yakuza* rise the drug dealing ladder to higher levels, increased natural barriers to entry diminish the need for hierarchy to enforce collusion. Even in the same industry of drug dealing, with high barriers to entry are present, *yakuza* hierarchy vanishes.

V. Conclusion

The *yakuza* are extremely successful. My analysis of the *yakuza* confirms the Leeson-Rogers theory of criminal organization. The *yakuza* organize hierarchically in industries which are highly contestable and flatly when the industry is not contestable. Additionally, violence is the primary cost for the *yakuza*, and their institutions and norms are explained by how they mitigate violence. Therefore, disrupting *yakuza* institutions like their hierarchy induces further violence.

Avenues for further research on the *yakuza* may deal with how their other norms reduce violence. The *yakuza* share rules with the mafia like prohibitions on toying with another *yakuza* member's wife. Another rule is the prohibition on narcotics usage which is odd because the *yakuza* sell narcotics. Additionally, practices like *yubitsume* and the elaborate tattoos of the *yakuza* offer promising results.⁵ Finally, the *yakuza* are unique with their quasi-legal status. Further research could investigate the implications of this fact.

My analysis of the *yakuza* leads to two conclusions. First, criminal enterprises are self-regulating because violence is costly. Even in organizations whose defining feature is violence, (i.e. criminal organizations) institutions develop to mitigate the costs of violence. Second, criminal organizations respond to their specific economic conditions. Even with criminal organizations like the *yakuza* which are heavily defined by hierarchy, such hierarchy vanishes when given the opportunity to preserve returns without incurring boss-self dealing costs.

⁵ My intuition suggests these practices exist to intimidate victims of the *yakuza* into paying extortion fees with no fight, thus reducing violence and its costs.

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