

A ‘virtuous circle’ of illicit markets? Smuggling and colonial state building in the Italian interwar Dodecanese

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Introduction

Can illegal markets play a role in a state’s conscious strategies and efforts to establish and further order? Are there conditions under which law enforcement takes second place to wider considerations of national interest? The relationship between state policy and illicit economic activity is typically understood as an oppositional one: beyond a sense of lawlessness, illegal markets exist as a threat to the state’s economic and fiscal interests. In fact, our contemporary understanding of illegal markets is underpinned by the understanding of ‘organised crime’, which is often equally seen as inherently oppositional to a state’s claim on law and order over its territory. Contemporary discourses leave very little margin for a consideration of the relationship between state policy makers and regulators as anything other than conflictual.

Nevertheless, the idea that state administrators or agents may collude with agents of the underworld, under circumstances and considering the pursuit of a state’s strategic aims, is not unheard of and unprecedented. There no lack of historical examples indicating that state agents will collude with underground elements in so far as such collusion is understood as beneficial those strategic aims, particularly in the sphere of international relations and as means to interfere with domestic or regional situations abroad (e.g. Thomson 1994; Campbell 1977). It is far less clear, however, whether, with specific regard to economic activity, state administrators would be inclined to approach illegal markets as less of a problem to be addressed and more as an opportunity to be exploited than legal ones.

In this chapter,¹ building on our investigation of archival sources in Rhodes and Rome with regard to the situation and the policies of the Italian Administration of the Dodecanese (the ‘Government of the Italian Islands of the Aegean’) (Espinoza and Papanicolaou, 2016) we will offer an example and discussion of precisely this

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latter possibility. Specifically, we interrogate the policy and practical approach of the Italian Administration between its early phase up until the mid-1930s towards two key areas of illegal economic activity, namely, the smuggling of goods and the smuggling of currency. We argue that the geopolitical situation and internal economic conditions of the Dodecanese, marked by extensive and intensive presence of illegal economic activity, became both a tool for the articulation of the Italian rule over the population of this region and a lever for the promotion and pursuit of Italian expansionist plans in the wider region of Anatolia and Eastern Mediterranean. The two illegal markets we examine were not only synergistic to each other, as we shall see soon, but were also conducive to the Italian aim of social pacification in the fledging colony.

The structure of this chapter is straightforward. We begin with a brief interrogation of the relationship between state and illicit economic activity, aiming to situate the Dodecanesian context among other instances of upperworld and underworld convergence. We then proceed to explain in some detail the particularities of that context, particularly in the light of the geopolitical changes it was exposed to around the beginning of the 20th century and during the early days of the Italian annexation in the 1920s. We provide an account of both areas of illicit activity, the smuggling of goods and the smuggling of currency and explain how the local Italian government approached them as means to pacify the wider local populations and to co-opt the local elites. We conclude with a few reflections on the significance of our findings.

The state and illicit economic activity: always conflictual

The purpose of this section is to situate what we found most interesting in our material within the wider theoretical debates and insights about the relationship between state and illegal markets. The Italian authorities of the Dodecanese had unambiguous knowledge of the extensive and emphatic presence of illegal markets. Our material suggests that the function of illegal markets appears to have been taken into account, if not integrated, in the articulation of Italian political strategies to pacify and co-opt local populations. We reserve for the concluding section some qualifications arising from the particularities of the Dodecanesian regime and its relation with the general policies of Rome and fascism during the period. However, the nature and extent of the considerations regarding illicit economic activities in a range of official documents and reports leave little doubt that the Italian administration engaged directly and uniquely with these activities.

This is already an intriguing starting point, as in the literature on illicit markets there is a very wide consensus regarding the oppositional nature of the relationship

between illicit economic activity and state policies. Much of the literature has focused on the association of illegal markets and the underground economy with ‘organised crime’. Firstly, it was thought that the former constitutes an important source of income for the latter at the expense of legitimate business and of the fiscal interests of the state. And secondly, importantly, to the extent that the connection between illegal markets and ‘organised crime’ is present, the organisational element in illegal entrepreneurship represents a challenge to the state’s territorial control and authority (for an overview, see von Lampe, 2015). The possibility of (quasi-)governmental structures accounts for the understanding of state and illegal markets as an oppositional relationship in the discussions of organised crime ever since the latter emerged as an important social issue (e.g., Cressey, 1969; Albin, 1971; Arlacchi, 1998). In fact, the very notion of sovereignty, which is associated with the modern state, would alone account for the designation of underground economic activity as ‘illegal’ and undesirable. Nonetheless, the informal economy, escaping the regulatory claim of the state, is in itself a widespread reality of economic activity (see Portes *et al.*, 1989).

It is not the case that there is rigid separation and a clear line of demarcation between the underworld of illegal markets and the upperworld of the formal economy and of the state. Legitimate economic actors may engage in illicit economic activity, just as illegal entrepreneurs (and ‘organised crime’) may operate from within licit economic structures, entities and institutions. There is some consensus today that the delineations established by early discussions of illegal markets and ‘organised crime’, particularly ones that typically reflect policy concerns, are not necessarily helpful for understanding the reality of these phenomena (Antonopoulos and Papanicolaou, 2014; Fiorentini and Peltzman, 1997; Naylor, 2004; Reuter, 1983; Ruggiero, 1996; Van Duyne, 1996; Woodiwiss and Hobbs, 2009), as they tend to underestimate the overlap, interchange and interdependency between underworld and upperworld. This of course only serves to underscore that from a state administrator’s viewpoint, illicit economic activity is viewed as a political challenge and issue by default (see, e.g., Kerry, 1998), and that the state’s effort to regulate and suppress such activity is a genuine and serious expression of its claim to sovereignty. Thus, their default position would be the firm denial of any hint or suspicion of such interdependency.

Once the question of illegal markets has been transposed into lines underscoring the political nature of the problem – and much of the literature is very much aware of and keen to highlight this aspect (Cressey, 1969; Shelley, 1999), then it rather becomes a matter of analytical candour to acknowledge that the national interest may always colour the state’s approach and thus mitigate any understanding of that approach on absolute terms. That a state’s policy may involve some extent of complicity with the underworld is not unheard of, as means of furthering a strategic pursuit, particularly in the domain of international politics. For example, McCoy (2003) has

provided a very robust account of how the CIA played a role in the trafficking of heroin as part of its cold war strategy and of the US intervention in southeast Asia. Earlier on in the same region, the French colonialists tapped into the tribal opium economy and relied to some extent on opium revenues to fund the development of French Indochina. An equally interesting account emerges from the context of the Philippines, where the early 20th century policies of the US colonial regime can be seen to have contributed to the ‘creation of regulatory framework for the later rise of a thriving vice economy’ (McCoy, 2009, p. 234). This development in its turn is understood by McCoy (2009) to have furnished a tool of political rule for both the colonial power and the local political elites. It is of course highly doubtful that such phenomena could be part of mainstream politics and policy making, certainly not as part of domestic politics. The reason for this is that they are much more likely to be subject to opposition and to cause scandal. They are typically seen as instances of ‘parapolitics’ (Wilson and Lindsey, 2009) rather than conventional politics, and they seem to be residing predominantly in the domain of foreign policy. Admittedly, however, the study of such cases remains limited.

Our interest for the Italian treatment of illegal markets in the Dodecanese stems precisely from this latter consideration: what we understand as a policy of tolerance towards illegal markets is situated in the domain of domestic policy. In this case the Italian concern with consolidating their sovereign claim over people and territory with a view to developing an “ubi consistam” (Lago, 1924a) of Italian imperial power in the region. In fact, the colonial context makes this stance even more paradoxical, as it runs counter to other experiences of colonial rule, including the Italian one in Africa, which was marked by prolonged and violence efforts to suppress resistance and to pacify the population (Calchi Novati, 2011; Cresti, 2011; Labanca, 2002). While the question of illegal markets does not emerge clearly, if at all, in histories of the Italian expansionism, colonial pacification, more than military campaigns to suppress resistance, involves an economic aspect and a project with a view to reorganising production and economic relationships: its quintessence is to create conditions conducive to economic exploitation (see Neocleous, 2013). In studies of other contexts, when the question of illegal markets emerges, it is clear that the suppression of economic activity outlawed by the colonial authorities is a key concern and a primary goal of these authorities (e.g., Tagliacozzo, 2005).

In the remainder of this chapter we aim to document in some detail the situation in the Dodecanese and the coordinates of the Italian approach, particularly by investigating the conditions under which the existence and function of illegal markets in that region came to be understood as a peculiar political opportunity for the Italian authorities.

Between geopolitical change and economic decline: the emergence of illegal markets in the Dodecanese

The task we aim to accomplish in this section is to situate the emergence of illicit economic activity in the Dodecanese as a general reality in the final quarter of the 19th century and into the period of the Italian occupation of the region that commenced in mid-1912. As we have provided a more detailed account of the historical context elsewhere (Espinoza and Papanicolaou, 2016), we focus here on those aspects that we consider the key for the development of illegal markets in the Dodecanese.

Most students and commentators of the region's situation seem to identify the growth of illegal markets with the latter's economic decline following domestic political change in the Ottoman Empire and the introduction of taxes and duties aiming primarily to service the Ottoman public debt. Not much is known about illicit activity in the period prior to that point and up to the first thirty years of the 19th century, but it is certain that the economic significance of the Dodecanese had remained marginal as economic growth itself had been very limited. The 'barren islands' of the archipelago (Desio, 1924) did not lend themselves well to the development of agriculture. This geography and other related circumstances contributed to the development of a preponderantly subsistence economy. Such limitations meant that for primary subsistence goods such as foodstuff, cattle and other basic provisions, the region depended heavily on the Anatolian coast and the port of Izmir, located a stone's throw away from the islands of the Dodecanese (Ameglio, 1913). Equally adverse had been the conditions for the growth of naval commerce of some significance, as even the largest islands such as Rhodes or Kos lacked suitable locations for the development of significant ports. At any rate, the region's production had been of limited, if any, interest to export markets.

Clearly, therefore, up to the mid-19th century there was little to support significant economic activities, including illicit activities, except piracy. It is, of course, conceivable that some activity may have occurred following the establishment of the independent Kingdom of Greece in the early 1830s. The creation of a new border opened the possibility that Dodecanesian entrepreneurs could take advantage of the difference in the customs regimes of Greece and Ottoman Empire to undercut licit markets. The reason for such a development could have been – eventually, it became a factor – the special taxation and customs regime, known as 'privileges'. These were granted to the islands, except Rhodes and Kos, by the Suleiman the Magnificent following the conquest of the region in 1522, and which remained in place until the late 19th century. The islands enjoyed extensive self-government and their only tax obligation to the Empire consisted in a yearly lump tribute, a regime, which may have functioned as an asymmetry (Passas, 2001) conducive to the growth of illicit

activities.

A complementary factor, benefitting the region's economy in all aspects, emerged in the course of the 19th century, as the growth of industry and trade internationally, and technological developments such as steam navigation, gave the Dodecanese a new economic significance. On the one hand, a local product, sponge, became an industrial resource of significance and thus boosted sponge fishing to the status of a key and sizeable local industry. On the other hand, the development of trades route via the Suez Canal underscored the significance of the region as a commercial crossroads in the Eastern Mediterranean. The surplus of wealth thus generated gave a decisive boost to the local economy in its entirety. It firstly made possible significant investment in infrastructure, such as public works and education. Secondly, it encouraged the growth of other local industries, such as the tobacco industry – one that also developed into a mass scale production in the course of the 19th century.

In the off-season the women made cigarettes from imported tobacco, many of which were smuggled into Greece. With their wealth, settlers from Calymnos bought farms on the mainland, and sold European goods in Budrum and up the gulfs. There were similar settlers from Cos. Like Calymnos also, Symi had farms and small settlements on the mainland and on the peninsula of Cnidus to the north, where there are both cattle pastures and plantations of olives and almonds. There was a flourishing yard for building sponge-trading boats and small vessels, and for prompt and skilful repairs. Cos established a 'lucrative trade in fresh fruit and vegetables with Egypt, carried till recently in its own spacious and speedy sailing vessels' (Myres, 1941, p. 147).

The islands were successful in prolonging the conditions for economic growth up until the late 19th century, by resisting the administrative and fiscal policy changes introduced by the Ottomans during the *tanzimat* reform period (Inalcik and Quataert, 1997)², which also involved greater uniformity across the territory of the Empire. But this implied the abolition of the 'privileges'. During this period the Ottoman reform efforts were resisted by the local populations, often in strong and vocal forms (Doumanis, 1997, p. 29). A more decisive development was the establishment of the Ottoman Public Debt Administration (OPDA) in 1881, which was accompanied by the policy measures such as the introduction of monopolies on tobacco, salt, alcohol and a license fee for sponge fishing. As the purpose of the OPDA was to administer the servicing of the Ottoman public debt towards European creditors, taxes and duties were intended to be collected and administered centrally, ultimately meaning

² The Tanzimat ("reorganization") of the [Ottoman Empire](#), was a period of reform spanning the mid-19th century. The reforms aimed to modernize Ottoman administration. Their thrust was towards administrative centralization, entailing a removal of the autonomies granted by the preceding "millet" system.

that a key factor for the economic growth of the region, fiscal autonomy, was to be removed. While at an initial stage the very purpose of this development, servicing foreign debt, entailed a rather lax approach by the Ottoman authorities, the reform programme of the Young Turks brought formally all privileges to an end, without exception (Alhadeff, 1927).

At that time, however, certain local industries had already grown to significant size. For example, the manufacturing of cigarettes and cigarette paper by numerous small workshops, had become a key source of employment and income in islands such as Kalymnos. The attrition and finally the removal of the regime of privileges meant that ultimately such businesses had to seek ways to secure their survival and engaging in illegal trade turned out to be one of them. This is reflected in retrospective discussions of the situation by Italian officials: one of the military commanders of the Dodecanese noted in 1918 that “under the Ottoman regime, smuggling constituted the only and true profession of Calymnos, Symi and Chalki, that specialised in this industry” (Elia, 1918).

The descent of the local economic circuits into the domains of the underground was to be consolidated further with the beginning of the Italian occupation of the Dodecanese during the Italo-Turkish war of 1912. While the domestic policies of the Ottoman Empire had triggered the onset of larger scale illegal trading, the Italian war in Libya and then WWI brought geopolitics to the foreground as the preponderant factor underpinning the economic fates of the region. The dependence of the islands for vital subsistence goods on the Anatolian coast was dictated by geography and their geophysical outlook. It became a major issue during the war as the Ottomans closed the newly established Italian possession’s access to these markets. This entailed that not only goods intended for export but also subsistence goods had to be traded illicitly, the alternative being rapid and radical economic and social decline. It was not the case that the region completely escaped this fate—due to the Ottoman embargo, economic conditions deteriorated significantly. It became so serious that the Italian military authorities had to organise a supply chain for food directly from Italy to rescue local populations from the spectre of famine (Doumanis, 1997). At the same time, the Italian occupation authorities, aiming to maintain their hold over the population of the Dodecanese, had been reluctant to impose a new order on the region’s socio-political life. Thereby they acknowledged and retained the Ottoman era privileges as the prevailing administrative status quo of the Dodecanese. Under this regime, the very same factor that accelerated the growth of the region’s economy, became, as we shall see in the next section, a factor for the consolidation and accelerated the expansion and growth of illegal markets up until the early 1930s, when Italo-Turkish relations began to improve.

Two complementary illicit markets and the Italian stance towards them

We have already identified a combination of factors underpinning the emergence and operation of illicit economic activity in early 20th-century Dodecanese: firstly, the productive limitations of the islands themselves, which entailed heavy dependence for subsistence goods and other trade on the neighbouring coast of Anatolia; secondly, the declining economic position of the region triggered by the removal of aspects of domestic Ottoman policies upholding its trade position; and thirdly, the subjection of this activity to the implications of the geopolitical position of the islands and the ebb and flow of Italo-Turkish relations.

The newly acquired territory came to be seen by the Italians as another opportunity for colonial expansion during the 1910s and the course of WWI. and then during the onset of the fascist rule in metropolitan Italy as a potential strategic lever for the Italian ambitions in Anatolia (Espinoza and Papanicolaou, 2016). They, however, were thus presented with a double challenge, namely, sustaining on the one hand, the strategic relevance of the Dodecanese towards Anatolia despite the Ottoman embargo and then the continuing mistrust and protectionism of the Turkish Republic. On the other hand, the Italians also had to address the irredentism of the Greeks (Zervos, 1919). This was the dominant ethnic group among the region's diverse population, and thus it was important to formulate an approach towards pacifying these populations, and, given the region's traditionalist sociopolitical structure, co-opt the local elites to the Italian rule.

Following the annexation of the Dodecanese to Italy with the Treaty of Lausanne in 1923, the new regime in Rome under Mussolini bestowed the Dodecanese with an administrative framework (Royal Decree of 8 August 1924) that provided the colonial-style role of the Governor with ample autonomy and powers. However, it remained accountable directly to the Ministry of Foreign Affairs and thus the Duce himself. The appointed Governor, Mario Lago proved to be precisely the kind of office holder that would make full use of such autonomy and power. Himself a career diplomat and a politically astute individual, Lago was among the most zealous proponent of Italian expansion in Anatolia, an idea that he held on to even after the conclusion of the 1928 Neutrality and Reconciliation Treaty and the gradual normalisation of Italo-turkish relations. As Lago saw the newly established Turkish Republic as a precarious and transient reality, his policies were unambiguously animated precisely by a vision of the Dodecanese as a bastion of Italian power.

“I believe I am not exaggerating when I state that on the resumption of regular commercial relations between Rhodes and the Anatolian coast depends greatly the valorisation of our splendid Possession, which must become the *ubi consistam* of Italian power in the Levant” (Lago, 1924a).

Alongside an Italian programme of gradual modernisation of the Possedimento's productive base that was seen as ambitious and perhaps well-received by the Dodecanesians at the time (Doumanis, 1997), Lago pursued policies that on one hand, aimed to neutralise the sources of potential agitation among the wider population, and on the other hand, to co-opt the local commercial and financial elites that controlled much of the economic activity in the region. With regard to the illicit economy, this strategy of social pacification practically translated into an approach of 'relative tolerance', as we call it, towards illegal markets, aspects of which we will document in the following sections. Of course, it is not the case that the Italian law and customs agencies did not establish a degree of activity, which from their own viewpoint may have appeared difficult but substantial nevertheless (*e.g.*, for the Guardia di Finanza's deployment and record see Cecini, 2014). But as Lago ultimately embodied and acted as the final authority in the Possedimento, his communications to Rome (and also his practice) reflect considerations and intentions of strategic importance for the view of the Italian management of the colony's affairs.

The smuggling of goods

While analytically the examination of the generic category 'goods' would appear to confound different illegal markets, our purpose in this section is to document the Italian Administration's approach towards the goods that could be considered as the prime mover of Dodecanesian society. It is with regard to these goods that the dependency of the islands' economy on the Anatolian coast is exhibited best. The closing of the border by the Turkish authorities during WWI, which had devastated the region during WWI, presented the Italian colonial authority with a key policy double challenge in the early 1920s and after. On the one hand, it had to prevent severe disruptions in the rhythm of the wider population's everyday life, such as the provisioning of the islands with vital food supplies and the other day-to-day small trade with the Anatolian coast. . . . On the other, it had to address the potentially devastating effect of the Turkish policy on the commercial routes to Anatolia. The latter were seen as an important component of Italian expansionist policies in Asia Minor, but at the same time, important commercial agencies depended on these routes; legal as well as illegal: by the time of Lago's arrival in Rhodes, the growth of illegal trade with the coast had become endemic, and the new Governor himself was acutely aware of that reality.

“[T]he reopening of the east coast is a matter of life or death for the commerce of Rhodes [. . .] The local effects of this crisis are intuitive. A large part of the Dodecanesian population that used to live on the Anatolian trade, currently suffers from the darkest poverty. Rather, in order to survive, it throws itself into riskier smuggling. Naturally, even though they know it is not the Italian regime's fault

that such disaster has befallen them, the Dodecanesians do not hold a high opinion of our authority. Which helps create a widespread mood, if not of hostility, at least of distrust, very harmful to the order of our regime. Smuggling becomes every day more organised in almost regular form with the collaboration of the Turks from the coast, who suffer from the uneconomical situation created by the Turkish government as much as our subjects” (Lago, 1924a).

The situation described by Lago in 1924, was to be prolonged throughout the 1920s due to the protectionist policies and the Turkish deep mistrust of the Italian presence in the region. For example, in 1929 the inspector of the Bank of Italy, Arturo Paladini, was reporting that in the past Rhodes was an important supply centre of the nearby lands, and of Anatolia more particularly, which is only a few hours of sailing away. However, this commercial function that gave reason for private banks and a good number of merchants to exist in this city has been deteriorating gradually. According to Paladini trade became ever more difficult due to the tendency of the neighbouring nations to eliminate from their territories every form of foreign penetration, whether commercial or industrial. Despite this, the local commerce, which depends much on the smuggling on the Anatolian coast, remained sufficiently active, as demonstrated by the increased traffic of the port and the very low number of bankruptcies (Paladini, 1929).

The early realisation of the problem and the persistence of the trade barriers to Anatolia throughout the 1920s, gave rise to a unique understanding of the situation by Governor Lago. He thought smuggling was impossible to suppress because Italy as “a great power, cannot leave a population which she has taken under its guardianship to suffocate, without her prestige being profoundly damaged throughout the Levant” (Lago, 1924b). Apart from that, smuggling was taking place “completely to our advantage and at the expense of Turkey”. This stance also led Lago to be very cautious of and to even resist Turkish demands towards Italy to suppress contraband in the Dodecanese. He commented:

“I insist, however, that I must indicate the risks of [any] agreements entailing Turkish interference towards the suppression of contraband. Firstly, whichever concessions we made in this area to the Turks for Kastellorizo, we may have to extend them to other islands, thus creating obstacles and situations of conflict that are difficult to foresee; and secondly, we must admit frankly that the exercise of smuggling will be inevitably one of the activities of the Italian islands of the Aegean” (Lago, 1923).

As a result, smuggling became quasi-institutionalised throughout the 1920s in the Dodecanese; even to such an extent that it came to represent a primary economic activity of the smaller islands, and also a significant part of commercial flows through Rhodes. This was not a well-hidden secret, as it were: as the journalist Virginio Gayda, an individual very close to Rome’s fascist regime, noted

“[u]nder the pressure of these four negative elements, but, above all, of the increasing distrust and resistance of the Turkish authorities, the commerce of the Dodecanese has been driven back from the Turkish coast, and, therefore, it has been cut off from its vital base. There is no more commerce except contraband. Defying storms and the darkness of the night in order to survive, Greek and Turkish sailors brought their boats and sails towards the coast, furtively loading and unloading goods with the complicity of the indigenous population” (Gayda, 1928, p. 149).

But why exactly was Governor Lago adamant that smuggling took place entirely at the expense of Turkey? “Our customs authorities”, he noted, “are charged with the task of ensuring that the goods do not enter [our territory] as contraband. Once they have landed, whether they arrive or not to their destination, I do not believe it is our duty to oversee” (Lago, 1927). From his point of view, as long as the low customs duties of the Possedimento had been paid, anything went – the goods were free to move in whichever way the involved merchants and entrepreneurs saw fit. This being the official stance, even very established companies began in the 1920s not only to import but also to produce goods destined to be smuggled.

Take for example the firm Alhadeff, perhaps the most important and sizeable commercial entity in Rhodes, which was also connected with the Alhadeff Bank belonging to the same family. The firm produced, in association with the Benosiglio firm in Kos, two types of cigarette paper (Memphis and Tebriz) which were destined to be traded in large quantities on the black market in Turkey exclusively. Vittorio Alhadeff himself, commenting on this type of activity, remarked in his memoirs that “our commerce was fully legal. We were selling to the Anatolian merchants who came to and went from Rhodes on their *caïques*. How do they enter the goods in Anatolia? That’s their business” (Alhadeff, 1998, p. 174).

Awareness of the idea that contraband was taking place “to the advantage of Italy” was also shared by members of the law enforcement agencies in the Dodecanese. Reporting in the 1930s on two “influential” individuals of Greek ethnic origin from Patmos, the local commander of the *Carabinieri* noted

“how in the past [the first individual] practiced effectively and notoriously, and on a large scale, the smuggling of alcohol and other goods at the expense of Greece and Turkey, activity that was seen favourably by the Government of the time [. . .] also because it did not do any harm to our treasury, as he had always declared the merchandise which bought in order to smuggle it subsequently. . . . [the other individual] managed to attain a solid financial position, particularly with profits he made by exercising, as is well known to us, the smuggling of cigarette paper in our favour and at the expense of Greece and Turkey” (Grassini, 1937).

The tolerance towards smuggling persisted beyond the 1920s and the normalisation of Italian-Turkish relations after 1928. Whether the Italians felt confident enough to intervene in the operation of illegal markets is a moot point. To be sure, the removal of the key geopolitical consideration meant that smuggling could perhaps be seen more clearly as an activity detrimental to the fiscal interests of the colony. At the same time, Rome had undertaken an effort to modernise Italian customs legislation and that brought about a wholesale strengthening of sanctions against smuggling, and also the introduction of additional offences relating to this activity. Nevertheless, with the local economy still damaged by the prolonged economic decline and hardship and with Lago retaining ultimate authority in the Dodecanesian affairs, policies of tolerance remained in place. For example, there was official support for appeals, leniency towards convicted smugglers and even pardons and amnesties. This policy was practiced consciously in the Possedimento's territory, precisely on individual grounds of poverty and inability to pay fines and so on.

In 1932, for example, the local commander of the Guardia di Finanza in Rhodes was still reporting that the inhabitants of the island [Halki, in this instance], not having other local resources, dedicate themselves exclusively to the clandestine trade of tobacco: they import it as leaves from Greece or Turkey, process it and then they export it in the most convenient mode, especially to the nearby island of Rhodes (Spinelli, 1932). The task of the Guardia di Finanza section itself was to merely report to Rhodes the departure of any "suspicious boat".

Overall, we see why, in our view, there are good reasons to call the relative tolerance of the Italian authorities towards smuggling a 'strategy'. Under the overarching aim of keeping alive the Italian expansionist ambitions in Anatolia, by means of commercial infiltration, the Italian authorities appear to have pursued two important goals domestically in the Possedimento. On one hand, by not actively disrupting the circuits of illicit trade in the region, the Italian authorities ensured that latter's economic life, which involved illicit trading to a remarkable and vital extent, was not itself disrupted. Smuggling in this sense would be seen as a cushion, absorbing the local population's economic distress and consequently, any political implications that such distress would entail, preponderantly Greek irredentism. At the same time, Lago's regime seems to have been able to take advantage of this circumstance to co-opt and integrate the commercial and also other local elites in the emerging system of colonial rule, in so far as illicit markets represented an opportunity for good business for everyone involved.

The smuggling of currency

The extent to which the above three aspects of the Italian approach had been very closely interwoven, is illustrated by an equally widespread illicit activity which may

be regarded as complementary to the smuggling of goods, the smuggling of currency. Again, the activity can be understood to be of importance for the liquidity of both legal and illegal markets. For the illicit market it is a condition for its operations; it is particularly in this circuit that the regime's relation with the local commercial elites can be seen more crisply.

The Dodecanese under the Ottoman rule had featured a rather anarchical banking system, featuring a handful of powerful local family banks and commercial firms that could finance the local population's commercial activity. As most of the currency circulating in the region was absorbed in trade and currency speculation, the figures of banker, merchant and money changer were often indistinguishable. These banks and commercial firms were able to take advantage of wartime conditions in the 1910s to consolidate their dominant position in the operation of local economic circuits. Salomon Alhadeff and Fils, for example, which was mentioned previously, had by the mid-1920s successfully brought most of the region's trade under its control: it has a powerful organisation which was reinforced by the credit and prestige of the Bank Alhadeff. The two agencies were distinct legally and operate in different and well separated fields, yet as both are constituted by elements connected by the ties of kinship, they are emotionally and financially solidary. That means they acted to mutually complement each other in a form of moral and financial cooperation that represented a force that was formidable in relation to the modest potential of the market. In fact, there was no undertaking or business of any importance in which one did not find the name of Alhadeff, just as there is no nice property that does not belong to any of them (Paladini, 1926).

As these local bourgeois elites were integral to the region's economic life in its totality, Governor Lago's policy tended to protect and maximise their liberty even if that meant a range of exceptions from metropolitan legislative requirements and regulations applicable to banking. Such a stance can be understood again by means of the interpretative scheme we propose. That is, the strategy towards the pacification of local populations – cooptation of the elites – to support of the Italian ambitions in Anatolia.

In the circuit of the currency trade in 1920s and early 1930s Dodecanese, Lago's maximisation of liberty approach translated into an exceptional regime that placed no restrictions on the movement of currency in the region, and lacked any regulatory provisions regarding the trade in foreign currency. To justify his policy, the Governor again referred to the "normal movement of business that takes place here with special characteristics and exigencies", in the light of the need to maintain active the trade flows between the Dodecanese and Anatolia. To that end, he resisted any possibility of interfering with the trade of currency, legal and, not explicitly, illegal.

"Prior to the detachment from Turkey, the natural market of the islands had been Anatolia. These markets constituted a centre for the collection and distribution of overseas trade just as their transit commerce was booming, from

which the islands drew most of their wealth. Such commerce ceased almost completely after the territorial political separation of the Possedimento from the Continent [Asia].

The Dodecanesian merchants, aiming to maintain the traffic in their hands, while it could easily turn towards the major centres of Turkey, particularly Smirna and Adalia, finance [instead], via local banks, the producers of the goods in the form of advances.

Hence a movement of Turkish currency towards current account operations, a movement, which cannot be documented in the ways prescribed by the current regulations in the Kingdom [of Italy].

Another field of commercial activity particular to these transactions is constituted by the importation from Anatolia of goods, above all goods of first necessity (cattle, vegetables, eggs and many other alimentary goods), which are transported here by boat in noticeable quantity, but in small batches, by modest Turkish merchants, who, once they've sold their goods in Italian lire, must convert the proceeds into Turkish money in order to re-enter their country.

It is a daily and small-scale traffic, which in its totality represents one of the cornerstones of the commercial activity of the islands; and it is easy to understand, from the very same way it is conducted, that it could not be practically subjected to the rule of the normal trade of currency" (Lago, 1932; p.2).

The situation that Lago does not explicitly acknowledge, and thus obscures in his report, is that most of the flows of Turkish currency in and out of the Dodecanese had been illegal, precisely because Turkey prohibited either the exportation or the importation of its currency. Consequently, in so far as commerce with the Anatolian coast required liquidity in Turkish currency, it relied to a considerable extent on contraband money, made available to the Dodecanesians by small sellers or more established commercial actors, such as the banking firms of Rhodes, which would also rely on the informal currency market for liquidity in Turkish money. Practically, the course of historical events of the early 20th century "created the particular situation, where a large majority of the population itself is in possession, more or less, of foreign currency, credit abroad and foreign securities" (Gigli, 1934b p. 404 ?). As a result, the trade of currency could spread widely and informally, and was very open to speculation.

This "special' situation in the Possedimento was not unknown to banking regulators, whose internal communications usually comment on and document very clearly both the anarchical order of things and the Governor's protective approach towards it. On several occasions, attempts to enforce some of the standards required by the metropolitan banking system proved to be a frustrating failure, due to the extent of informality that characterised the trade of currencies. Reports of the local inspector of the Bank of Italy in Rhodes, Fortunato Gigli, director of the local branch,

acknowledge clearly the challenges posed by the specific configuration of the currency market.

“[The Turkish banknotes form the most important base of the coastal trade with the neighbouring coasts. Here, far from the great centres and without any banking equipment, what counts is not the cheque that is difficult to cash, but only the banknote. The small sailing boats, motorboats etc. depart, equipped with banknotes, for the ports of Anatolia. They make their purchases and return with the provisions necessary to the population (primarily cattle, coal, wood, coffee etc.)” (Gigli, 1934a, p.411).

“With Turkish banknotes (in Rhodes there is a very active exchange of this currency which is smuggled in and out of Turkey) advances are given for the production in Anatolia of beams, which are then exported to Egypt and sold in sterling with a conspicuous profit margin” (Gigli, 1934b, p. 405).

“Such activity is very difficult to control in so far as, thanks to the intermediaries, everything takes place without documents, without contracts, with some bills and a lot of trust, which arises from habit” (Gigli, 1934b, p.406).

While in the 1920s this particular outlook was seen by Lago as critical to the survival of the Dodecanesian trade flows with Anatolia, in the early 1930s informality in the currency market still retained its relevance for the bigger local commercial players, who, as seen previously, were typically combining merchant activities and banking operations. These players, would still tap into the informal currency market to secure a sufficient supply of Turkish currency. As Governor Lago, arguing against calls for regulation, remarked:

“[i]t must be observed that some local firms have branches abroad, above all in Turkey and Greece. Now, it would prove very difficult for these firms to finance their agencies with the necessary foreign currencies, for which it would not be possible to present invoices to prove the corresponding acquisition of goods” (Lago, 1932).

In the course of the early 1930s these local banks also took advantage of the local situation to engage more actively in speculation in the currency trade, an endeavour, which in some cases proved extremely lucrative and strengthened considerably the position of these firms. Around the time, Italian regulators moved more aggressively to impose discipline on the foreign currency trade, by requiring that all remittances in Italian or foreign currency and all foreign credit by the “bankers, money changers, companies, firms and institutions” be declared, and that all operations in exchange currency must demonstrate their relevance to the real needs of the industry and commerce or to the needs of those travelling abroad. Essentially, this was an effort to both formalise and “moralise” (Poli, 1949) the foreign currency trade.

The authority of the Possedimento, however, still resisted these efforts and secured for the Dodecanese exceptions from this regime, so as “not to embarrass the trade patterns in the region” (Gigli, 1934c). Governor Lago appeared determined to

defend the interests of the pro-Italian local bourgeoisie, this time by resisting greater transparency in the conduct of their business in the name of not disrupting the status quo in the region and by refusing to differentiate between population and the big local commercial actors. Unsurprisingly, this policy ultimately benefited the latter more than the former, since the defence of the practices of the wider population were a defence of subsistence economy, whereas the defence of the practices of the bigger local commercial interest facilitated an enormous accumulation of wealth.

“It is at any rate a fact that under the auspices of the Italian administration [this bank] . . . benefited . . . from the most complete liberty of action with regard to the movement of currency, which flowed abundantly to it . . .” And:

“What is certain is that the company developed after the Italian occupation [1912-1923], and its fortune, which was well limited in 1912, was estimated in 1938, indeed with great approximation, around 80 million lire in Rhodes and abroad” (Poli, 1949, pp. 2, 8)

In sum, once again it is possible to see how the Italian colonial administration consistently approached legal and illegal markets and practices as a unity, firmly integrated and attuned to the region’s economic reality. This approach was not a concession, or a confession of weakness: rather it appears to be the result of a conscious concern to use the functions of the local economic circuits in order to further the consolidate the Italian rule on the Dodecanese and develop a new system of power, suited to Italy’s enduring expansionist ambitions in Anatolia.

Concluding reflections

Can illegal markets play a role in a state’s conscious strategies and efforts to establish and reproduce order, and are there conditions under which law enforcement takes a second place to wider considerations of national interest? It would appear that, in light of the Dodecanesian experience under the Italian colonial administration, the possibility must be affirmed. In fact, what would lend unity to the policies of the Italian administration is precisely such considerations of higher national interest, namely the development of a support platform for the pursuit of wider foreign policy ambitions of fascist Italy. Tolerance of illicit economic activity involving the wider population provided a cushion absorbing the tensions emerging from economic hardship and thus their political implications with regard to the stability of the regime domestically in the Dodecanese. At the same time, the same policy of tolerance via the acceptance of illicit practices and the avoidance of regulation, helped the regime articulate a vital bond with the local financial and commercial elites, which maintained a dominant position over the islands’ economic life. Ensuring domestic stability in the colony was seen as key to the development of the lever for imperialist

expansion that Governor Lago saw as the Possedimento's ultimate purpose.

Whether the story of the Dodecanese offers any lessons that are of wider relevance in our understanding of the relations between state and the illicit economy is a moot point. There are important elements of the Dodecanesian experience that would not be readily transferable to other contexts and contemporary situations. For example, Governor Lago's quasi-absolutist position (sanctioned by the Dodecanese's 'constitutional' arrangement, or perhaps the particularities of Lago's relationship with the fascist regime in Rome. Intuitively, such an experience would not lend itself easily to conditions prevailing in a true liberal democratic polity. In fact, Lago's policies, particularly those towards the local economic elites, would be more likely to be seen as generalised corruption, rather than rational policy. Nevertheless, the bureaucratic compartmentalisation of the modern state could notionally be seen as conducive to a situation in which, with regard to illegal markets and their political uses, some parts of the state may recognise opportunities where others perceived unqualified threats.

Our main point is that this possibility cannot be abstractly excluded. Particularly under the label of 'organised crime' illegal markets are seen as absolute threats and the content of any policy cannot be other than that of active opposition and suppression. What our account offers, is precisely a glimpse of the view from the heights of state administration: our explanatory scheme is derived from the reports and communications from the highest echelons of the Italian administration in Rhodes and in Rome: Lago to Ministry of Foreign Affairs and Mussolini, head of local branch to the directors of Bank of Italy, and so on. These kinds of strategic deliberations are not always and easily accessible to students of contemporary realities. Archival materials allow broader access and thus the construction of much richer accounts. The possibility, however, that policy and enforcement gaps do not necessarily represent merely technical problems suggests – as our story shows – that such strategic considerations may be nevertheless highly relevant.

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