

DEALING WITH FAILED STATES III: Ending The War on Drugs

By

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From the Andean countries- Bolivia, Peru and above all Colombia- to the Golden Crescent countries - Afghanistan, Pakistan and Iran- to the Golden Triangle countries- Myanmar, Thailand and Laos- the US and Western European war on drugs has created the conditions for the actual or incipient failure of these states. This is because making drugs illegal has provided an immense incentive for illegal production in these states to feed the drug habits of a myriad Western consumers. The illegal profits are then used to fund arms, terrorism, and the promotion of extra legal 'institutions' which subvert the State.

The illegal drug trade was estimated to be about \$400 billion in 1997, compared with a value of legal world exports of \$5 trillion, that is about 8 per cent of the value of legal world trade (see A. Krueger and C. E. Aturupane : "International Trade in 'Bads'", in H. Giersch (ed) : *Merits and Limits of Markets*). The profits from the trade are also huge. Thus, a kg of cocaine base sells for between \$650- \$1000 in Bolivia or Peru. It can be processed into cocaine hydrochloride for export at between \$900- \$1200, which sells for between \$13,000 to \$40,000 wholesale in the US before reaching consumers at a retail price of between \$17,000 to \$172, 000.. Heroin from Burma begins its progress with \$70 per kg to the Burmese producer, to \$3000 after processing in Thailand, from where it is exported from Bangkok at \$6000= \$10,000. It sells wholesale in the US for between \$90,000 to \$200,000, and at retail for nearly \$ 1 million. Given the enormous profits at each link in the drug chain, it is hardly surprising that there can be no victory in the war on drugs by attempting to control supply. The profits are enormous and sufficient not only to corrupt the politics and law enforcement institutions of the producing countries, but also the enforcement agencies in the consuming countries.. In addition these profits being illegal have to be laundered. The IMF has estimated that this 'gross criminal product' is around \$500 billion annually. The stock of criminal cash invested in financial and other assets being even larger. These pose a serious problem not only for the producer states threatened by the subversion financed by their drug lords, but also as the links between the Taliban (funded largely by drug smuggling) and Al Qaeda showed, but also for the ongoing 'war on terror'.

So what should be done? Is better enforcement the answer, or should the US and Western Europe cease their war on drugs as the US did with alcohol after its disastrous experience with Prohibition in the inter war years? Apart from the costs of the destruction of civil society in the producing countries, the direct budgetary costs of enforcing prohibition of drugs in the US have been estimated to be over \$20 billion per annum (see : J.A. Miron and J. Zweibel: "The economic case against drug prohibition", *Journal of Economic Perspectives*, 1995). This does not take account of the other indirect costs I will come to later.

Whether or not the US and Western Europe should legalize drugs in their countries, economic theory is clear on whether they should seek to ban trade in drugs, by forcing the

producing countries to cease production. If there is a reason for prohibiting drugs in the consuming countries it must be because, though drug consumption provides utility to the drug addict, there are nevertheless important negative externalities from their use for the society as a whole to levy an infinite tax on their consumption. But, as the modern theory of trade and welfare teaches us, as long as this tax is levied on domestic consumption there is no need to interfere with the production of the good. Of course imports of the good will have to bear the same consumption tax as domestic production. But, production should still be based on a country's comparative advantage. Thus, for instance even if because of this consumption externality the US prohibits domestic consumption of drugs, but it has a comparative advantage in their production, it should not ban domestic production and exports to meet the demand in the rest of the world. That this is not a fanciful notion is shown by the case of Turkey which is a low cost producer of opium, but Turks generally do not choose to use it- certainly on the scale of use in the US and Western Europe. There can thus be no case for taking the war on drugs to the producing countries, and getting them to stop or control supply..

Not only will this lead to the incipient failure of these producing states, it is also likely to be ineffective. For, there is considerable evidence that the supply of drugs from around the world is nearly perfectly elastic. (See P.B.Stares: *Global Habit*, Brookings, 1996). When the supply of drugs dries up from one country because of local enforcement other sources of supply spring up fairly soon. This is because given the enormous profits in the illegal drug trade there is an incredible incentive for impoverished peasants in the Andes, Central Asia, South and South East Asia and Africa, where the returns from alternative agricultural crops is much lower, to switch to producing the agricultural products on which the drugs are based, whenever the opportunity presents itself. Thus, a substantial portion of the labour force in the Andean countries is involved directly or indirectly in the narcotics industry, as given the harsh terrain, coca production offers much higher returns than any alternative crop..

Ultimately, the problem is one for the consuming countries which are mainly the US and Western Europe. Despite the vast resources spent, clearly their number of drug addicts has not gone down. Purely from this one can say that the war on drugs has failed. Many are therefore arguing that this war be ended with the legalisation of drugs and their control as for alcohol and tobacco through a tax and information regime. What would be the effects on the consuming countries? There seems to be little hard evidence to determine the costs and benefits of legalization versus prohibition if one takes account of the purported negative externalities, which have been succinctly summarised by Miron and Zweibel: " drug users suffers diminished health, decreased earnings and moral degradation. Similarly..the market in illegal drugs promotes crime, destroys inner cities, spread AIDS, corrupts law enforcement, officials and politicians, produces and exacerbates poverty and erodes the moral fabric of society"

. In forming a judgment, the important point to bear in mind is that the former costs of drug use are by and large borne by the addict, while the costs of prohibition are borne by society. There is no doubt that legalisation of drugs would reduce their price- for heroin it is estimated for the US by a factor of 20= and this would, if demand is even mildly elastic, raise consumption. The great societal fear is that this increase in addicts would fuel crime. But, as Miron and Zweibel show from the US evidence drug related crime is not committed by those under the influence of drugs but rather to finance their drug habit.

Finally, the prohibition of drugs has created a whole class of criminals of people who

have chosen to take drugs. Nearly 20% of state and 60% of federal prisoners have been incarcerated for drug law violations. The majority for not dealing but possessing drugs. It is a sign of incredible inhumanity that a drug addict is thus made a victim for a victimless crime. Whatever the reasons for their addiction they deserve our pity and compassion not incarceration. The time has surely come to let people kill themselves with drugs if they choose to and not try to save them from themselves by a war which has not only done untold damage to the body politic in the consuming countries, but much more seriously to the many poor producing developing countries which have turned or are turning into failed states because of this unjustified war.