



# COUNT THE COSTS

50 YEARS OF THE WAR ON DRUGS

## The War on Drugs: Wasting billions and undermining economies

The global “war on drugs” has been fought for 50 years, without preventing the long-term trend of increasing drug supply and use. Beyond this failure, the UN Office on Drugs and Crime (UNODC) has identified many serious negative “unintended consequences” of the drug war – including the creation of a lucrative criminal market.<sup>(1)</sup> This criminal market has a range of economic implications, and stems from taking a punitive, enforcement-led approach that, by its nature, criminalises many users and places organised crime in control of the trade.

This briefing summarises the costs of the war on drugs to the economy. There is naturally overlap with other areas of the Count the Costs project, including: security and development, health, discrimination and stigma, human rights, crime, and the environment. For briefings and a more extensive collection of resources on these costs see [www.countthecosts.org](http://www.countthecosts.org).

### Introduction

Far from creating a “drug-free world”, the war on drugs has fuelled the development of the world’s largest illegal commodities market. The prohibitionist global drug control system has effectively abdicated control of a growing and lucrative trade to violent criminal profiteers – at a cost in enforcement terms estimated to be at least \$100 billion a year.

### Contents

Introduction .....	1
The cost of the war on drugs to the economy:	
1. Billions spent on drug law enforcement .....	3
• Global spending on drug law enforcement .....	3
• Value for money .....	4
• Opportunity costs .....	5
2. The creation of a criminally controlled, illegal drug market .....	5
• The size of the illegal market .....	5
• The economic dynamics of an unregulated criminal market .....	6
3. Undermining the legitimate economy .....	7
• Corruption .....	7
• Money laundering .....	8
• Macroeconomic distortions .....	9
• Destabilising developing countries .....	10
4. The costs to business .....	10
• Deterring investment .....	10
• Unfair competition .....	11
• Increasing sector volatility .....	11
Are there benefits? .....	11
How to count the costs .....	12
Conclusions .....	13

Despite growing resources directed at supply-side enforcement, the illicit drug market has continually expanded, and is now estimated by the UN to turn over more than \$330 billion a year,<sup>(2)</sup> a figure that dwarfs the GDP of many countries.<sup>(3)</sup> The scale of profits generated by criminal drug organisations enables them to undermine governance and state institutions through corruption and intimidation, blur the boundaries between the legal and illegal economies, and threaten the economic stability of entire states and regions.

To fully understand how the war on drugs negatively impacts on the legitimate economy, it is important to explore how so much of the trade came to be in the hands of organised crime in the first place.

The 1961 UN Single Convention on Narcotic Drugs, the legal foundation of the global drug war, has two parallel and interrelated functions. Alongside establishing a global prohibition of certain drugs for non-medical use, the convention also strictly regulates many of the same drugs for scientific and medical uses. These functions have led to parallel markets: one for medical drugs, controlled and regulated by state and UN institutions; the other for non-medical drugs, unregulated and instead controlled by organised criminals.



Control of the lucrative drug trade has defaulted to organised crime

For economists and businesspeople this is a predictable result. Squeezing the supply (through enforcement) of products for which there is high and growing demand dramatically increases their price, creating an opportunity and profit motive for criminal entrepreneurs to enter the trade. Prices are then further inflated as they reflect both the risk suppliers face from law enforcement and general, unregulated profiteering (see Figure 1, p. 6). Through this “alchemy of prohibition”,<sup>(4)</sup> low-value agricultural products become literally worth more than their weight in gold. As the UNODC itself observed in 2008<sup>(5)</sup>:

*“The first unintended consequence [of the global drug control system] is the creation of a criminal black market. There is no shortage of criminals interested in competing in a market in which hundredfold increases in price from production to retail are not uncommon.”*

Given that enforcement policies have essentially created this criminal market – and by inference much of the criminality and costs associated with it – it is startling to note that these approaches have not been subject to meaningful economic analysis and scrutiny. At a time of global economic crisis, the importance of evaluating the cost-effectiveness of all major public expenditure against an agreed set of measures becomes even more critical. Furthermore, rational policy development also demands that where failings are identified, reforms or alternative policy approaches that could deliver better outcomes are fully explored.

Economic evaluation of the war on drugs can be conducted either through an assessment of its impacts on the economy, or an economic analysis of its wider costs. This briefing focuses primarily on the former, but also points to the usefulness of a broader economic perspective. After half a century of failure, it is time to look more closely at the return on drug-war investment.

# The costs of the war on drugs to the economy

## 1. Billions spent on drug law enforcement

### Global spending on drug law enforcement

In order to accurately assess the level of expenditure on drug law enforcement, it is important to recognise the difference between proactive and reactive spending. The former is spending on supply-side drug law enforcement, which has its own discrete, labelled budget allocation; while the latter is expenditure across the criminal justice system, used to deal with drug offenders and drug-related crime. While this distinction – in addition to other factors – poses difficulties in calculating levels of drug-related expenditure (see box, p. 4 for more detail), some tentative estimates and comparisons can be made:

- Total expenditure on drug law enforcement by the US has been estimated at over \$1 trillion during the last 40 years<sup>(6)</sup>
- Federal spending on drug control in the US is around \$15 billion annually, according to official figures. (However, it is unclear how much reactive spending is included in this figure, of which roughly 35% is on treatment and prevention, and 50% on domestic law enforcement and interdiction.<sup>(7)</sup>) It is much more difficult to attain accurate data regarding state and local government expenditure, though one estimate of drug-related criminal justice expenditure alone is \$25.7 billion<sup>(8)</sup>
- The total proactive annual government expenditure on drug policy in the United Kingdom is around £1.1 billion annually.<sup>(9), (10)</sup> The majority of this expenditure is on treatment, with only around £300 million spent on enforcement. By contrast, it is estimated that the total reactive government expenditure on drug-related offending across the criminal justice system is more than ten times this figure, at £3.355 billion<sup>(11)</sup>
- In 2010, the Mexican government spent \$9 billion fighting drug trafficking<sup>(12)</sup>
- Although it has multiple aims, reducing the opium trade is one of the goals of the 2001 US-led intervention in Afghanistan, which has cost the US alone over \$557 billion<sup>(13)</sup>
- In Australia, spending in 2002-03 was AUS\$1.3 billion on proactive expenditure (55% on enforcement, 23% on prevention, 17% on treatment, and 3% on harm reduction). Expenditure for dealing with the consequences of drug use was estimated to be \$1.9 billion, with the majority spent on crime costs<sup>(14)</sup>

These and other examples indicate it is likely that between a third and a half of drug-related expenditure globally is spent on enforcement, with a considerably larger sum spent on dealing with the crime impacts of the illegal market. While precise figures are impossible to formulate (and would be subject to variation according to definitions and inclusion criteria), it is also safe to say that the world spends well in excess of \$100 billion annually on drug law enforcement.

“If we want to help sustainable economic development in the drug-ridden states such as Colombia and Afghanistan, we should almost certainly liberalise drug use in our societies, combating abuse via education, not prohibition, rather than launching unwinnable ‘wars on drugs’ which simply criminalise whole societies.”

Lord Adair Turner  
Chairman, UK Financial Services Authority  
2003



In financial terms, the enforcement-led approach to drugs has been staggeringly wasteful (Photo credit: Aaron Huey)

### Value for money?

In the highly politicised and often emotive drug policy debate, economic analysis offers a useful degree of objectivity, focusing exclusively on costs and benefits in ways that can be easily compared and understood. To assess whether drug law enforcement represents value for money it is simply necessary to look at what is being spent, what the return is, and whether this return achieves the stated aims of drug policy.

The overarching aim of the war on drugs is to eliminate or significantly reduce the availability and use of illegal drugs. Yet despite decades of growing enforcement budgets globally, each year we are further from the aspirational goal of a “*drug-free world*”. Instead, drug markets have expanded and use has continued to rise.<sup>(15)</sup>

On this basis, the past half-century clearly indicates that drug law enforcement offers very poor value for money, yet there remains a conspicuous absence of government-led economic or cost-benefit analyses in this field. Indeed, no government or international body in the world has undertaken a sufficiently sophisticated assessment.

## Methodological challenges

It should be relatively simple to calculate what is spent on drug law enforcement. Unfortunately, governments rarely produce transparent and accessible breakdowns of all relevant expenditure. There are various reasons for this:

- Drug-related expenditure is distributed across multiple government sectors (e.g. health, border control, policing, defence)
- In contrast to proactive spending on drug law enforcement, reactive spending is harder to define and measure, because by its nature such spending cannot be allocated in advance, meaning all measurements must be conducted retrospectively. Given the areas it traditionally goes on, this reactive spend is also inevitably a much larger sum
- It is difficult to make comparisons between countries because they may use different methodologies to calculate drug-related spending, data may not be available for the same year and figures are also subject to currency fluctuation
- Many countries publish little or no meaningful figures on drug policy-related spending, including some with very hard-line policies, including Russia, Thailand, Singapore, Saudi Arabia, Iran, and China

## Opportunity costs

Particularly during a sustained global economic downturn, with government austerity measures being widely implemented, drug law enforcement budgets translate into reduced options for other areas of expenditure – whether other enforcement priorities, other drug-related public health interventions (such as education, prevention, harm reduction and treatment), or wider social policy spending. Further opportunity costs accrue from the productivity and economic activity that is forfeited as a result of the mass incarceration of drug offenders. In the US, for example, the number of people imprisoned for drug offences has risen from approximately 38,000 to more than 500,000 in the last four decades.<sup>(16)</sup> The lost productivity of this population was estimated by the ONDCP in 2004 at approximately \$40 billion annually.<sup>(17)</sup>

Lost tax revenue is another opportunity cost of the war on drugs. Under prohibition, control of the drug market defaults to unregulated and untaxed criminal profiteers, meaning governments forgo a substantial potential source of income. Relatively little work has been done in this area, and there are a large number of variables to consider in terms of potential tax revenue estimates from a legally regulated drug trade (including levels of use, prices and tax rates). However, some indications are available from legal (medical), or quasi-legal cannabis markets. The Dutch coffee shops, for example, reportedly pay over €300 million in tax annually, and turn over somewhere in the region of €1.6 billion.<sup>(18)</sup> A more speculative report by Harvard economist Jeffrey Miron suggested that legalising and regulating drugs in the US would yield tens of billions of dollars annually in both taxation and enforcement savings.<sup>(19)</sup>

*“If they [drug cartels] are undermining institutions in these countries, that will impact our capacity to do business in these countries.”*

**Barack Obama**  
President of the United States of America  
2012

## 2. The creation of a criminally controlled, illegal drug market

### The size of the illegal market

Estimating the size and value of illegal drug markets has important implications for policy making but presents serious methodological challenges. Drug producers, traffickers and dealers naturally do their best to remain hidden, so do not list themselves on stock exchanges, file tax returns or publicly audit their accounts. Despite the unreliable nature of much of the data, the UNODC has made the following cautious estimates (note: figures are for market turnover rather than profit):

- In 2005 the global drug trade was worth \$13 billion at production level, \$94 billion at wholesale level, and \$332 billion at retail level – on a par with the global textiles trade<sup>(20)</sup>
- In 2005 the global cannabis market was valued at \$113 billion<sup>(21)</sup>
- In 2009, the global cocaine market was worth \$85 billion,<sup>(22)</sup> and the global opium market was valued at \$68 billion, of which \$61 billion was for heroin<sup>(23)</sup>

## The economic dynamics of an unregulated criminal market

The illicit drug trade is extremely resilient. The theory behind supply-side enforcement is to restrict production and supply through crop eradication or interdiction, thereby either directly reducing availability or deterring use by pushing up prices. However, in an essentially unregulated market in which the laws of supply and demand are preeminent, increasing prices only serves to increase the profit incentive for new producers and traffickers to enter the market. Supply then increases, prices fall, and a new equilibrium is established. As a result, enforcement pressure on one production area or transit route, at best, simply displaces illegal activity to new ones, making any gains localised and short-lived. This is the now well-documented “balloon effect” that has, for example, seen coca production shifting between countries in Latin America, and transit routes shifting from the Caribbean to West Africa and Mexico, with often devastating results (see the *Count the Costs development and security briefing for more information*).

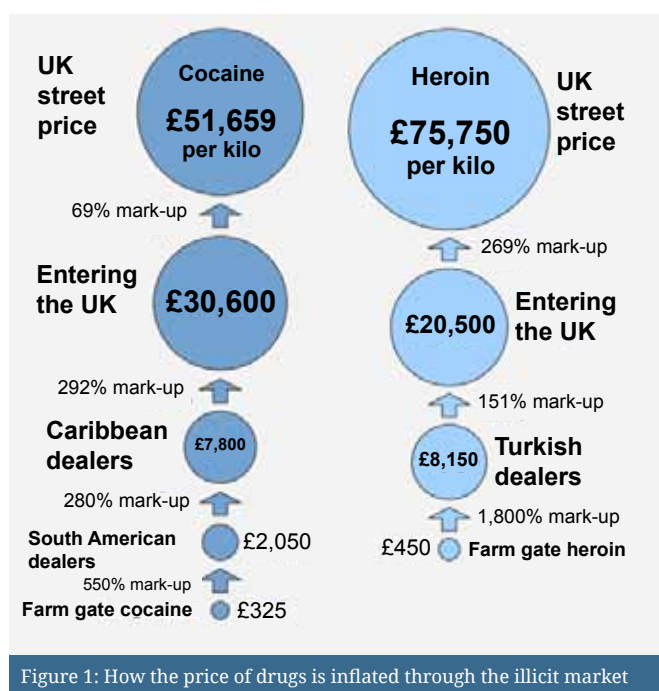
The general risks of involvement in the illicit trade, combined with unscrupulous profiteering on the part of

suppliers, leads to astronomical price “mark-ups”. So while there is a 413% mark-up from farm gate to consumer in the price of a legal drug, coffee,<sup>(24)</sup> the percentage price mark-up for an illegal drug such as heroin has been estimated at 16,800%.<sup>(25)</sup>

However, despite increased resources directed to supply-side enforcement, evidence suggests that drug prices, while remaining far higher than legal commodities, have decreased over the past three decades. From 1990 to 2005, for instance, the wholesale price of heroin fell by 77% in Europe and 71% in the US.<sup>(26)</sup>

There are many possible explanations for this change: the increased efficiency and improved strategising of dealers and traffickers; a globalised economy, which offers more and cheaper distribution channels and makes it easier to recruit drug producers and couriers; and increased competition, as larger cartel monopolies have been broken up and replaced by numerous smaller and more flexible criminal enterprises. Whatever the reason, during a period of increased enforcement activities designed to drive up prices, significant and long-term price decreases are another indicator of the futility of supply-side interventions in a high-demand environment inhabited by sophisticated and flexible criminal entrepreneurs.

There are additional direct economic costs associated with the crime implicit in a large-scale, criminally controlled drug market. These include criminal activity associated with the trade itself, alongside the acquisitive crime committed by some dependent drug users in order to fund their use. Regarding the latter, it is important to note that the crime costs related to dependent drug use vary significantly depending on the policy environment. There is, for example, little or no acquisitive crime associated with fundraising to support alcohol or tobacco dependence because they are relatively affordable. Drug law reformers have argued that reduced drug prices would correspondingly reduce acquisitive crime costs.<sup>(27)</sup> This suggestion is supported by evidence that dependent heroin users who move from a criminal supply to prescribed medical provision, reduce their levels of offending dramatically.<sup>(28)</sup>



As with the crime costs associated with the illegal drug trade, its health costs, too, have a significant economic impact. Drugs bought through criminal networks are often cut with contaminants; dealers sell more potent and risky products; and high-risk behaviours such as injecting and needle sharing in unsupervised and unhygienic environments are commonplace. The resulting increases in hospital visits and emergency room admissions for infections, overdoses, and poisonings, combined with increased treatment requirements for HIV/AIDS, hepatitis and tuberculosis, can place a substantial additional burden on already squeezed healthcare budgets.

*“Prohibiting a market does not mean destroying it. Prohibiting means placing a prohibited but dynamically developing market under the total control of criminal corporations. Moreover, prohibiting a market means enriching the criminal world with hundreds of billions of dollars by giving criminals a wide access to public goods which will be routed by addicts into the drug traders pockets. Prohibiting a market means giving the criminal corporations opportunities and resources for exerting a guiding and controlling influence over whole societies and nations.”*

Lev Timofeev  
Economist and analyst of Russia's shadow economy  
2008

### 3. Undermining the legitimate economy

#### Corruption

Corruption inevitably flows from the huge financial resources that high-level players in the illicit trade have at their disposal. The power that comes with such resources enables drug cartels to secure and expand their business interests through payments to officials at all levels of the police, judiciary and politics. The potency of this corruption is enhanced by the readiness of some organised crime groups to use the threat of violence to force the unwilling to take bribes (as they put it in Mexico, “*plomo o plata*” – “*lead or cash*”). Corruption is also exacerbated by the vulnerability of targeted institutions and individuals, due to poverty and weak governance, in the regions where drug production and transit is concentrated.

- According to Transparency International's 2011 Corruption Perceptions Index, the world's two main opium producing nations, Afghanistan and Myanmar, have the second most corrupt public sectors in the world, both ranking at 180 on the list of 182 countries<sup>(29)</sup>
- In Mexico, the act of paying a bribe is often merely viewed as part of the cost of business, a tax of sorts which those involved in the trade must pay in order to circumnavigate the law. A 1998 Mexican study estimated that cocaine traffickers spent as much as \$500 million a year on bribery, more than the annual budget of the Mexican attorney general's office.<sup>(30)</sup> This figure has undoubtedly grown in recent years
- Drug money has been shown countless times to have a corrupting effect on law enforcement. In June 1995, the leader of Mexico's Sinaloa drug cartel, Hector “El Guerrero” Palma, was arrested while he was at the home of the local police commander. It was also found that the majority of the men protecting Palma were federal judicial police<sup>(31)</sup>

## Money laundering

The vast profits made from organised crime have to be hidden from law enforcement, which necessitates large-scale money laundering. Disguising the money's illicit origins, and making it appear legitimate, involves multi-tiered processes of placing the money within the financial system, reinvesting it, and moving it between jurisdictions.<sup>(32)</sup>

More specifically, the “dirty” money is “cleaned” through a range of methods, including the use of front companies, tax havens, internet gambling, international money transfer services, bureaux de change, transnational precious metal markets, real estate markets, and businesses with a high cash turnover, such as pizzerias and casinos.

Funds generated by the illegal drug market are also laundered through legitimate financial institutions such as international banking corporations. Many are seemingly unaware of the origins of these funds, yet in some cases banks have been complicit or implicated in criminal activity, showing wilful disregard for anti-money laundering laws (see box opposite).

The scale of laundered drug money is such that it has been suggested it may have even played a part in saving certain banks from collapse during the 2008 economic crisis. According to the former head of the UNODC, Antonio Maria Costa, there was strong evidence that funds from drugs and other criminal activity were, “the only liquid investment capital available to some banks at the time.” He said that, “inter-bank loans were funded by money that originated from the drugs trade,” and that, “there were signs that some banks were rescued that way.”<sup>(33)</sup>

Estimates of the value of global money laundering vary, due to the complex and clandestine nature of the practice and the fact that the proceeds of different criminal ventures are often intermingled.<sup>(34)</sup> However, available estimates do at least indicate the vast scale of the operations, with drug profits probably second only to fraud as a source of money laundering cash.

- In 1998, the International Monetary Fund estimated that total money laundering represents 2-5% of global GDP. In 2009, the UNODC put the figure at 2.7% of global GDP, or \$1.6 trillion<sup>(35)</sup>
- The UNODC has stated that the largest income for organised crime groups comes from the sale of illegal drugs, accounting for a fifth of all crime proceeds<sup>(36)</sup>
- According to a US Senate estimate in 2011,<sup>(37)</sup> Mexican and Colombian drug trafficking organisations generate, remove and launder \$18 billion and \$39 billion a year respectively in wholesale distribution proceeds

“The drugs trade has a range of terrible impacts on legitimate business. For example, there is not a level playing field: we cannot compete with associates of cartels who use their businesses to launder drug money. This is a major problem in tourism and real estate, and we also see it in agriculture and ranching. Businesses are also closing down because of extortion by the drug cartels, and in some areas most of the entrepreneurial class, doctors, skilled workers – basically anyone who can – has moved out.”

Armando Santacruz  
CEO, Grupo Pochteca, and Director of México Unido  
Contra la Delincuencia  
2012



## Macroeconomic distortions

At the macroeconomic scale, drug money laundering can have a profoundly negative effect. Criminal funds can distort economic statistics, with knock-on distortions in policy analysis and development.<sup>(38)</sup>

Another effect is drug money causing “Dutch disease”. As the UNODC has noted,<sup>(39)</sup> a large influx of illicit funds stimulates booms in certain sectors of the economy, leading

to the overvaluation of a country’s currency. This in turn makes the country’s exports more expensive, and imports relatively cheaper. The result is that domestic production decreases as local producers cannot compete with the cheap prices of imported goods.

## Banks and the illegal drug trade

Although legitimate businesses and financial services are often unaware of their involvement in laundering drug money, there is strong evidence that some of the world’s largest banks deliberately “turn a blind eye”, allowing the practice to continue.

### Wachovia<sup>(40)</sup>

In 2010, one of the largest banks in the United States, Wachovia, was found to have failed to apply proper anti-laundering strictures to the transfer of \$378.4 billion into dollar accounts from casas de cambio (Mexican currency exchange houses). According to the federal prosecutor in the case: “*Wachovia’s blatant disregard for our banking laws gave international cocaine cartels a virtual carte blanche to finance their operations.*”

For allowing transactions connected to the drug trade, Wachovia paid federal authorities \$110 million in forfeiture and received a \$50 million fine for failing to monitor cash which was used to transport 22 tons of cocaine. These fines, however, represented less than 2% of the bank’s profit in 2009.

### HSBC<sup>(41)</sup>

In 2012, HSBC was fined a record \$1.9 billion by US authorities for its complicity in laundering drug money. Despite the risks of doing business in the country, the bank put Mexico in its lowest risk category, meaning \$670 billion in transactions were excluded from monitoring systems. Among other cases, a Mexican cartel and a Colombian cartel between them laundered \$881 million through HSBC.

The US Department of Justice said the bank’s executives were not made to face criminal charges because the scale of HSBC’s assets, subsidiaries and investments meant doing so might destabilise the global financial system – in short, the bank was too big to prosecute

In the cases of both Wachovia and HSBC, money laundering has served to blur the boundaries between criminal and legitimate economies.

## Destabilising developing countries

The illegal drug economy is hierarchical in nature, with profits accruing to those at the top of the pyramid, while those who grow or manufacture the product receive very little by comparison. But drug profits not only fail to significantly impact on poverty in producer and transit countries, they also actively destabilise them by being used to finance regional conflicts, insurgencies and terrorism, and undermine state institutions at every level. The peasant farmers living in these countries also suffer economically, when drug crop eradications eliminate a trade on which they are heavily dependent. *(For more detail, see the Count the Costs development and security briefing.)*

## 4. The costs to business

The war on drugs is a major concern for legitimate businesses – particularly in producer and transit regions. They are burdened by a broad range of additional costs beyond the negative impacts on economic development and stability already mentioned. The examples below are from Mexico, a country on the front line of the drug war, but are applicable to varying degrees in every country significantly impacted by the illegal trade in drugs.

## Deterring investment

Corruption increases the cost of doing business, and creates uncertainty over the credibility of contracts. This discourages investment in affected regions and can greatly reduce competitiveness in global markets. Studies have shown that aggregate investment is 5% lower in countries identified as being corrupt. For Mexico, this translates into investment losses of up to \$1.6 billion annually.<sup>(42)</sup>

Drug-related violence and conflict is an additional deterrent for investors. Transnational corporations in particular do not want to employ personnel in an environment in which they may be in jeopardy, or in which they would have to pay inflated salaries to compensate for the risks involved. A 2011 survey in Mexico of more than 500 business leaders by the American Chamber of Commerce revealed that 67% felt less safe doing business in Mexico compared with the previous year.<sup>(43)</sup>

Migration is a further consequence of violence, as people move away to safer regions out of fear for their lives. In Tamaulipas in Mexico, drug-war migration has left virtual ghost towns across the region and many businesses have relocated as a result.<sup>(44)</sup>



Drug profits are used by criminal organisations to enhance their power and undermine institutions in developing countries

Drug cartels empowered by drug profits have expanded into other forms of criminality. In Mexico, extortion has become a growing problem. The cartels often act with near-impunity, deploying threats of extreme violence (often very publicly carried out) if payments are not made. It has been estimated that 85% of Mexico's extortion cases go unreported.<sup>(45)</sup> Rather than report the crime to police (who have themselves sometimes been implicated in extortion rings), or risk violent reprisals from criminals, many small business owners who are unable to pay up, simply decide to close down.<sup>(46)</sup>

### Unfair competition

Front companies that launder illicit drug money do not need to turn a profit, and so may squeeze legitimate competitors out of the market by underselling goods or services. Consequently, there is the potential for entire sectors to come under the unique control of illegal enterprises.<sup>(47)</sup>

Especially during difficult economic times, with high inflation and interest rates, legitimate businesses can struggle to obtain the cash they need to survive. By contrast, liquidity is not a problem for those with access to laundered drug money. In this environment, many companies either go under, or fall into the hands of drug trafficking organisations.<sup>(48)</sup>

Underlining the extent to which drug money provides an unfair financial advantage, a number of drug cartel leaders have featured on the Forbes World Billionaires List. As Forbes itself has said: *"The reason for including these notorious names has always been, and continues to be, quite simple: they meet the financial qualifications. And they run successful private businesses – though their products are quite illegitimate."*<sup>(49)</sup>

### Increasing sector volatility

Legitimate business can be threatened by the unreliable nature of the funds generated by the illicit drug trade. Investments made by dealers and traffickers often depend on the continuation of their illegal activity. However,

once their income streams have been disrupted by law enforcement or rival criminal enterprises, they may no longer be able to meet the terms of their investment. This leads to boom and bust cycles in sectors that are often targets for drug money, such as construction and real estate, again with serious repercussions for local or regional economies.<sup>(50)</sup>

## Are there benefits?

Substantial, indeed growing, enforcement expenditure is delivering the opposite of its stated goals – to say nothing of the wider, uncounted costs it produces. But while the average taxpayer has little to show for their investment in the war on drugs, there are those in society who have benefitted economically from it, and these groups should not be overlooked when analysing the value and impact of current policy.

- In producer countries, state security agencies and the military often benefit greatly from increased enforcement efforts. In Colombia, for instance, defence expenditure increased from 3.6% of GDP in 2003 to 6% in 2006. This resulted in an actual increase of security forces from 250,000 (150,000 military plus 100,000 police) to 850,000 over the four years<sup>(51)</sup>
- Manufacturers of military and enforcement technology profit financially from the expansion and increased militarisation of drug law enforcement
- The prison systems of many major consumer countries – in many cases involving profit-making enterprises – can benefit from the increased incarceration of drug offenders. For example, in the US, as the number of those imprisoned on drug charges soared in the 1980s, so too did prison spending – by approximately 127% between 1987 and 2007<sup>(52)</sup>

In addition, the illicit market itself has benefitted certain populations:

- Although the farmers who cultivate illegal crops are

by no means rich, and are exposed to considerable risks, the drug crops provide better returns than most licit crops, as well as being more easily stored and transported (compared to fresh fruit or vegetables, for example). In Mexico, one kilo of corn, as of 2007, has a market value of four pesos. A kilo of opium, meanwhile, can fetch up to 10,000 pesos<sup>(53)</sup>

- The profits from the illegal market have also been shown to trickle down into the licit economy in other ways. For example, Colombian drug smugglers' demand for luxury villas has significantly benefitted the construction business<sup>(54)</sup>
- People with criminal records or no qualifications, who struggle in the legal job market, are often able to find work in the criminal trade operating on their doorstep. Even low-level dealing, for example, can be relatively profitable, paying substantially more than most minimum-wage jobs
- According to a detailed economic analysis of Colombia's drug economy, only 2.6% of the total street value of cocaine produced there remains within the country. The other 97.4% of profits are reaped by criminal syndicates, and laundered by banks, in consumer countries<sup>(55)</sup>

## How to count the costs?

The economic impacts and implications of drug law enforcement have never been adequately assessed. Evaluations of current drug policy tend to be heavily skewed towards process measures, such as arrests and seizures. These tell us how laws are being enforced, but provide no indication of outcomes in terms of impacts on drug availability, drug-related health costs, or wider social and economic costs.

Economic analysis lends itself to precisely this kind of challenge, yet it is studiously avoided by those implementing current policies. Few governments have ever conducted a cost-benefit analysis of drug policy; commissioned an

independent audit of enforcement spending; undertaken an impact assessment of the primary legislation; or explored alternative policy approaches or legal frameworks that might offer better value for money.

The problem, however, appears to be a political rather than practical one. In some cases, political constraints or legal mandates actively prevent exploring alternatives.<sup>(56)</sup> When those responsible for developing and implementing drug policies are unable to assess options that at least have the potential to deliver better economic outcomes (whether one agrees with them or not), it is clear that we are operating in a political arena shaped by something other than evidence of cost-effectiveness.



Major financial institutions have been complicit in the illicit drug trade (Photo credit: Herve Boinay)

## Conclusions

The majority of drug law enforcement is exceptionally poor value for money. At a time of great economic stricture, spending billions of dollars a year of scarce public resources on demonstrably ineffective and frequently counterproductive drug policies appears impossible to justify.

But it is not just about the poor value for money of prohibition, and its opportunity costs in terms of investment in health and social development. These policies, and the criminal markets they have created, have a direct negative impact on the economies of producer and transit countries – by deterring investment, harming legitimate businesses, and undermining governance through corruption and violence. In a globalised world, this has a knock-on effect for any company – or country – seeking to do business in affected regions.

Despite well-intentioned attempts to restrict access to drugs, it is now clear that with easily cultivated agricultural commodities grown in a world with no shortage of poor and marginalised people willing to produce, transport or sell them in order to survive, short of ending global poverty and drug demand, there is no realistic hope of eliminating supply.

It is important to recognise that the war on drugs is a policy choice. That is why political leaders across the world are beginning to call for other options – including less punitive enforcement, decriminalisation, and models of legal market regulation – to be debated and explored using the best possible evidence and analysis. Without question this should include assessing the economic impacts.

## References

### Quotes:

#### Lord Adair Turner

WWF Founders' Memorial Lecture, 05/11/03, quoted by the 2012 UK Home Affairs Select Committee Inquiry into Drug Policy.

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmhaff/184/18408.htm>

#### Barack Obama

Nakamura, D., *'Obama Urges High Court Not to Scuttle Health Reform'*, USA Today, 2012.

[http://usatoday30.usatoday.com/uscp/pni/front%20Page/2012-04-03-bcobama\\_st\\_u.htm](http://usatoday30.usatoday.com/uscp/pni/front%20Page/2012-04-03-bcobama_st_u.htm)

#### Lev Timofeev

Glenny, M., *McMafia: a Journey through the Global Criminal Underworld*, 2009, p. 225.

#### Armando Santacruz

*'The Cost of the War on Drugs'*, Al Jazeera, 15/04/12.

<http://www.aljazeera.com/programmes/countingthecost/2012/04/20124158040361814.html>

### In-text references:

1. UNODC, *'2008 World Drug Report'*.  
[http://www.unodc.org/documents/wdr/WDR\\_2008/WDR\\_2008\\_eng\\_web.pdf](http://www.unodc.org/documents/wdr/WDR_2008/WDR_2008_eng_web.pdf)
2. UNODC, *'2005 World Drug Report'*.  
[http://www.unodc.org/pdf/WDR\\_2005/volume\\_1\\_web.pdf](http://www.unodc.org/pdf/WDR_2005/volume_1_web.pdf)
3. To compare the value of the global drug trade with the GDP of many individual countries, see data from the World Bank: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>
4. Tree, S., *'The War at Home'*, 2003.  
<http://www.commondreams.org/views03/0429-09.htm>
5. UNODC, *'2008 World Drug Report'*, p. 216.
6. Mendoza, M., *'U.S. drug war has met none of its*

- goals', MSNBC, 13/05/2010.  
[http://www.msnbc.msn.com/id/37134751/ns/us\\_news-security/t/us-drug-war-has-met-none-its-goals/#.T6PiJeiJeVo](http://www.msnbc.msn.com/id/37134751/ns/us_news-security/t/us-drug-war-has-met-none-its-goals/#.T6PiJeiJeVo)
7. Office of National Drug Control Policy, '*National Drug Control Strategy, 2010*', p. 109.  
[http://www.whitehouse.gov/sites/default/files/ondcp/policy-and-research/ndcs2010\\_0.pdf](http://www.whitehouse.gov/sites/default/files/ondcp/policy-and-research/ndcs2010_0.pdf)
  8. Miron, J. and Waldoock, K., '*The Budgetary Impact of Ending Drug Prohibition*', CATO Institute Paper, 2010. (Note: estimate is based on ascertaining the percentage of crimes which were drug-related and multiplying that percentage by the total expenditure on criminal justice at state and local levels.)  
<http://www.cato.org/pubs/wtpapers/DrugProhibitionWP.pdf>
  9. Davies, C. et al., '*United Kingdom drug situation: annual report to the EMCDDA 2011*' (UK Focal Point Drug Situation Report 2011 Edition). (Note: figure provided is £1.07 billion for 2010/11.)  
<http://www.nwph.net/ukfocalpoint/writedir/a5e8focual%20Final%20report%202011.pdf>
  10. '*Official working document for use in developing new Drug Strategy, "Drugs Value for Money Review", 2007 [not an official statement of govt. policy]*'. (Note: figure provided is £1.1 billion for 2006/2007, which includes Ministry of Justice expenditure on drugs (including prisons, probation and court service costs, even "reactive" ones) but excludes all police costs (including direct costs of dealing with supply and possession, i.e. "proactive" costs.)  
[http://www.homeoffice.gov.uk/about-us/freedom-of-information/released-information/foi-archive-crime/8908\\_Drug\\_value\\_money\\_report\\_07?view=Binary](http://www.homeoffice.gov.uk/about-us/freedom-of-information/released-information/foi-archive-crime/8908_Drug_value_money_report_07?view=Binary)
  11. Eaton, G. et al., '*United Kingdom drug situation: annual report to the EMCDDA 2007*' (United Kingdom Focal Point Report 2007).  
<http://www.nwph.net/ukfocalpoint/writedir/527a2007%20FP%20Annual%20Report.pdf>
  12. Keefer, P. and Loayza, N., '*Innocent Bystanders: developing countries and the war on drugs*', World Bank, 2010, p. 11.  
[http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2010/03/25/000333037\\_20100325005015/Rendered/PDF/536410PUB0Inno101Official0Use0Only1.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2010/03/25/000333037_20100325005015/Rendered/PDF/536410PUB0Inno101Official0Use0Only1.pdf)
  13. Belasco, A., '*The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*', 2011.  
<http://www.fas.org/sgp/crs/natsec/RL33110.pdf>
  14. Moore, T., '*The size and mix of government spending on illicit drug policy in Australia*', Drug and Alcohol Review, July 2008.
  15. See: UNODC, '*2010 World Drug Report*' (<http://www.unodc.org/unodc/en/data-and-analysis/WDR-2010.html>), ODCCP, '*Studies on Drugs and Crime: Global Illicit Drug Trends 2002*' (<http://www.unodc.org/unodc/data-and-analysis/WDR.html>), and Reuter, P. and Trautmann, F. (Eds), '*A Report on Global Illicit Drug Markets 1998-2007*', European Commission, 2009.
  16. Caulkins, J.P. and Chandler, S., '*Long-Run Trends in Incarceration of Drug Offenders in the US*', 2005, p. 8. Heinz Research. Paper 21.  
<http://repository.cmu.edu/heinzworks/21>
  17. Office of National Drug Control Policy, '*The Economic Costs of Drug Abuse in the United States: 1992-2002*', Washington, 2004.
  18. Waterfeld, B., '*Maastricht loses "£26 million-a-year" after drug tourism ban*', The Daily Telegraph, 03/11/2011.  
<http://www.telegraph.co.uk/news/worldnews/europe/netherlands/8867662/Maastricht-loses-26-million-a-year-after-drug-tourism-ban.html>
  19. Miron, J. and Waldoock, K., op. cit.
  20. UNODC, '*2005 World Drug Report*', p. 127.
  21. Ibid., p. 17.
  22. UNODC, '*2011 World Drug Report*', p. 17.  
<http://www.unodc.org/documents/data-and->

- analysis/WDR2011/WDR2011-web.pdf
23. Ibid., p. 16.
  24. Fritter, R. and Kaplinsky, R., 'Who gains from product rents as the coffee market becomes more differentiated? A value chain analysis', IDS Bulletin Paper, 2001.
  25. Wilson, L. and Stevens, A., 'Understanding drug markets and how to influence them', The Beckley Foundation, 2008, p. 2.  
[http://www.beckleyfoundation.org/pdf/report\\_14.pdf](http://www.beckleyfoundation.org/pdf/report_14.pdf)
  26. Ibid.
  27. Transform Drug Policy Foundation, 'A Comparison of the Cost-effectiveness of Prohibition and Regulation of Drugs', 2009.  
<http://tdpf.org.uk/cost-effectiveness-report.htm>
  28. Csete, J., 'From the Mountaintops: What the world can learn from drug policy change in Switzerland', Open Society Foundations, 2010.  
[http://www.soros.org/initiatives/drugpolicy/articles\\_publications/publications/csete-mountaintops-20101021](http://www.soros.org/initiatives/drugpolicy/articles_publications/publications/csete-mountaintops-20101021)
  29. Transparency International, 'Corruption Perceptions Index 2011'.  
<http://cpi.transparency.org/cpi2011/results/>
  30. Andreas, P., 'The Political Economy of Narco-Corruption in Mexico', 1998, p. 161.  
[http://www.brown.edu/Departments/Political\\_Science/people/documents/ThePoliticalEconomyofNarco-CorruptioninMexico.pdf](http://www.brown.edu/Departments/Political_Science/people/documents/ThePoliticalEconomyofNarco-CorruptioninMexico.pdf)
  31. Ibid., p. 162.
  32. Sheptycki, J. (Ed), *Issues in Transnational Policing*, London: Routledge, 2000.
  33. 'Drug money saved banks in global crisis, claims UN advisor', The Observer, 13/12/09.  
<http://www.guardian.co.uk/global/2009/dec/13/drug-money-banks-saved-un-chief-claims>
  34. Stessens, G., *Money laundering: a new international law enforcement model*, 2000, p. 14.
  35. UNODC, 'Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes', 2011, p. 5.  
[http://www.unodc.org/documents/data-and-analysis/Studies/Illicit\\_financial\\_flows\\_2011\\_web.pdf](http://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf)
  36. Ibid.
  37. United State Senate Caucus on International Narcotics Control, 'U.S. and Mexican Responses to Mexican Drug Trafficking Organizations', 2011.  
<http://drugcaucus.senate.gov/Mexico-Report-Final-5-2011.pdf>
  38. UNODC, 'Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes', 2011, p. 115.
  39. Ibid., p. 111.
  40. Vulliamy, E., 'How a big US bank laundered billions from Mexico's murderous drug gangs', The Guardian, 03/04/11.  
<http://www.guardian.co.uk/world/2011/apr/03/us-bank-mexico-drug-gangs>
  41. Viswathana, A. and Wolf, B., 'HSBC to pay \$1.9 billion in US fine in money-laundering case', Reuters.  
<http://www.reuters.com/article/2012/12/11/us-hsbc-probe-idUSBRE8BA05M20121211>
  42. Rios, V., 'Evaluating the economic impact of drug traffic in Mexico', 2007, p. 11.  
[http://www.gov.harvard.edu/files/MexicanDrugMarket\\_Riosv2-14.pdf](http://www.gov.harvard.edu/files/MexicanDrugMarket_Riosv2-14.pdf)
  43. American Chamber of Commerce, 'The impact of security in Mexico on the private sector', 2011.  
<http://mexicomxcoc.weblinkconnect.com/cwt/external/wcpages/wcwebcontent/webcontentpage.aspx?contentid=7302>
  44. Rios, V., op. cit.
  45. ICESI, 'El Costo De La Inseguridad En México Seguimiento 2009', 2011.  
[http://www.insyde.org.mx/images/costo\\_de\\_la\\_inseguridad\\_2011\\_icesi.pdf](http://www.insyde.org.mx/images/costo_de_la_inseguridad_2011_icesi.pdf)
  46. Cullinan, J., 'How Extortion Rates Vary Across Mexico', Insight Crime, 12/09/11.  
<http://insightcrime.org/insight-latest-news/>

item/1539-how-extortion-rates-vary-across-mexico

47. International Narcotics Control Board, 'Annual Report 2002', p. 6.  
[http://www.incb.org/pdf/e/ar/2002/incb\\_report\\_2002\\_1.pdf](http://www.incb.org/pdf/e/ar/2002/incb_report_2002_1.pdf)
48. Ferragut, S., *A Silent Nightmare*, 2007, p. 164.
49. Carlyle, E., 'Billionaire Druglords: El Chapo Guzman, Pablo Escobar, The Ochoa Brothers', Forbes Online, 13/03/12. <http://www.forbes.com/sites/erincarlyle/2012/03/13/billionaire-druglords-el-chapo-guzman-pablo-escobar-the-ochoa-brothers/>
50. UNODC, 'Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes', 2011, p. 114.
51. Keefer, P. and Loayza, N., op. cit., p.13.
52. 'Resolution of the National Association for the Advancement of Colored People', 2010.  
[http://naacp.3cdn.net/490c0e745657904795\\_19m6b9x7h.pdf](http://naacp.3cdn.net/490c0e745657904795_19m6b9x7h.pdf)
53. Rios, V., op. cit., p.7.
54. Rios, V., op. cit., p.9.
55. Gaviria, A. and Mejia, D. (Eds), *Anti-Drugs Policies In Colombia: Successes, Failures And Wrong Turns*, Ediciones Uniandes, 2011.
56. For example, the UN conventions do not allow for experiments with legal regulation. Similarly, see: 'sec. 704. Appointment and duties of director and deputy directors', in the US Reauthorization Act of 1998, which states: "no Federal funds appropriated to the Office of National Drug Control Policy shall be expended for any study or contract relating to the legalization (for a medical use or any other use) of a substance listed in schedule I of section 202 of the Controlled Substances Act."  
<http://www.whitehouse.gov/ondcp/reauthorization-act>

**The War on Drugs: Count the Costs** is a collaborative global project supported by organisations and experts from all sectors impacted by our approach to drugs, including: international development and security, human rights, health, discrimination and stigma, crime, the environment and economics.

**For more information, including on how you can get involved, visit:**

**[www.countthecosts.org](http://www.countthecosts.org) or  
email [info@countthecosts.org](mailto:info@countthecosts.org)**

Figure 1: Based on data from Matrix Knowledge Group, 'The illicit drug trade in the United Kingdom', *Home Office Online Report*, 2007.

<http://webarchive.nationalarchives.gov.uk/20110220105210/rds.homeoffice.gov.uk/rds/pdfs07/rdsolr2007.pdf>

**Acknowledgements and thanks to:**

Steve Rolles, Danny Kushlick, Martin Powell, George Murkin (Transform Drug Policy Foundation).