

*Question: What is the most effective way to reduce drug cartel power and minimize their negative effects?*

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Abstract: Exploring the world of drug cartels through the context of an economic industry, this paper aims to understand and analyze the drug trade and its impact on civilians well being. This paper develops a blueprint to stop cartels' negative effects by showing a plan to change enforcement, policy and consumer action. The true impact of cartels and the role consumer societies play in the suffering of those near the drug trade is exposed to the intended audience: western readers. In doing this, there is hope that consumers will authentically reevaluate how they perceive the drug trade and their own role in it. The most effective way to minimize the power of drug cartels is by using economic analysis to reduce negative effects created by an unregulated market, putting money into an industry that relies on violence as a method and ineffective supply-side tactics. In order to accomplish these governments must focus on economic forces and demand-side intervention instead of the supply-side "war on drugs" mentality.

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## Part I: Introduction

When an industry is worth \$300 billion<sup>1</sup>, has 450,000 direct employees, 3.3 million people live on money generated by it and the commodity sold has an almost \$800 per gram markup when it reaches the free soil of U.S.; no matter what the risk, or price to pay, people will run that market until it's into the ground. The underground drug market is one of the most lucrative, high risk, high reward businesses in the world and every day more and more people are willing to risk their lives to be a part of it. Within the drug trade, there are four main affected groups: the cartels, manufacturers, consumers, and law enforcement that have the seemingly impossible task of taking down these massive international corporations. Cartels are evident all over the world however this paper intends to highlight specifically those that operate in Mexico.

From every perspective, the primary consensus is that the situation in Mexico and other drug infested areas, are getting worse. Violence is going up while the price of drugs is going down. Beheadings and torture have become commonplace for some Mexican cities, and since the war on drugs in Mexico was declared in 2006, 200,000 people have lost their lives. Mexican drug cartels can be effectively analyzed through the eyes of an economist as certain effects can be traced back to causes. Understanding how cartels operate and the effects of those operations is a key piece in facing them. A black market is harmful for any economy because it is not taxed or regulated, but important understanding can be made by using ordinary business analysis.

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<sup>1</sup> More than Walmarks' net worth

accomplish this governments must focus on economic forces and demand-side intervention instead of the supply-side "war on drugs" mentality.

## Part II: Historical Background and Context

Mexican and Colombian drug trafficking organizations (DTOs) have been around since before the '70s. In the mid-1900s, Colombian Cartels ran the supply chain, but as time passed the power dynamic changed and moved North to Mexican cartels. Throughout time the market has shifted, and DTOs evolved to deadly cartels that continue to thrive today. The Department of Justice labels a drug cartel as essentially a large and highly sophisticated organization that is composed of multiple cells with specific assignments such as drug transportation, security/enforcement, or money laundering. (Drugs)

Cartels that are prominent in the industry have an immense impact on the societies in



which they operate and sell.

Consistently in the past decade alone, Mexican Drug cartels have had an extremely strong foothold in western markets and Mexican law enforcement. The prominent nine cartels with DTO links

Fig.1: (AFP)

includes, Tijuana/Arellano Felix Organization (AFO), Juárez/Carrillo Fuentes Organization Gulf Los (Gulf cartel), Beltrán Leyva Organization (BLO), La Familia Michoacana (LFM), Knights Templar, Cartel Jalisco-New Generation (CJNG), Los Zetas and the Sinaloa cartel. These groups control the worlds illicit drug trade stationed in Mexico (fig. 1) and increasingly gain allies with US gangs. Between 2006 and 2012, over 48,000 people lost their lives to the drug trade, and this does not include missing persons cases or orphans caused by the violence. Cartels also threaten the security of Mexico and its political system with corrupt politicians and police officers, by dabbling into other dangerous fields like human trafficking and extortion while enabling millions of users. Collateral effects of the drug trade are prominent south of the United States border, but for U.S citizens, having an unregulated large scale industry supplying drugs can also have some negative effects.

The growth of the drug industry points to an inexorable demand for unregulated drugs that doesn't seem to be going anywhere anytime soon. Users that take illicit substances pose a threat to themselves and the society because drugs alter actions which can be dangerous and can cause life threatening addictions. Despite these problems, the rate of use in the U.S is extremely high. The National Survey on Drug Use and Health (NSDUH) recently reported that 4.6 million people in the United States used some kind of illicit drug in the past 30 days and about 9.4 percent the population 12 and over are involved in the use of illegal drugs or the nonmedical use of prescription drugs. In most countries in the Americas prohibition is strongly clung to meaning the drug market will remain unregulated and the control over the horror of addictions and drugs will remain in the hands of cartels.

One problem with this is the motives of cartels are to move product and make money doing

whatever necessary to accomplish this efficiently. Ordinary regulated businesses are faced with consequences through the legal system that cartels are not associated with, making motives for ordinary business to be efficient within the rights of the law. For instance, if Coca Cola started legally selling cocaine again, their motive would be on user safety as well as production and profit. Cartels do not have safety for staff or users as an important factor in their business models, creating risk to the already dangerous substances being sold. The drug industry is harmful throughout the supply chain and continues to bring harm even after entering the systems of consumers.

At the same Mexican cartels grew and advanced, the offensive against them did the same. Despite violence between drug cartels occurring for three decades, in the 1980s through the early 2000s the Mexican government held a generally passive stance regarding cartel violence. In 2000, Presented Vicente Fox unseated the Institutional Revolutionary Party, a single dominant party system to a PAN or multiple party system. President Felipe Calderon took office next in 2006 being the first president to launch a serious national offensive against drug trafficking. In the new PAN system Calderon ruled under, municipal, state and federal forces answered to authorities in different dominant parties instead of the same, which lead to fragmentation. Calderon and Fox were criticized for the related homicide rate increase caused by this party change and Calderon's offensive. Calderon redirected money in other sectors to put into his drug offensive, increasing police, military and resources like weapons. Operations during the Calderon term were all based on forcefully defeating cartels. For example, Operation Michoacán launched in 2006 against the La Familia Michoacana cartel employed the most federal and municipal forces. The mission resulted in a total of more than 60 Mexican soldiers,

100 police officers, and 500 cartel gunmen being killed (Grillo). Offensives like this became more common after the Calderon term and the United States supported funding. As Mexico continues to face the drug war, the challenges of their supply-side tactics are difficult to control and have an extremely high cost of money and lives.

### Part III: Research and Analysis

#### *Cartels:*

The most obvious role being played in the drug trade is that of the cartels themselves, overseeing the supply chain from the making to the selling of illicit substances. The complexities of cartels and how they have grown to gain this much power and money can be examined much like the operations of any other industry. Cartels are like any other corporation when it comes to the advantages of offshoring, turnover problems, use of PR, the human resourcing headache and competition incorporated into their practice. How these illicit enterprises go about molding the related economic concepts gives insight into creating a blueprint to dismantle them.

Cartels market and advertise much like any ordinary business just for a different reason. Mexican citizens throw parades for one of the most infamous leaders in the drug world, Joaquin or Shorty Guzman commonly known as El Chapo: “Norteno musicians played trumpets while high school students in uniforms held up signs reading ‘We want Chapo free’ and ‘We Love Chapo’ as they paraded in Culiacan, the capital of Sinaloa state, which is the cartel's bastion”(Duran). The kingpin of the Sinaloa Cartel can be indirectly connected to hundreds of brutal murders throughout rivalry or general business and directly linked to hundreds more, yet he is praised being called Valientes or brave one. Even those trying to stop his destructive path

are referred to as Gauchos which means servant. How does one blur the line between murder and hero? The answer lies within the undeniably genius tactic of Public Relations (PR) and Corporate Social Responsibility (CSR).

Cartels use of PR and CSR can be seen throughout the streets of Mexico and have had much success in shaping their image. Professional black letters printed on a bridge in Ciudad Juarez to inform, “ALL CITIZENS, Through this medium, I wish to clarify that I do not order the killing of children and women. I do not condone extortion or kidnapping. Those that are responsible for totally destroying the state are the members of La Linea. La Linea will kill for just 1,000 pesos of extortion costs”(Campbell 14). Written and stamped by the Sinaloa cartel, this message targets the local Juarez cartel and their killing contractors La Linea. Why would a cartel have to prove itself to those forced to be associated with them by just living there? Look at Walmart for example, being a large company with a mixed reputation, it spends a lot on public relations each year. Public Relations also known as PR is the practice of managing the spreading of information. Walmart can be an almost perfect comparative means to measure how PR can really affect business. Opposition to Walmart’s low wages, inadequate healthcare, discrimination, human rights violations, and environmental impacts have made Walmart a symbol of too much power in too few hands. With PR, whether the allegations against Walmart are true or not, their image can be controlled to some extent. The slogan itself “Save money, live better”(Global) is a subtle PR tactic while patting themselves on the back for lower prices despite what may be behind the scenes. For instance, it is almost hysterical how ironic it is to explore the Walmart website. In doing so a tab can be found titled, “Global responsibility: using our strengths to make a difference”(Global). Its mission can be summarized into goals that aim to create a sustainable

community and environment that benefits the people as well as the business. More tabs lead to projects Walmart has spent a pretty penny on and more to come. This is a tactic the business world refers to as acts of Corporate Social Responsibility (CSR). Whether Walmart held up those practices within their own operations no longer matters because, buyers think; how can people be bashing this company that is working tireless on environmental sustainability and moral values? In truth, the things Walmart is doing for the global cause are not bad, but the reason they are is. Walmart does what economists call crisis management where they wait for a crisis to emerge and play the hero card when they swoop in with resources to save the day — but it works. A study posted by the journal of *Consumer Marketing* aiming to find consumers perception of green products looked into the environmental aspects of Walmart and their products and found that despite their preachy blog pages and products labeled environmentally friendly, most of them were not. There is a minuscule difference in Walmart's environmentally conscious products yet the study found that "consumer perception of product quality, value, and purchase intentions differ significantly between products with positive environmental messages and those without any message"(Rajagopalan 12). Instantly consumers feel better about shopping and Walmart has shifted the perception of its branded values.

Cartels do PR often with messages similar to the Sinaloa's, which specifically was to gain territory and inadvertently cover up the cartels own brutality by showcasing their rivals. Cartels are motivated to create positive relations with community members because it makes it easier to operate without communities infringing. Kingpins with extensive money even use Walmart's exact tactic of small or large acts of philanthropy with attempts to fill institutional voids. An institutional void defined by Tarun Khanna in his book, *Winning in Emerging Markets*,



and again in an essay about overcoming them, refers to the “absence of intermediaries or institutional constructs such as market research firms, credit card systems to efficiently connect buyers and sellers, road systems and more”(Khanna et al.). Many organized criminal groups portray themselves as heroes by protecting people in areas where the government lacks protection. Pablo funded a gang called “Muerte a Secuestradores” or “death to kidnappers”. Claiming to only target killers and kidnappers this gang made the public feels safe and therefore trust the cartel (Wainwright 95). This is where El Chapo's fans are coming from, "We support Chapo Guzman because he is the one who gives us jobs and helps out in the mountains,"(Duran). In impoverished countries the jobs he has brought almost seems to be worth more in the perspective of his supporters than the harm those jobs cause. Making businesses like Walmart and cartels seem morally just in order to increase consumer base and secure a place in the market has been substantially successfully.

PR doesn't stop there, the perception of famous drug dealers in the U.S are often romanticized as displayed in the 1970 movie *Blow* starring Johnny Depp, a high school football player that became one of the world's largest cocaine importers. Blurring the image of cartel murders to pop culture icons has a dangerous effect for the drug problem because the depth of the problem is masked and people are less likely to care about stopping it. The more involved in the lives of those around territories cartels have or want, the harder they are to be taken down and pushed out of desired territories. Look at the parades; most people support the jobs El Chapo brings which steers them away from the murderous tendencies and violence he has brought. Cartels ensure that ordinary people benefit from their work by using PR and CSR, in order to benefit themselves in the long run. When civilians have loose ties or positive feelings about the

cartel leaders, it makes it increasingly difficult for enforcement to fight them. Fewer people wanting a change gives less opportunity for it to happen.

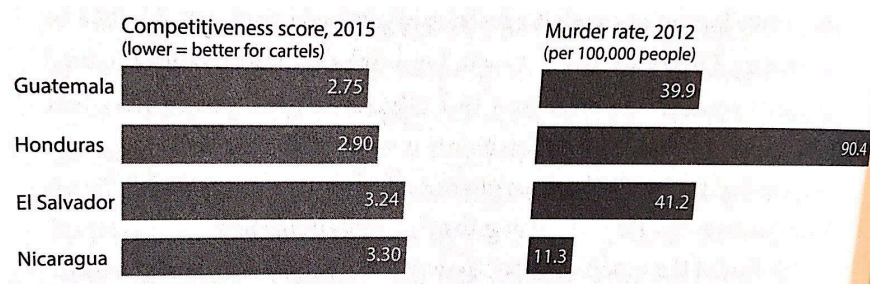
Aside from shifting perspectives in their favor, they also shift operating bases according to easy laws and opportunity in countries away from home. Once again offshoring is not unique to the underground market. Offshoring is the practice of moving a business' operations to a foreign location. In the late twentieth century, this was a trend that caught on widely due to the enigneering of international transportation and communication. During the transition of globalization, the North American Free Trade Agreement was signed by Canada Mexico and the U.S. in 1994. These agreements objectives were,

“as elaborated more specifically through its principles and rules, including national treatment, most-favored-nation treatment and transparency, are to: eliminate barriers to trade in, promote fair competition, increase sustainability imitative, protect property rights, and to establish the initial framework that trilateral, regional and multilateral cooperation to expand on”(North).

In 2000-2003, manufacturing power shifted to east and south for wealthy countries looking for a cheaper means to produce than on their own soil. For an educated business owner, national borders are a thing of the past and the most lucrative places will be used for their benefit. Within the first three years of the 2000s, 60,000 factories were built by foreign entities in China alone. Western consumers took a liking to the offshoring boom as they found themselves being charged less for Chinese computers and Bangladesh clothes than if they were to be locally made. Companies are able to save big on cheap labor and marginally decrease prices. In recent years, cartels have also reaped the benefits of switching to offshoring their production to Latin

American countries that offer relaxed laws, and cheap land available. When Mexico began suppressing trade, finding weak police forces and corruptible businesses was a priority for cartels. With so many places that show prospect, how do both illegal and legitimate multinationals decide where to go?

Economic Institutions have created a country to country analysis detailing how easy they will be to operate in from a business point of view. The World Economic Forum published one: “Global competitiveness report” that analyzes almost 200 countries based on how long it takes to register a firm, how many forms there are, how expensive taxes and land are and other things to this nature. Countries were put onto a rating system. A good place to move operations is given a high score and a bad one a low score; the choices can be narrowed down dependent on personal preferences beyond that. Drug cartels, though not worrying about forms and taxes can still use the analysis to make a connection between high scoring countries and their stability. Legitimate businesses want a stable enough environment to have legal support and low crime rates to not interfere with their operations. Cartels want the exact opposite. The less stable the legal force is the better it is for the illicit market to thrive. In this case, lower scoring countries on the same scale and analysis will be better for cartels and vice versa. To prove this is what is actually happening, Tom Wainwright made a graph comparing the competitiveness score of a country given by the World Economic Forum and the murders rate of that same country. Violence is generally a good proxy measurement for criminal activity because it tends to flare up showing where cartels have moved operations to. Wainwright chose specifically to look at Latin American countries being in the middle of production and sale of the supply chain — a common place to offshore. In figure 2,



(remember the lower scores are more lucrative for cartels) the murder rate (per 100,000 people) is at 90.4 in El

Fig.2: (Wainwright 120)

Salvador which has a 3.24 rating. In Costa Rica, which has a 4.25 rating, the murder rate is only 8.5. As predicted, the lowest global competitiveness rated counties have the highest murder rates implying cartel activity(Wainwright 120). Inflicted countries that bear the effects of cartels like increased murder rates and corruption include places like Guatemala, Honduras, El Salvador and Nicaragua. Central America has felt the pressures of the global market in many ways being the only passage of land in between South and North America, but cartels bring a market that has abused and left the counties to suffer. Another instance of cartel success, specifically through offshoring, has left surrounding societies to deteriorate while those operating the chain get to bask in the profits.

Supply-side offensives that have been widely used in Mexico have been ineffective and extremely costly in money and lives. To enforce the drug laws and attempt to deplete its black market, the Mexican Government went through many leaders challenged with the task. Felipe Calderon in 2006 declared a literal war on drugs and began tactics bent on increasing drug raids, assassinating or arresting king pins (cartel decapitation), and increasing police forces in hotbed



towns struck with cartel violence. Calderon brought military offensives to new levels in his term deploying over 96,000 soldiers and

16,000

Fig. 3 (Wainright 45)

Mexican marines into his drug campaign (Grillo 260). He also is known for being the first president to hold power outside of the PRI system. As for the tough enforcement, Calderon had met every goal he set out to meet by the end of his term with few exceptions. 27 out of 30 (fig 3) of the main cartel leaders targeted were eliminated or placed in jail within the six years of his term. Aerial spraying and raids also eliminated and seized 23 tons of cocaine and 207 million dollars while he was in office (Wainright 60). Seemingly effective on paper, Calderon's presidency will still go down in history as one of the deadliest seeing as it leads to 50,000 cartel-related deaths, and inflamed the situation in Mexico exponentially. In reality, "He neither significantly impacted their ability to traffic drugs nor increase the sense of security among most Mexicans. The total homicide rate shot up from about 8,800 in 2007, his first year in office to more than 26,000 in his last in 2012" (Grillo 261). The kingpin strategy implemented by the Mexican government has incapacitated numerous top- and mid-level kingpins in all the dominant DTOs however, with political decentralization, this strategy contributed to multiple violent power struggles, shifting alliances among the cartels, and a proliferation replacement of current leaders and criminal organizations with even more violent ones. This strategy, which is also known as cartel decapitation is the main reason Calderon's offensives failed so miserably. The new succession struggles created by a vacuum ends up being less effective and more violent than doing nothing. For instance after Beltran Leyva, the commander of a bloodthirsty criminal group, was killed in December 2009, the homicide rate increased from 259 to 487 that next year. One of his replacements was his own hitman Oscar Osvaldo Garcia who when arrested in 2011 admitted

to personally carrying out 300 murders(INEGI). Cartel leaders seem like a perfectly reasonable target until it brings successions of violence through the power struggle and develops a more equipped and deadly leader.

### *Workforce Recruitment*

Cartels maintain their success through recruitment and customer loyalty processes that can be understood by any traditional business. Of course it is different however since recruitment from prisons and young, uneducated, and impoverished demographics are the prime targets for cartels. Cartels are also faced with an even bigger problem, which is that employees who know business trade secrets and operations are dangerous to the cartel if not committed for life. Any turnover of employees hold a threat to the survival of the cartel and new recurrent measures are more difficult in the underground market. When cartels are in need of recruits, which is often due to the cyclical nature of the work through mortality rates and the likelihood of prisons, they must look in the right place and find dedicated workers. One article comparing drug cartel operations and Cisco claims: “Both cartels and Cisco are successful and profitable organizations. Both of them focus on the three strategic imperatives: maintaining a favorable business environment, motivating organizational members, and effectively recruiting organizational members”(Klein 31). This case study analyzes the imperatives drug and legit business have alike and two out of the three involve the employees.

It is often said that a firm's most valuable asset is its people, and this could not be more true for cartels. Operating in secrecy and unable to advertise job openings, cartels have it hard in the human resourcing department. The second biggest struggle they then face is upholding contracts with both employees and buyers. With no legal support to turn to, agreements and

contracts must be managed in other ways. To uphold contracts they use violence and threats that maintain the status of their verbal agreements. When cartel human resources face their problem, they first look at prisons, which are a pivotal place for recruiters and training potential staff. Prisons provide many things for the cartels and recruits. Inside the prison, prisoners often seek groups for protection, especially in places like the Dominican Republic where in 2012 all prisons were at capacity and living conditions grew very grim. People who already have a criminal background qualify them for the type of work the cartels are looking for while simultaneously disqualifying them from other legal work that can be difficult to find with a record. DTOs took advantage of overcrowded cells all with fewer job opportunities from tainted records and a lack of protection for new offenders. Minor offenders entering higher level crime organizations cause a problem for those who believe prison to be a place for reform and crime deterrence. Take Carlos Lehder, a Columbian from a struggling household. He had a hard time fitting in as a teen and began selling marijuana in the 60s. Eventually he was arrested at age 25 in the United States. This could have been the end of Carlos' story but when fate put him and George Jung (main character of the movie *Blow*) who had been involved in organized crime before, his story changed. The two became close and shared tales of smuggling which eventually lead to their release in 1976 where the two set off to change the cocaine market forever. Using an island off the coast of the Bahamas as a base, Lehder and Jung revolutionized the cocaine industry. Before the entrepreneurs' cocaine was only smuggled in small amounts, but Jung and Lehder used light aircraft and Pablo Escobar's Medellin cocaine hookups to send tons across at once. Over 300 Kilograms (wainright) would arrive on the island each day to be processed and shipped. Lehder shows how drug cartels convey their brilliant ability to recruit and expand employee base.

Once recruits are found, cartels have motive to keep them loyal and committed as to not interfere with operations. Turnovers are risky for cartels because employees know about the cartels operations which could be deadly if told to the wrong person. A prison inmate that was motivated to join due to lack of job experience and no money for when they get out, may not realize that in joining, he may have just solidified a job for life. Some maras, or gangs in El Salvador require a head to toe tattoo in order to initiate members. This way it is always visibly known that they belong to that group. Other organizations, like the Zetas, prefer to use threats and violence to keep members loyal. In the hierarchy of cartel structure, the bottom line has a majority of the members and is crucial to success. Criminal careers can be built off a stint in prison causing cartels to appreciate the current penal system. This same reason is why the policy should also prioritize prisons when attempting to dismantle a cartel.

### *Competition*

The drug trade generates violence in a variety of ways, one being to solidify contracts that are made, but a more deadly case is like in Ciudad Juarez where competition among cartels has resulted in what looks like a ghost town riddled with crime. Competition is necessary for the marketplace. Antitrust laws were set in place among ordinary businesses to regulate competition and keep firms from merging into an overbearing force: “Antitrust laws are necessary in an open marketplace. Competition among sellers gives consumers lower prices, higher-quality products and services, more choice, and greater innovation”(Kenton). With equal opportunity and freedom with prices, business can compete making the market better as a whole. In the drug market, competition often arises when territories are worth going to war over and things are not better as a whole when cartels compete.



In Mexico, border towns like Ciudad Juarez prove to be valuable to cartels because they are ports to the U.S, a scarce but a necessary asset. The dizzying rise in the price of cocaine is made mostly as the drug crosses the border. Cartels often fight over ports and the winning cartel takes over the town as well. The Sinaloa cartel aimed to achieve this in Ciudad Juarez where the Juarez Cartel has control of a war worthy gateway into the American market where 70% of cocaine in the United States passes through to El Paso, Texas. The Sinaloa and Juarez cartels began to quarrel in 2004 and since then a bloodbath of 50,000 civilians and cartel members were killed. The attempted corporate takeover strategically focused on regulators much like in the ordinary market. In this case, police are the only regulators of drugs and have many economic reasons to be targeted and bribed. El Chapo hit a speed bump here when the local cartel was very skilled at corrupting local police and had even managed to influence the national drug tsar. Their hitmen, La linea (the line), were also formerly ranked military personnel and officers. El Chapo may have been at a dead end if Calderon had not switched from a PRI to a PAN system and exaggerate the competition in Ciudad. Local forces were already being regulated but because local and federal police did not report or receive orders the same, Guzman ingeniously had his organization target the federales (federal police). The loyalty of the local police, made it difficult to satisfy local regulators, but the federal police had no loyalty and were just as corruptible. As the Sinaloa cartel bribed federal forces, the level of war was now not only infringing upon life in the city, but police forces as well began to quarrel in the heat of the cartel takeover. At the peak of violence in 2011, state police allegedly attacked and killed 15 federal police officers and the retaliation continued years after the cartels stopped (Grillo 259). As the war raged on, the Sinaloa cartel bloodily got the upper hand and Mexico as a whole lost the battle. Mexico's multilayered

forces and unregulated competition have lost up to 60,000 lives in only six years and clearly needs united forces. Though competition is present in any marketplace, it creates a deadly environment when cartels are involved and in order to side step the corruption, a unified police force is crucial. However, there is still something else behind the cartels fueling their trade with product. With drugs like cocaine, narco-farmers produce the raw plant material to sell to the criminal organizations that will eventually make the drug themselves.

*Manufacturers:*

Though it may be entertaining to picture vicious cartel members getting off a brutal day of killing and moving product to go home and discuss soil properties while tending to their gardens of kilos in the making, this is not the case. Through cartels oversee the entirety of the chain they remain partially distant from production and manufacturing. This job belongs to Bonanza Mariners or narco-farmers. Because cocaine mainly grows in the Andes, Peru, and Columbia the civilians in these countries and areas take on coca growing as a more lucrative means of living than the legal farming. Nacro farming makes on average 2 dollars a day but the start up cost is usually minimal or free depending on cartel. On some farms, the start up for tomatoes which on average is 15% more than coca, is not affordable to uphold each season pushing growers to the criminal world instead. Studies even show how poor conditions have to be to sway farmers to dabble in drug farming. Making on average 2 dollars a day growing coca it seems like it would not be worth it, but there are direct correlations between corn price dips and farmers choices to grow drug products or not. The authors found that a 15 percent drop in corn price resulted in an 8 percent increase in marijuana cultivation and a 5 percent increase of opium (Dube et al.). As the price of corn rises again, incentives to grow narcos decreases and

cultivation plumes. Some would argue that these farmers don't have much of a choice than to go with what will keep them alive.

Governments in the past have looked at the manufacturing part of the chain, at the beginning, as a logical place to target. This is where tactics like Operation Condor comes in with aerial spraying efforts and coca leaf eradication aimed to raise the price of the drug by decreasing supply. Operation Condor backed and funded by the U.S was an operation set out to raise the retail price of cocaine, and eventually the consumption rates, by spraying or physically destroying coca crops. Unfortunately, Jorge Gallego and Daniel Rico determined in a study that aerial spraying doesn't work in the way hoped, "Instead, they discovered eradication had virtually no impact on the price of coca or the various illegal refined-coca products that farmers also sometimes sell cartels. Surprised, they ran the study again, this time allowing for one-year lag between eradication and sale, in case it took time for the scarcity to feed through to higher prices. But again they found that destroying crops had virtually no impact on the wholesale price that farmers charge to cartels" (Wainwright 17). Coca sold from the growers to the cartels did not increase in price even after coca was eradicated by up to 50% in the tested regions (Gallego and Rico). This does not make sense, a 50% loss of annual gross would devastate a business like coffee or bananas, but this is not what is happening with cocaine. One way to understand why coca does not follow basic economic law is by looking at Walmart and its distributors. Sam Walton has recognized that humans will often change behaviors in order to save money which is why he wanted his store to showcase such a difference in price for people willing to go there instead of elsewhere. Currently Walmart is able to offer extremely low prices and not just in the bargain aisle. Working paycheck to paycheck, or even just wanting to save money Walmart

seems like the place to shop, but as Charles Fisherman explains in *The Walmart Effect*, people do not understand how Walmart is able to arrive at these conveniently low prices. “Walmart insists that it's going to sell things cheap. Therefore, it puts a pressure on everyone whom it buys from to make their products cheaper and cheaper and cheaper and cheaper. If you're extremely efficient, maybe you stay on the shelves. But in order to be that efficient you might have to, say, go manufacture overseas instead of in the United States” (Fisherman). By redirecting the pressure from themselves to their manufacturers, Walmart holds a monopsony over its market. A monopsony is similar to a monopoly in which there is a single seller of a certain product or good. In a monopsony, there is a single buyer creating a similar power dynamic just in the opposite direction. This way the buyers can dictate prices with the leverage they have and any decrease in supply would only affect manufacturers. Due to the monopsony created by drug cartels over narco growers, the price of coca will be dictated by cartels but less product will be available because of eradication. Scarcity will raise the retail price minimally but because the cartels still pay the same price, the value of the product will increase. Programs such as aerial spraying and other coca reduction strategies will only increase the value of cartel sales and decrease the profit of arguably innocent growers. The ineffective strategies of coca eradication being implemented waste up to 100 billion a year on its futile efforts.

#### *Consumers:*

Being separated by a border may cause it to feel like there is a separation between wealthy countries and the drug trade problem, but this is far from the truth. The cartels and narco farmers are not causing the issues alone. Once the drugs have been packaged and transported across the border, someone has to buy it or the chain would be incomplete. When talking about

the U.S, people never fail to complete the drug supply chain, and per capita, the U.S has the highest rates of drug usage out of any other country. One thing this shows is that the market will never lack consumers, but also for the consumers, there is an unsettling fact of where the money goes when spent on this commerce. For example, with cocaine, “93% of cocaine entering the U.S passes through Mexico” (Wainright 100). This means money in the U.S spent on cocaine fuels the violence, unimaginable suffering, and corruption miles and miles away. This is never mentioned in textbooks or drug deterrence programs like D.A.R.E. No, the focus here is on addictions and health issues, which are also worth noting but have shown to be ineffective at deterring. In the end, drug prevention that claims overdose and health benefits are the only downsides of buying drugs are incomplete. The impacts along the drugs path is much more destructive than assumed by the drug buying public and the conversations about drugs never include it.

#### *Demand:*

Another property of the drug world that increases the complexity of policy, is that the drug industry though hard to quantify shows an inelastic demand relationship opposed to an elastic one. Elastic demand is where a product demand fluctuates based on price and inelastic stays steady as consumers will continue to buy despite the price. Examples of inelastic demand are gas, coyotes (border crossing helpers) and drugs. It would make sense that drug users with habits wouldn't be in a place to complain about prices and it shows too. One U.S survey found that marijuana has an elasticity of 0.33 meaning a 10 percent increase in price would result in a 3.3 percent drop in demand. Cocaine and heroin are even lower being at 0.17 and 0.09. If Cocaine were to increase by 10 percent in price, demand would only decrease 1.7 percent and if

the same happened to heroin, only 0.9 percent (Rhodes et al.). Increasing the price of drugs won't significantly lower the demand or consumption rates which is the goal of most supply-side interference. The economic properties of cartel operations have shown that cartels are extremely hard to face directly on the supply-side.

From an economic point of view, a black market is not lucrative for anyone but those running that market. The drug trade is unregulated and untaxed commerce causing no motives for sellers to satisfy regulators and consumers with safe convenient products. Without traditional vetting for products and skewed motives, the danger of the market increases for everyone involved. The problem of users is not restricted to wealthy countries. On both sides of the border, drugs that are illegal give prisons an interesting unexpected opposite effect. Most people assume prisons deter crime, but with drugs, this may not be the case. Once again minor offenses like a small amount of drug charges can be used to the advantage of the cartels for human resourcing, but also the disadvantages of the own government trying to keep drugs off the streets. The cost of prisons with drug prohibition starts to become less worth it when reoffending rates occur 3 times more often with prisons that do not tailor money on prevention, rehabilitation, and education. The solutions to the drug problem are often deceiving, but in reality, an economic view shows that governments are on the wrong side of the war a majority of the time.

#### Part IV Conclusion and Discussion

##### *Law enforcement:*

So what? Cartels win and everyone will continue to escalate the situation? From that college party with enough cocaine to have bought at least 20 murders to the policymakers who

have been trying for centuries to get ahead, none of it matters? Well no, the beautiful thing about complex problems is that complex solutions can make an economist the best police officer. Redirecting the current efforts put towards drug deterrence, drug trafficking, and the countless war on drugs missions, would drastically impact the effectiveness of money spent if policy understood the market and cartels as well as programs aim to increase the well being around the drug trade. The first step could be stopping all the ineffective missions or programs like aerial spraying and decapitation, but also adapting to and analyzing the drug market like any other industry.

Lawmakers and enforcers seem to have a selective understanding of economics in the drug trade. Many of the failures on policy can be traced back to the four main mistakes among the policy perspective. Admitting to the numerous failed policies and missions as well as attempting to fix them is the next step at making a difference.

Richard Nixon after coining the phrase “war on drugs” was upset that the brochures around his campaign had, “the problem of drugs is our number one and it will be dealt with in a variety of ways”(Wainright 254). He claimed “When I saw ‘variety of ways’ I damn near puked. And I thought, for pity’s sake, we need... ‘all out war,’ or ‘all fronts,’ or, uh, ‘despicable’”(254). By now with the amount of lives and money lost, it is about time for that ‘variety of ways’ option. Drug policy in the United States has a very misguided obsession with the supply chain—this is the first mistake that needs to be admitted. Governments often target the supply-side of operations in order to increase price of the drug and in turn decrease the rate of consumption. Governments also aim to seize products before it reaches the consumers in the first place as well as spray plants even before they blossom and kill or arrest cartel leaders. Due to the increase in

drugs as they reach the border, the elasticity of price and misinterpreting drug bust values, these efforts have been exceedingly futile despite the decades and hundreds of billions of dollars invested.

One important distinction between Walmart and the cocaine trade is on how prices evolve. As Walmart may sell their products from between 10 to 100 percent more than its initial wholesale price, cocaine as it nears its prime market is a much higher percent. A kilogram of cocaine requires up to 350 kilograms of the raw ingredient, dried coca leaves, which based on Gallego and Rico's study would be around \$385 dollars for a cartel buying from a Colombian grower. In Colombia this kilogram of pure cocaine could be sold in whole for \$800<sup>2</sup> but right as it is exported and travels up the chain this changes to \$2,200<sup>3</sup>. A staggering amount of profit, but it doesn't stop there. By the time that same kilo makes its way onto U.S soil, it is now worth \$14,500<sup>4</sup>. The next dealers in charge sell it to street dealers for on average \$19,500<sup>5</sup> and finally they divide it up to sell it for \$78,000<sup>6</sup>. Remembering that this is the pure cocaine, even after this remarkable markup, there can still be conditions taken into account like cutting and diluting of the drug as it moves its way down the chain. In the end estimates come to \$122,000 for that same kilo, (Kilmer et al.) an increase of over 30,000 percent. Paying off politicians and police must be taken out of profits unlike a usual business, but it still shows an incredible increase.

Understanding this dynamic shows that policy that heads towards supply-side reduction has a miniscule effect because the risk factors that drive up the price of cocaine are towards the demand-side. Seizing and eradicating drugs at a point of their least worth is a low rewards for

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<sup>2</sup> 107% markup

<sup>3</sup> 471% markup

<sup>4</sup> 3,666% markup

<sup>5</sup> 4,964% markup

<sup>6</sup> 20,159 % markup



high paying missions.

As police seize drugs that are in transit to the consumer market, the reports they make are crucial to the perception of the impact each mission has on a cartel. Misunderstood estimates of the drugs caught in trade amplify the positive perception of a failed operation. Another reason why policy should stay away from supply heavy tactics is because during interception, it is easy to over calculate the worth of the drugs and therefore the amount of effect it had on cartels. Take the most recent Tijuana warehouse raid. 134 metric tons of marijuana were found and discarded with reports claiming from 300 million to half a billion dollars getting seized. It seems like a widely large amount of money taken from the cartels and this is a problem. Estimating the worth of the seized drugs was done by multiplying the amount of grams by \$3 a gram in Mexico or \$5 in the U.S. Calculating the worth of sugar, rice or coffee using this strategy may work. For drugs however, due to its elasticity and price growth, it cannot be accurately calculated by using gram prices in the United States unless it has crossed the border. In Mexico the marijuana will be sold in bulk and for cheaper. In this case, 134 tons of marijuana in a warehouse in Tijuana will most likely be sold wholesale in Mexico for \$80 a kilo or roughly only 8 cents a gram (Gallego). This would mean that the true calculation would be only a 10 million dollar loss, less than 3% of the report police made. Changing the way reports are calculated to using accurate prices based on area and supply chain will show more meaningful numbers of the drug trade and enforcement influence.

Past supply reductions goals and the elasticity of drugs, brings to light a few things for policymakers. Number one, even big successes in drug cost will only create a miniscule victory in drug consumption reduction. Current supply-side tactics have not successfully been able to

increase the price of drugs and ultimately reduce the amount of product sold to consumers because of the cartels monopsony and evolution of drug price. However, even if drug price were to increase, due to elasticity, not enough people would stop buying drugs even if the price changed for it to affect the consumer rates. Also, when drug prices increase for the consumer, the value of the market for cartels increase as well. Continuing current supply-side tactics do not just waste money, they would also be very destructive if they were to work. Say policymakers were to raise the price of heroin by making it harder to grow poppies. This does not work, but if it did the price of heroin being elastic as mentioned before would raise without a considerable amount of user rates going down. Now all that has happened is more money has been generated into the market and the whole industry goes up in value. The cartels now run an even more valuable industry and all the money being pumped into it translates to larger profits for the DTOs.

Instead of pouring money into supply and not getting results, what if governments focused on demand? Decreasing the demand of drugs in the United States is just as complicated as taking down a multinational cartel, but has a potential for a much higher pay off. If the demand for drugs went down, drug cartels would be forced to lower their prices to compensate, decreasing user rates and price simultaneously.

Another mistake governments often make is putting more effort into searching for a cure than on prevention. Instance after instance shows where money saved in prevention it is lost in the criminal world later on. New Hampshire for example, cut \$15 million off their prison budget in 2014 by ceasing educational and rehabilitation programs and overcrowding inmates into fewer prisons. Yet its police force still spent “286,000 dollars on armed personnel carrier called a

bearcat”(Fasman). It makes sense that money spent on drug addicts and criminals are audited carefully, but this has turned out to be an expensive tactic. Cutting rehabilitation programs might save thousands of dollars in the meantime, but prisoners not addressing their addictions or learning basic workforce skills causes immense reoffending costs. One study classically used to show the effectiveness of government programs on cocaine consumption estimates that for every 1 million spent on controlling the supply chain the reduction would be around 10 kilograms. For the same amount of money put towards treatment, 100 kilograms of cocaine consumption is averted (RAND). The money around the drug trade is there. Governments are willing to spend millions, it just needs to be directed to the right places. Cartels are able to recruit from the large selection of incarcerated citizens because governments will not spend enough money to make them safe and productive for inmates. Governments should be spending the small amount on rehabilitation for prescription drug addicts instead of waiting for them to turn into heroin addicts and then attempt to suppress it. Less strict, more expensive, rehabilitation geared prisons would be essentially reducing and redirecting money from further criminal costs to now.

Thinking nationally against cartels who have sworn off borders and begun offshoring is another mistake worth admitting and changing. Coca production was pushed out of Peru in the 1990s which the UN chief of drug-control claimed to be a “remarkable achievement”. Within the same decade Columbia had a rise in coca production and upon cutting it down the UN said the same thing. These two remarkable achievements remarkably did not actually achieve anything. The issue here is that countries are responding nationally against a global issue. Nations can squeeze the balloon all they want, but as seen before this only puts pressure somewhere else. When one country sees success, the balloon effect acts upon cartels pushing them elsewhere and

being a deceiving national win while the global situation continues steadily. Supply-side reduction, where the cartels don't even take much of a hit, is not an honest result of a strategy. If a multinational company did the same and highlighted one market while glossing over others of less worth, shareholders would not allow this. Most of the world responsible in changing this are the rich countries in the UN. The only setback is these countries are happy with the fight that is misleadingly showing progress. Countries generally fall into three categories along the drug trade, consumers (U.S and Europe) manufacturers (Columbia and Peru) and sellers (Mexico). With this dynamic voters tend to only use knowledge from their own perspectives. Wealthy consumer countries will continue to see trivial wins where there are not any and aim to keep drugs from reaching their citizens even though supply-side tactics have proven to be ineffective. Felipe Calderon fed up with the war while he was in office says that, "If [Americans] want to take all the drugs they want, as far as I'm concerned let them. I don't agree with their decision as a consumer and as a society. What I do not accept is that they continue passing their money to the hands of murders" (qtd. in Wainwright 153). Calderon sees the drug trade more clearly having it occur on his own soil, and he challenges those (consumers) who can be misguided by their own national perspectives.

"A drug free world: we can do it"(Assembly). This message was posted in the June 10, 1998 United Nations assembly on countering the world's drug problem. Since then, over a trillion dollars have been spent on prohibition efforts. This is not a success. These powerful governments have confused prohibition with control. Prohibition leaves drugs illegal, but in cases like marijuana, consumers made the case that legalization of the drug would be no more of a health risk than other legal substances already. This is the truth and many states have acted

upon this argument by legalizing marijuana. Governments now have control over the market regulating it and requiring clearly printed labels. The Colorado market alone has taken \$700 million a year out of the hands of cartels. Control that was acquired by ending a prohibition has created a safer market and left cartels out of the profits. With the comparison of the marijuana market, it seems like a different argument has surfaced. In fact it is quite the opposite: drugs *are* (or can be) dangerous and therefore by bringing them into a legal light there is a better way to control them than leaving it up to cartel members. Legal drug markets were unheard of in the U.S until recently. Now places like Colorado, Oregon, Washington and Alaska have them.

Marijuana is considered less dangerous to most people though, what about hard drugs? Most people wince at the thought of this but looking into it, it may be more productive than banning drugs. The deception that prohibition takes the responsibility to make the choice to use or not is diminished by the fact that drugs are there if consumers want them and show no sign of extinction anytime soon. Technology is continually manufacturing new and potent mind-altering drugs. Individuals must exercise responsible choice and decide what role drugs should have in their adult lives with or without drug laws. James Ostrowski in his moral case on prohibition repeal also claims that, “Wars against drugs fail because drugs and drug profits are more powerful motivators than drug laws” (Ostrowski 1). From these perspectives, the war on drugs through prohibition is redundantly only “protecting” those already not using. Chronic users are not deterred by drug laws and they are the ones that should be targeted. What would happen to dependent users if drugs were legal? Places in Europe including Switzerland the UK and the Netherlands have already legalized in a sense. Heroin for example though still not legal to be sold, can be prescribed by a doctor to addicts to wean them off. Switzerland has the most

well-established program addressing 3,000 extremely addicted users. These users only accounted for 13% of the countries population, but for just about 60% of the countries total consumption. Allowing treatment clinics to prescribe methadone and heroin, users had a safe place to get help and wean off their addiction. Partially legalizing drugs in this manner has had immense success in the Swiss country. They began their journey with drug reform in 1993 when injection/treatment clinics opened up for hardcore users and treatment was more readily available. By 2005, almost 70% of heroin users were in heroin substitution therapy and treatment which is the highest ratio in the world (Klingemann). This is not even all of it; 90% of robberies committed were reduced, and the number of deaths due to AIDs reduced almost in parallel to users. One last unsuspected win is that Switzerland even reduced the large number of dealers who were previously dealing to support their habit, stopping when the clinics were able to provide it. The moral obligation for governments is not to allow dangerous substances to continue to be unregulated and consumed in the society that will tirelessly find ways to get it. Economically, “legalizing all illicit drugs would produce net benefits to the United States of some \$65 billion a year, mostly by cutting public spending on enforcement as well as through reduced crime and corruption” (Porter). Saving money, controlling the drug trade, and having a more productive means of helping addicts it is clear that the 1 trillion dollar prohibition so clung by the United States needs to be reconsidered if progress is going to be made.

At a consumer level, wealthy countries have an obligation to educate drug users of where their money is going. Chances are money spent specifically on heroin, cocaine, and meth products are going to the cartels and supporting the corruption, violence and extortion that comes with them. As a consumer in the drug trade one needs to evaluate the impact on others as well as

themselves. Chances are taking an illegal drug like cocaine for the first time or regularly won't kill you, but it very well may kill someone else. People are paying every day for unimaginable suffering in societies borders away. Disengaging with cartel narcos seems insignificant to the cause but until legislation changes, it is the only thing citizens have control over. It is time to re-evaluate consumer roles in the drug trade, move beyond the prohibition era, and redistribute supply-side funds to demand and prevention. It's time to put the drug war to an end.





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