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## Economic Consequences of Drug Abuse and Illicit Trafficking

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### **Abstract:**

*Drug abuse among the youths, particularly among the adolescents has become a major social problem in all societies and economically the increasing drug abuse and illicit drug trafficking creates an extra burden of bearing cost to the country. It has minimum positive effects and large negative effects on different economic activities like productivity, saving, investment, trade etc. It also creates difficulties in the working of macroeconomic instruments which altogether prolong the time-frame for macroeconomic stabilization. Therefore, this paper studies the positive and negative effects of drug abuse and drug trafficking in different economic activities as well as in the system of the economy.*

**Keywords:** *Illicit drug, illicit drug trafficking, economic activities, macroeconomic instruments etc.*

### **1. Introduction**

Drug abuse also called as substance abuse or chemical abuse, is a disorder that is characterized by a destructive pattern of using a substance that leads to significant problems and distress. It can ruin adolescents' lives by leading them to be put in jail, by limiting their education and vocational training opportunities and by risking the development of serious illness.

On the other hand, Drug trafficking is a global illicit trade involving the cultivation, manufacture, distribution and sale of substances which are subject to drug prohibition laws. The illicit drug problem can be divided into three categories as:

- Illicit drugs that are either produced or processed from natural plant products such as opium poppy: opium, morphine and heroin.
- Synthetically produced illicit drugs, such as amphetamine.
- Psychoactive pharmaceutical drugs that becomes illicit as a result of being diverted from illicit uses or purposes.

The main characteristics of illicit drugs are that it is addictive substances and through commodities they are traded and it is figured by low volume but the enormously high unit cost and value. It is very much difficult to find out the extent of illicit drugs for any individuals and organizations due to undefined assumptions of its operations, but the most frequently found figures in the literature range from \$300 billion to \$500 billion a year and seem to be the most reasonable estimates. There are no universally accepted figures on illicit drug production, but the production is still increasing, frequently shifts within and sometimes between sub regions which is shown by the consequently found evidence of increasing drug abuse and consumption

The following table shows the trends of the production of illicit drugs in the global level between the year 1985 and 1996.

Drugs	Unit/ index	1985	1988	1989	1990	1991	1992	1993	1994	1995	1996
Opium	Tones index	1298 100	2590 199.5	3698 284.9	3257 250.9	3442 269.0	3380 261.1	3675 283.1	3417 263.3	4165 320.9	4285 330.1
Coca leaf	Tones index	143715 100	293700 204.4	298070 207.4	306170 213.1	330740 230.1	26550 184.7	271700 202.4	290900 215.3	309400 211.3	303600 N a

Table 1

Source: Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report 1996*, (Washington, D.C., Department of State, 1996), p. 25. Base-year figures (1985) are averages of the range provided in Bureau of International Narcotics Matters, *International Narcotics Control Strategy Report 1986*, (Washington, D.C., Department of State, 1986), p. 11.

## 2. Economic Consequences of Drug Abuse and Trafficking

By “Economic consequences” is meant the impact of accounting reports on the decision-making behavior of business, government, unions, investments and creditors. It is argued that the resulting behaviour of these individuals and groups could be detrimental to the interests of other affected parties.

The increasing drug abuse case and drug trafficking can have also a severe adverse effect on economic factors such as interest rates, consumer confidence, stock market activity, unemployment, etc. Some impact or consequences of drug abuse and trafficking on economic activities are discussed below.

## 3. Benefits

The apparent benefit of supplying drugs has doubtless considerable profits for suppliers and traffickers of illicit drugs. This is clearly revealed by the readiness of suppliers and traffickers to operate in the illicit markets. More than 90 per cent of the value added (gross profit) of illicit drugs is generated at the distribution stage of the illicit drug industry and the bulk of income generated from drug sales remains in the consumer countries. Taking 1991 figures, for instance, one gram of 100 per cent pure cocaine retailed for \$4.30 in Colombia and its final retail price in the United States was between \$59 and \$297. The gross profit margin, or value added, was thus between 93 and 98.5 per cent of the retail value. The magnitudes for heroin are similar. In the domestic market of Pakistan, wholesalers and retailers reap about nine tenths of the retail price of heroin. On the other hand the producer country could only derive a small share of the total income generated from the illicit drug industry. Therefore, from this point of view producer country, is less benefited from illicit drug business.

## 4. Economic Costs

Costs refer to the amount of money spent for different purposes by the government of a country. Consumption for drug abusers tends to be transient and is quickly superseded by a considerable health and financial burden on society. Although, the figures of the costs of drug abuse to society differ from country to country, depending upon methodology and political orientation, magnitudes can be assessed only by highlighting some of them. For instance 2.7 per cent of GDP (1992) in Canada, 4.8 per cent of GDP (1992) in Australia, \$3.2 billion in the United Kingdom in 1988, DM 13.8 billion in Germany and 1.3 per cent of GDP in United states. The various economic costs are related to the criminal justice system, losses in productivity, costs of health care for the drug abusers, welfare and disability payments etc.

## 5. Employment

Generally drug abuse occurs most frequently among young people with a particular concentration in the 18-25 age group, thus includes those who have entered or who are just about to enter the workforce. Basically, in developing countries, the high unemployment rates are often a major problem with entry into the workforce and the consumption illicit drugs limits chances of entering or remaining in the workforce, while frustration caused by failure to find adequate employment favours drug consumption, thus creating a vicious circle. Moreover, there is often a strong correlation between unemployment and drug-taking habits, both in developed and developing countries. The British Crime Survey 1992, for instance, revealed that lifetime prevalence of drug abuse among the unemployed was 60 percent higher than among the employed. The 1993 national household survey carried out in Colombia, showed that the annual prevalence of drug abuse among the unemployed was almost four times higher than among the employed. A more recent study, carried out by the International Labour Organization (ILO) and the European Community, which examined the effects of drug and alcohol abuse in the workplace in European countries, found that more than half of the interviewed employers' associations, enterprises and workers' organizations reported specific performance impairments and absences from work as a result of drug- and alcohol-related problems. In approximately two out of five cases, organizations were forced to dismiss employees for drug- and alcohol-related reasons, which clearly show the severity of the problem.

The following table shows the most frequent problems related to drugs:

Drugs	Percentage (%)
Impaired performance	55
Absence from work	54.5
Disciplinary problems	47
Intoxication at work	44
Dismissal	41.8

Table 2

Source: Jean Paul Smith, "Alcohol and drugs in the workplace: Attitudes, policies and programmes in the European Community", Report prepared for ILO in collaboration with the Health and Safety Directorate, Commission of the European Communities, Geneva, 1993, p. 11.

## 6. Productivity

The effect of drugs on productivity is a function of the type and quantities of drugs Consumed, as well as of the performance requirements of the jobs in question. Irrespective of the current level of development, societies will find it difficult to advance if they

have to rely on a workforce that is impaired by large-scale drug abuse. Thus, it can be referred as that there is a positive and direct relation between the level of productivity and the level of drug abuse by the workforce of a producing house.

### 7. Price and price elasticity of demand

The price and profit in the illicit drug industry are not proportional to factor costs, but seem to be related proportionately to the risks and the degree of monopoly at each stage of production and marketing. That is, the prices of illicit drugs compared to other commodities, primarily reflect the perceived level of risk involved in manufacture and trafficking. The variation in the price of heroin and cocaine relates to the degree of success and failure of law enforcement in different period of time. But different research conducted by different researchers in different time shows that the changes in the price of drugs in the producer countries have had minor impact on the retail prices of the producer countries. Therefore-

$$P=f(r, d_p, d_m)$$

Where,  $r$ = risks,  $p$ =price,  $d_p$ =degree of production,  $d_m$ =degree of monopoly,  $F$ = functional relationship.

On the other hand, the price elasticity of demand is asserted to exist, but is likely to be small as addicted persons will try, by any means possible, to obtain their drug, irrespective of the costs involved. The elasticity of demand reflects that of the extent to which a change in the price of a commodity can be expected to affect demand for it. However the direct relationship between prices and demand is not always clear-cut rather addition of the other variable is also is to be considered. Although it has been assumed that the price elasticity is small earlier, but the massive change in price could influence the change in demand in a great extent. An empirical study by the National Bureau of Economic Research (NBER), based on detailed price data provided by the United States Drug Enforcement Agency mentioned that the strong price elasticity of demand is associated with costliest drug and small price elasticity of demand is associated with cheaper drug and smallest with the cheapest.

### 8. Inflation

Inflation is referred as an exorbitant rise in the general price level within the country. The illicit drug trafficking industry, has minor impact on the general price levels in either producer or consumer countries, although, it influences the price of other goods and services (depending upon the level of expenditure on goods). The most shown scenario in the producer countries, is that the income earned from drug trafficking is either used for legal or illegal luxury imports or placed on deposit abroad. Therefore, there exist no such effects on the local prices rather it could help in dampening inflationary pressures within the country because of the reason that drug abusers are left with less money to spend on their daily subsistence needs.

### 9. Income Distribution: (Production and Consumption of Illicit Drug)

It has been mentioned by different researcher in their research paper that the impact of illicit drug in the income distribution of both the producer as well as the consumer countries is U-shaped or more precisely, in the form of a reversed J curve. That is, drug abuse is high among upper and lower income groups, but less high among the former than the latter.

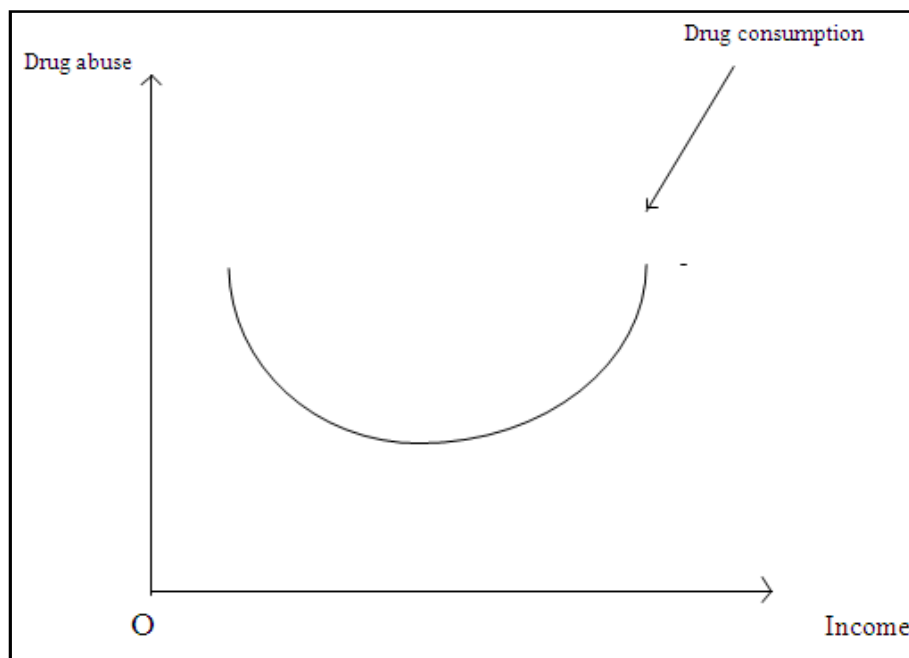


Figure 1

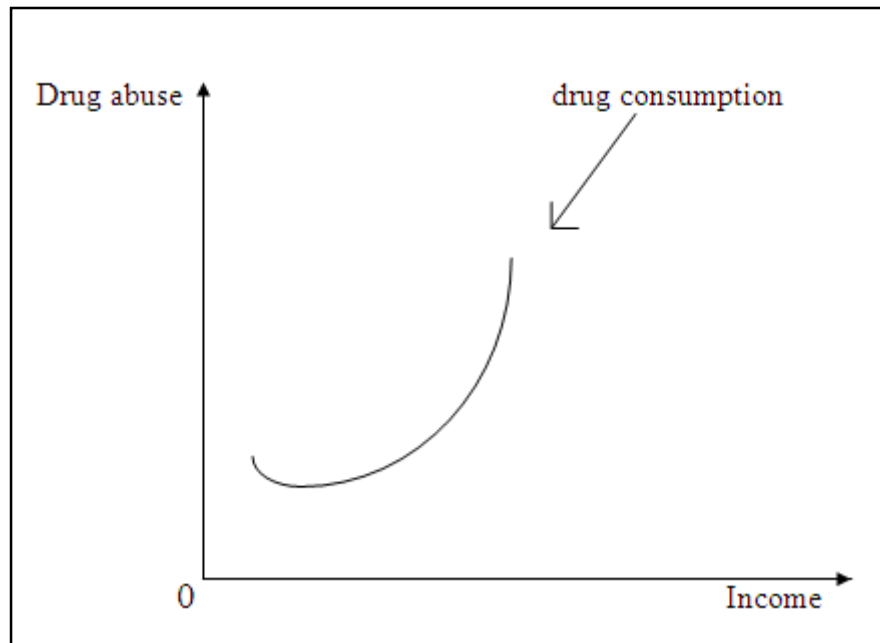


Figure 2

In many countries, the lowest income groups show a higher than-average consumption of drugs. Among the middle classes, illicit drug consumption tends to be below average. Though rising again among the higher-income groups, it still remains below that of the lower-income groups.

On the other hand, the largest share of profits in the illicit drug industry is concentrated among a small group of people. This is because at each stage of refining process the number of participants' decreases and proportionately the amount of profit increases and the farmers earn much lower than every stage as farmers often operates production under quite competitive market conditions. Therefore the production and consumption patterns of illicit drug lead to an increase in the existing disparities in income.

#### 10. Balance of Trade and Balance of Payment

In static terms the illicit drug industry has a positive effect on the balance of trade (BOT) and balance of payment (BOP) positions of the country through the generation of foreign exchange from exports. The flow of foreign exchange can help in mitigating some hardship in the economy in the short run. But such drug funds tend to be extremely volatile, reacting quickly to changes in the political and judicial environment. The macroeconomic instruments of the government are also becomes ineffective to control such flows of fund in the economy. Moreover, when we considered dynamic terms such inflow seems to have a long term negative effect through overvaluation which often forced to run large licit trade deficits and forgo the chance of developing profitable alternative export industries.

#### 11. Saving and Investment

The amount of saving and investment in the country reflects the level of development that is taking place within the country. That is higher the saving and investment the more will be the economic development and lesser the amount of saving and investment lower will be the economic development. In the case of illicit drug, there is a very small impact in the saving and investment level of the country. This is because the income earned from the business is laundered outside the country as well as the savings of the poorest sections of the society tend to be spent on drug consumption.

On the other hand, an investment that includes the building of human resources (human capital formation) in a broader sense is jeopardized by an illicit drug industry because resources that could be spent on education and health care are wasted on drug instead.

#### 12. Macroeconomic Management

The macroeconomic management of a country is the actions undertaken by the government to curb the situations like inflation, deflation, instability etc. through fiscal and monetary policies. The various macroeconomic instruments of the government partly ineffective when the economy posses a large amount of uncounted funds. When the economy has a investment of a large amount of illicit drug money, then there may not be a expected change in the economic activities corresponding to the policy implemented by the government and thus macroeconomic management becomes extremely complicated. It is worth mentioning that the huge illicit uncounted drug money counteracts government actions and thereby extending the time-frame for macroeconomic stabilization. Such counteractions could have adverse macroeconomic impacts such as on aggregate demand, inflation, foreign exchange flows and above all economic growth of the country.

**13. Conclusion**

It is worth mentioning that the information related to drug abuse and trafficking is more or less vague, which give a constraint to the actual assessment of taking the real picture of the situations and its impacts. While there is a need for a clear assessment of the cost-effectiveness of public policy measures and the optimal allocation of public resources in limiting illicit drug production, trafficking and abuse. Therefore, research in many of the specific dimensions of the illicit drug problem of cross-national, cost-benefit analyses on the economic, social and health aspects of illicit drug production, trafficking and consumption are vitally needed and the research results should be channeled into the process of drug policy development, not only within the country but at the international level, too. Moreover the research results should accompanied with prevention measures and the government should give importance and extend help to such preventive measures for better solutions to the problems.

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