

A Businessperson’s Guide to the War on Drugs

How the War on Drugs is Hurting Your Business

By Eric E. Sterling, J.D.

Updated June 2014

Businesses know that their survival depends on oil prices, the Chinese economy, and the availability of bank loans. Economic policy dominates every election, from town councilor to President. Yet most businesspeople ignore one policy area with profound economic impacts: drug prohibition policy. No business owner would advocate ending the War on Drugs if it were making our kids safer and healthier, despite the cost. But it’s not. This pamphlet explains how our drug policy is hurting both our kids and our businesses. Drug prohibition shrinks your customer base, increases your taxes, raises your costs and reduces your profits.

Executive Summary

How the War on Drugs is hurting our kids:

- Legal regulation is more effective at reducing use than prohibition.
- Prohibition makes drug use much more harmful.
- Government regulation does not “send the wrong message”

How the War on Drugs is hurting our businesses:

- It fails to reduce workplace drug use
- It costs our economy roughly \$166 billion per year:

Higher Taxes	1	Tax Bill	59,921
Lost Revenue	2	Customer Purchasing Power	33,816
Increased Costs	3	Theft and Security	9,125
	4	Health Insurance	6,076
	5	Bank Charges	214
Unrealized Gains	6	Real Estate Value	9,671
	7	Tax Revenue	46,700
Total		(\$ million)	165,523

How the War on Drugs is hurting our kids:

We will never “win” the War on Drugs

- We can't even keep drugs out of our maximum-security prisons.
- There's no secret why: cocaine costs three times as much as gold.

Legal regulation is more effective at reducing use than prohibition.

- Youth use of marijuana, cocaine, heroin, and methamphetamines has remained roughly constant over the last 20 years.
- Youth use of tobacco has dropped by 50% over the same period.
- High school kids report that it is easier to buy marijuana than alcohol because drug dealers don't card.
- Who would we rather be in control of the market, the government or the gangs?

Prohibition makes drug use much more harmful.

- Alcohol Prohibition caused gang violence, raised consumption of hard liquor, and increased alcohol poisoning by 600%
- Putting gangs in charge of today's drug market causes gang violence, increases the purity of all illegal drugs, and causes overdoses by removing quality control
- Making drug users into criminals prevents them from seeking medical help, encourages needle-sharing, pushes them to commit crimes to get drug money, and prevents rehabilitation by blocking them from college loans, public housing, and other social services

Government regulation does not “send the wrong message”

- Are our kids getting the wrong message about cigarettes?

How the War on Drugs is hurting our businesses:

(0) Prohibition fails to reduce workplace drug use

Though we want to reduce our workers' alcohol abuse, we do not advocate for alcohol prohibition. If a worker were struggling with alcoholism, would we want to incarcerate him? We have effective legal means of dealing with alcohol problems. The same employer protections would exist if we regulated illegal drugs. In addition, drug prohibition has failed to reduce drug use. Illegal drug usage by American workers has not declined over the past 20 years, while tobacco usage has been cut in half through education and legal regulation.

(1) Your tax bill is higher because prohibition wastes taxes.

According to the Department of Justice, federal, state and local governments are spending roughly \$60 billion a year on law enforcement personnel and resources used to fight the war on drugs. This includes \$56 billion in police, court, corrections and probation costs for drug offenders plus \$4 billion in international drug interdiction costs. Enforcing our failed drug policies costs a third as much as the entire federal education budget.¹ Over the past forty years, this spending has totaled over one trillion dollars (10). These costs are passed on to businesses and individuals, largely through income taxes. Businesses also pay higher import taxes to fund our unsuccessful efforts to keep drugs out of the country. International drug interdiction and customs drug inspection efforts raise our import costs and delay the \$230 billion of imported products we bring in every year (16). Ending the War on Drugs would mean substantial savings for taxpayers.

(2) We have fewer customers because the war on drugs reduces purchasing power

In addition to the 600,000 Americans who are currently incarcerated on drug-related charges, another 2.9 million are living with drug-related felony convictions. Ten million more have criminal records due to misdemeanor convictions. Of course, those who are incarcerated in prisons and jails do not shop at our businesses. In addition, 42 states allow employers to force job applicants to disclose prior convictions. As a result, returning citizens are typically unemployed or underemployed. Studies have shown that a conviction reduces one's expected salary by roughly 16%. Though returned citizens usually have lower income levels to begin with, the aggregate income loss across millions of Americans is substantial. We estimate conservatively that American businesses lose \$33 billion per year in revenue as a result of drug-related convictions.

(3) Property crime caused by drug prohibition costs us billions in damages, insurance premiums, security expenses, and real estate losses

Though it may seem counterintuitive, the War on Drugs is responsible for a large share of the property crime in America today. Drug prohibition labels drug users as criminals, saddling them with criminal convictions and making it difficult for them to find stable employment. Without any other way to pay for the expensive drugs on which they depend, most addicts turn to theft. Department of Justice statistics reveal that 30% of all property crime offenders in state prison committed their offenses to get money to buy drugs (8). Most of this drug-linked theft is preventable, since removing criminal sanctions from drug use stops most drug addicts from stealing to fund their use. In Switzerland, 87% of heroin users had a criminal record before the Swiss decriminalized use and offered heroin treatment

¹ <http://febp.newamerica.net/background-analysis/education-federal-budget>

on demand. After decriminalization, property crime by heroin addicts decreased by 50-90% (5). If we stopped turning drug addicts into criminals, the Swiss case suggests that we would see about a 20% decrease in property crime in America.

The direct cost of drug-linked property crime in the U.S. is over \$4 billion every year. The Department of Justice estimates that the United States suffered \$15.5 billion in property crime damage in 2012 (6). Assuming that 20% of the losses stem from preventable drug-linked theft, these theft damages cost our businesses and families more than \$3 billion per year. While not all homes or businesses fall victim to theft, we all pay higher property insurance premiums to guard against the risk of theft. To a certain extent, the property insurance premiums spread out the costs of property crime across all homes and businesses.

In addition to reported property crime, our businesses suffer immense losses from shoplifting. The National Retail Security Survey estimates these losses at \$12.3 billion per year, with \$12.1 billion going unreported. Using the same 20% ratio, preventable drug-linked shoplifting costs us another \$3.6 billion per year.

Drug-linked property crime also causes indirect financial losses by lowering our real estate value. Studies have shown that a 10% reduction in urban property crime adds about 1% to the selling price of real estate. Without the 20% share of preventable drug-linked theft, urban property values would increase by 2%. Even if we assume that only 1% of all American real estate enjoys this increase in value, since higher-crime areas would benefit more, ending drug prohibition would boost house values by roughly \$6 billion. Though we did not consider the financial impact of other crime caused by drug criminalization, drug sales on street corners and drug-linked homicides also decrease neighborhood home values.

Finally, we pay significant security costs to reduce drug-linked property crime. According to the 2012 United States Security Industry Survey, the private sector spent \$178 billion on operational security products and services, which does not include information technology. Even assuming that businesses spent only 10% of that amount to protect against property crime, we are spending about \$3.6 billion a year for security costs necessitated by preventable, drug-linked property crime.

There are additional costs related to drug-linked crime that are more difficult to quantify. For example, our tax expense for municipal services rises with drug prohibition. Increased crime erodes the real estate tax base, forcing cities to raise property taxes on our businesses and homes. Even without these added costs,

the above estimates for preventable drug-linked property crime total almost \$15 billion per year.

(4) Our health insurance premiums are higher because drug prohibition fails to protect public health.

One of the major, growing costs for American businesses today is paying for our employees' health insurance. More Americans in worse health means higher health insurance premiums for all of us, even if our own employees are healthy.

Many of the health costs we attribute to drug use in fact stem from drug prohibition. The largest of these drug-related health costs stem from HIV/AIDS, Hepatitis B and Hepatitis C. Intravenous drug users become infected by all three when they share syringes. Though IV drug users are aware of the risk, they also know that they can be arrested for having a needle in their pocket because it constitutes possession of drug paraphernalia. As a result, American IV drug users routinely share needles to minimize the risk of arrest. In Switzerland, heroin addicts go to clinics to receive their daily dose, eliminating the risk of needle-sharing as well as deaths from overdose. Thus, it is reasonable to attribute health care costs from IV disease transmission to the criminalization of drug and needle possession rather than to drug use itself.

We pay billions of dollars per year to treat patients who acquired these diseases through IV drug use. The Center for Disease Control and Prevention reports that 16% of all Americans living with HIV contracted it from needle sharing.² The figure is closer to 15% for Hepatitis C and 50% for Hepatitis B.³ Combining these percentages with the annual cost of treating each of these conditions leaves us with an approximate annual medical bill of \$6 billion. Since few IV drug users have insurance and even fewer can afford treatment out of pocket, much of the cost burden is borne by taxpayers. Even when drug users do have insurance, these costs raise insurance premiums for all of us.

Drug prohibition also inflates medical costs by neglecting medical care for drug addicts until routine procedures become life-threatening conditions. Doctors and nurses distrust illegal drug users because they face prosecution if they prescribe narcotics to someone faking injury or presenting withdrawal symptoms. Thus, when known drug users present themselves for treatment of legitimate medical conditions, they are often rejected. Routine infections, which are common side effects of using dirty needles on the street, become emergency surgery cases that each cost over \$10,000. Most of these surgeries are fully funded by taxpayers. Unfortunately, we cannot calculate the total cost of this emergency

² <http://www.cdc.gov/hiv/statistics/basics/ataglance.html>

³ http://www.cdc.gov/mmwr/preview/mmwrhtml/rr6105a1.htm?s_cid=rr6105a1_w

care because there is no data tracking medical procedures caused by criminalized IV drug use.

(5) Businesses pay for the war on drugs with every large cash transaction

Illegal drug sales are cash transactions. Money launderers convert \$5 billion in cash each month into monetary instruments and conceal the criminal origin and control of the assets. To fight money laundering, the government requires that cash transactions of more than a trivial amount be subject to identification and reported to federal law enforcement. The number of financial transaction reports filed annually has grown from 8,000 in 1985 to over 17,100,000 in 2011 (1). It costs a bank an average of \$25 to prepare, file and audit each report. The annual cost to banks, just for filing these reports, is now at least \$425 million. Since the UN estimates that 50% of all illicit financial flows are from drug trafficking, our businesses are paying an extra \$210 million per year to attempt to catch drug money launderers.

(6) We would gain tax revenue and jobs if the government began to regulate currently illegal drugs

Like prescription drugs, tobacco and alcohol, currently illegal drugs would generate substantial business income and sales tax revenue if the government regulated them. The industry would generate jobs, from doctors and nurses at safe injection facilities to marijuana growers and retailers. The six-month-old recreational marijuana industry in Colorado already boasts over 7,500 jobs, and the governor's latest budget proposal is counting on \$98 million in taxes.⁴ The Cato Institute estimates that a legal marijuana market would bring in \$8.7 billion in annual federal and state tax revenue. This revenue could be earmarked for drug treatment, law enforcement, and education, as it currently is in Colorado.

(7) Fewer customers walk by our doors due to drug prohibition crime

Retailers depend on foot traffic. Crime and disorder outside our doors drives potential customers away. The war on drugs causes crime by competing sellers, thieves attempting to rob drug dealers, and compulsive users desperate for money to buy their drugs. American drug dealers earn \$121 billion in annual cash retail sales, but they cannot hire licensed security firms, report theft or armed robbery, or resolve business disputes with litigation or mediation (13). They need criminals willing to use violence to scare off robbers. In many neighborhoods, crime committed by drug users and dealers frightens away our customers. On

⁴ http://www.huffingtonpost.com/2014/04/19/benefits-legalizing-weed-by-the-numbers_n_5173785.html

the sidewalks of many urban commercial districts, drug dealers advertise their goods in broad daylight while drug users fence stolen and counterfeit merchandise and solicit customers for sex. It is difficult to quantify the impact that this street crime and disorder has on our urban commercial districts, but it is significant and damaging.

Conclusion

Our ineffective drug prohibition policies cost us over one hundred billion dollars every year. These costs range from high tax bills for law enforcement and health care to lost customers, increased property crime and cash transaction fees.

The American system of private enterprise balances incentives and regulatory tools that rely upon the rule of law. Those tools – legal markets, courts, insurance, professional ethics, licensing, regulation, and proper taxation – work for every aspect of the American economy. It is time to use these tools to take the profits of the drug trade away from organized crime and street dealers in order to protect public safety and control these dangerous drugs. We can apply the American way of business – the most widely admired in the world – to control the distribution and use of drugs while protecting public health and safety and stimulating the American economy.