Eleven Ways the War on Drugs is Hurting Your Business
By Eric E. Sterling, J.D.
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Over the past five years, we have witnessed profound change in the U.S. and global economies. Who would have ever imagined that General Motors would go into bankruptcy and the government would take a one-third stake in its ownership? U.S. unemployment has been extraordinarily high. Key sectors of the economy such as housing have been knocked to the ground. Federal government indebtedness has skyrocketed. State and local government spending has cratered, resulting in extensive cuts in services, from public schools to police departments.

Every business knows that its survival could be upended by a shock to oil prices, the unavailability of credit, or a hit to the economy of Europe or China. Every investor is desperate to protect their portfolio against loss, and struggles to obtain a return on investment greater than inflation. The economic impact of public policy dominates every contest, from county sheriff to President, from U.S. Senator to town councillor.

Yet one public policy with profound impacts on business and the economy is rarely evaluated: drug prohibition policy. If you have a retirement account or own property, drug policy makes those assets less valuable. If you simply work for a profit-making business, chances are the size of any raise you might get is smaller because of drug prohibition. The text below explains how drug prohibition shrinks your customer base, increases your taxes, creates crime, raises your costs and reduces your profits. Around the world,
government leaders, ordinary citizens, and business leaders are now questioning the effectiveness, the merit, and the wisdom of continuing the war on drugs.

(1) **You have fewer customers because the war on drugs reduces purchasing power.**

Over the last twenty years, more than seven million Americans received felony convictions for possessing drugs or selling them. Tens of millions of others have criminal records for arrests or misdemeanor drug convictions. Many of these people are drug-free, but struggle to find a job and a regular paycheck. Ex-felons are rarely hired for responsible jobs – typically they are underemployed, if employed at all. Tens of millions of potential customers can’t buy what you are trying to sell. Our prison population has grown by two million persons over forty years. People in prison don’t buy Fords or Chevrolets. Japan and Germany do not hurt their domestic motor vehicle markets by filling their prisons with young people, drug offenders, or substance abusers.

(2) **Your potential customers can’t buy your products because the war on drugs has deprived them of credit.**

Typically, one-third of your customers use a credit card at the cash register (1, please go to www.cjpf.org/CitationsFor11Ways for citations). Ex-felons’ applications for credit are often rejected, even if they have regular jobs. In many neighborhoods, a significant fraction of the men and women walking by your door can’t buy your goods or order your goods and services by Internet or telephone.

The average American left about $3,389 unpaid on their credit card each month in 2010 (2). With more than seven million ex-drug felons without credit cards, drug prohibition enforcement has shrunk the market for goods and services by about $23.7 billion.
(3) Fewer customers walk by your door due to drug prohibition crime.

If you are a retailer, you depend on foot traffic. Crime and disorder outside your doors drives potential customers away. Fortunately, crime rates have gone down in much of America, but the salient fact of the war on drugs is that it causes crime among competing sellers, crime as thieves attempt to rob drug dealers, and crime that is committed by compulsive users to get the money to buy their drugs. The goal of drug prohibition is not to control drugs or drug using behavior but to make drugs scarce, and thus drive up the price. The illegal drug business is enormous – as high as $121 billion in annual retail sales in America (3). Drug dealers have enormous amounts of cash to protect, but they can’t hire licensed security firms or off-duty police – they need criminals willing to use violence to repel robbers. Ordinary business disputes are resolved by litigation or mediation but within the illegal drug business the many inevitable conflicts are not resolved in court, but with violence. In 2004, 17% of state prisoners and 18% of federal inmates said they committed the offense they are in prison for in order to obtain money for drugs (4). The crime of some drug users – if they are in your neighborhood – frightens away your customers. Your customers’ cars are broken into when parked outside your stores. Your customers may fear robbery coming to your stores. On the sidewalks of many urban commercial districts, drug-using criminals fence stolen property, hawk counterfeit goods, and solicit customers for sex.

(4) Your overhead is higher because insurance premiums and security cost more.

Every business needs property and loss insurance. Losses from
shoplifting were estimated at $11.7 billion in 2009, according to the National Retail Security Survey. In 2009, total retail losses cost retailers $33.5 billion. Total overall victim losses from all property crimes excluding arson totaled $15.7 billion in 2010, according to the FBI. Even if your business was not a victim last year, those losses translate into higher insurance premiums for you. And to prevent crime against your business, you pay for security personnel, equipment and services.

An estimated one-half of people in prison have suffered from drug abuse or dependence (5). If drugs were legal and controlled and addicts had better access to treatment, maintenance, and harm reduction services, addicts would not be driven to crime. Switzerland, using Heroin Maintenance Therapy (HMT) since 1994, reduced serious crime by each addict in HMT by fifty to ninety percent, depending upon the crime (6).

(5) Your health insurance premiums are higher because prohibition does not protect public health.

One of the major costs to American business is the contribution to the health insurance premiums of their employees. Conditions or policies that aggravate health problems raise health costs, and health insurance premiums. Drug prohibition not only makes the drugs illegal, it puts drug users outside the law. Doctors and nurses distrust illegal drug users. Drug addicts frequently try to obtain drugs by fraud. Doctors and nurses are prosecuted for prescribing narcotics to drug users. Thus when drug users present themselves for treatment of legitimate medical conditions, they are rejected. Their untreated medical problems become major, expensive problems we all pay for.

The White House estimated that the healthcare cost of substance abuse was $11 billion in 2007 (7). President Obama’s Fiscal Year 2013 budget has requested $15.6 billion for medical care of persons with HIV and AIDS (8). The sharing of syringes by people who inject drugs has contributed to about a quarter of the
cumulative number of AIDS diagnoses in the U.S. from the beginning of the epidemic until 2009 (9). Needles are shared because possessing a needle (drug paraphernalia) is a crime. Needle sharing is prevented by providing new needles to injecting drug users in exchange for used ones. Thorough research has demonstrated syringe exchanges reduce the spread of HIV. This intervention has been recommended by the U.S. Public Health Service and the Centers for Disease Control and Prevention. However, members of Congress who are strident anti-drug legislators have blocked federal funding for syringe exchange programs to stem HIV infection. They say it “sends the wrong message,” even though extensive research has established that promotion of sterile syringe use does not increase drug use. This disregard for public health raises your cost of doing business.

(6) The housing business is further depressed and your real estate taxes are higher because of prohibition crime.

Prohibition crime makes many neighborhoods unattractive to live in or to visit, which significantly depresses residential and commercial real estate values. Housing is frequently abandoned, and lenders won’t issue mortgages on such properties. Abandoned properties in high crime neighborhoods with drive-by drug markets don’t pay any real estate taxes. Investment to redevelop properties is deterred. Even occupied buildings become undervalued. Overall, the real estate tax base for the city is depressed and your tax expense for municipal services is higher. Ending drug-prohibition-crime helps increase property values. A 10% decrease in property crime adds about 1.7% to the selling price of homes (10).

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

Federal, state and local governments are spending at least $45 billion a year fighting the war on drugs (11). Over the past forty
years, this spending has wasted over one trillion dollars, while drug abuse is worse (12):
* High school kids reported in 2011 that heroin and other narcotics are easier to obtain now than in the 1970s and 1980s (13).
* Drug overdose rates in America are higher than ever. The number of persons who die from drugs is five times higher than the rate in 1990 (14).
* Heroin and cocaine have continued to become cheaper and purer over the past 28 years. Heroin is about 10 times more pure at retail than in 1980 (15).

(8) You pay more in interest and bank charges.

Illegal drug sales are cash transactions. Laundering $5 billion in cash each month is an enormous task. Money launderers convert cash 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 (16). It costs a bank, on average, $25 to prepare, file and audit each report. The annual cost to banks, just for filing these reports, is now at least $425 million.

(9) Some of your competitors have an unfair advantage because they help launder drug money (17).

To launder drug money, drug traffickers need business allies to move cash into and through the financial system. High volume cash businesses are ideal to hide drug money (18). Restaurants, for example, are a $632 billion a year industry (19), involving tens of billions in cash each month. Banks expect restaurants to make large cash deposits daily. Restaurants can launder money by including in their daily deposits the cash from drug sales. This gets
drug money into the monetary system. Money laundering restaurants do not need to make a profit on the meals they sell, because selling meals is not their only business. Businesses that launder money can charge less than you do, take your customers, weaken your revenues, and make it harder for you to make a profit.

Your business may have a line of credit to finance your inventory. You probably took loans to open your business. You probably have to pay on loans and a mortgage every month. You can’t escape that “nut.” But some of your competitors never have to worry about their debt.

Businesses financed with laundered funds create the illusion that they were financed with legitimate funds. The drug traffickers’ goal is to operate apparently legitimate businesses that generate for them a “visible means of support,” enabling them to pay taxes and avoid suspicion. Overseas, widespread drug money laundering increases competitive pressure on American businesses. Many money laundering businesses would fail if they were legitimate businesses, but subsidized with drug cash, they continue to compete with you.

(10) The goods you sell cost you more to purchase.

Americans buy $230 billion in goods imported from abroad (20). All these products must pass Customs inspection, along with the thousands of tons of heroin, cocaine, methamphetamine, ecstasy and marijuana that are hidden in legitimate articles as they are smuggled across our borders. A major element of the national anti-drug strategy is to “interdict” the flow of drugs from abroad. Imported goods are delayed to be searched to detect the presence of drugs. Time is money. Perishable goods such as meat, dairy products, vegetables and flowers delayed too long become worthless. Every time your perishable products are lost, your higher prices lose business and your customers subsidize the
ineffective anti-drug interdiction effort.

(11) Prohibition crime creates long commutes and reduces your employees’ productivity.

The crime that flows from drug prohibition devastates large sections of American cities and suburbs. Hundreds of thousands of attractive, well-built homes and apartments convenient to jobs and transit are in neighborhoods considered too dangerous by millions of American families. Affordable housing is often many miles away from jobs and convenient transit. Long commutes exhaust and frustrate your employees. Parents working far from their children are anxious should they fall sick. Parents rush to pick up children in after-school programs, or to get home for dinner. Resultant anxiety increases stress, and reduces creativity and productivity. (And such long commutes drive up the price of gasoline, contribute to global warming, and increase long-term economic costs.)

Conclusion

The unanticipated consequences of drug prohibition cost hundreds of billions of dollars in losses annually. Prohibition is economically illogical because its objective to make drugs ever-more expensive continually draws more people to seek the ever-higher profits it creates. The failure to tax the estimated $121 billion of drug trafficker revenues amounts to a federal subsidy of organized crime of about $42 billion annually -- much more than the cost of the U.S. Justice Department.
The Business Council for Prosperity and Safety wants to increase profits for American investors and create safe neighborhoods for our families, employees, and customers. The Business Council is working to reduce crime, to reduce the harm from drugs, and to reduce unnecessary taxes by controlling drugs with a sensible regulatory system.
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 drugs. American businesses manufacture and distribute an infinite array of products without violence or corruption while making a reasonable profit. 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 safety and health.

For citations, please visit www.cjpf.org/citationsfor11ways

For more information, contact:

Eric E. Sterling  
8730 Georgia Ave, Suite 400  
Silver Spring, MD 20910  
Ph: 301.589.6020  
Fax: 301.589.5056  
www.business-council.org  
info@business-council.org

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