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**Government Policy Toward Illegal Drugs:
An Economist's Perspective**

Jeffrey Miron

Department of Economics, Harvard University

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I. Introduction

This paper explains how economists think about government policy toward illegal drugs. The economics perspective suggests that rational discussion of drug policy must address two distinct questions. The first is whether policy should attempt to reduce drug use; the second is whether prohibition is a good method of reducing drug use, should that goal be desirable.

Economic reasoning suggests that reducing drug use is not necessarily a compelling goal for policy, although it does not rule out that perspective. Economic reasoning also suggests that prohibition is an inefficient method for reducing drug use – assuming that goal is taken as given – except under conditions that do not appear consistent with existing evidence.

II. Should Government Policy Attempt to Reduce Drug Use?

The first question that drug policy must address is whether government should attempt to reduce drug use at all. Stated differently, the question is whether policy should treat drugs differently than coffee, ice cream, cars, toaster ovens, down-hill skiing, alcohol, tobacco, or any other product. Most people think the answer to this question is obvious, but it is important to ask explicitly why drugs might be different than other goods.

Economists generally assume that people consume particular goods because they think such consumption makes them better off. Thus, the natural starting point for economists is that policy should

not discourage drug use; any attempt to do so reduces the welfare of drug users by making it harder for them to consume drugs. This is the economics view regarding all goods.

This perspective applies even for goods that might be addictive (Becker and Murphy 1988). Rational economic consumers consider the possibility of addiction and only consume such goods when they regard the benefits from current and future consumption as greater than any costs addiction might generate. Similarly, the economic perspective applies even for goods that might have adverse effects on health or productivity. Rational economic consumers consider the possibility of such effects and only consume these “risky” goods if the expected benefits from consumption exceed the expected costs of diminished health or income.

This rational economic perspective may strike many non-economists as odd, and indeed most economists regard this perspective as the beginning of the analysis, not the end. Economists offer two reasons why policy might want to treat drugs differently than other goods.

Paternalism and Irrational Drug Use

A possible alternative to the rational economic perspective is that when people “choose” to consume drugs, they are not making informed choices that weigh present and future costs and benefits. Instead, some consumers might be uninformed about the risks of drug use, or they might lack the self-discipline to control their consumption of addictive goods, or they might be overly optimistic about resisting addiction.

If some consumers make “irrational” decisions about drug use, policies that attempt to reduce drug use can potentially make these consumers better off. Several caveats apply, however, in adopting this “paternalistic” perspective as a basis for policy.

To begin, the negative consequences of drug use for health and productivity, along with the risk of addiction, are routinely overstated (Miron 2004); likewise, the possibility of irrational consumption is hardly unique to drugs. In fact, many goods are addictive or potentially dangerous, so if policy should discourage drug use, it should presumably target other goods as well. Current policy does try to reduce

consumption of alcohol, tobacco, gambling, and saturated fat, as well as encourage exercise and saving for retirement. But the list of goods and activities that might be subject to irrational excess is far larger (e.g., trading stocks on line, watching too much television, participating in extreme sporting events), so government would quickly exhaust its resources if it aimed to prevent all consumption that might be irrational.

A different consideration is that choosing drug policies based on paternalism potentially starts policy generally down a slippery slope. If government decides that it knows better about individual drug use than individuals themselves, it is a small step to assume that government knows best about how much people should exercise, what foods they should eat, how much they should study, where they should go to school, what books they should read, which religion they should practice, and so on. Governments throughout history have adopted coercive policies in all these areas. Unless one is confident that government paternalism will usually be benevolent, the potential for slippery slopes should generate caution about putting government in charge of personal decisions about drug use.

A crucial additional caveat is that although some drug use is plausibly irrational, much drug use is almost certainly rational. Millions of people use drugs with minimal ill effects and claim they get some benefit, whether for medicinal, recreational, religious, or other reasons. Since any policy that tries to reduce irrational drug use is likely to restrict rational drug use, the net effect on drug users is impossible to determine *a priori*.

Taking these caveats into account, some people might still argue for policies that aim to reduce drug use based on paternalistic considerations. But this position should recognize that paternalistic policies raise potentially difficult issues and might easily generate far more cost than benefit.

Externalities and Drug Use

A different alternative to – or more accurately, a generalization of – the rational economic perspective on drug consumption holds that even if most use is individually rational, this use can adversely affect people other than users themselves. These spillovers to non-users, known by economists

as externalities, include driving accidents, health effects on unborn children, and increased expenditure for publicly funded health care (a fiscal externality). When consumption of a particular good generates externalities, policies that reduce such consumptions can increase social welfare.

As with the paternalism, several caveats are in order. The externalities from drug use are easily exaggerated; for example, the effect of marijuana on driving ability, while not trivial, appears to be less than that of alcohol (Miron 2004). Relatedly, many goods generate externalities, including driving on the highway (congestion and air pollution), washing dishes or laundry (water pollution), and late night TV (reduced job productivity caused by lost sleep). And much drug use does not generate externalities, so policies that target drug use are harming these consumers without an offsetting benefit in the form of reduced externalities.

A different problem with the externality perspective is that deciding which externalities to target is tricky. Cigarette smoking causes reduced health, some of it paid for by publicly funded health insurance programs. This might seem to imply that policy should tax smoking to reduce externalities. But smoking also causes early death, which means smokers collect less in Social Security and Medicare benefits than non-smokers. Thus the externality logic could imply that policy should subsidize smoking, since this might reduce externalities on net. Few people would argue for such a policy, but this shows that the externality argument can be used selectively, rather than reflecting evidence on the magnitude of different externalities.

Rational concerns about externalities, therefore, can plausibly justify policies that attempt to reduce certain kinds of drug use (e.g., driving under the influence). But this position should recognize that the externality perspective is messy, and the net effect of such policies on social welfare is ambiguous.

Summary:

Economic thinking provides plausible reasons why policy *might* want to reduce drug consumption. Nothing in this reasoning, however, suggests that the right goal for policy is eliminating all

drug use (driving cars causes pollution and accidents, but no one suggests eliminating cars or driving). Rather, economic analysis suggests only reducing irrational or externality generating drug use.

III. Prohibition versus Other Policies Toward Drug Use

If policymakers wish to reduce drug use, one possible approach is prohibition, which means outlawing production, distribution, sale, and possession of drugs and punishing violations via jail terms, fines, asset forfeiture, and the like. Prohibition is not the only way to reduce drug use, however; policy can also attempt to reduce drug use via sin taxes, age restrictions, public health ads, subsidized treatment, and more.

The choice among these policies should recognize that all policies have costs and unintended consequences, whether or not they achieve their stated goals. So the right question for policymakers is what policy best balances the costs of irrationality and externalities against the costs created by the policy itself? From this perspective, prohibition is almost certainly the worst possible choice.

The Unintended Consequences of Prohibition

Prohibition does not eliminate drug markets; instead, it mainly drives them underground. Prohibition may reduce the amount of drug use, but substantial drug markets remain, even under strongly enforced prohibitions (Miron 2004). Given these black markets, a range of negative side effects occur.

In underground markets, participants cannot resolve their disputes using non-violent mechanisms like lawyers and advertising, so they resort to violence instead. Participants cannot lobby legislators, so corruption is more common. Income-generating crime is higher under prohibition because those drugs users who obtain income from activities like theft and prostitution face higher prices for drugs and therefore commit more crime. Quality-control is more difficult in an underground market, so accidental poisonings from impurities and accidental overdoses from overly potent drugs are more common. Drug users are worse off because they face higher prices and reduced availability, purchase drugs from underground dealers rather than legal purveyors, and face the risk of incarceration. HIV transmission is

more common due to prohibition because elevated drug prices encourage high bang-for-the-buck methods of administration like injection; these combine with prohibition-induced restrictions on clean needles to encourage sharing of contaminated needles. Prohibitionist zeal causes limits on drug use for medicinal purposes and generates burdensome restrictions on research. U.S. attempts to impose prohibition around the world mean greater violence and corruption in supplier and transit countries like Colombia, Peru, Mexico, and Afghanistan. The desire to enforce prohibition means diminished civil liberties and racial tension because of the victimless nature of the drug transactions. And prohibition breeds disrespect for the law because no matter how vigilantly enforced, many people evade prohibition, so everyone learns that laws are for suckers.

Given these negatives of prohibition, it is hard to conclude that prohibition is better than a policy of laissez-faire. Prohibition might reduce irrational or externality-generating consumption enough to justify its own costs, but the broad range of negatives make this claim at least controversial if not highly doubtful. At a minimum, this perspective raises the question of whether a policy other than prohibition might achieve a better balancing of positive and negative consequences.

The obvious alternative to prohibition is a sin tax on drugs, similar to those employed in most countries for alcohol and tobacco. Under broad conditions, sin taxation is strictly preferable to prohibition (Becker, Grossman, and Murphy 2006). Consider, in particular, the regime in which the level of prohibition enforcement just balances the costs of prohibition against the benefits of reduced drug consumption to a regime with a sin tax on drugs that raises trafficker costs a smidge less than this degree of prohibition. Assume that the same enforcement against illegal production under prohibition would be levied against legal market suppliers who attempted to evade the sin tax.

Under the sin tax regime, the legal suppliers who paid the tax would have a strict advantage over illegal suppliers or tax evaders, so they would supply legally and pay the tax. Price would be almost as high as under prohibition – so consumption would be almost the same – yet society would avoid all the ancillary costs of black markets as well as some of the costs of enforcing prohibition.

Indeed, policy can under plausible conditions choose an optimal sin tax – one that balances the benefits of reduced consumption against the costs associated with enforcement – that raises drug prices and lowers drug consumption more than occurs under an optimal prohibition (Becker, Grossman, and Murphy 2006). The reason is that whatever the optimal rate of taxation, policy can enforce this by making evasion so costly that few producers actually evade. Then enforcement costs are limited to maintaining an enforcement regime, while conducting minimal enforcement activities, which is less costly than a prohibition regime in which enforcement costs will be substantial because all production occur illegally.

The implication is that even if one believes that much drug consumption is irrational or imposes significant externalities, prohibition is unlikely to be the preferred approach for reducing drug use. Prohibition is superior to sin taxation under some conditions, especially highly elastic demand or a large impact of prohibition on the demand curve for drugs. Yet neither condition appears to be satisfied in practice.

IV. Conclusion

Reasonable people can disagree over whether policy should attempt to reduce drug use. But everyone should agree that prohibition has a broad range of unintended consequences, so any case for prohibition requires evidence that the benefits of reduced drug use exceed the costs of prohibition. For those who view all drug use as undesirable, that case seems easy to make, but calm assessment of the evidence does not support that perspective.

Everyone should also recognize that, whatever the pros and cons of drug use, alternatives to prohibition might generate a better ratio of benefits to costs. Sin taxation, in particular, raises the price of drugs and lowers consumption, with far lower negative side effects. Thus economic analysis suggests that drugs should be legal, not prohibited. Analysis of auxiliary policies like age restrictions, public health announcements, harm reduction, subsidized treatment, and other interventions should occur within that framework.

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