

Eleven Ways the War on Drugs is Hurting Your Business

By Eric E. Sterling, J.D.
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If you are in business, our drug policy hurts you. The return on your investments is reduced. Your expenses are higher than they need to be. The taxes you pay are higher than they ought to be. You face competitors who are financed by criminals enriched by our drug policy.

If you are an American, the crime created by drug prohibition takes money out of your pocket every day.



www.business-council.org
info@business-council.org

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

Over the last twenty years, more than six million Americans received felony convictions for possessing drugs or selling them. Tens of millions of others have criminal records for arrests or misdemeanor convictions. Years later, many of these people are drug free, but still struggle to find a job, especially with a regular paycheck. Ex-felons are rarely hired for responsible jobs – typically they are underemployed, if employed at all. They can't buy what you want to sell.

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

If you are a typical retailer, one-third of your customers use a credit card at the cash register. Banks don't usually offer ex-felons 0% APR introductory credit cards. 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.

The average American leaves \$3,815 unpaid on their credit card each month. For the six million ex-felons without credit cards, the market for goods and services is potentially \$23 billion smaller.

(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 drive potential customers away. **The salient fact of the war on drugs is that it causes crime.** Drug prohibition causes crime among competing sellers, crime as thieves attempt to rob the wealth of large drug dealers, and crime that is committed by compulsive users to get the money they need to buy their drugs.

The goal of prohibition is to make drugs scarce, and inevitably that drives the price up. The illegal drug business is enormous – \$65 billion in annual retail sales in the U.S. Drug dealers have enormous amounts of cash to protect, but they can't hire licensed security firms or call the police – they need criminals willing to use violence to repel robbers. The conflicts within the illegal drug business are not resolved in court, but with violence.

The crime of hard core 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 face robbery coming to your stores. On the sidewalks outside your stores, drug using criminals fence stolen property, hawk counterfeit goods, and solicit your customers for sex.

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

Every business needs property and loss insurance. Over \$1 billion in property was burglarized from American business premises in 2002. Losses from shoplifting were estimated at \$152 million in 2002. Robberies from gas stations and convenience stores obtained about \$20 million in 2002. Even if your business was not a victim, those losses translate into higher insurance premiums for you. And to prevent crime against your business, you face costs for security personnel, equipment and services that are higher to defend against a greater threat.

Between fifty and eighty percent of thieves are hard core drug users. If drugs were legal and addicts had better access to treatment, maintenance, and harm reduction techniques, addicts would not be driven to crime. Maintaining heroin addicts in Switzerland over the past ten years reduced addict crime, depending upon the crime, by fifty to ninety per cent.

(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 drugs illegal, it puts drug users outside the law. Health practitioners distrust illegal drug users. Drug addicts frequently try to obtain drugs by fraud. Health practitioners are prosecuted for prescribing narcotics to drug users. Thus when drug users present themselves for treatment of legitimate medical conditions, they are rejected. Their medical problems remain untreated and become major, expensive problems.

The White House estimated that the cost of the medical consequences of substance abuse was \$5.7 billion in 1998. One large and growing cost of medical care is the treatment of persons with HIV and AIDS, estimated to cost \$2.68 billion in 1996. For the past decade the largest factor in the spread of HIV has been the sharing of syringes by injecting drug users – the cause of infection for thirty-seven percent of all HIV+ persons in 1996.

Needle sharing can be prevented by providing clean needles to injecting drug users. Thorough research has demonstrated the effectiveness of clean needle exchange or sterile syringe exchange in reducing the spread of HIV. Such measures have been

recommended by the U.S. Public Health Service and the Centers for Disease Control and Prevention. However America's anti-drug leadership in Congress and the White House has blocked sterile syringe programs that would stem HIV infection, saying it "sends the wrong message," even though extensive research has also established that promotion of sterile syringe use has not increased drug use.

(6) Your real estate taxes are higher because of prohibition crime.

Prohibition crime makes many neighborhoods very unattractive to live in or to visit. This depresses the value of residential and commercial real estate in those neighborhoods. Housing is abandoned in these neighborhoods, and lenders won't issue mortgages on such properties.

Abandoned properties in high crime, illegal drug-infested neighborhoods don't pay taxes. Occupied buildings are undervalued, and the real estate tax base for the city is depressed. Your tax expense for municipal services is higher.

(7) Your employees' productivity is reduced.

The crime that flows from drug prohibition devastates large sections of American cities and their older suburbs. Hundreds of thousands of older, well-built homes and apartments that would be attractive to live in, and convenient to work and speedy mass transit, are in neighborhoods too dangerous for millions of American families. The other affordable housing is often many miles away from work and convenient transit resulting in long commutes that exhaust and frustrate your employees. Parents working at a distance from their children are anxious when they fall sick. Parents need to rush at the end of the day to be sure to pick up children from afterschool programs, or to simply get home for dinner. Such anxiety increases stress, and reduces creativity and productivity.

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

Federal, state and local governments are now spending more than \$50 billion per year fighting the war on drugs. In the past twenty-five years this spending has exceeded a half-trillion dollars. But this spending has been wasted. Drug abuse is worse now:

- * High school kids report that drugs like heroin, cocaine and psychedelic drugs are more easy to obtain than in the 1970s and 1980s.

- * The number of persons who die from illegal drugs has gone up steadily -- the rate is more than double the rate in 1980.

- * Heroin and cocaine have become cheaper and purer steadily over the past 25 years. Heroin is now about 10 times more pure at retail than in 1980.

(9) 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 laundering means converting cash into monetary instruments and concealing 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 12,300,000 in 2002. It costs a bank, on average, \$25 to prepare, file and audit each report. The annual cost paid by banks, just for filing these reports is now more than \$300 million.

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

To launder drug money, drug traffickers need business allies to move cash into the financial system. High volume cash businesses are ideal agents to hide drug money. The restaurant industry is a \$476 billion a year industry, involving hundreds of billions in cash. Banks expect restaurants to make large cash deposits daily. A restaurant used to launder money includes in its daily deposit the cash from drug sales. This gets drug money into the monetary system. The money laundering restaurant does not need to make a profit on the meals it sells, because selling meals is not its primary business. Therefore it can charge less than you do, taking your customers, weakening your revenues, and making it harder to make a profit.

Your business may have a line of credit to finance your inventory. You probably took loans to open your business and to obtain a building, and now you have loans and a mortgage to pay every month. You can't escape that "nut." But some of your competitors never have to worry about their debt.

Businesses established with laundered drug proceeds do not need legitimate sources of credit. Businesses financed with laundered funds merely create the illusion that they were financed with legitimate funds – but these are "loans" that never have to be repaid. 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.

Many money laundering businesses would fail if they were strictly a legitimate business, but subsidized with drug cash, they continue to compete with you.

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

Americans buy \$300 billion in goods imported from abroad, and each of these products must pass customs inspection, along with the thousands of tons of heroin, cocaine, methamphetamine, ecstasy and marijuana that are smuggled across our borders. A major element of the national anti-drug strategy is to “interdict” the flow of drugs from abroad and so imported goods are searched carefully to detect the presence of drugs. Perishable goods such as meat, dairy products, vegetables and flowers are often delayed awaiting inspection and are worthless by the time they get to market. Every time your perishable products are lost, you and your customers have subsidized the anti-drug interdiction effort.

Conclusion:

Drug prohibition is economically illogical, and creates vast unintended consequences that cost our economy tens of billions of dollars in losses and waste.

The Business Council for Prosperity and Safety is the alliance of business leaders telling policy makers we want to increase profits for our investors, and to have safe neighborhoods for our families. The Business Council is working to replace drug prohibition with a logical system to manage the drug problem to reduce crime, to reduce the harm from drugs, and to reduce unnecessary taxes.

The American system of private enterprise works with a balance of incentives and regulatory tools that rely upon the rule of law. Those tools -- courts, insurance, professional ethics, licensing, regulation, and proper taxation – work for every aspect of the American economy. It is time to use our American tools to take drugs away from organized crime and common thugs.

American business knows how to manufacture and distribute a vast array of products to protect public safety without violence or corruption, and make a reasonable profit. We can apply the American way of business – the most widely admired in the world – to solve the problem of distributing drugs and to protect public safety and health.