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## ◉ **Necessary, sufficient and contributory factors generating illegal economic activity, and specifically drug-related activity, in Colombia\*\***

### **I. Introduction**

The international drug control regime is formulated under a basic paradigm: all drugs included in the convention schedules I, II and IV can only have medical and research uses. The policies derived from these conventions forbid all recreational, ritual, experimental, or self-medicating consumption of coca, cocaine, opium, heroin, marijuana and many other drugs. The conventions allow the production of controlled drugs for medical and research uses and criminalize all other production. Where consumption is concerned they are less rigid, as users of illegal drugs do not have to be arrested or jailed.

Anti-drug policies seek to suppress both illicit drug supply and demand but are formulated without clearly spelling out the reasons why there is a demand and a supply for illegal drugs. To understand illegal drug demand and supply it is necessary to have clear answers to fundamental criminological questions such as: Why do people commit crimes? Or why some individuals contravene formal or informal norms while others do not? Policymakers, however, do not hesitate to formulate and implement anti-drug policies without having first considered those questions. They proceed as if their answers were obvious or known. Yet, when asked about the reasons why the illegal drugs industry develops in a location, most answers are highly questionable and at best partially right. The aim of this essay is to show this using Colombia as an example.

### **II. The requirements of illegal cocaine production**

There is no factor which, once in place, will always produce an illegal activity. The production of illegal goods or services do not have sufficient factors, although there are some necessary ones without which there would not be illegal economic activity. There are also innumerable contributing factors that increase the probability that the illegal

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activity will develop. There are also preventive factors or reasons that are the inverse of many contributing ones.

### *A. Necessary factors*

The development of an illegal drugs industry requires an illegal demand and an illegal supply. This is trivial but basic: without an illegal demand and an illegal supply, there would be no illegal production, trafficking or consumption.

While illegal demand is necessary, the frequently made statement: “when there is a demand there will be a supply” is not a sufficient condition for the production of a good or service. As shown in several places (Thoumi 2003, 2005a, 2009), despite the high illegal profits most countries that can grow coca and poppy and refine cocaine and heroin do not. The existence of a demand does not guarantee that the product or service demanded will be produced.

While demand is necessary, supply does not develop unless other conditions are met. The question is: what are the necessary conditions for supply to develop? These are dependent on the illegal nature of the activity in question. Illicit drug industries require the performance of several industry-specific tasks that are not required by licit activities: the growing of illegal crops, the development of illegal distribution networks, etc. “Successful performance of these tasks requires special ‘illegal skills’ used to develop illegal business organizations, social support networks to protect the industry from law enforcement efforts, and contract enforcement and conflict resolution systems within the criminal organizations, to have the will to break economic laws and regulations and to use violence if necessary” (Thoumi 2003: 56).

In order to develop illegal skills and undertake illegal tasks there have to be people willing to break some laws. Illegal economic activities beyond petty crime require planning, the participation of a group and the development of a support network of people who are willing to break the law and who consider such behavior appropriate. A cocaine and poppy-heroin export industry requires complex illegal organizations that can grow only in countries where there are groups whose social or informal behavior rules and norms differ substantially from the formal rules and norms formulated by the government which prohibit drug production and trafficking.

When the rule of law prevails, crime is limited to that committed by a few “bad apples” or individuals whose behavior is deviant in the society. Common police and judicial system law enforcement efforts can keep crime levels low. But if a significant part of the society does not accept the formal rules as legitimate; if many individuals are comfortable breaking those laws; if breaking laws is justified because they are or appear to be captured by particular groups that benefit from them, then the society becomes vulnerable to the development of illegal economic activities.

There are, however, countries that do have a gap between formal and informal behavior norms and do not have significant organized crime problems. For the illicit drug industry to develop, one of two other conditions is necessary. First, the informal social norms of behavior have to allow individuals to disregard the effect of their actions on other people so that the negative effects that drugs may have on consumers and society at large are not an obstacle to engaging in illicit production or trafficking. An ethnically

divided society may have a group whose social norms differ from the formal ones. But if the group has strong social cohesion, solidarity, dignity and respect for human life, it would not produce or traffic in a product or service that is perceived as damaging to its fellow humans. If through time the gap among norms results in increased illegal behavior and impunity, if social controls break down and a strong amoral individualistic culture develops, then the probability of engagement in illegal activities increases. Second, individuals or social groups might feel justified producing drugs because they can be a weapon against other groups or a foreign country. This would be the case of a group that takes up arms or uses drugs to fight for what they consider a superior goal such as overthrowing the government or liberating the country.

Illicit poppy and coca can grow in many countries and regions although very few actually do grow them and their production is highly concentrated. Three countries produce more than 90% of these two crops. One can find many countries with “weak states” and social conflicts among various groups, countries that could grow these crops but do not. To do so it is also necessary to develop illicit networks and to link with international criminal ones. This is why having smuggling organizations that have strong links with the outside world and the international economy increases the probability of illegal industry growth.

These necessary conditions can be summarized in a nutshell as illegal demand, wide legal-informal norm gaps, disregard for externalities or the will to commit crime to achieve a higher goal, and the ability to develop illegal networks and links.

There are other necessary factors related to cocaine and heroin production functions such as having the chemical knowledge to refine cocaine or heroin and having the appropriate environmental conditions to grow coca or poppy. The labor skills needed are abundant in almost every country today and can easily be hired.

### *B. Contributing factors in Colombia*

Illegal drugs production and trafficking can be stimulated by many contributing factors. In Colombia the following have been considered: the geopolitical location of the country (MacDonald 1989); unemployment and economic crises (Arango/Child 1987 and Arango 1988); the large migration of Colombians to the United States from the 1960s on which facilitated the development of illegal distribution networks (Krauthausen/Sarmiento 1991, Thoumi 1995); the lack of state presence in large parts of the country (Dombois 1990); its widespread smuggling experience (Craig 1981), and corruption (Sarmiento 1990: 33). The last two factors, though, require a norms gap. One may also argue that other factors such as poverty, inequality, experience with periods of high violence, large population displacement and increases in single parent families can also trigger the development of the illegal drugs industry.

The nature of the political regime is also a relevant factor. An authoritarian regime, for instance, can apply stronger repressive policies than a democracy which is concerned with the protection of human rights. It is questionable, however, how successful a repressive, authoritarian regime can be in the long run because it tends to fall prey to corruption. Furthermore, a regime that generates feelings of exclusion among some groups may also be a contributing factor to crime.

To sum up, no factor is sufficient for the development of illegal crops or illegal drug trafficking. Some factors are necessary to develop coca and poppy plantings and cocaine and heroin production and exports. To do so countries must have the full set of necessary factors. There is also a wide spectrum of potential contributing factors. These might trigger the development of the illegal industry only if all the necessary conditions are present.

The lack of a sufficient factor makes it possible to have a society with all the conditions for the development of the illegal industry and which has, however, not developed it. Such a society, however, would be very vulnerable and could develop the illegal industry. The appearance of a new contributing factor, for example, could trigger it. Criminal activities develop as a result of evolutionary processes, not Newtonian ones with well defined causality of the type “ $Y=f(X)$ ” that is “if X then Y happens”. This is why some societies that have all the necessary conditions for the development of the industry do not currently have it.<sup>1</sup>

It should be acknowledged, however, that the structure of illegal drugs development presents an important identification problem for the conditions for its development. The necessary conditions tend to be in the background and the contributing ones are seen as triggering the industry’s development and thus looked at as its causes. As one can see in the following section, this has been the case with most of the literature on drugs in Colombia.

### **III. The Diverse Reasons Used to Explain Why Colombia is one of the Main Illegal Drug Producers**

Most authors identify illegal cocaine demand abroad, mainly in the United States, as the main reason why Colombia produces cocaine. Colombia is seen as a victim of the “insatiable” demand for illegal drugs internationally. These authors may be classified in two groups: those who develop political economy and political arguments, and those who use mainstream economic arguments. Some of the critics present exculpatory arguments and argue that drug addiction must be controlled and that Colombia cannot stop production because its causes are exogenous. Others go beyond that and are justificatory. They imply that it is fine for Colombia to be producing and exporting drugs as a reaction to an unfair world. As shown below, most analysts take for granted that Colombia produces illegal drugs and do not look at the necessary, sufficient and contributory domestic factors that encourage such production.

#### *A. The exculpatory and justificatory political economy arguments*

Writers like the very popular columnist Antonio Caballero present Colombia as a victim of American prohibitionist policies designed to generate large wealth in the US

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<sup>1</sup> This is similar to a case in which a patient is diagnosed with a terminal illness such that every person with it has a deficiency of vitamin xyz which, if corrected, cures the patient. The patient, however, finds that there are many people who have this deficiency who do not develop the illness. In this case the patient will not refuse to take the xyz vitamin pills until a physician explains to him why others did not develop the illness.

and block legal Colombian economic development. The following quotes clearly show this position: “Far from generating any wealth in Colombia [illegal drugs] have drowned the country in corruption and violence. They increase Gross National Product in the United States and destroy it in Colombia” (Caballero 1996: 139); “The war (our war) is fed by coca, the only thing we are allowed to produce profitably” (Caballero 2004a); “the ‘drug trafficking links’ are taken for granted. All Colombians have them, like we have amoebas... Even our two candidates for the papacy, Monsignors Darío Castrillón and Alfonso López Trujillo, have them. These links are perhaps not as strong as those of the Americans who consume and pay for all of the drugs produced in Colombia” (Caballero 2004b); “A government (of the United States) that realizes that it is incapable of making its citizens obey those laws that prohibit drug consumption and transfers the costs to the producing countries and keeps the benefits for itself” (Caballero 2006).

Orejuela Díaz (1997) follows a similar line of thought. He argues that the pressure that the U.S. government put on the Turbay administration to aerially spray marijuana fields was simply a protectionist effort by the United States: “It was all clear: the enemy to be attacked was not marijuana. It was Colombian marijuana, with the aim of benefiting American marijuana. The goal was to control a market with retail revenues of close to \$25 billion” (29)<sup>2</sup>.

These arguments promote and reflect the fact that many Colombians take the illicit drug industry for granted. This is reinforced by cultural expressions like the “corridos prohibidos” that celebrate drug trafficking.<sup>3</sup> Songs like “No soy culpable”, “El rey de los capos”, “Corrido del cocalero”, “El cartel de Cali” and “El gran mafioso” that are played frequently in coca and poppy-growing regions and in low income urban neighborhoods portray drug traffickers as heroes and role models, the police as corrupt, Pablo Escobar as a sadly missed benefactor, American society as dependent on drugs and the cause of the drug problem, drug traffickers as entrepreneurs that succeed because they have the cunning and guts to do what others cannot, and the American justice system as biased against Colombians. In the 1980s many of these songs were commissioned by Colombian traffickers.

The following statements, which are part of the conventional wisdom of many (not all) Colombians, are deserving of analysis. They can be grouped into three categories. The first views drugs as a strictly market phenomena, the second argues the great benefits of prohibition for the American economy and the third focuses on the double standards of American society.

#### 1) STRICTLY MARKET ARGUMENTS: “WHEN THERE IS DEMAND, THERE IS SUPPLY”

This assertion is frequently accompanied by “There will allways be a producer.” The sentence: “So why shouldn’t be us?” is normally left implicit. Granted, the existence of a

<sup>2</sup> This assertion could of course be turned around by an American Antonio Caballero: “A government (of Colombia) that realizes that it is incapable of making its citizens obey its laws that prohibit drug production, transfers the costs to the consuming countries and keeps the benefits for itself”.

<sup>3</sup> “Corridos prohibidos” are popular songs that originally appeared in Mexico and tell the stories of drug traffickers, guerrillas, coca-producing peasants and harvesters and other personalities associated with the illegal drug trade. Wald (2001) is a pioneer study of this phenomenon.

demand tends to induce production, but producers also seek to open up new markets, introduce new products, advertize, etc. Producers are not merely passive actors who react to active consumers. The dynamics of the cocaine market are particularly illustrative. In 1980 the wholesale price of cocaine in the United States was reported at around \$50,000 per kilo. Today it is around \$15,000 per kilo. The American Consumer Price Index increased from 100 in 1980 to 237 in 2005. In real terms then, the wholesale price of cocaine at the American port of entry declined at least 90%. This huge fall indicates that the “insatiable American market” has been saturated for a long time and that the growth in supply has driven market prices down over the last thirty years. Thus, it cannot be argued that cocaine supply has grown as a passive response to cocaine demand. Cocaine demand and supply interact as in any other market; indeed, cocaine producers have sought new markets outside the United States and have also developed other products there like crack, and “bazuco” or “paco” in Latin America.

## 2) BENEFITS OF PROHIBITION

“The lion’s share of the profits remains in the United States”

This implies that there is an unjust distribution of illegal profits to the benefit of the consuming countries and that American crooks make a lot more money than Colombian ones. Those who argue this implicitly dismiss the argument that risks in U.S. illegal markets are high and are the reason for the high illegal profits there. Furthermore, they do not consider that those profits are U.S. value-added, generated in American markets. Curiously, those who complain about the underlying unfairness of profit distribution in the illegal cocaine market do not express the same feelings about the legal coffee or flower markets in which “most profits remain in the U.S.”.

“The United States prohibits cocaine because it cannot grow coca and keep the business”

This implies that the United States seeks to block Colombia’s comparative advantage and fails to explain why it is that the United States does not prohibit imports of other goods it cannot produce to “keep the business”. If this assertion were true we would have a fascinating new theory of development through illegality: if, for example, Colombia were to declare cigarettes illegal, trafficking organizations would enrich themselves and the country would develop. Besides, it is not true that in the United States there are no places where coca can grow. Granted, there are not many, but it can grow in Puerto Rico, the Virgin Islands and Guam. Indeed, during World War II, when cocaine was still used medically, Harry Anslinger, the famous head of the Federal Bureau of Narcotics, developed an experimental plantation in Puerto Rico (Jordan 1999).

“Drugs contribute substantially to the U.S. economy that depends on them”

The validity of this assertion rests on several strong assumptions: first, that it would be better for the United States to import an illegal product at a very high price, without generat-

ing any tax revenues, than the same legal product at a low price with taxes. Second, that it would be better for the country to have an illegal industry in which traffickers make money rather than having a state-sanctioned laboratory import, manufacture and distribute cocaine. Third, that drug traffickers have more influence on the policy-making process than the large firms that would benefit from the legal market. Fourth, that drug demand is an addition to aggregate demand, that is that addicts and drug users would have saved what they spend on drugs rather than spend it on legal goods and services. In reality, the growth of illegal drug demand generates a displacement of legal to illegal demand. Besides, many addicts find it impossible to keep a job and/or support their illegal habit, and resort to crime to finance it.

Those that argue that the United States needs drugs to maintain a high level of economic activity appear stuck in the era that ended with the Great Depression when economic policies compounded economic cycles. Furthermore, during the last fifteen years the United States has been the main driver of the world economy and during the last five or six it has had a very large current account deficit indicating that its absorption, that is consumption plus investment plus government expenditure have exceeded what it has produced. It is then impossible to maintain that the U.S. economy needs illegal drugs to keep aggregate demand high.

“The world’s financial sector depends on the huge deposits of drug traffickers”

This belief, shared by many, is false because, firstly, it implies that drug traffickers’ deposits are a net increase in bank deposits which raise the banks’ capacity to lend. To prove this it is necessary to show that drug users and addicts would not have spent their cash otherwise. If someone spends money at a supermarket, that cash is deposited at a bank. If that person buys cocaine, chances are that it will take longer for the cash to reach a bank. Traffickers tend to deposit in off-shore centers rather than in their local banks. Increased use of illegal drugs then generates a shift away from deposits in local banks to off-shore banks.

Second, central banks have mechanisms to control loan expansion and circulating cash. If illegal drug consumption were the determinant of money expansion, one would have to accept that the traffickers would de-facto set world monetary policy.

Third, the illegal drugs industry generates large costs for the banking system. Governments have created a long list of control measures like reports of cash deposits, internal auditing procedures and know-your-client requirements. Reuter and Truman (2004: 5) estimate these costs to the United States system and conclude that they are “substantial but not overwhelming – on the order of \$7 billion” per year.

Fourth, the world illegal drug market is very large relative to variables such as the Colombian GNP but it is not large relative to international money flows or deposits. Data on the total revenue generated by illegal drugs is weak and the amount tends to be over-estimated (Reuter/Greenfield 2001, Thoumi 2005b). If however, the figure of around \$60 billion for annual U.S. retail drug sales is accepted, one concludes that the size of the drug revenues that enter the financial sector to be laundered is not very large.<sup>4</sup> About 50

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<sup>4</sup> Figures on illegal drugs are very unreliable. The Office of National Drug Control Policy (ONDCP) periodically makes estimates. These show that there has been a significant decline from the highs of the late

to 60 percent of the drug value added is generated in the final two transactions. Sellers at that level tend to spend their income in cash in shopping centers, supermarkets and other shops. The rest is spent by traffickers - also in cash - or deposited in the banking system. It is then unlikely that more than \$30 billion would be available for money laundering. Even if one assumes (falsely) that this would be a net increase in bank deposits, the profits generated would not be large for the financial system.

Fifth, there is another important effect that has not been quantified. The growth of the illegal industry and of any informal economic activity increases cash transactions and the demand for cash. This leads to an increase in transactions that do not use the financial system, which lowers total bank deposits and profits.

Of course, in the financial system there are corrupt officials and banks who benefit from money laundering, mainly in off-shore centers. The point however, is that the financial system as a whole does not depend on illegal drug industry deposits and that they do not increase its overall profits.

### 3) THE AMERICAN DOUBLE STANDARDS ARGUMENT

“The United States police do not pursue the American capos”

This assertion is consistent with the belief that large drug profits benefit the American economy and that drug distribution networks in the U.S. are controlled by capos or large “cartels” as they were in Colombia in the 1980s.

It should be noted that the mafias that grew during alcohol prohibition avoided the illegal drug business. They engaged in less risky activities such as prostitution, gambling, and control of garbage collectors and stevedores’ labor unions in large cities. The reaction of the U.S. government against them has been strong. In 1970 it enacted the famous Racketeer Influenced and Corrupt Organization Act (RICO) against organized crime which expanded the Federal Government’s powers to fight against organizations that profited from gambling, homicide, extortion, counterfeiting money and documents, drug trafficking and other controlled substances and other crimes done by criminal organizations. This resulted in most capos being indicted and sentenced. A significant number of them have died in prison.

The illegal drugs industry in the U.S. is highly segmented and involves many groups. These are mainly made up of natives who feel excluded from the American mainstream and by recent immigrants or minorities. Some importers may deal with large quantities of cocaine but inside the U.S. there is nothing that resembles the old Medellin and Cali “cartels”. In the U.S. the number of inmates in the correctional system accused of drug-related crime is enormous and the criminal career of a drug trafficker or dealer is on average four years.

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1980s. Boyum and Reuter (2005: 29) report \$134 billion in 1988 and \$60 billion in 2000: “roughly one percent of personal consumption expenditures”. It is possible that the current level may be somewhat higher. The point is that many drug prices show a long term declining trend which accounts for lower total sales.



State legislations have been very strict. Many enacted harsh minimum sentences and asset forfeiture measures. Some of these have led to expropriations of property used to store or deal drugs even in cases when these activities took place without the knowledge of the property owners. Some states established mandatory life sentences for anybody found guilty of a third felony. This implies that in some states small drug dealers convicted for the third time end up serving longer sentences than some assassins. The number of people indicted, jailed and imprisoned on drug charges every year is huge. Each year there are more than 1,600,000 drug arrests. The number of individuals actually in jail for drug crimes exceeds 600,000. The number of people on probation is similar.

Some may argue that the large number of arrests is proof that the U.S. does not pursue capos. Even if the U.S. had large capos that would not mean that going against them would end the illicit trade. As proved by the Colombian elimination of the large Medellin and Cali cartels, their destruction did not have an effect on the size of the illicit industry.

The fact that about 25% of young black males ages 18-25 are detained or on probation is proof of harsh anti-drug policies. The government expenditure for fighting the war on drugs is huge. Most of this expenditure (80%) takes place inside the United States. There is no doubt that the U.S. does a lot domestically to fight drugs. It may be argued that their strategy is ineffective and that efforts should shift toward prevention, treatment, and rehabilitation, but it can not be said that the U.S. does little.

“In the United States Colombian traffickers are discriminated against. They receive very harsh sentences while American traffickers and dealers receive much lower sentences”

This is often accompanied by “the American plea bargaining system is unfair because it accepts de-facto paid testimonies given in return for lower sentences”

This belief presents Colombian traffickers as victims of an unjust legal system. There are no rigorous studies comparing the sentences of Colombians and Americans accused of drug trafficking. In Colombia, however, the press has highlighted the long sentences of some Colombians but until recently there has not been a discussion of cases of Colombians who have negotiated successfully with the American authorities. Téllez and Lesmes (2006) and Reyes (2007) have extensively documented how Colombian traffickers have negotiated with American authorities. It appears that the first traffickers extradited did not know how to confront the American judicial system. More important, “those arrested and convicted kept their mouths shut... ignoring offers of lighter sentences” (Chepesiuk 2005: 39). There were reasons for this: the cartels had detailed information on their families in Colombia who were at high risk of death if they collaborated with the U.S. justice system; and “the organization operated through independent cells, and the members of each cell did not know each other” (Chepesiuk 2005: 39). Many traffickers now request to be extradited because they have figured out how to do so. Today it is impossible to argue that the American judicial system discriminates against Colombians.

“The United States prohibits drugs because the C.I.A. is involved in the illegal business”

Many national security agencies and subversive groups around the world have used illegal drugs to fund some of their activities. What happens is simple: those who are fight-

ing for a “superior” cause are willing to sacrifice some principles they consider less important. Spies and other security types develop links with the underworld and become friendly with arms and drug traffickers as part of their work. For them the fight for regional or national freedom or for national security takes precedence over the fight against drugs.

There have been documented reports of C.I.A. participation in the drug trade in Nicaragua and other Central American countries (Scott/Marshall 1991) and in the Golden Triangle (McCoy 1991). The (in)famous Iran-Contra Affair of Colonel Oliver North is the best known case. The issue is whether these links were part of the overall policy of the CIA or just the result of decisions made by local operatives. In any case, even if these actions were approved at a high level, they could not have been official agency policy but the responsibility of an individual or a small group.

The links between drugs and national security organizations and freedom fighters are also very common. While in power, the Sandinistas used drugs to obtain funds to fight the contras (MacDonald 1989: 34, Gugliotta/Leen 1990: Ch. 16). Similar links have been documented between the illegal industry and the Taliban, rebel Chechnyan, Kosovan, Chinese and other groups. Perhaps the most extreme case was the García-Meza government in Bolivia (July 17, 1980 – August 4, 1981). During the PRI Hegemony in Mexico the links between the federal police and drug traffickers were so strong that some spoke of a symbiotic relationship.

“The United States did not tolerate alcohol prohibition, why then do they prohibit cocaine? This proves that they have double standards and that they benefit from the cocaine market”

Assertions like this raise the expectation that the U.S. could be forced to liberalize the cocaine market if they reach a point where they do not benefit from its illegality. Perhaps, if Colombia floods them with cocaine, they will be forced to legalize it.

It is true that the U.S. has been the world champion of prohibition, but repressive anti-drug policies are supported by most countries. Indeed, the world is prohibitionist. A world prohibitionist map shows that China, all of the Islamic countries, the former USSR and Eastern European countries, Scandinavia, all of Africa and almost all Latin America are prohibitionist. Many of these countries are a lot more repressive than the United States. “Liberal” countries like the Netherlands, Switzerland, Spain, Portugal, and the U.K. are also prohibitionist. They may differentiate between consumption of soft and hard drugs but they do not advocate a more liberal production of cocaine, heroin, amphetamines and other illegal drugs. The world prohibitionist sentiment supports the international prohibitionist drug control regime. Any drug liberalization effort will have to be negotiated at the United Nations, not just with the U.S.

The political process that led to alcohol prohibition in the U.S. was very different from the one that resulted in the prohibition of cocaine, heroin, marijuana and other drugs (Musto 1999: 65-68). In contrast to alcohol, in the United States there is a wide social consensus to prohibit cocaine, heroin, amphetamines and other drugs.<sup>5</sup> Many

<sup>5</sup> The consensus about marijuana prohibition is less widespread and might be breaking down.

Americans associated opium, morphine and heroin with Chinese immigrants, marijuana with Mexican migrant workers and cocaine with black workers (Musto 1999, Falco 1994). Users of these drugs were perceived as un-American and as deviants to be reformed or sanctioned. Support for drug prohibition continues to be widespread across the American mainstream as those drugs are perceived as a threat to the American way of life.

Christianity domesticated alcohol, it ritualized its consumption, and developed social control systems to limit the negative social consequences of alcohol addiction (Escohotado 2002: chs. VIII, X and XII). This has not happened with other drugs that Christianity has associated with the devil.

“Colombia has applied the full anti-drugs prescription, all the recommended policies, and the drug problem has not been solved. Besides, in the drug war Colombia contributes the dead bodies. This is why Colombia should demand a different anti-drug strategy abroad”

There is no doubt that the Colombian government has attempted to implement very repressive policies like massive aerial spraying of coca fields and the extradition of traffickers. But it is not true that it has applied the full anti-drugs recipe. Efforts to solve the peasant problem have been weak. Alternative development programs have not been promoted aggressively and most of the funding of the existing ones has come from foreign donors. Anti-moneylaundering laws have been enacted and a very large number of drug traffickers’ assets have been seized, mainly land. Expropriations, however, have been sparse. The National Drugs Directorate that manages seized assets has had very few resources and has not been managed effectively. It has expropriated 60,000 hectares but traffickers have succeeded in having over 1,300,000 hectares returned to them or to their frontmen. In other words, the government has not “gone after the money”.<sup>6</sup>

It is true that Colombian drug-related casualties have been very high and as important politicians assert, Colombia has “contributed most of the dead bodies in the war on drugs”. This assertion implies that it is “natural” for people to kill each other when there are large illegal profits. Illegal economic activities tend to increase violence levels; the question, however, is why this increase has been so much greater in Colombia than in other countries that are also involved in drug trafficking.<sup>7</sup> There is no doubt that homicide rates like the ones sustained in Colombia in the late 1980s and 1990s are terrible, but from a social point of view it is much worse that the assassins are Colombian. The issues to be raised are how come in Colombia the sicarios have been accepted within at least some social groups? Can Colombia blame the outside world for that?

<sup>6</sup> To add insult to injury a former head of the National Drugs Directorate appointed by President Uribe during his first term has been accused of money laundering and requested on extradition by Panama!

<sup>7</sup> Anecdotes are the singular of data. In late 2002 after Evo Morales was ejected from Congress in Bolivia, I had a long interview with him in which he asserted that “the situation in Chapare is intolerable; last year four peasants were killed”. As a Colombian I could only give him a big hug and tell him how much I envied him.

#### 4) CONCLUSION

All the beliefs and arguments discussed above are exculpatory and justificatory of Colombians who participate in the illegal drug industry. This may be an understandable attempt to survive and succeed in an extreme, amoral, individualistic society and an unfair world. Some of the arguments implicitly assume that a large percentage of individual wealth in capitalist societies has been acquired illegally and that the Colombian traffickers are fighting to have the same opportunity. If banks and first world crooks enrich themselves illegally with drugs, why are Colombians not allowed to do the same? In an unfair world isn't it "natural" for those who feel wronged to break the law? This sentiment of unfairness is general but it is stronger in reference to coca and poppy-growing peasants. Tovar Pinzón (1999: 70) describes coca and cocaine as having been declared "illegal". In a recent WOLA report on aerial spraying (Walsh/Sánchez-Garzoli/Salinas 2008), illicit crops are always referred to as "illicitly used crops". For them it is clear that coca crops should not be illicit and coca-growing peasants should not be expected to respect the law.

#### *B. Mainstream Economists' Explanations and Exculpatory Arguments*

##### 1) EXTERNAL SHOCK EXPLANATIONS

Some prominent economists explain the development of the illegal drug industry as a response to an external shock suffered by the Colombian economy: the large growth in illegal marijuana and cocaine demand in the United States and Western Europe during the 1960s and 1970s, coupled with the recession in the Antioqueño textile industry, also caused by external factors, that generated a large Antioqueño migration to the United States which allowed for the development of trafficking networks (Gaviria 2000 and 2008; Robinson 2007).<sup>8</sup>

The "external shock" explanation attributes the cause of the development of the illegal drug industry to "a set of fortuitous and non-repeatable events" (Gaviria 2008: 95). The Antioqueño textile industry recession was a contributing factor as the industry was pressured by foreign imports, an unknown but significant amount of which came into the country as contraband. A significant migration of Antioqueños to the United States was one of the consequences of the recession.

This "external shock" theory is very peculiar. External shocks occur when export prices decline or import prices increase sharply, when debtor countries face large increases in international interest rates or when countries are faced with other changes that make it difficult for them to operate in international markets. External shocks affect all countries, not just one. For the external shock argument to be valid it would have been necessary to have an external shock whose negative effects were concentrated on one

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<sup>8</sup> Robinson (2007: 662) is less explicit than Gaviria but: "In the first place, there has been a massive shock, the growth since the 1970s of the cocaine economy." It is clear, however, that this is the result of an external shock.

country but which did not depend on the structural and institutional characteristics of that country. Curiously, Colombia never exported marihuana or cocaine while they were legal.

## 2) EXTERNAL SHOCK COMPLEMENTED BY PATH DEPENDENCY ARGUMENTS

The external shock does not explain why Colombia's dominance on the cocaine industry has been maintained. Some argue that market forces created a path dependence that trapped the country in illegal production and trafficking.<sup>9</sup> According to this explanation, Colombians were the first ones to respond to the growth in cocaine demand in the U.S. in the 1970s because they were in the right place at the right time; or perhaps in the wrong place at the wrong time. Once they established distribution networks, other possible competitors were left out of the market.

This path dependence explanation is also very peculiar. Path dependence is usually the result of high costs faced by producers and consumers of shifting supply sources. The classic case of this is Microsoft vs. Apple. Experts agree that Apple is technologically superior but Microsoft became established first and since, for most people, learning the new system is quite costly, they continue using the inferior one. One can also conceive of path dependence when a factory or store is located in a sub-optimal place but the costs of moving to the best location are sufficiently high.

Path dependence in the case of cocaine implies that despite huge illegal market profits, Colombians were able to block all other competitors. Curiously though, the Colombian cocaine industry is continuously shifting. New routes appear all the time, illicit plantings move, new markets open up, as noted, new products have been developed, and new actors continuously come onto the scene. The Colombian drug industry has evolved in the last twenty years from one controlled by two large organizations and several smaller ones (drug lords), to one made up of a large number of medium and small size trafficking organizations that ended up being the subordinates of large armed groups (warlords) (Thoumi 2009). The latest developments suggest that as warlord organizations are eliminated, many smaller armed bands (ganglords) have gained control of the production networks and some trafficking networks. Other small "baby cartels" made up of educated, bilingual, savvy younger traffickers that follow a very low profile strategy and are very difficult to detect control a significant proportion of new trafficking networks. Colombian organizations have lost market share in the United States and Mexican criminal organizations have become dominant in many parts of that country. What one finds is a continuously changing path. The issue is then, why have different Colombian organizations maintained significant control of cocaine production and trafficking? This would require the willingness to use violence, intimidation, etc. That is, to master the underlying illegal skills.

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<sup>9</sup> Andrés López' presentation in the Jorge Eliécer Gaitán lecture series, León De Greiff auditorium, Universidad Nacional de Colombia, Bogotá, October 2, 2006.

### 3) FINANCIAL CO-RESPONSIBILITY

Others have argued that since prohibitionist policies are imposed from abroad and result in large social costs in Colombia, it is only fair that the mainly consuming countries should compensate the mainly producing countries. Fandiño (2005) proposed a “retributive tax” which consuming countries should pay producing countries for the consequences of their mistaken repressive anti-drug policies. The co-responsibility concept used is an attempt to make a two way street one way. It implies that consumers have all the responsibility for the growth of the illegal drug industry: producers are only passive actors who should be exonerated. It also implies that these passive actors do not profit from the illegal industry. Since the industry’s growth is not related to any domestic structural or institutional characteristic, mainly producer countries should be compensated.

To conclude this section, it is interesting that both political and mainstream economic arguments explain the development of the illegal drug industry in Colombia as the result of exogenous factors and present Colombia as a victim. These arguments implicitly assume that the structural and institutional and cultural (beliefs, attitudes and values) characteristics of Colombia and how they differ from those of other countries are of no relevance to the development of the illegal industry. Since the reasons why the illegal drugs industry developed were exogenous, all these arguments dismiss the possibility that Colombia could be able to eliminate its illegal drugs industry while the world’s prohibitionist policies persist. No wonder, to save Colombia the world must legalize drugs!

## IV. A neoclassical-institutional approach<sup>10</sup>

As shown above, the development of an illegal industry has necessary and contributory factors. There are no sufficient ones. The necessary ones are exogenous (international illegal demand) stressed by the analysts discussed above, and endogenous, those that make the country very vulnerable and prone to respond to illegal market incentives.

There is no doubt that illegal international demand plays an important role in promoting illegal production but it does not explain why Colombia *concentrates* on coca and cocaine production. Cocaine is a very easy-to-produce drug: it does not require large capital investments or specialised labor, and coca can grow all across the humid tropics. It is also extremely valuable on the black market. Once such a product is declared illegal across the globe, if its production and trafficking become concentrated, then it will be in a place where it is easier to carry out illegal economic activities. In other words, the cocaine industry is concentrated in Colombia because of internal factors. Over the last twenty years I have explored this point (Thoumi 1987, 1995, 2003 and 2006).<sup>11</sup>

This approach argues that in Colombia there is a wide gap between formal norms (laws, decrees, constitution) and informal behavioral norms.<sup>12</sup> Following North (1990),

<sup>10</sup> The model developed in this section adheres closely to Thoumi (2003: Chapter 3).

<sup>11</sup> In the academic literature there is no refutation of this position except for some recent efforts by Gaviria (2006, 2008). It has been supported by UNDP (2003: 306-308) and it is consistent with Herrán (1987), Kalmanovitz (1989), Mockus (1994) and Yunis (2003).

<sup>12</sup> The importance of respecting formal rules is also stressed by Gaviria (2008: 105-109).

it is important to separate the rules of a society (institutions) from the actors that implement and enforce those rules, the organizations.<sup>13</sup> Colombia has some strong organisms: a strong central bank and constitutional court, armed forces that respect and support the civil regime, some strong producer associations and other organizations (Cepeda 2004). But having strong organisms does not mean that there is no large gap between formal and socially accepted norms. The Colombian problem then, is not necessarily one of weak organisms, but one of conflicting norms (institutions).

This does not mean that the growth of the illegal drug industry has not had very negative social, political and economic consequences for the country. Indeed, it acts as a catalyst that aggravates the institutional and social problems of Colombia (Thoumi 1987, 1995, 2003) and widens the norms gap.

An important issue is whether the formal-informal rules gap has been greater in Colombia than in other countries. Gaviria (2008) asserts that the gap between formal and informal rules was similar across Latin America and that since the industry did not develop in other countries, the formal-informal rules gap cannot be a cause of the growth of the illegal industry in Colombia.<sup>14</sup> As noted above, a large formal-informal norms gap is a necessary but not a sufficient requirement for the development of the drugs industry. Besides, norms gaps vary across societies, as different social groups impose different constraints on their members' behavior. A society might be very strict with regard to a particular activity and relatively lax with regard to others. Various societies and groups in a society may have different social controls and not all social groups participate to the same extent in illegal activities.

The evidence regarding coca-cocaine and opium-heroin is very strong: all countries or regions that have illegal coca or poppy plantings and that refine cocaine and heroin and develop strong trafficking organizations have one or more important unresolved social issues. Afghani tribal regions (most of the country) have implicit norms that differ from many of those of the central state. The same occurs within the native and peasant communities in Bolivia and Peru regarding coca. In many regions and in a large part of Colombia the state has not been able to impose the rule of law, contraband and other illegal activities have been socially legitimate, while many formal laws and rules have been *de facto* illegitimate. Furthermore, informal norms vary among regions, generating further norm clashes. Similar conditions are found in Myanmar and Laos, the other significant opium producers. In Pakistan the illegal industry was concentrated in the North-West Frontier Province, a tribal area where many of the formal laws of the rest of the country do not apply. When Turkey was a main opium and heroin producer, that activity was concentrated in the Kurdish area.

The norms gap discussed above can be framed within mainstream economics. The following model developed in Thoumi (2003) does that. The mainstream economics

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<sup>13</sup> Most of the literature on institutions mixes these two concepts and both are referred to as institutions.

<sup>14</sup> "Around the 1970s all governments were weak toward drugs" (84). And "Around the 1970s drug trafficking was perceived as a venial form of contraband; as a way to take advantage of the moral (and unjustified) protectionism of the United States" (85). At some point Gaviria appears to backtrack in this regard: "Institutional weaknesses may have helped the initial development, but the business itself contributed decidedly to weakening the institutions" (80). Gaviria however, does not perceive the difference between contributing and necessary factors and considers weak institutions to be only a contributing one.

approach considers that the decision to commit a crime is the result of a comparison of the net benefits of the crime with the costs of the action and the expected value of the punishment if the criminal is caught. In simple mathematical terms:

$$NB = l - c - w - (pr \cdot pu) \quad [1]$$

Where: NB are the benefits that the criminal obtains from committing the crime;  $l$  is the value of the loot;  $c$  are the costs associated with planning and executing the crime;  $w$  is the total value of wages foregone during the period of planning and implementation of the crime;  $pr$  is the individual's perceived probability of being convicted, and  $pu$  is the estimated value of the punishment given by the authorities. If the criminal is not caught, his or her benefit will exceed NB by the amount  $(pr \cdot pu)$ , and if the criminal is caught, his or her benefit will be lower than NB by  $[(1-pr) \cdot pu]$ .

"The simple economics approach to crime has proven quite useful in many contexts as it can explain variations in crime through time in a particular locality, as long as the social structure and social constraints to crime do not change. This is the model's main strength, but when the underlining social structure changes, it cannot be expected to maintain its explanatory power" (Thoumi 2003). The model cannot explain differences in crime rates across countries.<sup>15</sup>

Humans are selfish but they are also social and by being part of a society they are subject to norms that constrain individual behavior. All societies have developed controls on the production, trafficking and use of psychoactive drugs.<sup>16</sup> These controls have differed depending on the society in question and have taken many forms.<sup>17</sup>

Introducing social controls into equation (1) one gets:

$$NB = l - c - w - (gpr \cdot gpu) - (spr \cdot spu) \quad [2]$$

Where  $(gpr \cdot gpu)$  refers to the probability and magnitude of government punishment and  $(spr \cdot spu)$  to social punishment imposed by other organisms. The latter control is an expression of the social capital of each society. As explained elsewhere (Thoumi 2003): "The variables  $l$ ,  $c$ ,  $w$ ,  $gpr$ ,  $gpu$ ,  $spr$  and  $spu$  vary among individuals and population groups. Individuals with good market connections to distribution networks or fences can obtain higher prices for their loot than others, some people have a higher opportunity cost for their time than others, and expected punishments may vary depending on connections, race, ethnicity, place of residence and other individual specific characteristics."

The opportunity cost of the time devoted to crime,  $w$  varies between individuals. The value of the state's sanctions also depends on the value of time of each person, at least in cases where freedom is lost.

<sup>15</sup> Thoumi (2003: Chapter 3) provides several examples to support this statement.

<sup>16</sup> Coleman (1990) and Searle (1995) study the demand for norms and the conditions under which norms develop in a society.

<sup>17</sup> See for example Siegel (1989), Morales (1989), Carter and Mamani (1986), Vidart (1991), Del Olmo (1992), Escobotado (2002) among others.



In some cases  $gpu$  can be negative so that  $-(gpr \cdot gpu)$  is positive.<sup>18</sup> Social organisms are expected to sanction criminal behavior but some may actually encourage it. For instance, going to jail can be a “rite of passage” that increases the status of many young males. Additionally, tax evasion in some countries faces a very low risk of government punishment and may be a source of pride (Guisarri 1988).

Taking into account these differences in the way in which different agencies and social groups deal with crime sanctions, the net benefits of crime become:

$$NB = 1 - c - w - \sum_{ij}(gpr \cdot gpu) - \sum(spr \cdot spu) \quad [3]$$

Where  $i=1\dots n$  are the different government agencies and  $j=1\dots m$  are the different social organisms.

Humans develop beliefs, attitudes and values that allow them to understand the world and live in their societies. These are generated through the socialization process particular to each society through which internalized behaviors and constraints are formed. Individual values generate self-control so that every person has a threshold that has to be exceeded for him or her to commit a crime. This threshold can be expressed as  $M$ , the minimum return to crime required for the person to decide to commit a crime. Taking into account social controls, equation (3) becomes:

$$NB = 1 - c - w - \sum_I(gpr \cdot gpu) - \sum_j(spr \cdot spu) - M \quad [4]$$

In this case, an individual chooses to commit a crime when  $NB$  is positive. This model is consistent with the bounded rationality models used in economics and with the New Institutional Economics and shows that the decision to commit an economic crime depends on the value of the loot, the costs of the criminal enterprise, the strength of law enforcement efforts and the magnitude of the legal penalties, the strength and magnitude of social sanctions and the internalized behavioral constraints of a prospective criminal.

It shows that the decision to commit a crime depends on three types of behavioral constraints:  $\sum_i(gpr \cdot gpu)$  reflects the constraints imposed by the law and law enforcement efforts;  $\sum_j(spr \cdot spu)$  the social constraints which reflect the culture; and  $M$  the morals of the individual. The three constraints are important in determining whether a person commits a crime. These are similar to Mockus' (1994) regulatory systems: morals and culture. Obviously, when the three are strong and complement each other, there will be few

<sup>18</sup> For example, a poor unemployed Colombian captured at a U.S. airport with a kilogram of drugs is sentenced to a few years in jail where he has a roof, food, medical attention, access to television, radio, education material, exercise room, and the opportunity to learn a foreign language. This increases his standard of living. The value of the punishment to the criminal would depend on the individual's own comparison and evaluation of the benefits of the increased physical standard of living with the cost of lost freedom (Thoumi 2003).

illegal activities. But when they are weak and/or contradictory, crime levels are going to be high. In other words, the structure and institutions of a society are key determinants of illegal activity levels.

## V. The Colombian Problem

When the state and social enforcement efforts coincide, policy enforcement is easy. But when they differ widely and counteract each other, law enforcement becomes very difficult. Several studies have focused on why in Colombia it has been so difficult to generate trust, reciprocity and solidarity; why social capital has been mostly of the bounding type around family and small groups of friends; and why bridging social capital has been very scarce;<sup>19</sup> why Colombia has a very weak national identity; why it developed a strongly individualist culture in which individual responsibility towards society is very weak and behavior that disregards the effects of individual actions on others is common (Thoumi 2003, Yunis 2003, among others).

The roots of the formal-informal rules conflict can be traced back to the country's geography, history and the civil and government organisms that developed in Colombia. Geography made it very difficult for the state to control the territory, to establish the rule of law and to bind the country together. It was also responsible for the country's low levels of international trade and tax revenue. Colombia had many isolated regions that developed with few links to each other. Colombia's exposure to the outside world was very limited. It received the least number of non-Spanish immigrants. The large foreign debt inherited from Bolivar's campaign to free Ecuador, Peru and Bolivia prevented access to external capital funds for a century.

The rapid mestizaje weakened native communities and social behavioral controls. Colombia suffered a series of primary product booms and busts, but until the coffee trade developed in the 1920s, they were in different products and different locations which prevented the development of strong communities.

Political parties in Colombia have been atypical. In response to the weak central government presence in many regions, they mediated between the citizenry and the state and became a source of identity and identification to many. The strong party loyalties allowed La Violencia of the 1940s and 1950s in which about 200,000 died. While there have been periods during which the homicide rate has not been an outlier in Latin America, there have been sustained periods of high violence. Today it might be argued that a large proportion of the population suffers from post-traumatic stress syndrome. One can only speculate about its consequences.

Internal migration in the 1950s and 1960s was large as it was in many other Latin American countries. In Colombia, however, La Violencia played a significant role. Many Colombian migrants were uprooted, which was not the case in other countries. This destroyed many families and substantially weakened the social fabric and social controls, including those imposed by the Catholic Church.

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<sup>19</sup> The social capital types considered by Putnam (1993).

The armed forces have also been atypical. Until recently it was not their goal to control the territory, they did not have the capacity to do so and they were not a focus for feelings of national identity or patriotism.<sup>20</sup>

Colombia is the only Latin American country that never had a real populist government. Instead, it developed a strong clientelistic system (Robinson 2007) that avoided many of the economic pitfalls common to other Latin American countries (Urrutia 1991). But clientelism turns the state into a bounty and undermines the rule of law and the ability of the state to enforce its norms.

These and other factors have generated a wide gap between formal and informal norms, hence creating an institutional conflict. This gap is complex as informal norms vary among different social groups and regions. There is a modern Colombia that seeks the rule of law and strives to achieve it. But there are several “other Colombias” in which social norms promote law-breaking. The norms gap is not equal across the territory. For instance, in Guajira there have been civic marches demanding the right to contraband (González-Plazas 2008).

## VI. By way of conclusion

The elimination of the illegal drugs industry requires substantial social change. Furthermore, the regime of international control has created a strait jacket that cannot be changed in the short run. Thus, Colombia will have to live within a prohibitionist world. Current policies which largely attack factors that contribute to the development of the illegal industry will at best lower the industry’s scope but they will not eliminate the illegal industry. They do, however, have to be continued.

The permanence of the illegal drug industry in Colombia in any of its evolving forms is and will remain a huge obstacle to developing a modern society that can successfully compete in the world. The illegal drug industry is a much greater source of social and economic problems in Colombia than in mainly consuming countries and in most mainly producing countries. In other words, the need for change is more pressing in Colombia than in the United States, Europe, Bolivia and Peru.

The question is whether this need is sufficient to generate a widespread movement within Colombia that recognizes the need to eliminate the necessary factors for the development of the illegal industry and commits to it. This is very unlikely. Therefore, the most likely scenario is one in which Colombians will continue giving exculpatory arguments and the illegal industry will remain a feature of the country. Colombian government officials will continue requesting more funds from foreign donors to assist in the war on drugs and some Colombian intellectuals will continue clamoring for the world to legalize drugs, that is, to request the world to change because Colombia cannot change. Unfortunately, the challenge for Colombia is not to legalize drugs but to legalize Colombia.

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<sup>20</sup> It is remarkable that for several decades there have been quite a few more former guerrillas than military in Congress.

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