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The Consequences of Marihuana Legalization in the United States for Mexico's Illegal Drug Economic System

Introduction

This article describes some characteristics of the illegal drug market, criminal organizations' profits from marihuana sales in the United States, and this lucrative business's collapse after the legalization of cannabis in some U.S. states. I also offer some reflections about the ongoing violence in Mexico despite legalization, the ongoing problems of the illegal drug market, and the need for an alternative to current policy.

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The Economic Consequences of Prohibition and the Illegal Drug Economic System

The prohibition of certain drugs has caused the emergence of a series of social problems that link up with others. To poverty, marginalization, inequality, and social exclusion in Mexico are added the violence associated with the competition between criminal organizations dedicated to the production and trade of illegal drugs. As if that were not enough, added to this are the cases of poisoning and deaths by overdose.

In the productive sphere, the ban implies that technological and sanitary conditions are not applied. It means that the commercial price is profitable even for drugs produced in the worst conditions, leading to the criminals not following quality standards designed to protect their

clients' health. Rather, this circumstance leads to clandestine production, and, when difficulties arise in the United States for processing these substances, international manufacture and trafficking increases in order to supply the U.S. market.

In the commercial sphere, prohibition also creates a criminal barrier for legally established businesses. Increased demand for drugs is not reflected in increased supply, thus maintaining this market in constant disequilibrium. In addition, disinformation prevents consumers from easily tracing drug suppliers, who take advantage of this by arbitrarily selling their products in segmented monopoly markets.

As a result, the permanent imbalance between supply and demand for forbidden drugs creates, in turn, an imbalance between the real value and the prohibition-linked market price. This means that the problem of illegal drugs is not simply that they are expensive—rather, they are very cheap to produce if compared to the final price to the consumer—, but that they also generate disproportionate prices of illegal substances between the United States and other countries.

For example, the United Nations Office on Drugs and Crime (UNODC) estimated that in 1994, the price of pure heroin in Pakistan was US\$900/kilo, while its street value in the United States was US\$725,000. In 1997, the U.S. Drug Enforcement Agency (DEA) stated that a kilo of pure cocaine cost US\$1,050 in Peru, while on the street in the United States, it was US\$188,000.

Prohibition fosters artificially maintaining a market price for these products, so that trade in them becomes a profitable business if other actors are prevented from participating, meaning they are sold for much more than their real value. This disparity is the main source of criminal organizations' profits; they use their high incomes—much higher than those obtained in other, legal economic activities—to hire security forces, which are also illegal (including hitmen), bribes (to authorities, for example), arms purchases, etc. This explains the connivance of certain authorities responsible for Mexico's security with criminal organizations to guarantee these drugs' production and circulation.

All this makes for a very profitable business, since it maintains a continual flow of money and constitutes a process of capital accumulation that implies *sui generis* expenditures for circulation. Although these sorts of crim-

inal organizations do not pay taxes or give employees benefits, they do pay to remain in the market.

Mexican Criminal Organizations' Participation in the U.S. Illegal Marihuana Market before Legalization

Prohibition causes illegal drugs to be sold at a much higher price than their value, and this is also the case of marihuana. Mexico was the main provider to the United States in the twentieth century due to the drop in production there because it was banned, the resulting increased price, the proximity and length of the border between the two countries, and the facilities for growing it in Mexico.

The discrepancy in price from its real value was exacerbated in the United States, both because it was banned and because demand was higher than supply, limited because it was illegal. For example, in 1969, the price per kilo in Mexico oscillated between US\$25 and US\$30, while in the United States, it was between US\$80 and US\$175. In 1970, a kilo was selling in Sinaloa for between US\$35 and US\$50, while in the United States, it cost between US\$100 and US\$200. By 1974, while in Mexico it sold for between US\$35 and US\$100, in the United States it had reached US\$500.¹

In 2002, researcher Sergio Aguayo estimated that a kilo of marihuana cost between US\$100 and US\$500 in Mexico, while in the United States, it cost US\$2,300.² It is immediately evident that the main driving force for the illicit cannabis trade when it was banned was the disproportion between the commercial prices in the two countries, and also the inexistent legal supply in the United States, which was replaced by illegal Mexican marihuana.

Consequences of the U.S. Legalization Of Marihuana on Mexico's Illegal Drugs System

Marihuana has not been legalized uniformly in the United States since every state that has legalized recreational or medicinal consumption has done so through amendments to the federal ban. Today, thirty-seven states allow medicinal consumption and twenty-one, recreational use. The DEA recognizes that legal marihuana production has

displaced illegal U.S. production, not only quantitatively, but also qualitatively. While legal U.S. marihuana is 24 percent to 26 percent tetrahydrocannabinol (THC), Mexican marihuana's concentration is only 4 percent to 6 percent, according to the May 2001 National Drug Intelligence Center (NDIC) *California Central District Drug Threat Assessment*.³

The UNODC points to a fall in per-kilo price of illegal marihuana in Mexico, since from the US\$80 it cost in 2009, it dropped to US\$56.64 in 2019. In the United States, it has plummeted even more, from an average of US\$10,000 in 2015 to as low as US\$2,000 in 2020 according to the DEA.⁴ In the last few years, marihuana growers in Sinaloa receive Mex\$400/kilo, when before they were getting Mex\$1,200 for the same amount.⁵

As part of the global productive chain, the drop in the illegal demand for Mexican marihuana due to the legally offered U.S. cannabis on the market reduced the income not only of those producers, but also of the traffickers and the holders of the capital derived from illicit marihuana.

Decline in Illegal Mexican Marihuana Exports

The drop in prices for that marihuana is accompanied by the drop in supply, and this trend is reflected in the seizures along the U.S. border: while in 2009, 1.5 million kilos were confiscated, by 2020, the number had dropped to 230,000 kilos according to the DEA.⁶

On the Mexican side, the drop in marihuana production for export is mentioned in President Andrés Manuel López Obrador's third annual report: while in 2010 the federal government reported having seized 112.3 tons of marihuana, in 2019 the number would drop to 26.9 tons and to 0.5 tons in 2020.⁷ While in 2003, the government had identified and destroyed 36,585.3 hectares of marihuana fields, by 2020, the number had dropped to 2,903.7 hectares.

One might think that a drop in the area of marihuana fields eradicated and the seizures were the result of the armed forces focusing more on fighting synthetic drugs like fentanyl. However, temporarily, these figures came after the legalization of marihuana in U.S. territory. This means we can also conclude that, together with a decline in demand for Mexican product there, its dropping price has meant lower profits, thus unleashing a decline in the illegal production of Mexican marihuana for export.

The drop in the illegal demand for Mexican marihuana due to the legally offered U.S. cannabis on the market reduced the income not only of those producers, but also of the traffickers and the holders of the capital derived from illicit marihuana.

On the other hand, the ban of the rest of illicit drugs continues, which means that the market conditions continue, making for a discrepancy, as we have seen, between the real value and the price of drugs like opioids, cocaine, or methamphetamines.

Today, the United States is suffering from an upward trend in both illegal drug consumption and in overdose deaths. Despite the legalization of cannabis, which marginalizes the criminal organizations from the lucrative business of marihuana and its derivatives, the underlying essential conditions of the economic system of banned drugs continues. That is, the enormous disparity between the real value compared to the commercial value of the drugs that continue to be illegal in the United States. This maintains both the flow of cash that leads to the accumulation of capital from illegal drug trade and the different forms of violence that accompany it.

Conclusions

The legalization of marihuana allows people more independence in the exercise of their own individuality; this involves an increase in economic activity due to the development of markets for cannabis derivatives.

This legalization also reduces the social costs of attempting to eradicate its consumption: earmarking part of the public budget to strengthen punitive drug policy, upping the number of shipment seizures, eradicating productive units, and arresting and incarcerating traffickers and consumers. Replacing illegal marihuana supply with legal cannabis supply, plus the drop in prices, makes illegal cannabis sales unprofitable; with this, at least for this kind of drug, the criminals stop obtaining the substantial benefits they received under prohibition.

However, as long as the rest of illegal drugs continue to be banned in the United States, in Mexico, the social problems associated with the capital accumulation based

on the traffic of banned drugs will continue to exist, as will the economic system and the hegemonic power networks derived from the cooperation between criminals and people in powerful government positions.

In this sense, it is more important to look for alternatives in this area. More than one hundred years of prohibition have shown that, at least regarding health and safety concerns, it has been a resounding failure. It is also true that this policy is limited to U.S. geopolitical dynamics, which makes the problem more complex, raising it to spheres linked to national security and the armed forces.

Although marihuana has not been completely legalized in Mexico, now is the time to reiterate that our country already has significant experience in the decriminalization of illegal drug consumption. During the administration of President Lázaro Cárdenas (1934-1940), a legal change was made to classify addicts as persons with an illness and not criminals. Public hospitals were opened specializing in addiction, where drugs were administered at low cost, making drug trafficking unprofitable, at the same time that traffickers continued to be prosecuted. This same policy, an international landmark at the time, is again

necessary today, not only to control the U.S. drug-related health crisis, but also to alleviate the generalized violence in Mexico. **MM**

Notes

1 Juan A. Fernández Velázquez, *El narcotráfico en los Altos de Sinaloa (1940-1970)* (Xalapa, Veracruz: Biblioteca Digital de Humanidades, 2018), pp. 47-48.

2 Sergio Aguayo, *Almanaque México-Estados Unidos* (Mexico City: Fondo de Cultura Económica, 2007), p. 246.

3 NDIC, "California Central District Drug Threat Assessment. Marihuana," May 2001, <https://www.justice.gov/archive/ndic/pubs0/668/marijuan.htm#Top>. [Editor's Note.]

4 DEA, "National Drug Threat Assessment 2020", March 2021, https://www.dea.gov/sites/default/files/2021-02/DIR-008-21%202020%20National%20Drug%20Threat%20Assessment_WEB.pdf. [Editor's Note.]

5 Óscar Báez Soto, *Cultivos ilícitos. Estudios sobre la producción de marihuana y amapola en la sierra de Sinaloa* (Mexico City: Instituto Nacional de Ciencias Penales, 2020), p. 57.

6 Ibid.

7 Andrés Manuel López Obrador, "Tercer Informe del presidente de México, Andrés Manuel López Obrador," Mexican Government, September 1, 2021, <https://www.gob.mx/presidencia/documentos/tercer-informe-presidente-andres-manuel-lopez-obrador>. [Editor's Note.]