

Illegal Immigration and Marijuana: Can Smoking Weed Help?

By Ed Rubenstein

Editor's Note: *We offer the following provocative article by distinguished economic analyst Edwin Rubenstein for your consideration. People of good will take different sides on this issue. The views expressed here are those of Mr. Rubenstein and do not necessarily represent those of the publisher and editors.*

When voters approved recreational marijuana use in Washington State and Colorado on November 6th, skeptics noted that federal law still prohibited the drug in those states. Colorado Gov. John Hickenlooper famously warned it's too soon to "break out the Cheetos" because his state must still navigate federal laws before citizens can legally buy and sell cannabis.

But even hard-line anti-drug crusaders must acknowledge that the War on Drugs has been a failure. After more than 40 years and \$1 trillion spent arresting and incarcerating domestic users, cracking down on dealers, marketing "Just say no"-style messages to youth, etc., etc., drug use is rampant. About 40 percent of high school seniors admit to having taken some illegal drugs in the last year, up from about 30 percent two decades ago, according to a survey financed by the National Institute on Drug Abuse. The use of hard drugs, meanwhile, has been relatively stable, rising a few percentage points during the 1990s and declining a few percentage points over the past decade. <http://www.nytimes.com/2012/07/04/business/in-rethinking-the-war-on-drugs-start-with-the-numbers.html?pagewanted=all&r=0>

Supply-side interventions like spraying Mexican marijuana fields and apprehending smugglers at the border have been equally ineffectual. If the supply of illicit drugs were to fall, we would expect to see drug prices to go up. That's not what we see. In inflation-adjusted dollars a gram of marijuana costs less than it did two

decades ago. Cocaine, heroin, and methamphetamine prices have declined even more.

The War on Drugs has fared worse than the other "noble experiment" — Prohibition. The price of alcohol actually increased in the 1920s, according to the Economic History Association. http://www.huffingtonpost.com/2012/11/07/legalizing-marijuana-washington-colorado_n_2088375.html (Cross-border smuggling was not as extensive then as it is now.) But the price rise had little impact on drinking. Prohibition also removed a significant source of federal revenue while it increased government spending.

Only in the realm of politics can the drug wars be considered an unabashed success. When queried about how worried they are about drugs, most Americans give the same answer: not very much. Fewer people say they worry about drug abuse than 10 years ago; only 29 percent say it is an extremely or very serious problem.

A watershed of sorts occurred in the fall of 2011, when a nationwide Gallup poll showed 50 percent of respondents wanting to legalize marijuana. A more precisely worded poll from Rasmussen in May 2012 had 56 percent in favor of "legalizing marijuana and regulating it in a similar manner to the way alcohol and tobacco cigarettes are regulated today." http://www.slate.com/articles/business/moneybox/2012/07/how_much_would_legal_marijuana_cost_a_new_book_says_it_would_be_nearly_free.html

A Gallup poll taken after the 2012 election found 64 percent of U.S. adults do not want the federal government to enforce federal anti-marijuana laws in the states that recently legalized the drug. Obviously, most people are willing to wait and see what transpires in Colorado and Washington. If legalization works in those places, other states will undoubtedly follow.

Young voters overwhelmingly favor legalization. Elderly voters are understandably more pot-phobic,

Edwin S. Rubenstein, a regular contributor to The Social Contract, is president of ESR Research, economic consultants. As a journalist, Mr. Rubenstein was a contributing editor at Forbes and economics editor at National Review, where his "Right Data" column was featured for more than a decade.

but federal legislation legalizing marijuana seems increasingly likely. It may come sooner than we think: In 2012 President Obama won a majority of voters under 30 in every region of the country. He owes them big time.

Illegal immigration and legalization

Less appreciated is the potential appeal of legalization to a constituency not usually aligned with Barack Obama: anti-illegal immigration patriots? Since the economy entered recession in 2008, the number of illegal aliens apprehended at the border has declined by more than 50 percent. As job openings shrank fewer illegals entered the country, and many already here returned home.

But the same economic anxiety seems to have spurred a rise in domestic drug use — a demand that Mexican drug smugglers are only too happy to supply. We do not know exactly how many illegal aliens enter the country for the express purpose of selling illegal drugs. We can safely surmise, however, that they represent an increasing share of the total illegal alien influx — as evidenced by the continued rise in drugs seized by the Border Patrol. Marijuana seizures have risen significantly during the Great Recession:

	pounds	street price(a)	Dollar value
Marijuana	2,529,685	\$10/gram	\$11,474,651,160
Cocaine	9,963	\$177/gram	\$799,901,374
Heroin	6,394	\$60/gram	\$174,019,104
Methamphetamine	1,846	\$80/gram	\$66,987,648
Ecstasy	781	\$150/gram	\$53,139,240
Other drugs	295	\$150/gram	\$20,071,800
TOTAL	2,548,964	NA	\$12,588,770,326

a. Estimated average street price. There are 453.6 grams in a pound.
 Source: U.S. Border Patrol Fiscal Year 2011 Profile
http://www.cbp.gov/xp/cgov/border_security/border_patrol/usbp_statistics/

In FY2011 Border Patrol agents seized 2,529,685 pounds of marijuana and only 19,279 pounds of other drugs. Using published data on the average street prices of the various drugs, we estimate the total dollar value of drugs seized by the Border Patrol to be \$12.6 billion. Marijuana accounts for about \$11.5 billion, or 91 percent, of the total.

(Some have questioned the reliability of drug enforcement figures. Marijuana advocates and law enforcement officials may have an incentive to inflate the value of seizures. For the advocates, pumping up the numbers leads to higher predicted tax revenue estimates from legalization. For law enforcement, a higher number makes their job performance more impressive. But the Border Patrol has no dog in this fight. If anything, they would inflate seizures of illegal aliens and hard drugs — neither of which has increased.)

Border Patrol seizures are but a slice of the total cross-border drug traffic. Enforcement personnel believe that only 20 percent of the illegal drugs (and drug smugglers) coming into the U.S. are seized. Using this factor we can safely conclude that more than 10 million pounds of marijuana actually enters the nation every year. On the street this quantity would fetch about \$46 billion.

Analysts generally agree that about half of all the marijuana consumed in the United States is grown domestically, and half comes from Mexico. <http://interamericansecuritywatch.com/mexico-says-marijuana-legalization-in-u-s-could-change-anti-drug-strategies/> That puts the total value of marijuana sold in the U.S. at about \$92 billion. We can safely call it a \$100 billion a year industry.

New laws will affect Mexican drug cartels

Legalization will drastically reduce the price of pot in Colorado and Washington State. Some experts say the price of marijuana could fall to as little as one percent of

	FY2007	FY2011	% change
Illegal aliens	876,704	340,252	-61.2%
Marijuana (pounds)	1,800,000	2,529,685	+40.5%

Source: U.S. Border Patrol
<http://immigration-online.org/466-drug-trafficking.html>

Inescapable conclusion: Illegal immigration is increasingly a drug-related issue.

Advocates for marijuana often argue that ending the prohibition would reduce pot prices to the point where Mexican traffickers would no longer smuggle the stuff into the U.S. That would drastically cut cross-border drug traffic and, more importantly, weaken the money, making potential of illegal aliens involved in processing and distributing drugs in the interior. Deprived of their livelihood, many of these folks would “self-deport.”

They have a point. While marijuana is the “cheapest” drug coming into the country, the quantity of pot coming in is vastly greater than that of cocaine, heroin, and all other hard drugs combined. As a result marijuana revenues — and profits — dominate the cross-border drug trade.

We see this in Border Patrol data:

its current street price — or from \$300 an ounce to \$3 an ounce. At that price joints would be about as cheap as things that are often treated as free. Splenda packets, for example, cost 2 or 3 cents when purchased in bulk.

Hardly worth smuggling something that cheap into the U.S. Yet experts say the new state laws would have little impact on Mexican drug revenues.

A Rand Corp. study published in 2010, when California voters were considering the legalization of recreational marijuana (the law did not pass), concluded that legalizing marijuana in that state would cut cartel revenues by only 2 percent to 4 percent. So losing customers in states like Colorado and Washington, which have much smaller populations, would not hurt Mexican drug lords very much.

Why such a small impact? Most of the marijuana consumed in California, Washington State, and Colorado is grown locally by U.S. citizens unaffiliated with Mexican drug cartels. The only scenario under which legalization in those states would cut deeply into cartel drug revenue is if cheap drugs are smuggled from those states to states like Texas, where marijuana is still illegal and Mexican cartels dominate the market. Such drug arbitrage could reduce the cartel's marijuana revenues by a whopping 65 percent, according to the Rand Corp. analysis. www.rand.org/news/press/2010/10/12.html 1/2

But even a 65 percent reduction leaves the cartels with mucho profit from marijuana sales. They will make obscene profits in parts of the country where pot is still illegal and pot prices many times the cost of growing it in Mexico.

Only a federal law legalizing marijuana in all 50 states would drive Mexican cartels out of the U.S. marijuana business.

Economic benefits of national legalization

For pot smokers, legalization would amount to a massive tax cut. Instead of \$100 billion, their annual drug expenses could drop to as little as \$1 billion. The decrease would be due mainly to the fact that it would cost substantially less to grow marijuana in a legal environment. With the fear of being arrested gone, American marijuana growers could access the same technology and achieve the same returns of scale as American corn and soybean farmers.

Superior technology would enable American marijuana farmers to undercut their Mexican counterparts despite far lower wages paid to farm workers in that country.

Private marijuana farms could be licensed by the federal government and required to sell their crops to

federally licensed distributors. Adults 21 and older would be allowed to purchase limited amounts of the drug — perhaps one to two ounces. http://www.slate.com/articles/business/moneybox/2012/07/how_much_would_legal_marijuana_cost_a_new_book_says_it_would_be_nearly_free.html

Legal marijuana sales would undoubtedly be subject to a federal excise tax similar to those currently imposed on liquor and cigarettes. An extraordinarily high tax could, of course, spark tax evasion — and a resumption of cross-border smuggling. Right now people smuggle marijuana across the U.S.-Mexican border for profits of about \$20 per ounce, so a tax higher than that would be difficult to collect. Even so, a \$20 per ounce tax would raise the price of legalized marijuana to \$23 per ounce, which is still less than one-tenth its current price.

At \$20 per ounce the marijuana tax would raise about \$6 billion a year, more than enough to cover the federal costs of regulating marijuana sales. The tax would push the cost of smoking legalized weed to about \$7 billion a year — an amount that is still \$93 billion less than what pot smokers spend on their habit today.

Shifting \$93 billion from the underground drug economy to the legal economy would have enormous economic benefits. Pot smokers would have \$93 billion more to spend on cars, clothes, i-phones, vacations, and other legal consumption goods. The more thoughtful users could plow that windfall into job training or other educational pursuits.



No matter how it's spent, the \$93 billion shift will generate jobs. To estimate how many, we can start with the fact that \$93 billion equals about 0.9 percent of total U.S. consumption expenditures in 2012. If U.S. employment increased by the same 0.9 percent — a not unusual result — 1.2 million new jobs would be created and the unemployment rate would fall to 7.1 percent from the current (October 2012) rate of 7.9 percent.

This won't happen overnight, but the long-term trend is clearly to the upside.

Most U.S. citizens do *not* smoke marijuana and are *not* unemployed. But all citizen taxpayers will benefit from the government spending cuts that drug legalization would enable. Using Freedom of Information Act requests, archival records, federal budgets, and dozens of interviews with analysts, the Associated Press has tracked spending on programs that did little to stem the drug influx. Over a forty-year period taxpayers spent:

- **\$20 billion** fighting drug gangs in their home countries. In Colombia, for example, the U.S. government spent \$6 billion to eradicate coca cultivation only to see it, and the related violence, shift to Mexico. In Mexico the U.S. government delivered Black Hawk helicopters and night-vision goggles and helped train thousands of Mexican federal police at academies supported with American tax dollars.
- **\$33 billion** marketing anti-drug messages to America's youth. High schoolers report the same rate of drug use as in 1970, and overdoses have "risen steadily" since the 1970s, according to the Centers for Disease Control.
- **\$49 billion** for anti-drug enforcement along America's borders. Drug seizures are up, but so is the availability of illicit drugs produced abroad.
- **\$121 billion** to arrest more than 37 million non-violent drug offenders, about 10 million of them in possession of marijuana. Studies show that jail time leads to increased drug usage.
- **\$400 billion** to incarcerate drug offenders in federal prisons alone. In 2012 about half (47.7 percent) of all federal prisoners were serving time for drug offenses. <http://www.bop.gov/news/quick.jsp> Nearly half were arrested for possession of often tiny amounts of marijuana. Meanwhile, criminal aliens accused of violent crimes are often released for lack of prison space.

Jeffrey Miron, a Harvard economist who studies drug policy, estimates that legalizing all illicit drugs would produce net benefits to the United States of some \$65 billion a year, mostly by cutting public spending on enforcement as well as through reduced crime and corruption. http://www.nytimes.com/2012/07/04/business/in-rethinking-the-war-on-drugs-start-with-the-numbers.html?pagewanted=all&_r=0

The only sure thing taxpayers get from cranking up the crackdown on drugs, Miron says, is more homicides. "Current policy is not having an effect of reducing drug use," Miron says, "but it's costing the public a fortune." <http://www.foxnews.com/world/2010/05/13/ap-impact-years-trillion-war-drugs-failed-meet-goals/print#ixzz2DYnS21FI>

Any tally of costs must include the more than 60,000 Mexicans and tens of thousands of Central Americans killed by drug-fueled violence since Mexican President Felipe Calderón declared war on drug traffickers six years ago. Mr. Calderón has apparently changed his mind. In June 2012 he reportedly asked President Obama and the United States Congress to consider "market solutions" — a code word for legalization — to reduce the cash flow to criminal groups. http://www.nytimes.com/2012/07/04/business/in-rethinking-the-war-on-drugs-start-with-the-numbers.html?pagewanted=all&_r=0

Let's get real. A full 10 percent of Mexico's economy is built on drug proceeds — \$25 billion smuggled in from the United States every year. Much of that goes to pay off Mexican law enforcement officials who are ostensibly busy "cracking down" on drug smugglers. While the Mexican President himself may want legalization, many, if not most, of his underlings do not.

Calderon, whose term ended in November, is reportedly moving to the U.S., fearing for his life. His ex-colleagues probably want him killed as much as the drug lords.

Some fear that the loss of \$100 billion to the economies of Mexico and Central America after legalization would create even more pressure for illegal immigration. An estimated 500,000 Mexicans are employed in the drug industry. That is a big number, but it represents only about 1 percent of the country's total labor force. Drug-related violence has eliminated more jobs than the drug industry has created. Transnational corporations avoid Mexico out of concern for the safety of their personnel. Security costs, kidnapping, and extortion are ever-present risks. In border towns like Juarez, legitimate local businesses have closed rather than pay extortion to the traffickers. Tourism suffers. One economic study <http://www.bbc.co.uk/news/business-13120598> concludes that Mexico's GDP would have grown 1 percent more per year over the past several years were it not for drug violence. So legalization would likely reduce illegal immigration from Mexico.

Risks of legalization

Some public policy experts argue that marijuana is a "gateway drug" leading to hard drug usage later in

life. There seems to be no consensus on this issue. People who use marijuana (especially those who start at a young age) are more likely to use hard drugs than people who don't use the drug. But that doesn't mean that marijuana caused the hard drug use.

Marijuana use might simply reflect a person's underlying susceptibility to addictive drugs of any type — an addictive personality type. On the other hand, it is possible that marijuana use increases the overall taste for mind-altering substances. The jury is out.

An equally important question, which receives much less attention, is the impact of legalization on alcohol consumption. Alcohol kills more people than all the hard drugs combined. Any evidence that legalizing marijuana increases alcohol consumption would dramatically change our perceptions about the costs and benefits of legalization.



Nationwide marijuana legalization would put the U.S. government at odds with the United Nations and countries like Colombia and Mexico, which profess to be hard line anti-drug crusaders. That could be a good

thing. It would be a “good thing” because politicians and drug enforcement officials in those places have a hidden agenda: kickbacks from the cartels. By turning a blind eye to domestic production and cross-border smuggling, they ensure a steady stream of under-the-table payments. Legalization in the U.S. would kill, or at least seriously wound, the Golden Goose for those folks.

A uniform national marijuana legalization policy would be optimal. But how should such legalization proceed? There are many different models. Both Colorado and Washington State have decriminalized the possession of small amounts of marijuana for adults over 21. The Colorado law allows residents to grow up to six marijuana plants and removes prohibitions from commercial marijuana production. The Washington law regulates marijuana growing, processing, and labeling. Washington will restrict driving while under the influence of marijuana; Colorado will not. Other states will have different models. Some will work better than others. Over time, the best practices for marijuana legalization will emerge. In the meanwhile, states should be encouraged to experiment.

There are other options. States could “decriminalize” rather than legalize marijuana possession. This means stopping the arrest and imprisonment of people who possess small amounts of pot, assessing civil fines instead of locking people up. The focus would be eliminating the violence of the drug trade rather than eliminating the drug market itself. Large-scale commercial production might be forbidden under such a regime.

We simply do not know how legalization will play out in Colorado and Washington. We do not know what impact, if any, the new laws will have on cross-border drug smuggling, drug prices, or drug violence in the U.S. Interested parties will be waiting and watching.

Meanwhile, the federal government should stand down and allow states to be laboratories of democracy. ■