

Drugs and Perverse Incentives

by John Cobin, Ph.D. for *The Times Examiner*
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Have you ever wondered why we never come close to eliminating the sale of illegal drugs? The answer may be simpler than you think.

One reason why we can never get the upper hand on illegal drug sales (and abuse) is because the drug transaction is *consensual*. That means neither pusher nor user has an incentive to report his activity. Neither side of the exchange feels defrauded since the transaction occurs under free market negotiation. Unlike rape or robbery where a victim reports the crime to the police, there is no victim in a drug transaction who would have an incentive to report it. Plus, since both buyer and seller are considered lawbreakers, why would either side voluntarily report its activity? For the same reasons, collecting accurate data on drug use or other “victimless crimes” is far more difficult than collecting data on crimes with a victim like rape, theft or murder. Thus we have great difficulty assessing the success of drug war policies.

Another reason we can never get the upper hand on the illegal drug problem is because anti-drug police agencies face what economists call *perverse incentives*. In layman’s terms that idea means that (ultimately), given the way the “system” is set up all police do not want to eliminate illegal drugs. In fact, no one involved in the production, distribution, use, regulation, or policing of illegal drugs has an incentive to eliminate them.

For one thing, since half of the nation’s police force is involved with drug policy enforcement, eliminating illegal drug selling and using would conceivably end up eliminating perhaps half of the nation’s cops. Economic analysis suggests that all people operate with a self-interest motive that trumps all other motivations—even if they work for the government. Thus, police management, being self-interested primarily, works hard to retain and increase departmental power, prestige, importance, and funding. In terms of these purposes, eliminating illegal drugs would be counter-productive. Likewise, police officers want to maintain their jobs and careers and eliminating illegal drugs would not be beneficial to their careers. This fact does not preclude the well-meaning, rank-and-file officers from attempting to control drug trafficking, and it does not suggest that police officers are derelict in their duties. It simply says that the “system” that police officers operate under provides incentives that naturally create limits on how effective they are willing to be. Not only can all out war with drug dealers cost a policeman his life, such a war can also cost him his job if the police win. For principled cops, light jail sentences make any moral victory over drug dealers less meaningful. Therefore, police forces never really want to *eliminate* crime. They merely want to *control* it. And that fact results from perverse incentives.

In addition, police budgets are tightly constrained and frequently associated with local real property taxes. But people hate real property taxes and are loath to consider tax increases to provide for a larger police force. So police management is always on the lookout for new sources of funding, including drug-related sources. Did you know that the money taken by raiding illegal drug dealers is put into police department budgets? If you are wondering why, remember that illegal drug sales and use is consensual. There is no “victim” and therefore no one to whom the cops can return any seized money. The person who buys illegal drugs is simply not going to go to the police, file a report, and hope to get his money back. So police departments get to keep the money.

The perverse incentive arises precisely at this point. Think about it. Let’s say there is a new drug dealer in town and the cops find out about him. Why wouldn’t they go and bust him immediately? One reason is that the dealer does not have much money *accumulated*. Busting a young drug dealer is like harvesting corn when it is only six inches tall. There is no fruit. Sure, the department would get credit for a small bust, and would likely get a conviction (although the dealer will likely be on the streets again in 90 days), but that publicity does not have a great deal of value. However, by waiting a year or two, the drug dealer will “mature” and the police will likely be able to seize far more cash by raiding his lair. (Remember, drug dealers usually do not store their money in banks.) In this case the police would harvest the drug dealer at the “right” time. The amount of seized cash is greater and so is the publicity. The media would do a press conference in which the cops show what a good job they are doing by stopping big, bad

drug dealers. Thus the police have a perverse incentive to treat drug dealers like a farmer does his crops. They will do what it takes to maximize their harvest, and that will entail a perverse incentive to let small drug dealers grow into big ones. Such crime control is rational while illegal drug elimination becomes irrational and uneconomical.

So don't be surprised when you see so many billions of dollars spent on the so-called "War on Drugs" with seemingly few tangible results. Illegal drug sales and use are consensual, victimless "crimes" that police agencies have a perverse incentive to keep around.