

Economics of Addiction and Drugs – summary

Drug use is a powerful economic force. In the UK alone, £6.6 billion was spent on illicit drugs and £32 billion on alcohol in 1998, while, in 2000, class A drug users accounted for £12 billion of harm. Drugs are also traded in elaborate and fast-changing markets, which can be analysed by economists. Their insights are vital in foreseeing and controlling the drug problems of the future.

The Foresight project on Brain Science, Addiction and Drugs asked Christine Godfrey of the University of York and Jonathan Cave of the University of Warwick to examine the economics of addictive behaviour.

Policy lessons

Although drug users are sometimes thought of as helpless 'addicts', their behaviour is to some degree rational and responds to prices and other economic incentives. Higher prices – real or anticipated – can make users reduce their drug use or switch to other drugs, or change their behaviour to increase their income. Some drugs are regarded as 'gateway' substances, whose use commonly precedes the initiation of other drugs. Gateway effects are not simple and the gateways do not always work in a single direction. Drug control policies need consideration of the negative consequences of economic effects. For example, raising the price of a drug could stimulate users to start committing crimes to pay for it, worsening the effect on the user and for society at large.

Illegal markets

Godfrey and Cave point out that illegal businesses, including the drugs trade, have their own economics. Over half of the final price of some illegal drugs is a premium for the risk taken by the provider, either of punishment or of violence during the course of the enterprise. By contrast, only about 1 per cent ends up in the hands of the original producer, who is often in the developing world. This means that anti-drug drives by governments or law-enforcement agencies can have the perverse effect of displacing 'normal' criminals in favour of people who enjoy violence and risk-taking and may be drug users themselves, mainly young men. There is evidence that small-scale street drug traders are often in business more to sustain their own drug habits than to seek profits.

There have also been studies of polydrug consumption, such as one in the United States that suggests that higher prices for alcohol will reduce consumption of both alcohol and cannabis. It seems that drug use can often be complementary so that more use of one substance means more use of others. It is possible that educating young people about these associations of use could reduce costs to society later.

Observations of the behaviour of drug users suggest that they tend to become more involved over time with other drug users and to have fewer and weaker social contacts with non-users. At the start, they often recruit new users from their non-using associates. Paradoxically, this is the stage at which they are most 'contagious' as spreaders of drug use. Later in their drug career they will meet too few non-users to be a significant hazard, although some individuals will be attracted by the possibility of joining a socially close circle defined by drug use. Analogously, a change of social circle is a vital part of many users' experience of quitting.

It is important to avoid the perverse effects of anti-drugs policies such as isolating drug user communities from the rest of society, or helping entrench the power of existing drug suppliers. It is in the nature of their trade that they are immune to many of the market forces that constrain legal businesses to maintain quality and respond constructively to customer complaints.

Treatment or law enforcement?

There is a debate about the best use of resources to prevent drug problems. Approaches that stress treatment rather than the use of the criminal justice system can have radically better apparent financial returns. In the UK, some £3–4 billion could be saved in the next 4–5 years by putting problem drug users into methadone programmes. But legal restraints on drug use are also effective in reducing consumption and there will be times when they are the right approach.

Policies that combine treatment and law enforcement should take account of the evolution and spread of drug taking as well as its current characteristics. As well as drug prices, individual opinions about risks need to be examined and can be altered by information, especially learning from peers and via the education and health systems. More is being learnt about the long-term economic damage that drugs cause to individuals, including a finding that early exposure to cannabis can cost an individual 2 per cent of their lifetime earnings.

On the supply side, policies that target specific drugs, key players and key actions, such as money-laundering or the use of violence, can change the performance of drugs markets. Policies that seem ineffective locally and in the short term, can be valuable over longer periods, especially if they are applied in a manner that goes with the grain of social change and which takes account of the lifecycle of a specific pattern of drug use.

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