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1989

## Preface/Forward

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### Recommended Citation

(1989) "Preface/Forward," *The Journal of Economics and Politics*: Vol. 4: Iss. 2, Article 2.

DOI: <https://doi.org/10.59604/1046-2309.1085>

Available at: <https://collected.jcu.edu/jep/vol4/iss2/2>

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## Preface

This special issue of the *The Ohio Journal of Economics and Politics* concentrates on one of the most important issues of our times. Cocaine is an industry with annual retail sales of \$100 billion. It is a product which has devastated the lives and families of millions of persons.

Many people were involved in this *Special Issue*. The *catalyst* was Professor Julius A. Gylys. It was his determination and vision which gave me the idea to put the papers into a special issue. This had not been attempted before by *The Ohio Association of Economists and Political Scientists* . . . I hope that it will be tried again in other areas. The editors of *The Ohio Journal of Economics and Politics*, Professor Thomas Flynn, Department of Political Science, Cleveland State University and Professor Joe Gallo, Professor of Economics, The University of Cincinnati deserve special mention. Under extremely tight deadlines, they managed to see the papers through the refereeing process. The quality of the *Journal* owes much to their efforts. Likewise, special mention should be made to Ernie Brass, Managing Editor of the *Journal*. Ernie saw that the *Journal* got through the press, billings were handled, and mailings were timely.

The *Ohio Journal of Economics and Politics* is now into its fourth volume. Credit for the *Journal* must go to all the Past Presidents of the OAEPS, other officers, and to the support of the membership. As we prepare for our 50<sup>th</sup> anniversary, it is fitting that our first *Special Issue* be devoted to one of the most important social issues of our times.

**Henry G. Rennie**

Professor of Economics

Special Editor of the "Cocaine Issue"

*The Ohio Journal of Economics and Politics*

The University of Toledo



*Foreword*

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Adam Smith, the canny Scottish founder of modern economics, put forth the fundamental premise that *self-love is the governing principle in the intercourse of human society*.<sup>1</sup>

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.<sup>2</sup>

Society can set the parameters within which persons are allowed to act in their self-interest. Several of the articles in this volume are essentially different views on the values of these parameters and different ways of achieving the goals of society.

All the articles in this *Special Issue of The Ohio Journal of Economics and Politics* are concerned with one topic ... *cocaine*. Cocaine affects life ... the economics, politics, health, social welfare, criminal, planning and management of life. It affects every aspect of life whether you are user, pusher, or indirectly related to them.

I have organized this *Cocaine Issue* into four parts:

- I. Economics.
- II. Policy: Federal.
- III. Policy: Prescriptions.
- IV. Impact.

### Economics of the Cocaine Industry

Cocaine trade is an industry. Annual retail sales of the cocaine industry surpass the gross national products of many countries. It is a mature industry with narrowing profit margins.<sup>3</sup> Dr. Gylys analyzes the economics of the cocaine industry through the technique of supply and demand analysis. Demand for cocaine is a function of price, prohibitionist laws (which impose a cost in the forms of probability of arrest), protection, legal fees, morality, etc. Supply of cocaine is a function of price, law, normal profit, cost of factors of production such as land, labor, raw materials, etc. Implicit costs such as personal risk become part of profits to the entrepreneur. Dr. Gylys estimates this criminalization tax to be 71 to 80 percent of all costs.

Estimates of the supply of cocaine entering the United States are based on several

<sup>1</sup>Adam Smith, *An Inquiry Into The Nature and Causes of the Wealth of Nations*: Random House, Inc., 1937. Original published in 1776.

<sup>2</sup>*ibid.*, p. 14.

<sup>3</sup>Julius A. Gylys, "Economic Analysis of the Cocaine Industry".



methods such as: (1) Extrapolations from land used for coca cultivation; (2) Estimates of seizures at U.S. borders. Estimates of the supply of cocaine are: 1976, 28,000 pounds; 1981, 30,000 pounds; 1985, 130,000 pounds; 1986, 275,000 pounds. The supply and demand for cocaine determines its price. The price of cocaine is estimated to be: 1982, \$65,000 per kilogram; 1985, \$30,000 per kilogram. In addition, the quality of the product, as measured by its purity, increased from 16% to 60%. It is not decreased demand which reduced the price of cocaine, but rather increased supply; however, substitutes for cocaine do exist. These substitutes both increase the supply and decrease the demand for one form of cocaine (such as crack) but increase the demand for all forms.

The vertical integration of cocaine production goes through five stages:<sup>4</sup> As an example, let us start with land suitable for cultivation of coca leaves. Assume coca production of, for example, 425 kg. of leaves. This earns the local farmers relatively vast profits (\$3,374 of income versus a family average income of \$160 per year); Pasta production with a value added of \$1,500 and a profit of \$226; Refining with a value added of \$2,000-\$5,000; Wholesale with a value added of \$25,000-\$28,000; Retail with a value added of \$165,000. The final retail sale is of a product which started at the coca level of \$3,074 and finally retailed for \$200,000.

### Federal Drug Abuse Policy

Dr. Bollinger starts his paper with some sobering statistics on drug abuse in America.<sup>5</sup> Drug abuse goes as far back as the early 1800's. Cocaine first appeared in the United States in the 1880's and was considered "safe, energizing and non-addictive". It formed the base for *Coca-Cola*. The 18th Amendment, passed into law on 29 January 1919, instituted the era of "prohibition" of alcohol. This was repealed by the 21st Amendment in 1933. However, in 1937, Congress passed the *Marihuana Tax Act*. In 1965, Congress passed the National commission on Law Enforcement and Criminal Justice. The Drug Enforcement Administration was created in 1973. Other important legislation is referred to by Dr. Bollinger.<sup>6</sup>

As the drug problem has become both more pervasive and more serious in America, Congress has met it with legislation starting with the 1984 Comprehensive Crime Control Act. It passed the Federal Anti-Drug Abuse Act of 1988.

Dr. Wedding discusses the Federal Drug-Free Workplace Act of 1988.<sup>7</sup> This Act requires all contractors or individuals receiving Federal contracts of \$25,000 or more to certify to the contracting Federal agency that such contractor (employer) will provide a drug-free workplace.

Many employers in order to obtain certification as a drug-free workplace are requiring random urine testing of employees. This test is not 100% accurate, but is not an "invasive" test as is the more accurate blood testing. Nevertheless, random urine testing raises several legal issues such as: (1) *Constitutionality*: 4th Amendment (unreasonable seizure

<sup>4</sup>*ibid.*

<sup>5</sup>Winfield S. Bollinger, "Federal Drug Abuse Policy: The Evolving Role of the National Government in the Criminal Justice System".

<sup>6</sup>*ibid.*

<sup>7</sup>Donald K. Wedding, "Drug-Free Workplace Act of 1988".



and search); 5th Amendment (self-incrimination); 14th Amendment (due process); (2) *Contractual challenges* by unions that it violates the union agreement with the employer; (3) *Right of Privacy*. The urine test, in addition to revealing information concerning drug use, also reveals other information about the employee.

### Policy: Prescriptions.

Dr. Gylys in his second article in this volume analyzes the cocaine reduction policies in the producer countries.<sup>8</sup> He is critical of the Bush administration's policy of local law enforcement as both inefficient and ineffective. Dr. Gylys advocates a policy which is capital intensive rather than labor intensive. Capital intensive raids on crystallization labs rather than labor intensive law enforcement. Indeed, Dr. Gylys' approach appears to be being tried as witnessed by the recent arrest of General Noriega in Panama, and the war with the drug lords in Colombia. Thus, Dr. Gylys argues for a supply reduction rather than a demand reduction policy.

Drs. Roberts and Telljohann argue in their paper for a demand reduction policy.<sup>9</sup> They are critical of the three phases to the *historic* supply reduction policies consisting of: (1) *arrest and incarceration*; (2) *import restriction*; (3) and *export restrictions*. They argue that these have been ineffective. In addition, they impose a high cost, both direct and indirect, on the U.S. legal system.

Drs. Roberts and Telljohann concentrate their paper on demand reduction policies as applied to the school system.<sup>10</sup> They discuss scare tactics, recovering addict speeches, drug information programs, peer pressure, resistance efforts and "how to say no programs".

### Impact

Dr. Leons looks at the effect cocaine has had, not on the United States, but on a Bolivian Yungas community.<sup>11</sup> The Yungas valleys of La Paz is one of two major coca growing areas of Bolivia. Coca accounts for 15% of the GDP of Bolivia, employing 17,000 farmers. The revolution in 1952 swept away the hacienda style and replaced it with many small farmers. In addition, significant U.S. aid built roadways and encouraged urbanization in the countryside.

By 1970 Bolivia had achieved self-sufficiency and became an exporter of agricultural products. In the village of San Calixto, 60.7% of the income comes from coca cultivation. The new capitalist system has created a new class of "rich".

Dr. Franckowiak also looks at the local impact of cocaine production. This time from the perspective of South America.<sup>12</sup> The major South American producers and processor nations are Colombia, Peru, and Bolivia. Ecuador, located between producing and pro-

<sup>8</sup>Julius A. Gylys, "Analysis of the Cocaine Reduction Policies in the Producer Countries".

<sup>9</sup>Stephen M. Roberts and Susan K. Telljohann, "Demand Reduction: A Drug Abuse Control Strategy Whose Time Has Come - Hopefully".

<sup>10</sup>*ibid.*

<sup>11</sup>William M. Leons, "The Political Economy of Coca and Cocaine in A Bolivian Yungas Community".

<sup>12</sup>Eugene N. Franckowiak, "Local Impact of Cocaine Production in South America".





cessing nations has not succumbed to coca production because of vigilant government and citizen actions and because of the lucrative oil fields in the region. Dr. Franckowiak points out the enormous economic influence on jobs, income, and society of cocaine. Politically, coca production is legal in both Peru and Bolivia. One-third of the Chamber of Deputies is controlled by coca growers in Bolivia. Dr. Franckowiak concludes that whether supply reduction or demand reduction policies are instituted, they will require an international effort and will inevitably reduce the well being of Latin American countries.

If I may end this *Foreword* with another quote from Adam Smith [with my changes in brackets]:

He generally, indeed, neither intends to promote [hinder] the public interest, nor knows how much he is promoting [hindering] it. By preferring the support of domestic to that of foreign interest, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse [better] for society that it was no part of it. By pursuing his own interest he frequently promotes [hinders] that of the society more effectually than when he really intends to promote [hinder] it. I have never known much good done by those who affected to trade for the public good.<sup>13</sup>

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<sup>13</sup> *op. cit.*, p. 423.

