



AN ANNOTATED BIBLIOGRAPHY: HOW NARCOTICS TRAFFICKING ORGANIZATIONS OPERATE AS BUSINESSES

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PREFACE

This annotated bibliography identifies articles, dissertations, monographs, reports, and studies by academic and research institutes that either examine narcotics trafficking organizations as businesses or examine the functioning of the illegal-drug trade from an economic perspective. Examining the industry from these perspectives, the bibliography lists works that may reveal vulnerabilities within the business models of these organizations and may suggest new or more effective means and methods of interdiction.

The bibliography is the result of an exhaustive search of both domestic and European sources. The search included all works housed in the Library of Congress. Internet search engines such as Google and a number of specialized search engines such as JSTOR, First Search, and ProQuest were also used.

A search of dissertations and theses was conducted using ProQuest, online university library catalogs, and direct telephone contact with a number of top business schools. These schools included: Harvard Business School; The Wharton School, University of Pennsylvania; Stern School, New York University; Haas School of Business, University of California Berkeley; Stanford Business School; Johnson School, Cornell University; Kellogg School, Northwestern University; McCombs School, University of Texas, Austin; The Anderson School of Management, UCLA; The University of Chicago Graduate School of Business; Department of Economics, University of California, Riverside; Kellstadt Graduate School of Business; and Department of Economics, Princeton University.

The search also used the extensive resources of a number of organizations in the United States and Europe involved in the study of narcotics trafficking. These organizations included: The International Narcotics Control Board, The Drug Policy Research Center, The Centre for Drug Research (CEDRO), The United Nations Office for Drug Control and Crime Prevention, The Nathanson Centre for the Study of Organized Crime and Corruption, The Matthew B. Ridgway Center for International Security, and the Schaffer Library of Drug Policy.

Authors who have produced many of the works included in the bibliography, such as Peter Reuter, Professor at the School of Public Affairs and Department of Criminology at The University of Maryland, were contacted via email to inquire about the existence of relevant works that may have been missed using the sources listed above. Any relevant works suggested by these individuals, not already included, were added. Feedback from these individuals suggests that this bibliography is complete.

TABLE OF CONTENTS

PREFACE i

INTRODUCTION 1

BIBLIOGRAPHY 2

INTRODUCTION

Studies examining how narcotics trafficking organizations operate as businesses are very small in number. Many of the works are rather limited and superficial in their analysis; some offer little more than the application of simple economic theory to the illegal-drug trade. This lack of detail may make the identification of specific weaknesses or new interdiction opportunities difficult.

Many of the works included in the bibliography do not focus solely on studying narcotics trafficking organizations as businesses or examining the industry from an economic perspective. Many authors do so, not as an end in itself, but as a means of examining a particular aspect of the industry, such as the price of narcotics or the effectiveness of particular methods of interdiction.

Many gaps exist in the research relating to this topic. Although the exploitation of globalization and new technology by those involved in narcotics trafficking as a new means of increasing business and reducing risks has been mentioned in one or two studies, the subject has not been examined to the depth likely to be necessary for the development of effective methods to combat these new tools. Another example of the limited amount of research on this topic is the lack of study on the marketing practices and techniques employed by these organizations. Such practices include attempts by traffickers and dealers to make their products attractive to different demographic cohorts by varying the appearance, packaging, pricing, contents and purity of the narcotic; and the use of the Internet to promote narcotics use and offer dealers and users support and “how-to” information.

BIBLIOGRAPHY

1. Block, Alan A., Sean Patrick Griffin. "Build It, and They Will Come: Narcotics and Money Laundering in the Leeward Islands," *Journal of Contemporary Criminal Justice*, 15, no. 4 (1999): 397-420. HV7231 .J59

Abstract: The Leeward Islands of St. Martin, St. Kitts, and Antigua in the Caribbean are discussed with respect to their economies, their involvement in money laundering and other aspects of the illicit drug industry, the interplay between casino culture and narcotics trafficking, and the implications of these issues for understanding contemporary criminal justice problems throughout the Caribbean region. Drug traffickers from South America began using Caribbean island countries in the Bahamas in the 1970's for both business and strategic reasons. The Bahamas became both a way station for drugs and a money-laundering center, serving as a model for other small island nations. St. Maarten, the Dutch half of St. Martin; St. Kitts; and Antigua have all become involved in offshore banking and servicing the world's underground economy, including drug trafficking. Their economies depend on casinos, tourists, and banking systems that cater to hiding money for tax evaders and organized criminals, many specializing in smuggling narcotics. Giving only lip service to outside law enforcement has traditionally been a "higher form of art" in dependent Third World countries, because their only apparent chance at significant economic success comes from the kinds of activities in which they are involved.

2. Brownstein, Henry H., Susan M., Crimmins, and Barry J. Spunt. "Conceptual Framework for Operationalizing the Relationship Between Violence and Drug Market Stability," *Contemporary Drug Problems*, no. 27 (Winter 2000): 867-90. HV5800 .C66

Abstract: In this paper, narrative data from interviews collected during a variety of studies of drugs and violence are used to conceptualize drug-market stability. It is argued that any definition of drug market stability must consider both structural and interactional measures. To some extent, any violence related to drug market activity and relationships is a product of the need to resolve commercial disputes in illegitimate ways; however, recent research discussed in this paper suggests the relative stability of a particular drug market further influences the likelihood that violence will be used to resolve such disputes. This paper proposes a conceptual framework for examining drug-market stability. The authors argue that to understand the relationship between systemic drug-related violence and drug-market stability, it is necessary to be able to measure market stability as both interactional and structural. Specifically, the paper conceptualizes stable markets as those that have dealing operations adhering to a business model of organization and emphasizing social interactions that occur within the market, such as those between sellers and buyers or dealers and workers. Unstable markets are conceptualized as those that have dealing operations run by freelance entrepreneurs who commonly relate to others with whom they are in competition for customers and for the resources of the market.

3. Bureau for International Narcotics and Law Enforcement Affairs, U.S. Department of State, “International Narcotics Control Strategy Report,” 1999 Washington: March 2000. HV5800 .I527

<http://www.tax-news.com/asp/res/International%20Narcotics%20Control%20Strategy%20Report,%201999%20Part1.htm>

Abstract: Offers a look at new methods of money laundering being used by narcotics traffickers. Highlights the new money laundering opportunities that have been opened up because of advances in technology.

4. Cave, Jonathan A.K., and Peter Reuter. “The Interdictor’s Lot: A Dynamic Model of the Market for Drug Smuggling Services.” Santa Monica, CA: Rand, 1998. Rand: N-2632-USDP

Abstract: Presents a stylized dynamic model of the market for drug smuggler’s services. The model is based on the observation that experienced smugglers may benefit from learning by doing, although the information (and resulting cost advantage) may be subject to obsolescence. The authors analyze the effects of several variables, including different law enforcement strategies on smugglers of varying degrees of experience, the degrees of competitiveness in the supply of smugglers’ services, and the conditions governing entry of novice smugglers. The theoretical analysis is supplemented by a Lotus-based simulation model, which is included and illustrated by several numerical examples.

5. Cooper, Mary H, “The Business of Drugs,” *Congressional Quarterly*. Washington, D.C., 1989. HV5801 .C586 Overflow

Abstract: A comprehensive examination of the international illegal-drugs business. Concentrates on the economic forces that drive the market. Separate chapters on crack, heroin and marijuana trace the drug from its point of cultivation to refinement, and finally along its route for distribution. Assesses competition, distribution patterns, trafficking patterns, production, marketing, and money laundering in the narcotics business.

6. Dupuis, Marie-Christine. “Stupefiants, Prix, Profits” [Narcotics, Price, Profits]. Paris: Presse Universitaires de France, 1996. HV5801.D86

Abstract: A micro and macro economic examination of the narcotics business. Examines every stage, from cultivation to what is done with the profits from narcotics trafficking. Focuses mainly on production and consumption statistics but does describe the market intricacies for particular narcotics.

7. Fowler, Thomas B. "The International Narcotics Trade: Can It Be Stopped by Interdiction?" *Journal of Policy Modeling*, 18, no. 3 (June 1996): 233-70. H1 .J553

Abstract: A dynamic model of the illegal drug business indicates that feedback mechanisms exist that will thwart interdiction efforts by stabilizing price and street supply. The model suggests that efforts to control drug traffic and disrupt international drug cartel operations should concentrate on money flows and reduction of demand. It also suggests ways to maximize the effect of interdiction, should that still be used as a strategy.

8. Hamilton, Jay Paul. "Quantity Price Discounts in Illegal Drug Markets." Ph.D. dissertation, University of California, Riverside, 1999.

Abstract: This dissertation examines price mechanisms operating in the narcotics industry. Quantity price discounts are one of the possible unintended consequence of drug prohibition. Such discounts occur when the per-unit price of a commodity is negatively related to the transaction size in which it is purchased. Quantity price discounts may arise in illegal drug markets when the risk of arrest to drug sellers is assigned per transaction and not per unit of sale. In this case, sellers wish to induce fewer transactions by offering discounts on large transactions. Chapter one introduces the topic and places this topic in the general setting of economic research on illegal drug markets. Chapter two contains a theoretical model of rational, illegal commodity sellers who offer quantity price discounts. Assuming the seller's risk of arrest is a function of the seller's choice regarding the composition of large and small transactions, the chapter develops a model to analyze how price-taking sellers react to changes in law enforcement. The existence of a quantity price discount emerges as a conclusion from the analysis. It is shown that when law enforcement authorities increase the mean number of intercepted transactions the quantity price discount increases. Chapter three empirically examines quantity price discounts in U.S. marijuana markets in the early 1990s using data from the National Household Survey of Drug Abuse. The data suggests that quantity price discounts do indeed exist, and that the risks created by law enforcement agencies affect positively the magnitude of the quantity price discount. Chapter four offers a summary of results, followed by a discussion of the policy implications. Policy implications that follow from the research include the need for local law enforcement agencies to shift their focus from general interdiction to strategies that target larger transactions.

9. International Narcotics Control Board Report for 2001. Chapter 1, *Globalization and New Technologies: Challenges to Drug Law Enforcement in the Twenty-First Century*. United Nations: 2001. HV5800 .I526a

<http://www.incb.org/e/ar/2001/index.htm>

Abstract: Examines the impact of globalization and new technology on the narcotics industry. Examines the challenges that new technologies, such as the internet, pose to drug law enforcement. Explains how the organizational structure of criminal organizations has evolved from the traditional triangle to networks. Looks at specific examples to demonstrate how new technology protects criminals and their operations from investigation and makes distribution and delivery more efficient. A large part of the chapter is devoted to examples of the new opportunities opened up to those involved the narcotics industry by new technology. Looks at possible future impacts, legal and technical challenges facing law enforcement, how the problem is currently being addressed, and concludes with a series of recommendations.

10. International Narcotics Control Board Report for 1997. Chapter 1, *Preventing Drug Abuse in an Environment of Illicit Drug Promotion*. United Nations: 1997. HV5800 .I526a

<http://www.incb.org/e/ar/1997/index.htm>

Abstract: Without offering specifics, this report highlights ways in which new technology has lowered the barriers to entry into the narcotics business. More information on drugs has been made available to more people than ever before through the Internet. “How to” knowledge is now available on the Internet, crossing all national boundaries and defying restrictions on the dissemination of information. Many different pages on the World Wide Web are devoted to the production and manufacture of illicit drugs, and there are news groups designed to facilitate the exchanging of information not only on making drugs, but also on how to avoid detection. There are also sites that allow users to share experiences and that provide support to persons arrested for illegal possession of controlled drugs.

11. Keh, Douglas. “Drug Money in a Changing World: Economic Reform and Criminal Finance,” Jan 1, 2001.

http://www.undcp.org/technical_series_1996-01-01_2.html

http://www.undcp.org/pdf/technical_series_1996-01-01_2.pdf

Abstract: The aim of this paper is to explain why drug traffickers may be attracted to short-term investment opportunities in economies undergoing reform. It is widely accepted that drug trafficking organizations have considerable cash reserves at their disposal. With the advent of tighter banking controls, drug traffickers face increasing difficulty in laundering those funds for use in the legitimate economy, particularly in traditional money-laundering “safe havens.” It is

thus significant that in reforming economies, governments have sought to achieve stability by reducing money supply growth and reining in public expenditures; as a result, both consumers and companies in these reforming economies may find difficulty in conducting business as usual. The wealthy drug trafficker faces a sectoral niche with high profit potential.

12. Kennedy, Michael, Peter Reuter, and Kevin Jack Riley “A Simple Economic Model of Cocaine Production.” Santa Monica, CA: Rand, 1994. Corp author(s): United States; Office of the Under Secretary of Defense for Policy, National Defense Research Institute, MR-201-USDP. HV5840.A5 K46 1994

Abstract: This report presents a simple equilibrium model of the cocaine industry in Peru, Bolivia, and Columbia. The purpose of the model is to represent the fundamental economic relations that determine the size of the cocaine output and the price of the cocaine, and to simulate the effect of policy initiatives or other changes in the surrounding environment.

13. Lyman, M.D., and G. W. Potter. "Illicit Drug Trade," in Michael D. Lyman and Gary W. Potter, eds., *Drugs and Society: Causes, Concepts and Control*. Cincinnati, OH: Anderson, 1998, 99-144. HV6441 .L96 1997 Overflow

Abstract: The criminal drug trade is discussed with respect to the sellers, buyers, business decisions, business logistics, organizational dynamics, the role of foreign drug source countries, and the global magnitude of the drug problem. The drug trade parallels legitimate industry inasmuch as factors such as supply and demand, manufacturing, transportation, marketing, and security are considerations for every illicit drug dealer.

14. Rasmussen, David W., Bruce L. Benson, and David L. Sollars. "Spatial Competition in Illicit Drug Markets: The Consequences of Increased Drug Enforcement," *Review of Regional Studies*, 23, no. 3 (Winter 1993): 219-36. HT390 .R45

Abstract: A model of spatial competition is applied to the illegal drug market. Looks at the effects and results of drug enforcement on the spatial equilibrium in the illegal drug market.

15. Reuter, Peter. “The Organization of Illegal Markets: An Economic Analysis.” Washington, D.C.: U.S. Dept. of Justice, National Institute of Justice, 1985. HV6030 .R47

Abstract: It is widely believed that monopoly control, based on violence, corruption or risk-spreading, is characteristic of markets for illegal goods and services. This essay examines the

effects on the organization of a market arising from changing the status of a good or service from legal to illegal. In general, it can be shown that illegal enterprises are likely to be smaller than their legal counterparts. The most important reasons for this are the lack of external credit markets, itself a consequence of the non-existence of audited records, and the lack of court enforceable contracts. The need to restrict knowledge of participation in the enterprise itself, as opposed to goodwill for its agents, is also significant. Corruption is likely to affect the organization of the market only under special circumstance, where there is a single agency that monopolizes enforcement. Though that condition held for most illegal markets thirty years ago, enforcement now is fragmented and overlapping, which inhibits an agency from granting a monopoly franchise. The final section offers some analysis of the plausibility of using illegal market enforcement as an instrument of organized crime control.

16. Reuter, Peter, and John Haaga. "The Organization of High-Level Drug Markets: An Exploratory Study." Santa Monica, CA: Rand, 1989. HV5825 .R475 1989 Overflow

Abstract: Drawing from information obtained through a series of interviews with incarcerated high-level narcotics dealers, this study attempts to understand how the high-level narcotics industry is organized. The information gathered suggests minimal barriers to entry into the higher levels of the narcotics business. Success does not require the creation of large or enduring organizations. The wholesale market is national rather than regional. Suggests the cocaine and marijuana markets do not function in the same way as normal markets, as competitive pressure does not seem to drive down prices.

17. Reuter, Peter, and Mark Kleiman. "Risks and Prices: An Economic Analysis of Drug Enforcement," in M. Tonry and B. Morris, eds, *Crime and Justice: An Annual Review of Research*, 7, 1986.

Abstract: Marijuana and cocaine, two mass-market drugs, have been the object of a major campaign by the federal government over the past five years [1981-1986]. Though the relatively high prices of these drugs are historically a consequence of enforcement, that campaign apparently has not led to a significant tightening in the availability of the two drugs. The reason for this lack of response to recent law enforcement pressures may lie in structural characteristics of these markets. This article examines these market characteristics. The article concludes that law enforcement efforts are aimed at importation and high-level distribution, which account for a modest share of the retail prices of these drugs. Increasing the risks to importers or high-level distributors is therefore likely to have only modest effects on the retail prices and is unlikely to have any other effect on the conditions of use.

18. Staley, Sam. "The Organization of the Drug Economy," *Drug Policy and the Decline of American Cities*. New Brunswick: Transaction, 1992, 145-80. HV5825 .S65 1992

Abstract: Staley examines the drug business from a micro-economic perspective, evaluating illegal drug trafficking as an industry. Discusses industry structure, labor supply, opportunity costs and the distribution networks of this “monopolistically competitive” market.

19. Zabudoff, Sidney Jay. "Colombian Narcotics Organizations as Business Enterprises," *Transnational Organized Crime*, 3, no. 2 (Summer 1998): 20-49. HV6252 .T73

Abstract: Examines how the narcotics industry as a whole, and Colombian drug trafficking enterprises in particular, functions as a business. Much of the study is based on discussions with law enforcement officers who have acquired insights into the operations of Colombian traffickers. The discussion notes that narcotics trafficking organizations clearly are businesses and that the structure of the cocaine, heroin, and marijuana industries closely resembles that of agribusiness. The Colombian cocaine industry has a triangular structure. The dominating firms at the top of the pyramid directly employ a relatively small number of people. The numbers increase through several layers of support entities.