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# The War on Drugs in Afghanistan

## *Another Failed Experiment with Interdiction*

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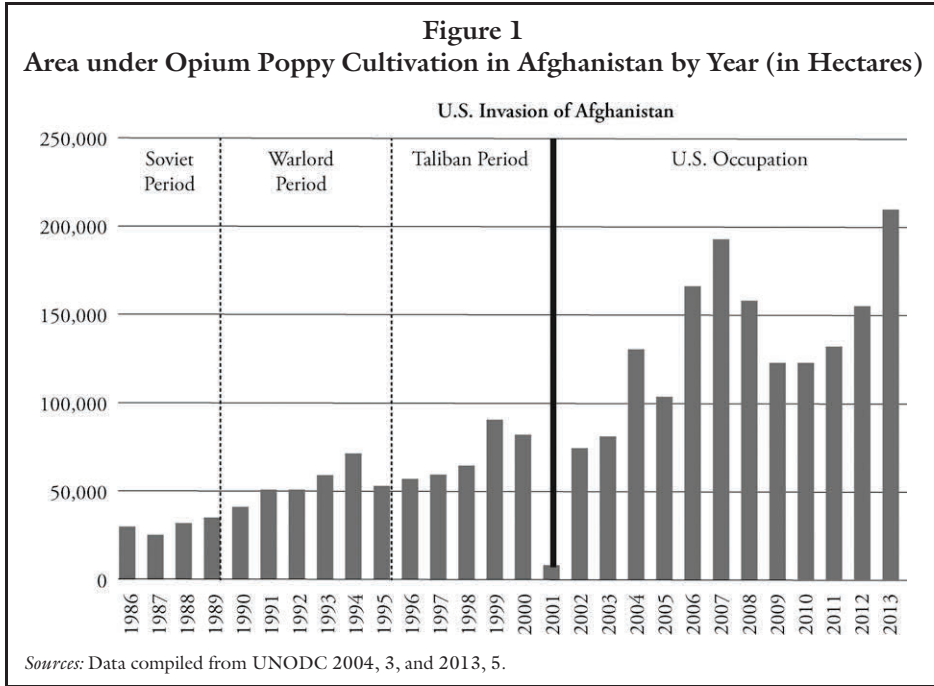
CHRISTOPHER J. COYNE,  
ABIGAIL R. HALL BLANCO, AND SCOTT BURNS

U.S. and international leaders have repeatedly asserted that winning the war on drugs in Afghanistan is necessary for winning the war on terror. According to Assistant Secretary for International Narcotics and Law Enforcement Affairs Robert Charles, “[C]utting down the opium supply is central to establishing a secure and stable democracy, as well as winning the global war on terrorism” (2004). Former president of Afghanistan Hamid Karzai clearly stated the perceived connection between antidrug efforts and the war on terror in his inaugural address: “[I]llicit drugs is [*sic*] another serious threat that is directly intertwined with terrorism. . . . The government has the duty to decisively fight against the cultivation, trafficking and consumption of illicit drugs. . . . We seriously ask for close coordination within the international community, as well as cooperation from the international community with the Government of Afghanistan to fight illicit drugs” (2009). Following this line of reasoning, coalition forces have worked closely with the new Afghan government to eradicate opium production since the

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overthrow of the Taliban in 2001. The underlying logic of this strategy seems to make sense—effectively eradicating illicit drugs will eliminate a key revenue source for terrorist groups. This reduction in resources will limit the growth and capabilities of groups such as al Qaeda and the Taliban that threaten the stability and future of Afghanistan (see Mili 2007; Peters 2009).

In 2002, less than a year after the start of the U.S. invasion, Afghanistan produced more than three-quarters of the world’s opium (United Nations Office on Drugs and Crime 2002, 4, and 2003b, 15). Since that time, the United States has spent \$8.4 billion on a variety of counternarcotics initiatives (Sopko 2016, 12). Further, the U.S. government “exported” many elements of its domestic drug-interdiction efforts to help fight the Afghan drug war. For example, the Drug Enforcement Agency (DEA) opened thirteen offices in Afghanistan in 2003. By 2013, ninety-five offices were in operation. Over that same time period, the DEA increased its operating budget for its Afghanistan initiative by \$6 million per year (Beith 2013).

More than a decade has passed since the United States launched its ambitious wars on drugs and terror in Afghanistan. The results are sobering, to say the least, as illustrated by figure 1, which shows the growth of the area under opium poppy production in the postinvasion period (marked by the bold vertical line).<sup>1</sup>

1. It is important to note that these data are capturing an input into production (hectares of land) rather than an output. Thus, the connection between inputs and outputs will not necessarily be one to one due to other factors such as rainfall, disease, and so on.

The United Nations Office on Drugs and Crime (UNODC) reports that the area under opium poppy cultivation in Afghanistan has nearly *tripled*, from 76,000 hectares in 2002 to a record 209,000 hectares (1 hectare is about 2.5 acres) in 2013, with the majority of production occurring in southern provinces of the country—namely, Helmand and Kandahar Provinces (UNODC 2013, 5). Afghanistan now produces more than 80 percent of the world’s illicit opium (UNODC 2014, 21), with revenues topping \$4 billion annually (UNODC 2007a, iii).<sup>2</sup> As opposed to observing a shift in the Afghan economy away from opium and toward alternative, legal products, UNODC executive director Yury Fedotov noted that Afghanistan is on the verge of becoming a “fully-fledged narco-state” (qtd. in Dahl 2013).

The war on terror has produced similarly abysmal results. Examining the number of terror attacks since 2001 in Iraq, Afghanistan, Pakistan, and Yemen, researchers found that the number of terrorist attacks each year more than quadrupled in the decade following the attacks in the United States on September 11, 2001. Afghanistan and Pakistan accounted for more than 50 percent of all terror fatalities. Although some eighty-five countries experienced acts of terror in 2012, Afghanistan’s Taliban was by far the deadliest group that year—launching some 525 separate attacks and killing 1,842 people (Burke 2013). To this day, it remains among the world’s most deadly terror groups.

How is it that Afghanistan is experiencing record opium harvests and greater terror activities despite the unprecedented U.S. investment of resources intended to accomplish the opposite? The purpose of this paper is to explain why the war on drugs has failed in Afghanistan and how it has undermined counterterrorism efforts. Using the tools of economics, we explain how efforts to curtail the drug trade in Afghanistan create opportunities for terrorist groups to form, strengthen, and impede the U.S. government from achieving the stated goals of its policies.

We contribute to two strands of literature. First, we contribute to the extensive work on the economics of prohibition and the war on drugs (see, for instance, Timberlake 1963; Moore 1977; Ostrowski 1989; Thornton 1991; Miron and Zwiebel 1995; Musto 1999; Resignato 2000; Miron 2003; Becker and Murphy 2013; Boettke, Coyne, and Hall 2013; Redford and Powell 2016). This work examines the perverse effects of prohibition in a variety of different settings (usually the United States). We contribute to this literature in two ways. First, we provide insight into the specific dynamics of drug prohibition in Afghanistan. Second, we analyze international drug-interdiction policies within the context of counterterrorism and nation building.

Second, we contribute to the growing literature on the war on terror. Our work most closely relates to the work on coalition efforts in Afghanistan (see, for instance, Goodhand 1999; MacDonald and Mansfield 2001; Scott 2003; Byrd and

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2. It is estimated that about one-quarter of this total revenue (\$1 billion) accrues to opium farmers. District officials take a portion through taxation (*ushr*), typically around 10 percent (Clemens 2013). The rest accrues to warlords, who facilitate the production and distribution of drugs, and to drug traffickers (UNODC 2007b).

Ward 2004; Farrell and Thorne 2005; Liddell 2008; Schweich 2008). We contribute to this literature by providing an economic analysis of the war on drugs in Afghanistan with a specific focus on the connection between antidrug efforts and counterterrorism policies.

We first examine the origins of Afghan opium production and provide a brief history of U.S. drug-interdiction policies, reviewing three distinct phases of U.S. antidrug efforts in Afghanistan from the invasion in 2001 to the present. Then we discuss five perverse, unintended consequences of these U.S. policies before drawing conclusions.

## **A Brief History of U.S. Drug Policy in Afghanistan**

### *Before the U.S. Occupation*

For most of its history, Afghanistan played a relatively minor role in global opium production. This changed in the 1970s following opium bans in Turkey, Iran, and Pakistan. By the end of the decade, opium poppy cultivation had spread to more than half of Afghanistan's twenty-eight provinces, though its total production remained only a fraction of global output (Cooley 1999, 131). The decade-long Soviet war in Afghanistan, starting in the late 1970s, decimated the country's legal agricultural trade network, leading many rural farmers to turn to farming opium to sustain their livelihood. By 1989, opium had become one of Afghanistan's leading exports, and roughly one-third of the world's opium was produced in Afghanistan (Cooley 1999, 131).<sup>3</sup>

The Taliban, which took control of the country in the mid-1990s, allowed local warlords to maintain opium production and illicit arms trading in return for their allegiance (Byrd and Ward 2004, 6). It is estimated that in its initial years in power the Taliban received \$30 million per year from taxing the opium economy (Goodhand 2005, 199). By the late 1990s, however, cross-border trade between Afghanistan and Pakistan expanded significantly, totaling approximately \$2.5 billion (Naqvi 1999). It is estimated that during this period the Taliban generated \$75 to \$100 million a year in opium tax revenue (Rashid 2000, 118; UNODC 2009, 2). In 2000, Taliban leaders issued a religious decree, or fatwa, banning opium cultivation and declaring it "un-Islamic." There is no consensus on the exact reason for the reversal of course by Taliban leaders, although one explanation is that the ban was issued to gain international credibility and foreign assistance (see Chouvy 2010, 151; Felbab-Brown 2011). Farmers who violated the prohibition often suffered public beatings and were

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3. In the 1970s and early 1980s, the Golden Triangle, which includes Burma, Laos, and Thailand, produced an estimated 70 percent of the world's opium. As of 2007, that area produced approximately 5 percent, and Afghanistan was cultivating a majority of the world's supply (Fuller 2007). A number of factors contributed to this change, including pressure from China and the international community on the governments of Golden Triangle countries, state dysfunction and war in Afghanistan, and the efficiency of production in Afghanistan due to the climate and environment (Fuller 2007).

paraded through the streets with blackened faces on “walks of shame” before being sentenced to prison terms (Komarow 2001). The ban and the significant punishments for violating the decree had the intended effect, resulting in an unprecedented 95 percent reduction in Afghan opium production the following year (UNODC 2002, 4) and a 99 percent reduction in areas under Taliban control (Farrell and Thorne 2005, 81). Globally, the result of the Taliban’s opium ban was a 65 percent reduction in potential illicit heroin supply (Farrell and Thorne 2005, 81).<sup>4</sup>

Since the launch of Operation Enduring Freedom in 2001, the U.S. government has pursued a number of different strategies in its joint wars on drugs and terror in Afghanistan. These strategies are best understood as three distinct phases: (1) the early “hands-off” approach, (2) the “hands-on” approach, and (3) the current “alternative-livelihoods” approach.

### *The Hands-Off Approach, 2001–2002*

U.S. and North Atlantic Treaty Organization (NATO) forces launched Operation Enduring Freedom on October 7, 2001, to overthrow the Taliban in Afghanistan. The fall of the Taliban resulted in an end of its short-lived ban on opium production. Afghanistan’s interim government, once established and led by Hamid Karzai, implemented its own national ban on opium production in order to combat the drug trade.

Coalition forces did not initially look to eliminate the market outright. Instead of seeking to actively prohibit production and trade, the U.S. government sought to use the opium producers’ interests to their advantage. Specifically, coalition forces attempted to establish military alliances with regional warlords to help defeat the Taliban. In return for their allegiance, the U.S. government in effect agreed to turn a blind eye to opium trafficking.

Barnett Rubin summarized this implicit agreement with local warlords, indicating that they would “help [the United States] fight the Taliban and no one will interfere with [their] trafficking” (2004). Some thirty-five warlords are known to have received millions of dollars from the U.S. government in exchange for their assistance (Berniker 2002). The United States also formed an agreement with the Northern Alliance (whose own regional opium output had nearly tripled to 6,342 hectares) to fight the Taliban (Farrell and Thorne 2005). Hoping to avoid any

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4. Previous deals between the international community and the Taliban to reduce opium cultivation had been made, but the international community failed to follow through on its side of the deal (Farrell and Thorne 2005). Graham Farrell and John Thorne explain that the fatwa handed down in 2000 was effective because of incentive alignment. After public announcement of this fatwa, the Taliban leadership had an incentive to carry through on the ban because failure to do so would negatively reflect on their authority. This history highlights both the international community’s failure to deliver in the past as well as the importance of incentive alignment when considering drug policy. Of course, we cannot know what the counterfactual would have been absent the U.S. intervention. It is possible that the Taliban’s ban on opium may have been short-lived for a variety of reasons and that production may have again increased to preban levels. And if the ban had continued, it is unclear how supply would have responded to the dramatic increase in price in the absence of foreign intervention.

direct involvement, U.S. forces relied on the Afghan government to lead limited counternarcotic efforts so that they could focus on counterterrorism. Toward this end, the Afghan Interim Authority was formed in 2001 with U.S. support to “combat international terrorism [and the] cultivation and trafficking of illicit drugs” (United Nations Security Council 2001). Though the war on terror was the top priority, many U.S. policymakers were optimistic that over time drugs could be eliminated with proper planning and coordinated action facilitated through the new Afghan government (Goodhand 2005).

This was not the case, however, because the ban placed on opium production by President Hamid Karzai and the new Afghan government was largely ineffective. The area under opium poppy cultivation increased 8 percent, from 74,000 hectares in 2002 to 80,000 hectares in 2003, rivaling the highest levels of opium cultivation in the preinvasion era (UNODC 2003a, 5). Farm-gate prices for opium (the price received by farmers for their crop) rose from \$28 per kilogram in 2000 to \$301 per kilogram in 2001 and then to \$350 in 2002 (UNODC 2004, 5).<sup>5</sup>

### *The Hands-On Approach, 2003–2009*

After three consecutive years of record opium harvests, the U.S. government shifted to a zero-tolerance policy toward opium. Emphasizing complete eradication, U.S. forces became directly involved in combating opium in Afghanistan. In the attempt to align the goals of counternarcotics with the goals of counterinsurgency, military equipment and personnel were mobilized to assist in U.S.-led eradication programs. Christopher Blanchard summarizes the hands-on period when he notes that “[f]rom 2002 through 2009, Congress and the Bush Administration gradually expanded the role for U.S. military forces in training, equipping, and providing intelligence and airlift support for Afghan counternarcotics teams” (2009, 17).

In May 2003, the U.S. government prepared its first official National Drug Control Strategy for Afghanistan. The strategy aimed to achieve a 70 percent reduction in opium cultivation by 2008 and complete abolition by 2013 through a combination of the physical eradication of poppy fields and the interdiction of trafficked drugs (Byrd and Ward 2004). The United States also established a variety of new task forces involving the Afghani government and provided training and equipment to engage in counternarcotic operations (Integrated Regional Information Networks 2003).

In December 2004, Lieutenant General David W. Barno, the top U.S. commander in Afghanistan, renewed the U.S. commitment to drug eradication, stating that the war on drugs was one of “three wars” necessary in winning the war on terror

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5. To at least some extent, this dramatic price increase is due to the Taliban’s ban on opium in 2000. In addition, external demand factors may have contributed to the increase in price and output—for example, the increase in opium-derived prescription drugs in the United States (Meier 2013; Express Scripts Lab 2014). It is important to note that as the supply of opium increased in subsequent years, the farm-gate price fell (UNODC 2010, 149).

(qtd. in Felbab-Brown 2009, 141). These three wars included the ongoing battle against al Qaeda and Taliban insurgents, the search for the top-ranking leaders of these organizations, and the war against warlords and drug trafficking. Other policy makers agreed. Thomas Schweich, the U.S. State Department's coordinator for counternarcotics in Afghanistan, stated, "It's all one issue. It's no longer just a drug problem. It's an economic problem, a political problem and a security problem" (qtd. in Risen 2007). These renewed commitments, however, did nothing to reduce opium production. For the first time in its history, Afghanistan cultivated more than 100,000 hectares of opium poppy during this period. In fact, Afghans grew some 131,000 hectares of opium poppy in 2004, representing a nearly two-thirds increase over the previous year (UNODC 2004, 1).

In the face of increased production, attempts to further refine the counternarcotics policy continued. In 2005, the U.S. government announced the "5 Pillar" counternarcotics strategy to combat the opium industry at a variety of levels (Tarnoff 2012). It is at this critical juncture that one observes the mass mobilization of U.S. personnel and monetary resources intended to counter drug production on a national scale. The State Department escalated its International Narcotics and Law Enforcement funding from zero in 2003 to \$220 million in 2004 and then to \$710 million in 2005, using a significant portion to bankroll the Central Poppy Eradication Force and other enhanced eradication efforts (Tarnoff 2012). The State Department and Justice Department also cofounded the Counternarcotics Justice Center, an \$8 million Afghan-based facility intended to serve as a "one-stop shop" for all drug cases (Risen 2007).

At the same time, the role of the U.S. military was significantly altered to align counternarcotics initiatives with counterinsurgency efforts. From 2004 and 2005, the Department of Defense more than tripled the operating budget it dedicated to counternarcotics, from \$72 million to \$225 million. Most of these funds were used to directly support joint Afghan and American antidrug efforts (Tarnoff 2012, 20). The Pentagon altered its rules of engagement to permit U.S. troops to provide support in efforts to find drug traffickers and to assist with counternarcotics raids by accompanying and protecting counternarcotics forces (Mercille 2013). The battlefield shifted from the mountains to the agrarian countryside as U.S. soldiers began patrolling flower-laden poppy fields and monitoring key drug-trafficking routes.

In addition to the Department of Justice, the Department of State, and the Department of Defense, the DEA also dramatically escalated its role in Afghanistan. After reopening its Kabul office in 2003, the agency steadily expanded its presence from thirteen to ninety-five offices (Beith 2013). DEA advisers were flown in from Colombia and other key regions to train local drug investigators and special forces (Risen 2007; Beith 2013). The DEA's operating budget in Afghanistan quadrupled from \$3.7 million in 2004 to \$16.8 million in 2005 and would increase still further to \$40.6 million in 2008. In total, more U.S. resources than ever before were at this point devoted to eradication (Tarnoff 2012, 20).



U.S. officials credited these policy changes for the decline in the area under opium poppy production from 131,000 hectares in 2004 to 104,000 hectares in 2005. However, whatever gains were made were fleeting. In 2006, a record 165,000 hectares of opium poppy were cultivated, a 60 percent increase over 2005 levels (UNODC 2006, 1). This increase in cultivation occurred despite a tripling in the amount of eradicated opium poppy. More than 5,100 hectares were destroyed in 2005. This amount increased to 15,300 and 19,000 eradicated hectares in 2006 and 2007, respectively (UNODC 2007a, 20–21). Despite significant U.S. resources applied to eradication, Afghanistan was now the world’s dominant opium producer, supplying more than 80 percent of the global supply (UNODC 2014, 21). For the first time, opium exports from Afghanistan totaled \$4 billion (UNODC 2007a, iii).

The U.S. government kept eradication at the center of its counternarcotics strategy throughout the remainder of the George W. Bush administration. The area under opium poppy cultivation did fall to 157,000 hectares in 2008 and 123,000 hectares in 2009. But these declines should not be interpreted as an indicator of effective counternarcotics policy. They are better explained by the poor agricultural conditions—that is, drought and disease—that prevailed during this period, which were responsible for killing up to one-third of the poppy in the region (UNODC 2005, 47; Kraeutler 2008).

After five years and nearly \$5 billion spent on intense eradication (Tarnoff 2012), U.S. policy makers acknowledged their efforts had largely failed. According to U.S. special representative Richard Holbrooke, the U.S. government “wasted hundreds and hundreds of millions of dollars” on efforts to combat opium production with no positive results to show for it (qtd. in Donadio 2009).

### *The Alternative-Livelihoods Approach, 2009–Present*

In response to these failures, the U.S. government again restructured its nationwide eradication policies starting in 2009. The new approach focused on regional efforts and providing Afghan farmers with legal alternative livelihoods. Through crop-replacement programs and economic assistance, the United States hoped to win the hearts and minds of Afghan citizens. Such efforts, it was argued, would foster a connection between citizens and the new government, resulting in the elimination of opium and the weakening of the Taliban (see U.S. Department of State 2010). The U.S. military distanced itself from direct participation in the physical destruction of crops. The State Department instead paid provincial governors to carry out targeted eradication and interdiction campaigns against high-level producers and traffickers (A. Rubin and Rosenberg 2012).

The alternative-livelihoods approach, which garnered the support of both General David Petraeus and General Stanley McChrystal, became the centerpiece of newly elected President Barack Obama’s renewed counterinsurgency strategy in Afghanistan. Combined with the “troop surge” beginning in 2009, these aid

programs were intended to be an integral part of eliminating the drug trade and, ultimately, the terrorist networks in Afghanistan. The largest of these direct-aid programs, the Economic Support Fund, administered through the U.S. Agency for International Development, increased its support from \$2.08 billion in 2009 to \$3.34 billion in 2010 (Tarnoff 2012: 20). The increase in resources was intended to encourage provincial governors to provide local farmers with economic alternatives to opium cultivation. To provide further incentive, both the American embassy and the State Department announced good-performance awards for “poppy-free provinces,” paid directly to local governors who successfully eradicated opium poppy by providing for alternative livelihoods (Embassy of the United States 2014).

Despite the shift in policy, poppy cultivation continued to rise. As farm-gate prices rose some 300 percent, farmers increased the amount of cultivated land devoted to opium poppy from 123,000 hectares in 2011 to a record 209,000 in 2013 (UNODC 2013, 5). The record opium harvest that year constituted more than 80 percent of the world’s supply of opium (UNODC 2014, 21); it also generated more than \$4 billion in opium revenues, roughly 15 percent of Afghanistan’s licit gross domestic product (GDP) (UNODC 2007a, iii). Critics have noted that the aid programs associated with the alternative-livelihoods programs were implemented by injecting large sums of money into short-term, observable projects focused on achieving output targets rather than contributing to actual value-added development (see, e.g., Ingraham 2014). In other cases, investments in infrastructure, such as irrigation, were successful but were used to produce additional opium rather than alternative crops (Special Inspector General 2014a, 2).

### *The Economics of a Failed, Decade-Long Experiment with Interdiction*

After more than a decade of fighting the war on drugs in Afghanistan, the opium economy is stronger and more concentrated in Taliban hands than at any time before or during the invasion. With the withdrawal of American combat forces in 2014, U.S. officials conceded there is little hope for success in winning the war on drugs in Afghanistan. In testimony before Congress, John F. Sopko, special inspector general for Afghan reconstruction, stated that “Afghan farmers are growing more opium today than at any time in their modern history” (Sopko 2014, 2).

The economic issues behind this failure are relatively straightforward. As Jeffrey Clemens notes, drug efforts in “source countries” focus on reducing the quantity of drugs by shifting the supply curve (2008, 408; see also Kennedy, Reuter, and Riley 1993). The effectiveness of such efforts in turn depends on two key factors: (1) governments’ ability to reduce supply and (2) the elasticity of the demand curve. Widespread and permanent crop eradication would ultimately be necessary to reduce supply. However, for the reasons discussed in the previous subsections, coalition forces and the Afghan government were unable to achieve significant eradication.

Clemens also finds that the demand curve is relatively inelastic. This means that reductions in income due to the seizure or eradication of poppy will be relatively small compared to the increase in the value of the remaining stock (2013, 526). That is, the gain from the increase in price per unit due to the decrease in supply more than offsets the loss due to the decrease in quantity demanded. Together, these economic insights make clear why both the hands-on and the alternative-livelihoods approaches failed.

## **Five Perverse Consequences of the U.S. War on Drugs in Afghanistan**

The U.S. government's various policies attempting to regulate the opium market in Afghanistan were intended not only to eliminate the opium economy but also to disrupt and dismantle the insurgency. In actuality, however, these policies generated a series of perverse unintended consequences. We discuss the five main unintended consequences and explain how they were contrary to the U.S. government's stated ends.

### *Regime Uncertainty and Credible Commitment Problems*

Stable and predictable policies and rules reduce uncertainty and allow individuals to plan for the future because people can have some confidence in what actions government will and will not undertake. Unstable policies and rules, in contrast, make planning difficult because people cannot accurately gauge the government's behavior in future periods. Robert Higgs (1997) emphasizes the role of "regime uncertainty," or vagueness regarding the government's future policies and activities, in preventing economic recovery in the United States in the wake of the Great Depression. He argues that uncertainty regarding property rights in capital and future returns disincentivized investment on the part of private entrepreneurs. This lack of investment, in turn, hampered economic recovery. The same logic can be applied to efforts to foster institutional change in foreign societies through intervention and occupation.

If citizens of the occupied country are uncertain regarding the occupiers' and new government's future policies and activities, they will not feel confident in supporting reforms and making costly investments. They will instead reject, if not openly combat, attempts at reform. An existing literature documents the credible commitment problem in postwar reconstruction, emphasizing the importance of clear expectations and policies in any attempt to establish peace and stability (see, e.g., Coyne 2008; Coyne and Boettke 2009; Flores and Nooruddin 2009; Coyne and Pellillo 2011). If announced reforms and policies lack credibility from citizens' perspective, then the reforms will not take hold in the desired manner.

The U.S. government's policies toward opium in Afghanistan created significant regime uncertainty. This uncertainty was the result of contradictory policies at different levels of governance—for example, local versus national—and dramatic policy swings regarding opium production. Significant uncertainty emerged both within each policy period summarized in the previous section as well as across policy periods.

To illustrate the uncertainty created within a specific policy period, consider the hands-off approach initially adopted for the first two years of the occupation. Recall that during this period there was a national ban on opium imposed by the Karzai government, but the U.S. government decided not to engage in direct eradication efforts. This strategy was plagued with contradictions from the outset.

While attempting to ally with local warlords, the U.S. government simultaneously supported strict antidrug programs at the national level. Though the U.S. government initially avoided any direct involvement in Afghanistan's drug war, it heavily financed many of the Afghan government's early drug-eradication efforts. In effect, the U.S. government was simultaneously endorsing the national ban, which included funding Afghan-led eradication initiatives, and contemporaneously partnering with and empowering local warlords who were deeply embedded participants in the opium economy.

As a result of this inconsistency, the United States actively undermined its stated objective of establishing a strong and secure central government in Kabul (Byrd and Ward 2004, 7). Local warlords, bankrolled by the U.S. government and shielded from legal repercussions, began offering protection services to opium traffickers to raise additional revenues (B. Rubin 2004). The cumulative effect was to strengthen the warlords as autonomous economic and governance units, thus incentivizing even greater opium poppy cultivation while undermining proclamations that the United States was committed to establishing a strong and stable national government.

Major policy shifts toward opium every few years also created widespread regime uncertainty. As Rory Stewart explains, "We [the United States and its allies] armed militias in 2001, disarmed them through a demobilization program in 2003, and rearmed them again in 2006 as community defense forces. We allowed local autonomy in 2001, pushed for a strong central government in 2003, and returned to decentralization in 2006. First we tolerated opium crops; then we proposed to eradicate them through aerial spraying; now we expect to live with opium production for decades" (2010). Significant changes in policies across time made it extremely difficult for Afghan citizens to determine where the U.S. government truly stood at any point in time and to predict how it would act in the future. As Stewart's comment illustrates, regime uncertainty occurred in two areas—security and economic activity—that were central to the lives of Afghan citizens. These policy swings not only created credibility issues for the U.S. government but also further strengthened the Taliban as Afghan citizens turned to local warlords for the stability and predictability that the U.S. government was unable to offer.

### *Cartelization*

The U.S. government's war on drugs in Afghanistan was intended to disrupt and eliminate larger drug-producing enterprises. The underlying idea was that destabilizing or eradicating the major producers would significantly reduce the production of opium. This reduction in production would, in turn, reinforce the broader war on terror given that opium was a major source of funds for insurgent and terrorist groups. The outcome, however, was the exact opposite. Smaller opium producers gave way to large producers, who became centralized under the control of the Taliban.

U.S. drug policy in Afghanistan contributed to cartelization in two ways. First, eradication efforts acted as a tax on opium producers by imposing additional costs of doing business—for example, potential fines, imprisonment, death. This tax effectively increased the cost of producing opium such that smaller producers, who could not incur the additional costs, chose to exit the market. The exit of these small producers meant that larger producers, who could afford the additional costs, were left to dominate the market.

Second, once the United States adopted a hands-on approach of active eradication, many local leaders had an incentive to manipulate eradication efforts to target smaller producers as opposed to larger producers (Felbab-Brown 2011). Absent the appropriate resources and connections to avoid eradication, smaller producers made easy targets for those involved in executing interdiction policies (see Becker, Murphy, and Grossman 2006 for a general discussion of this issue). By pursuing small producers, local leaders and other officials could show that they were “doing something” to combat opium production without having to combat the larger and more organized producers. The result was that large producers thrived. These same producers became increasingly integrated with the Taliban, which developed a cartel over the country's opium production.

This integration was driven by the Taliban's entrepreneurial alertness. Seeing the significant profit opportunities resulting from the national ban on opium and from U.S.-led eradication efforts, the Taliban became a one-stop shop for all local farmers' needs. According to one report, the Taliban became “increasingly engrossed in both the upstream and downstream sides of the heroin and opium trade—encouraging farmers to plant poppies, lending them seed money, buying the crop of sticky opium paste in the field, refining it into exportable opium and heroin, and finally transporting it to Pakistan and Iran, often in old Toyotas to avoid detection” (Moreau 2013). In addition, the Taliban also began to offer protection in exchange for a portion of farmers' crops or revenues (Felbab-Brown 2009, 151–52). In fulfilling these roles, it became the most powerful and violent cartel in the region, controlling or influencing almost all aspects of the opium economy (Moreau 2013).

In discussing the domestic war on drugs in the United States, Milton Friedman once said, “[I]f you look at the drug war from a purely economic point of view, the

role of the government is to protect the drug cartel” (in Paige 1991). This is precisely what happened in Afghanistan, where the opium economy is a major source of revenue for the Taliban, generating between \$200 and \$400 million in annual tax revenue since the organization’s resurgence in 2005 (UNODC 2009, 2). Captured Taliban fighters state that opium poppy production is the primary source of operational funding for their organization—including personnel salaries, weapons, fuel, food, and explosives (Peters 2009, 23). Thus, U.S. interdiction policies had the counterproductive effect of increasing the Taliban’s income as opposed to reducing it.

### *Criminalization of Ordinary Afghan Citizens*

The opium economy is a main source of income for many Afghan citizens. According to one estimate, it provides more than 410,000 full-time jobs to Afghans (Special Inspector General 2014b; Standish 2014). This figure does not include those who are involved in the opium economy on a part-time, seasonal basis. This statistic is relevant because another perverse consequence of U.S. opium policies is that they turned hundreds of thousands of Afghan citizens into criminals whose livelihoods were severely jeopardized. The result was that these citizens faced a substantial incentive to align with the Taliban, which offered protection from and proactive retaliation against U.S. eradication efforts.

Further strengthening this incentive is the fact that Taliban commanders, even at the village level, often receive hundreds of thousands, if not millions, of dollars in revenues collected as taxes from farmers and smugglers involved in the opium economy (see Peters 2009; Chouvy 2010). The potential income opportunities prompted many to join the organization in the hopes of improving their own livelihoods (Peters 2009, 19). To provide some context, consider that NATO researchers estimate that contracted Taliban soldiers receive as much as \$150 a month, \$30 more than official police officers receive. In a country where the average *annual* income is less than \$500, such a relatively high-paying position has obvious appeal, especially for those who are already categorized as criminals by the Afghan government and coalition forces (Lobjakas 2007).

For many Afghan citizens, participation in the opium economy is the only means of earning a sufficient income.<sup>6</sup> Respondents to a survey by the UNODC in 2013 indicated that the main reasons they cultivated opium despite the ban were the high price of opium, increased income, improved living conditions, and the ability to afford basic food and shelter (23). Interviews with individual Afghan farmers support

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6. Although a rising GDP per capita in Afghanistan from \$185 in 2002 to \$418 in 2012 per International Monetary Fund (2012) estimates would suggest individuals are better off in terms of opportunities, such data are misleading. The reality is that the vast majority of the GDP increase is the result of external spending and foreign aid related to the U.S. occupation and reconstruction. As the U.S. Senate Foreign Relations Committee noted, “According to the World Bank, an estimated 97 percent of Afghanistan’s gross domestic product (GDP) is derived from spending related to the international military and donor community presence. Afghanistan could suffer a severe economic depression when foreign troops leave in 2014” (2011, 2).

these survey results. For example, one farmer explained that growing opium poppy was the only way to make ends meet: “[F]or the rest of our product [corn, cotton, wheat, etc.] we have no market. We can’t export [other crops] and get a good price. We can’t even sustain our families” (qtd. in “Afghan Farmers” 2013). Another farmer echoed his sentiments, saying, “[W]e have to do this in order to have a better life” (qtd. in “Afghan Farmers” 2013). The criminalization of opium poppy production led many farmers to turn to the Taliban for protection for their livelihoods, which in turn made them much less likely to support or cooperate with coalition forces or the new Afghan government. In stark contrast, many Afghans view the occupiers and national government as direct threats to their well-being and livelihood.

Reflecting on the U.S. government’s eradication efforts, Special Representative Richard Holbrooke explicitly recognized these perverse consequences of U.S. policies when he noted that “Western policies against the opium crop have been a failure. They did not result in any damage to the Taliban, but they put farmers out of work and they alienated people and drove them into the arms of the Taliban” (qtd. in Donadio 2009). It was this realization that led to the shift in U.S. policy toward the alternative-livelihoods approach starting in 2009. But the damage had already been done in strengthening the insurgency and undermining the U.S. government’s stated counterterrorism goals.

### *Corruption*

Corruption in Afghanistan is deeply embedded in economic, legal, political, and social institutions. A UNODC report captured this point when it indicated that “[w]hile corruption is seen by Afghans as one of the most urgent challenges facing their country, it seems to be increasingly embedded in social practices, with patronage and bribery being an acceptable part of day-to-day life” (2012, 5). In testimony before the U.S. Senate on Afghanistan, General John Allen (ret.) stated that “[f]or too long we [the United States] focused our attention solely on the Taliban as the existential threat to Afghanistan,” noting that compared to the problems caused by corruption, the Taliban “are an annoyance” (qtd. in “U.S. General” 2014). Dealing with corruption was an issue recognized by the U.S. government from the beginning of its occupation. However, the policies it undertook as part of the war on drugs contributed to the perpetuation and entrenchment of that corruption.

The literature on the economics of prohibition emphasizes that making products and services illegal is a source of corruption because “prohibition creates illicit profit opportunities that would not exist in its absence” (Thornton 1991, 130). In Afghanistan, the national ban on opium, combined with U.S. eradication efforts, means that both farmers and members of the Taliban need to find ways to circumvent the law. In general, the extranormal profits associated with prohibition incentivize those in the industry to bribe an array of public actors—police, military, elected officials, judges, and so on—who are involved in combatting black-market activity (see Becker and Murphy 2013). This is precisely what has happened in

Afghanistan. Given the prevalence of existing networks of corruption and the importance of opium to the Afghan economy, bribery has occurred at all levels of society. According to Thomas Schweich, a special ambassador to Afghanistan and the U.S. State Department's coordinator for counternarcotics in Afghanistan during the George W. Bush administration, many top Afghan officials were and are intimately involved in the narcotics trade. He notes that

[n]arco-traffickers were buying off hundreds of police chiefs, judges, and other officials. Narco-corruption went to the top of the Afghan government. The attorney general [of Afghanistan] . . . told me and other American officials that he had a list of more than 20 senior Afghan officials who were deeply corrupt—some tied to the narcotics trade. He added that President Karzai . . . had directed him, for political reasons, not to prosecute any of these people. . . . Around the same time, the United States released photos of industrial-sized poppy farms—many owned by pro-government opportunists, others owned by Taliban sympathizers. Farmers were . . . diverting U.S.-built irrigation canals to poppy fields. (2008)

Even local eradication efforts have been riddled with corruption. The U.S. government offered, among other initiatives, one-time financial payments to local political leaders for eradicating opium poppy in their provinces. In many instances, however, the same local officials who had received rewards for eradication efforts used the money to help fund their own drug businesses elsewhere in Afghanistan (Nordland 2013). The success of eradication efforts was often short lived because local governors, after receiving the one-time payout for their assistance, would turn a blind eye toward poppy production in future years in exchange for a payoff from farmers.

In 2007, President Karzai appointed Izzatulla Wasifi, a convicted heroin dealer, to head Afghanistan's anticorruption commission. Wasifi in turn appointed several known corrupt politicians as local police chiefs (Nordland 2013). Reports state that Karzai's brother, Ahmed Wali Karzai, who was responsible for overseeing the poppy-laden province of Kandahar, was deeply involved in the drug trade ("Afghanistan's Poppy Problem" 2006; Risen 2008; A. Rubin and Rosenberg 2012). In 2004, Afghan security forces uncovered a large stash of heroin in Kandahar, seizing drugs and the truck in which they were being transported. The commander soon received a phone call from Ahmed Wali Karzai, who asked that the vehicle and drugs be released. After another phone call from an aide to President Karzai, the commander complied (Risen 2008). Two years later another truck was apprehended near Kabul, carrying some 110 pounds of heroin. Investigators linked the shipment to one of Ahmed Wali Karzai's bodyguards, who was believed to be acting as an intermediary. In discussing these issues regarding the president's brother, Afghan informant Hajji Aman Kheri stated, "[I]t's no secret about Wali Karzai and drugs. A lot of people in the Afghan government are involved in drug trafficking" (qtd. in Risen 2008).



Other examples of public corruption related to the opium industry abound. In 2005, for example, British forces uncovered 20,000 pounds of opium in the office of Helmand governor Sher Mohammed Akhundzada, a close ally of President Karzai. Akhundzada was forced out of public office, but Karzai later appointed him to the Senate (A. Rubin and Rosenberg 2012). In 2006, Hajji Zaher Qadir, President Karzai's nominee for the head of border protection, was caught smuggling heroin in his car. Although his appointment was scrapped, Qadir is now a prominent representative in the Afghan Parliament (A. Rubin and Rosenberg 2012).

In addition to undermining counternarcotic efforts, the corruption resulting from opium prohibition creates additional problems. Political corruption not only strengthened the Taliban's cartel in the short run, but also undermined attempts by the U.S. government to establish a strong central government and foster long-run economic development. Afghan citizens largely distrust the new national government for a variety of reasons, including the political elite's perceived corruption (Coburn 2010; A. Rubin 2010). This distrust has important implications for development, as indicated by a large literature that examines the impact of trust and corruption on economic growth (see, e.g., Leff 1964; Murphy, Shleifer, and Vishny 1993; Knack and Keefer 1995; Mauro 1995, 2004; Bardhan 1997; Zak and Knack 2001; Drury, Kriekhaus, and Lusztig 2006). The main finding of this literature is that low-trust and high-corruption environments impede economic growth. By contributing to corruption and distrust, U.S. policies toward opium and poppy production helped foster an environment unconducive to economic development while simultaneously empowering the very groups that coalition forces were tasked with defeating.

### *Violence*

The cartelization of the drug industry, combined with the strengthened insurgency, contributed to increased violence against coalition forces. Unfortunately, there are no data on violence or fatalities due solely to drug-related activities. There are, however, data available on the number of hostile fatalities of coalition troops in Afghanistan by month. Of course, care must be used in interpreting these data given that drug activity is by no means the only cause of violence or hostile casualties. That said, there is reason to believe that there is a connection between drug activity and violence against coalition forces.

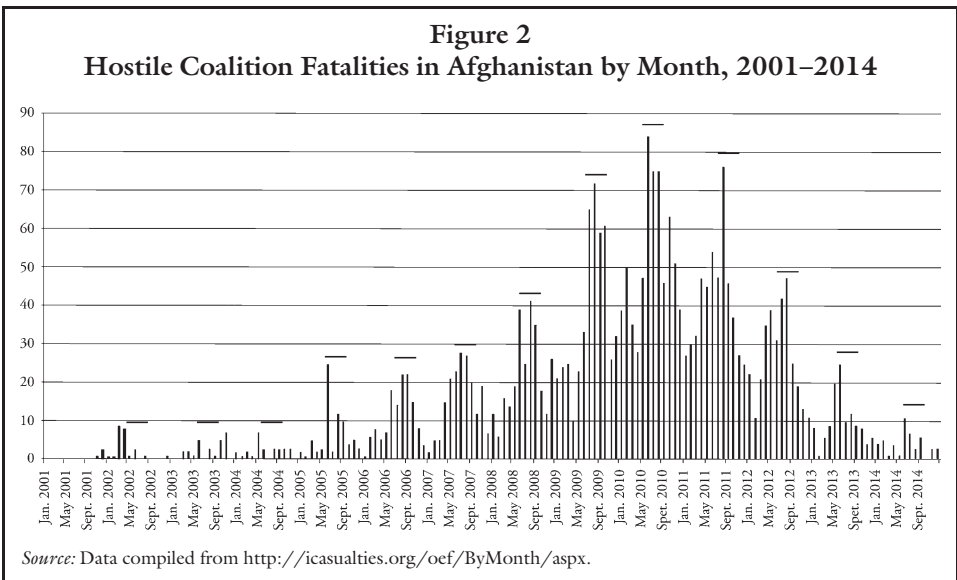
According to the U.S. Department of State, the "opium trade and the insurgency are closely related. Poppy cultivation and insurgent violence are correlated geographically." The department also states that the "UNODC and other major international stakeholders all acknowledge that the Taliban-led insurgency and the Afghan drugs trade are increasingly linked" (2008). Similarly, a separate empirical study of the relationship between the opium trade and domestic terrorist activity in Afghanistan between 1996 and 2008 found that "provinces that produce more opium feature higher levels of terrorist attacks and casualties due to terrorism, and

that opium production is a more robust predictor of terrorism than nearly all other province features” (Piazza 2012, 213). Further, tests for causality suggest that the relationship runs from opium production to violence (Piazza 2012, 230). Melissa Dell (2015), who empirically studies the patterns of violence following increased antinarcotics efforts in Mexico, finds that initiatives to combat drug trafficking lead to increased violence as outside traffickers attempt to secure territory held by incumbent criminals who are weakened by the government’s efforts.

Finally, Clemens (2008, 2013) argues that efforts to reduce poppy cultivation by the coalition forces led to an increase in the resources flowing to the Taliban. Eradication efforts were most successful in cases where the government—both the Afghan government and coalition forces—already had strong control but were least successful in cases where the government had weak control. Through relatively effective interdiction efforts in areas the Afghan government and coalition forces controlled, they perversely reduced the Taliban’s overall competition and thus increased its market power. In doing so, they provided the Taliban with a stronger incentive to maintain control over its territories, using violence where necessary, while providing it with increased resources to do so.

Together, these studies suggest that although drug activity is not the only factor behind violence, it is certainly one key factor. With this relationship in mind, the data shown in figure 2 for the 2001–2014 period can be used to provide some, albeit indirect, insight into the effects of U.S. interdiction policies in Afghanistan.

We would expect violence to be used by those associated with the Taliban to protect the supernormal profits associated with their monopoly control of opium production. April and May are the peak months for harvesting opium poppy. It follows that we should expect to see increases in violence in the harvest season as the Taliban attempts to combat eradication efforts by coalition and Afghan forces



that threaten that season's crop. Further, there historically have been increases in insurgent violence against coalition forces in the summer months immediately following the peak harvest (see Speri 2014). One reason for the increase in violence during the summer months is more favorable weather, which makes it easier to carry out attacks. Another important factor is that as the peak harvesting reaches an end, opium farmers can reallocate their labor away from cultivating crops and toward supporting the Taliban to actively combat the eradication forces, whom they see as a threat, as discussed in previous subsections.

The bold horizontal lines in figure 2 highlight the months of May–August for each year. In most years, the number of hostile coalition fatalities increased during the spring and summer months. Further, the number of hostile fatalities slowly increased over time, peaking in 2010, when the United States eased its hands-on eradication efforts and shifted focus to creating alternative livelihoods for Afghan farmers engaged in opium production. The increase in hostile fatalities in the period of the peak opium harvest and summer months suggests that Afghanistan's insurgency has remained strong and effective in causing violent harm despite the U.S. government's best efforts. This insurgency relies heavily on revenue from the drug trade to fund its activities, meaning that a healthy insurgency implies a healthy drug trade.

## Conclusions

Our analysis has three related implications. The first is that the U.S. policies of drug eradication in Afghanistan have not only failed in achieving their own objectives but also undermined the goals of the war on terror. In creating numerous perverse unintended consequences, the U.S. government's interdiction policies actually strengthened the Taliban insurgency and undercut the broader goals of the occupation. If the goal of prohibition is to hamper the market for illegal drugs and to assist in the war on terror, our analysis suggests that this policy fails on both margins. Counterintuitively, if the goal is to weaken the Taliban in Afghanistan, one policy to consider would be to fully legalize opium and poppy production, which would lower the price of opium, decrease the benefit to using violence, and very likely erode the Taliban's monopoly over the industry. It would also likely reduce opium-related corruption in politics. Some countries, including India and Turkey, have moved from outright prohibition to alternative programs for managing licit and illicit opium with varying degrees of success (Mansfield 2001; Greenfield, Paoli, and Reuter 2009). These experiences may provide insight into the possibilities and limits of legalization in the context of Afghanistan.

Second, beyond Afghanistan, our analysis has implications for similar U.S. domestic and foreign policies related to drug prohibition. In particular, it has implications for the domestic war on drugs and for U.S. policies toward Mexico and other countries throughout Latin America (on these areas, see Carpenter 2012). The United States has historically pursued and advocated aggressive eradication policies both at home and abroad. The insights of our analysis can be similarly applied to these attempts

at drug interdiction. As other scholars have discussed (e.g., Thornton 1991; Miron and Zwiebel 1995; Miron 2003; Becker and Murphy 2013; Boettke, Coyne, and Hall 2013; Redford and Powell 2016), drug prohibition often yields counterproductive results. Our analysis provides another example of the economics of prohibition and, in doing so, helps illustrate some of the dynamics behind the cartelization and drug violence observed in Mexico and other parts of Latin America (as discussed in Carpenter 2012 and Lee 2014).

Third, the Afghanistan experience demonstrates the continuing relevance of both the economics of prohibition and public-choice economics. The failure of the interdiction efforts in Afghanistan were entirely predictable using straightforward economic analysis. What is perhaps more surprising is that policies that ran counter to the insights of the economics of prohibition were undertaken with such vim and vigor for more than decade. Upon closer examination, however, this outcome is not at all shocking because it is exactly what public-choice economics would predict. Government-enacted prohibition creates a series of perverse incentives that lead to undesirable consequences. Political lethargy and dysfunction lead to the persistence of ineffective policies even in the face of clear failure. In the case of Afghanistan, failure has not been just a matter of wasted resources but of empowering and emboldening the very brutal actors—the Taliban—whom the initial intervention sought to weaken and remove from positions of power.

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