

Keeping tabs on drug prices

Gathering meaningful data around the price of drugs is a complex and often misleading exercise. But all the indications are that globally, prices are falling. By **Anthea Martin, Vikki Charles, Luciana Forzisi and Teodora Groshkova**

The quality – the amount and potency – of drug purchases varies greatly from place to place, from time to time, from customer to customer, and even across transactions. This is the case whether a drug is sold by a unit of weight or a currency unit such as the £10 bag. However the weight variation is likely to be more significant for the latter, smaller retail unit. Potency becomes a particular issue when the drug in question is cannabis, since potency is related to variety, which in turn is related to price.

The accuracy of price data is likely to vary, and moreover, it will vary across drugs and regions. It is clear from resources that include the price of both grams and currency units that the cost of a given amount of either drug is significantly higher if bought in bags or rocks than in (fractions of) grams. Disregarding prices of the actual retail units in which users purchase drugs will lead to inflated estimates of the amounts of these drugs consumed and underestimates of expenditure on them.

The quality of purchases also varies over time, and the accuracy of price data varies in line with the delay between its collection and publication. In general, the closer the publication of prices to their collection, the more accurate these are liable to be. However, the precise nature of this relationship will again vary across drugs, since each drug has a market with unique properties. The more rapidly retail prices shift, the greater the significance of the delay between data collection and publication.

Several further interrelated factors impact on the prices paid for illicit drugs. These include the point within the distribution network at which a given drug transaction is made, the quantity of drug involved, and the nature of the relationship between buyer and seller. These factors make the representative sampling of the drug transactions underpinning price measurements crucial to the production of accurate data. Price data will only ever be accurate for a specific and in theory definable set of transactions, buyers and sellers, and markets.

The production of accurate price data is a complex task, and currently the measurement of drug prices is best described as an inexact science.

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Street prices of most illegal drugs have decreased significantly over the last two decades, according to the UN. *Globalization and the price decline of illicit drugs*, published this year by the Center for Economic Studies and Institute for Economic Research focuses on the lowering of prices of heroin and cocaine in Europe and the US since 1990. The authors' main finding is that the decrease in the street prices of drugs is linked to a reduction of more than 50 per cent in the 'intermediation margin' – the difference between the street and producer prices in the drug industry – since 1990. This margin comprises by far the largest part of the street price of a drug.

The study says that globalisation has been a key factor in the reduction of this margin, and more specifically, that it has produced this effect in two ways. The first is the *efficiency effect* of globalisation. A reduction in transport costs and the use of new information technology has greatly improved the efficiency of drug distribution and thereby reduced its cost. The second mechanism is the *risk premium effect*. Globalisation has opened the borders of many countries with a surplus of poor and low skilled workers. The authors suggest that "millions of 'have-nots' who have little to lose" may have been attracted to the drug business by the spectacular intermediation margin it provided, and that the massive entry into the business of transporting and distributing drugs by people who are willing to take risks may explain the decline in the risk premium.

The study concludes with the authors' thoughts on the effects of globalisation on the use of drugs and effectiveness of drug policies. They suggest that the decrease in drug price has contributed to increasing use, and so offset the effects of policies aimed at reducing drug use in major industrial countries.

Moreover, the forces of globalisation have undermined the effectiveness of supply containment policies specifically, and in so doing increased the relative effectiveness of policies aimed at reducing the demand for drugs.

■ *Globalization and the price decline of illicit drugs*, by Costa Storti, Claudia and De Grauwe, Paul (2007), CESifo Working Paper No. 1990. Available at SSRN: <http://ssrn.com/abstract=988036>