FROM MAIZE TO HAZE: AGRICULTURAL SHOCKS AND THE GROWTH OF THE MEXICAN DRUG SECTOR

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Abstract
Understanding how economic incentives affect illegal drug production is essential for crafting policies in response to the international drug trade. Policymakers typically face a choice between two strategies: targeting criminal groups via law enforcement, and offering producers incentives to engage in alternate activities. Yet, little is known about how the returns to alternate legal activities affect drug supply. We contribute to this literature by examining how shocks to legal commodity prices affect the drug trade in Mexico. Our analysis exploits exogenous movements in the Mexican maize price stemming from weather conditions in U.S. maize-growing regions, as well as exports of other major maize producers. Using data on over 2200 municipios spanning 1990-2010, we show that lower prices differentially increased the cultivation of both marijuana and opium poppies in municipios more climatically suited to growing maize. We also find impacts on downstream drug-trade outcomes, including drug cartel operations and killings perpetrated by these groups. Our findings demonstrate that maize price changes contributed to the burgeoning drug trade in Mexico, and point to the violent consequences of an expanding drug sector. (JEL: K420, O13, Q17)

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