THE PROMISE OF CROP SUBSTITUTION PROGRAMS: MAKE AVOCADOS, NOT DRUGS

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Abstract

Crop substitution programs have begun to attract the attention of policymakers eager to stem the production of illegal drugs while supporting the poor rural farmers who cultivate such products. However, drug policy researchers argue that such programs are unlikely to succeed due to "balloon effects", the general equilibrium effects of a reduction in supply increasing production elsewhere. I study the context of Mexico, where the production of illegal drugs is roughly estimated to employ up to 450,000 people.Coupled with panel data on the production of other agricultural crops, I estimate elasticities of crop substitution between illicit and licit crops. I then develop a model to understand what prices would give rise to a substantial reduction of illegal drug production, the potential spillover effects such price shocks would yield, and the resulting general equilibrium effects of such a change on the wages and productivity of workers.

Keywords: Crop substitution programs, two stage constant elasticity of transformation functions, general-equilbrium policy analysis
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