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| <b>Institution:</b> City, University of London (City)   |  |   |
| <b>Unit of Assessment:</b> 16 (Economics and Econometrics)  |  |   |
| <b>Title of case study:</b> Regulating illegal markets: A novel 'mixed-policy' approach to defeating unlawful cannabis dealing and human smuggling.   |  |   |
| <b>Period when the underpinning research was undertaken:</b> 2010-ongoing   |  |   |
| <b>Details of staff conducting the underpinning research from the submitting unit:</b>  |  |   |
| <b>Name(s):</b><br>Dr Alice Mesnard   | <b>Role(s) (e.g. job title):</b><br>Reader | <b>Period(s) employed by submitting HEI:</b> since 2010 |
| <b>Period when the claimed impact occurred:</b> 2014 – ongoing  |  |   |
| <b>Is this case study continued from a case study submitted in 2014?</b> No   |  |   |
| <b>1. Summary of the impact</b> (indicative maximum 100 words)<br><p>Dr Alice Mesnard's research uses a novel market-based economic modelling approach to influence policy making and discourses in two distinct areas: (1) cannabis legalisation and (2) illegal migration. Using laws of supply, demand, and competition, the model was applied to the cannabis market, and in 2019 the French government used Mesnard's research as the basis for a new policy on the legalisation of cannabis, currently being debated by Members of the National Assembly. The model was initially used to design migrant visa schemes, aimed at weakening human smuggling markets. The resulting schemes for permanent visas for highly skilled workers and temporary visas for lower skilled workers are informing policy debates at the Organisation for Economic Co-operation and Development, the UK Home Office, and the World Bank.</p>   |  |   |
| <b>2. Underpinning research</b><br><b>2.1 Background</b><br><p>Dr Mesnard has developed a novel approach to address two complex and controversial policy problems, firstly, migration and human smuggling and, secondly, the (illegal) market for cannabis. The modelling applies economic conventions such as 'supply and demand', 'competition' and 'pricing strategies' to the 'markets' for human smuggling and cannabis. The main novelty of the approach is that it takes into account the competitive response of smugglers to prohibition or legalisation policies, which highlights some drawbacks of past policies and suggests innovative ways forward [3.2-3.6].</p> <b>2.2 Research on human smuggling</b><br><p>Dr Mesnard's background research focuses on the design of migration policies to improve human development and studies the effects of temporary guest-worker programmes on illegal labour markets in destination countries [3.1] and on labour markets in origin countries such as Tunisia, to which she devoted her PhD dissertation. She extended this research in collaboration with Professor Auriol (Toulouse School of Economics), an expert in industrial organisation, to design policies to tackle the large-scale problem of human smuggling – in 2016 it was estimated 2.5 million migrants were smuggled for an economic return of USD5.5 billion (United Nations Office on Drugs and Crime) [3.2].</p> <p>Their market-based theoretical model studies how to regulate the flows of economic migrants by selling visas, while at the same time driving human smugglers out of business [3.2]. They model how smugglers adapt their strategy by offering low-cost services to compete with increased legal channels or by increasing fees in response to enforcement against illegal activities. They identify a policy predicament, which is that <i>either</i> you eliminate smugglers by increasing legal work visas, at the cost of increasing migration, <i>or</i> you restrict flows by enforcing border controls, which fuels smugglers' businesses and fosters criminal cartels. The model demonstrates that through fine-tuning a pricing strategy for permanent visas, prices can be set to both suppress smugglers'</p> |  |   |

activities *and* control the flows of migrants. This combines selling visas at ‘eviction’ prices – driving smugglers out of the market – with increased sanctions against human smuggling and illegal working [3.2]. As a result, high-skilled workers are recruited through legal channels and the policy mix generates revenue through the sale of visas and taxes on employment which can be used to finance enforcement. They applied the model to the long-haul permanent migration of Chinese people to the USA, using secondary data on smugglers’ fees and costs on this route and undocumented workers in the USA. This research [3.2] was funded by the Norface Research Programme on Migration, as part of the TEMPO project [3.7].

Following discussions with the Organisation for Economic Co-operation and Development (OECD) in 2015 on the absence of policy options for low-skilled migrants, Mesnard and Auriol extended their model in collaboration with a jointly supervised PhD student, Tiffanie Perrault (University of Montreal). They designed a low-priced temporary visa scheme to recruit low-skilled workers. Using survey data on smugglers’ fees and costs on the route from Senegal to Europe and on illegal Senegalese workers, they calibrated the model and applied it to this route. The main feature of the extended model [3.3] is that it would meet labour market needs in specific sectors (e.g. social care, construction, hospitality), as identified in most OECD countries. The delivery of temporary visas through this scheme and its enforcement would help address public concerns related to unwillingness to accept more migrants, the permeability of borders to illegal migrants, and the inhumane smuggling market. Currently, Mesnard is part of the interdisciplinary Horizon 2020 MAGYC project [3.9] appraising a range of policy responses to illegal migration and assessing their efficiency for the long-term governance of migration. Empirical findings [3.4] of this project so far are in line with Mesnard’s earlier results [3.2, 3.3], highlighting that agreements that increase visa channels for nationals from third countries are likely to be effective policy instruments to reduce illegal migration to Europe.

### 2.3 Research on the cannabis market

Drug policy internationally can be said to exist on a continuum between prohibition on the one hand, and liberalisation on the other. Mesnard’s research on the cannabis market (with Auriol and Perrault) originates in their critical analysis of the unintended consequences of prohibition policies, which saw increased criminality and higher prices, but no weakening of illegal markets. To resolve this prohibition-legalisation trade-off, they adapted and applied their market-based approach to the regulation of cannabis markets [3.5].

To achieve this, they extended the demand side modelling of risky individual choices to capture behavioural traits which are likely to characterise cannabis consumers. The adapted model is flexible to accommodate consumer distortions in decision making – for example, discounting their probability of being caught or having different risk aversions for gains and losses. It investigates theoretically the different ways legalisation can be implemented to reduce illegal activities and analyses how the objective of defeating crime may conflict with other objectives, such as raising taxes or decreasing cannabis consumption [3.6]. The various trade-offs are then illustrated with the help of calibrations. Using US data on cannabis consumption and price, as well as estimates of price elasticities and production costs of cannabis from previous studies, they simulate different pricing scenarios and combinations of policy instruments [3.5] [3.6]. A key finding from this analysis is that the ‘eviction’ prices predicted to drive illegal dealers out of business are much lower than the prices for legal cannabis in the US states that opted for legalisation, which left room for an illegal market to flourish. The cannabis model shows that increasing sanctions on illegal markets combined with improving the quality of certified products introduced in a new legal market allows a government to charge higher ‘eviction’ prices for legal cannabis, which undermine dealers’ profits and viability, while still controlling cannabis use. Uniquely, this novel policy mix combines elements of prohibition, such as enforced sanctions against the illicit market, and legalisation policies – two approaches usually framed as oppositional – in a market-based approach [3.5] [3.6].

### 3. References to the research (indicative maximum of six references)

- 3.1 Djajic, S. and Mesnard, A. (2015). Guest Workers in the Underground Economy, *Labour Economics*. 35: 53-62. <https://doi.org/10.1016/j.labeco.2015.04.002>

- 3.2** Auriol, E. and Mesnard, A. (2016). Sale of Visas: A Smuggler's Final Song?, *Economica*, 83, 332: 646–678, 2016. <https://doi.org/10.1111/ecca.12204>
- 3.3** Auriol, E., Mesnard, A., and Perrault, T. (2020). Temporary Visas against Smuggling. *Working Paper September 2020*, presented at the IZA, AFD World Bank Conference. Available [here](#).
- 3.4** Jaulin, T., Mesnard, A., Savatic, F., Senne, J.-N., and Thiollet, J. (2020). Externalization Policies and their Impacts on Migrant and Refugee Flows to Europe during the 'Crisis'. A preliminary study. *MAGYC Report*. Available [here](#).
- 3.5** Auriol, E., Mesnard, A., and Perrault, T. (2019). Defeating Crime? An Economic Analysis of Cannabis Legalization Policies. *An Economic Analysis of Cannabis Legalization Policies (June 2019)*. *CEPR Discussion Paper No. DP13814*. Available [here](#).
- 3.6** Auriol, E., Mesnard, A., and Perrault, T. (2020). Weeding out the dealers: The Economics of Cannabis Legalization. *CESifo Working Paper no. 8645*, October 2020. Available [here](#).

Peer reviewed journals (*Labour Economics*, *Economica*) meet the 3\* threshold in ABS ranking or similar. The three working papers and policy report were all peer reviewed prior to publication.

### Grants and Funding

- 3.7** 2010-2014, G. Facchini (University of Nottingham). TEMPO (TEmporary Migration, integration and the role of POlicies) project. Funded by NORFACE (New Opportunities for Research Funding Co-operation Agency in Europe) Research Programme on Migration. EUR2.3 million. Dr Mesnard received EUR20,000 for her visa research.
- 3.8** 2016, A. Mesnard, Center for Global Development (USA), USD5,000. Commissioned article: 'To Control Migration Flows and Defeat Human Smuggling, Sell Visas' **[5.5]**.
- 3.9** 2018-2022: F. Gemenne (Université de Liege, Belgium). MigrAtion Governance and asYlum Crises (MAGYC) project. EU Horizon 2020. EUR3.2 million. Dr Mesnard received EUR25,000 for her research on illegal crossings to Europe.

## 4. Details of the impact

Since the migration "crisis" in 2015, Mesnard has widely disseminated her research through media appearances, policy articles and conferences, meetings with policy makers and other stakeholders, policy blogs, as well as academic routes.

### 4.1 Impact on French government policy on cannabis legalisation

France has a long-standing policy and regulatory problem with cannabis use – it is the most widely consumed drug in the country despite stringent policies criminalising its recreational use. The country is in the process of approving sweeping new policies with respect to legalising cannabis which are strongly influenced and shaped by Mesnard *et al*'s 'mixed-policy' modelling and analysis **[3.5]** **[3.6]**. In this respect, Mesnard's research has led directly to a change in French government policy.

This impact originates in Mesnard and co-authors' presentations at high-level international drug policy and practitioner conferences which led the Conseil d'Analyse Economique (CAE), the independent committee providing economic advice to the French Prime Minister, to commission a policy paper from Auriol, Mesnard and Perrault to identify policy options to legalise recreational cannabis in France. The paper formed the basis of a Note published by the CAE in June 2019 **[5.1]**, setting out policy recommendations on how to organise the legal market for cannabis and set the price for legal cannabis to control consumption. Mesnard's policy paper and simulations were summarised in Box 3 [p.9] of this report and attached to it in full as a Focus **[5.2]**. The report acknowledges the direct influence of Mesnard's work:

"We are then faced with a dilemma between eliminating trafficking or limiting consumption. An innovative policy, which combines targeted repressive measures with a policy of legalization at a predatory price, helps to mitigate this problem. The idea is to redeploy police forces and to use part of the tax revenue generated by legalization to intensify the repression of mafia networks. The simulations conducted as part of this Note suggest a price of 9 euros per gram of herbal cannabis (see Box 3)" **[5.1, p.9]**.

The CAE report was presented to the French Prime Minister and all Secretaries of State, then launched as Government policy in June 2019. The report received wide coverage in the French

media, including the front pages of 30 national newspapers and 9 major regional newspapers in France, as well as international media, such as Reuters and the Huffington Post [5.3]. It was then debated by Members of the French National Assembly, who set up a Parliamentary Commission to inform and consult the public on the options for and implications of legalising cannabis.

The Parliamentary Commission for Economic and Social Affairs met the CAE in July 2019 where the authors of the report explained the research findings and how to set the 'eviction' price based on the research [3.5]. The commission continued to meet during 2020, with some delays due to the pandemic, calling expert evidence to inform their recommendations. The testimonial from the civil servant managing the commission [5.4] confirms the ongoing importance of the research to the government's legalisation policy and that Mesnard will give evidence to the commission based on her latest research [3.6] on how to implement a legal cannabis market in France. Subsequently Mesnard has accepted an invitation to appear before the commission on 10 February 2021.

#### 4.2 Impacts on the international migration debate

Migration policy-making and regulation is difficult and challenging, highly politically sensitive, and involves complex and inter-relating factors. For wider society, controlling borders, illegal migration, and the criminal activity of human smugglers are of intense public interest and debate. In this contested arena, Mesnard has actively promoted the mixed-policy, 'market' based proposals of the research [3.2] [3.3] and is having impact by informing policy debates in three areas: (1) the Organisation for Economic Co-operation and Development's (OECD) work on migration, (2) the UK's new post-Brexit immigration policy, and (3) shaping and influencing thinking on migration and human smuggling more widely.

The OECD is the international organisation for evidence-based standards and policies. Working in 100 countries, its global reach means OECD member and partner countries represent about 80% of world trade and investment. The OECD's work on migration responds to the dynamic international situation through publications, analyses, and policy briefs looking at possible responses to structural drivers and geopolitical shocks. In 2015 Mesnard presented her research [3.2] to the OECD's migration specialists. It was reviewed alongside other policy options in an OECD report "Can we put an end to human smuggling?" (December 2015), which synthesised available evidence and reviewed policy tools. It emphasised the need to undermine the business model of smugglers and discussed Mesnard's high-priced permanent visa proposal in a prominent position [5.5, p.11]. The report identified a gap in policy options for low-skilled temporary migrants, which Mesnard and co-authors addressed in the recent extension of their research on temporary visas [3.3]. Publication of the OECD report, at the height of the European "migrant crisis", meant Mesnard's research was covered extensively in the media in Europe, Africa, and the USA, with Mesnard participating in radio and TV debates, and presenting the research to the Commission for the Study of the European Communities (CEDECE).

Mesnard's second strand of impact in this arena involves her contribution to discussions on the UK's post-Brexit immigration policy. After her appearance in a public debate about the ethics of the permanent and temporary visa proposals at the University of Louvain (Belgium) in late 2018, she was invited by the Chief Economist of the UK Home Office to present her permanent and temporary visa research to analytical and policy officials. The Chief Economist chaired the seminar (January 2020) and wrote afterwards:

"In the context of a new Government and leaving the European Union, we are currently reviewing key components of the UK's immigration system. Dr Mesnard's research on the human smuggling market has contributed to this important policy debate. We hope to hear from Dr Mesnard again as her work in this important field progresses". [5.6]

As the UK government published its post-Brexit immigration policy in May 2020, Mesnard presented her permanent and temporary visa proposals at meetings with the Confederation of British Industry and other stakeholders. They were positively received as a way of addressing labour shortages in certain sectors and further discussions are planned ahead of the expected policy review in 2022.

Thirdly, the permanent and temporary visa research and mixed-policy proposals have shaped and influenced policy discussions on migration and human smuggling more widely. In 2015, Mesnard



was appointed as Visiting Fellow by the Center for Global Development (CGD) a leading US-based development think tank and commissioned to write a policy paper [3.8] on her permanent visa proposals [5.7]. The proposals also featured in a World Bank publication (2019) on policies for attracting labour and dealing with the repercussions in both origin and destination countries [5.8, p.55]; a Mercator Dialogue on Asylum and Migration (a European research-policy coalition) paper (2019, p.2) on replacing irregular migration across the Mediterranean [5.9]; and an Open Society Foundation (the world's largest private funder) publication on regularising illegal immigrants in Poland (2020) [5.10, p.3]. In September 2020, Mesnard presented the visa proposals [3.3] to the World Bank/ IZA/ French Agency for Development Conference on Migration and Development. She continues to promote her mixed-policy proposals to policy and practitioner audiences through events and invited meetings, thereby extending awareness of new ideas to resolve these challenging problems.

#### 5. Sources to corroborate the impact (indicative maximum of 10 references)

- 5.1 Policy Report of the French Council of Economic Analysis 52, June 2019: "Cannabis: How can they take back Control?" Available at: <http://www.cae-eco.fr/staticfiles/pdf/cae-note052-env2.pdf>
- 5.2 Auriol E., Mesnard A., and Perrault, T. (2019). *En finir avec les dealers: à quel prix?* Focus du CAE, no. 33-2019. Available at <http://www.cae-eco.fr/Focus-no-33-En-finir-avec-les-dealers-a-quel-prix-476>
- 5.3 French Council of Economic Analysis (2019). *Review of media coverage of CAE report 52* 20.06.19.
- 5.4 Testimonial from Head of Division for the Public Finance Department in the French National Assembly. 07.12.20.
- 5.5 Organisation for Economic Co-operation and Development (2015). "Can we put an end to human Smuggling?" Migration Policy debates. Available at: <https://www.oecd.org/migration/Can%20we%20put%20an%20end%20to%20human%20smuggling.pdf>
- 5.6 Testimonial from the Chief Economist of the UK Home Office. 27.01.20.
- 5.7 Mesnard A and Auriol E. (2016). "To Control Migration Flows and Defeat Human Smuggling, Sell Visas". CGD Policy Paper 090. Washington, DC: Center for Global Development. Available at: <http://www.cgdev.org/publication/control-migration-flows-and-defeat-human-smuggling-sell-visas>.
- 5.8 World Bank (2019). 'Migration and Brain Drain', ECA Economic Update, Fall 2019. Available at: <https://openknowledge.worldbank.org/handle/10986/32481>
- 5.9 Mercator Dialogue on Asylum and Migration (2019). 'Can regular replace irregular migration across the Mediterranean?' Available at: [https://www.medam-migration.eu/fileadmin/Dateiverwaltung/MEDAM-Webseite/Publications/Policy\\_Papers/CEPS\\_Project\\_Report/CEPS\\_Jun19\\_Substitution\\_regular\\_irregular.pdf](https://www.medam-migration.eu/fileadmin/Dateiverwaltung/MEDAM-Webseite/Publications/Policy_Papers/CEPS_Project_Report/CEPS_Jun19_Substitution_regular_irregular.pdf)
- 5.10 Open Society Foundation (2020). "'More Legal Migration Will Stem Irregular Arrivals'" – Does This Assumption Hold True?', European Policy Institute. Available at: <https://www.opensocietyfoundations.org/publications/more-legal-migration-will-stem-irregular-arrivalsdoes-this-assumption-hold-true>