

How does the illicit economy function within capitalist system

In the era of globalization, where goods and workers move across the world easily, illicit economy functions side by side within the Capitalist system. The globalization allows the national rules and regulations to be flexible for trades. This is suitable atmosphere for organized criminals to operate their illegal market since most countries fail to build strong surveillance against it due to high cost.

One of the notable sources of Illicit economies is drugs, and surprisingly, the US and Russia, the two major powers of the world, are facing the worst addiction crisis (World Population Review, 2024). Other crimes, related to illicit economies are drug trafficking and farming, sexual crimes, corruption, trafficking, including firearms, humans, wildlife (UNODC Research, 2025). Stealing oils from the pipelines is also a notable crime of this nature. Thieves steal oils from pipelines to gain illegal profit, as happened in Nigeria. (Reuters, 2023). Apart from this, Money laundering is another well practiced example of illicit economy. Corruption plays a major part in it. Despite banning by legal authorities, The Capitalist system actually earns profits from illicit economy. Some OECD developed countries had 1.33 percent of GDP from money laundering in the year 1997, which was increased to 1.74 percent in 2006 (Storti. C., et al, 2012).

The Capitalist system continuously advertises and inspires people to consume more and more. Although gambling is illegal in it, but there is demand for gambling, and consumers find alternative illegal ways to meet their needs. Apart from gambling, the situation is the same in case of prostitution, pornography, and other illegal sectors. (Bell. D, 1953).

Contradiction of Capitalism

The illicit economy is embedded within the system of capitalism due to its characteristics and functioning methods; as long as capitalism exists, the illicit economy seems to exist as well. Capitalism is designed to make profits only. The constant competition, monopolization, advancement of technology is pushing the majority of people towards economic marginalization. On the other hand, people within the system are told to consume whether products are needed or not. However, there are strict rules, regulations, which are to be followed to consume these products legally. The high prices which are set by governments, and business institutions are also a big obstacle to consuming those products. Therefore, there is a huge difference between supply and demand. To address this 'supply and demand' difference within the Capitalist system, therefore, the illicit economy arises, exists, and grows side by side with the Capitalist system. The products that are banned can be found in the black market, such as drugs, pornography, prostitution, etc. Another aspect is that the capitalism system even makes profits from the illicit economy, because the illicit money at the end of the day goes to banks to legalize the source, and later this money is invested in various legal sectors, such as real estate, through banks. For example, TD Bank recently pleaded guilty for failing to check the anti-money laundering system (Sun. M, 2025).

So, on one side, Capitalism is making profit, but on the other side, it is making rules to ban the illicit economy. therefore, this is the contradiction of the Capitalism system, where illicit economy is also a byproduct of this contradiction.

Impacts of Illicit economy

The illicit economy is controlled by organized criminals. For example, what happened in Afghanistan, a few years back, where villagers of Kandahar were caught in trading opium by the government. The US-backed government tried to seize the illegal poppy fields and opium stocks, but the Taliban helped the villagers by killing the police force, so that the villagers can continue their illegal economic activities. After that, villagers accepted the leadership of the Taliban. This is how, capitalism, illicit economy, and organized crime are interrelated among each other (Brown.V, 2017). It also signifies that state power is weakened when organized crime and illicit economy are practiced in a locality (Heuser. C, 2019).

The illicit economy even has the power to control state power as the corrupt politicians gain power with the help of organized criminals and their illegal cash, which eventually weakens the state organs and democracy. (Brown.V, 2017). It also competes with the legal market. Failing to control illicit economy not only will weak state organs, good governance but also will destroy the environmental balance. (Sammon A, 2023, P-46). Inequality will create more crimes and instability in society. As a whole, the result or illicit economy is poverty, corruption, anarchy, environmental disaster.

Reference

1. Bell. Daniel, (1953), 'Crime as an American Way of Life', 'The Antioch Review, Summer, Vol. 13, No.2, pp-131-154, published by 'Antioch Review'.
2. Brown. Vanda Felbab, (2017) 'Organized Crime, Illicit Economies, Civil Violence & International Order: More Complex Than You Think', 'Daedalus',146 (4): 98–111.
doi: https://doi.org/10.1162/DAED_a_00462
3. Claudia Costa Storti, & Paul De Grauwe. (2012). Illicit Trade and the Global Economy. The MIT Press.
4. Heuser. Christoph, (2019), 'The effect of Illicit Economies in the Margins of the State-The VRAEM', 'journal of Illicit economies and Development', 1(1), 23-36.
<https://doi.org/10.31389/jied.7>
5. Reuters (August 15, 2023), 'Nigeria's NNPC destroys dozens of illicit refineries, oil pipeline connections',
<https://www.reuters.com/article/markets/commodities/nigerias-nnpc-destroys-dozens-of-illicit-refineries-oil-pipeline-connections-idUSL8N39W4QI/>
6. Sammon Alexander (2023), 'Forbidden Fruit, The anti-avocado militias of Michoacan', Harper's Magazine.
7. Storti. Claudia Costa, & Grauwe. Paul De (2012), 'Illicit Trade and the Global Economy', The MIT Press.
8. Sun Mengqi (2025), 'Monitor appointed in TD Bank \$3 Billion Anti-Money-Laundering Settlement' 'The Wall Street Journal', Accessed on 5 March, 2005, at
<https://www.wsj.com/articles/monitor-appointed-in-td-bank-3-billion-anti-money-laundering-settlement-fa511919>

9. United Nations Office on Drugs and Crime, Research, (2025)

<https://dataunodc.un.org/>

10. World Population Review', 'Drug Use by Country 2024',

<https://worldpopulationreview.com/country-rankings/drug-use-by-country>