Thank you. It’s an honor to be here. I want to thank my old colleague, Joe Nye, for inviting me.

I have to apologize, I’m going to be using my notes, because I was given 12 minutes to summarize a career, and if I’m going to stay within that time frame, I’m going to have to make it move.

I should just say, in response to the introduction, that there actually was, back in 1997, a set of somewhat subtle and well-articulated views about drug policy. Those views simply could not be heard in the debate between the legalizers and the drug warriors, and that is substantially true today.

Austan Goolsbee reminded us earlier that the primary question for economists is “Compared to what?” The other great maxim of economics is that there's no such thing as a free lunch. So my sad task today is to tell you that there’s no free lunch in drug policy.

Let me start where I agree with the critics of current policies: the war on drugs as currently prosecuted.

The rhetoric has changed. The U.S. Government no longer talks about a war on drugs, though I think the Russian Government still does. But the United States has half a million people behind bars, right now, for drug law offenses. The Federal Government has about 100,000 of those. More than half of all federal prisoners are serving time for drug offenses.

While the rhetoric of the war on drugs has changed, nobody at the federal level, including our esteemed Drug Czar, has dared to say, “That's too many people behind bars for drug dealing; we should have fewer drug prisoners.” So the war is in full force, even if it is not being called that, and it has lots of bad consequences: We have huge criminal enterprises; we have violence; and we have mass incarceration. The U.S. has more people behind bars per capita for drug offenses than any other G20
country has per capita for all crimes combined. The U.S. has about 750 per 100,000 of its population behind bars. That's five times the level of any civilized country. And again, about a fifth of that is drug law enforcement. So if you took the entire per capita incarceration rate of European countries, we're above that for drugs alone. By most reasonable measures, the cost of drug prohibition and enforcement exceeds the cost inflicted by the use of the currently illicit drugs. (I want you to note that restrictive clause, the *currently illicit* drugs.)

That seems to many people to suggest that the policies must be wrong. If the policies are doing more damage than the problem, then there's a free lunch available in the form of ending the drug war, legalizing, getting rid of all those horrible costs. On this view, all we'd be left with is the cost of drug abuse, which is smaller.

But I want to suggest that there’s something wrong with that analysis. The low level of substance-related damage – substance abuse, dependency, overdose, other health costs, damaged education, damage to families – the low level of all of that from the currently illicit drugs is partly an artifact of prohibition. The currently illicit drugs are not doing very much damage because they’re not very widely used.

The evidence for that claim comes from the one addictive intoxicant that we don't prohibit: alcohol. Now, we were offered alcohol at lunch and no fistfights broke out. Most people who use alcohol, most of the time they use it, take no damage from it and inflict none on others. But some people use alcohol badly, or it uses them badly. The damage done by alcohol massively exceeds all of the damage done by all of the illicit drugs and the drug war combined.

People are used to alcohol, they don't regard it as the problem that it is. But, let me just give you the list. About 80,000 people die each year from the biological effects of heavy drinking. Only a little of that is acute overdose; it’s mostly chronic deaths, heart attack and so on.

Add to that the huge damage from fetal alcohol exposure. I was just at a National Academy meeting where a child psychiatrist quoted a study from Canada, looking at prisoners in Canadian prisons, 19 out of 20 – 95 percent of them – had been exposed to alcohol *in utero*. They, and the victims of their crimes, are the victims of their mothers' drug abuse. Add to that dependency; there are more alcohol abusers than users of all illicit drugs combined. Add to that violence: barroom brawling, domestic violence, about half of all murders. Add to that suicides and accidents. All told, that comes to about 100,000 deaths a year from alcohol abuse in the U.S. alone.

Now, the anti-prohibition movement, the peace movement in the drug war, would like to convince you, and has convinced lots of people (including, as far as I can tell, virtually the entire press corps) that the only alternative to the war on drugs is legalization. In doing so, the anti-prohibitionists are sometimes rather slippery about what drugs ought to be legalized. The trick is to say, well, cannabis is
sort of harmless, surely we could legalize that. And the drug war is causing enormous catastrophes, particularly in source and transit countries, such as Mexico, so therefore we should legalize.

But wait a minute. Cannabis, which is not a very damaging drug, even to those who abuse it, accounts for a tiny fraction of all those terrible things about the drug war. Half a million people are behind bars in the U.S. for drug dealing, but only 40,000 of them were dealing cannabis. The other 90-something percent are heroin, cocaine, methamphetamine.

It’s hard to parse out Mexican drug violence by drug type, but of the drug export revenues of the major drug trafficking organizations—not counting their domestic Mexican drug dealing revenues, or their revenues from kidnaping, extortion, theft of oil from Pemex, and so on—of their drug export revenues, about 20 percent is cannabis. 20 percent isn’t zero; legalizing cannabis would somewhat reduce the bad guys’ revenues. But it wouldn’t destroy Los Zetas.

Cannabis is a reasonably legalizable drug, but the benefits of legalization are limited because the costs of prohibition are limited. The issues with the other drugs are quite distinct. And in fact, there is no proposal on the table to legalize the sale of cocaine or heroin or methamphetamine that would reasonably be expected not to hugely increase the number of abusers of those drugs. No free lunch.

Even legalizing cannabis, which I think is probably a good idea under some circumstances, is by no means without risks. About ten percent of the people who use cannabis at all wind up abusing it: spending some months or years with their lives seriously impaired by their cannabis use. Right now, surveys show about three million Americans would say “My cannabis use is seriously interfering with my life.” Cannabis is a much bigger problem, of course, if it's used by juveniles. The median age at first use of cannabis in the U.S. is now median 16.

So, even cannabis legalization is not completely harmless. But the others are much worse, cocaine in particular. Cocaine is usually used in combination with alcohol, and that's an extremely dangerous combination, both to the person who uses it and to the people around him in terms of violence.

So, there's my discouraging opening. No, there is not a freebie, where we can just legalize the drugs, get rid of the drug war, and not have a big drug problem. That's not on the table.

Now, the good news is that there are lots of ways of reducing the social damage done by drug abuse, drug dealing, drug enforcement, drug-related violence, drug-related incarceration, that don't involve legalization.

We could reduce the penalties on drug users. That's sometimes called “decriminalization.” Portugal's done that with no obvious big increase in drug consumption. If penalties against users don't substantially affect consumption rates, then changing them wouldn't much change the drug problem, but it would matter a lot to the people who are now being arrested and getting criminal records. So those penalties don't matter much to the markets, but they matter a lot to the users.
What else could we do? We could reconfigure drug law enforcement. This is crucial in the Mexican case, and Alejandro will have much to say about this.

Drug law enforcement is now intended – and this is the official ideology of the world-wide drug control regime – to reduce the flows of illicit drugs, especially from country to country.

That is an incoherent task. Drug enforcement mostly can't do that. These are markets with multiple players, who can be, and are, replaced if taken down by enforcement. The drugs can be replaced; the dealers can be replaced; the organizations can be replaced. The illicit markets adapt very rapidly to changes in enforcement.

Prohibition reduces drug abuse by making the prohibited drugs more expensive and harder and riskier to acquire. But adding a lot of enforcement on top of prohibition doesn't reduce drug abuse by much more. We ought to reconfigure our drug law enforcement to aim at minimizing violence and other social side effects of dealing, not imagine that we could do public health's job of reducing drug abuse by arresting drug dealers.

And we can create disincentives for violence in the drug trade by focusing our drug enforcement on the violent drug dealers. Right now, enforcement generates incentives for violence. The gain from being the most violent organization goes up as the level of enforcement goes up, because violence is one way to discourage people from testifying against you, to discourage police officers from arresting you.

If we make violence the cause of becoming an enforcement target rather than a way of avoiding enforcement, we can change the incentives in the markets. And there's no evidence that the people in those markets aren't rational enough to respond to incentives.

In Mexico, in particular, judicial and police reform could make a substantial difference to the capacity of the Mexican Government to discourage violence by drug trafficking organizations.

(Viridiana Rios, who just finished her Ph.D. at Harvard and is now working for the Mexican Teasury, has a wonderful book, which will come out soon, I hope, about the impact of the democratization of Mexican and the abolition of essentially a unified Mexican government on the incentives facing both enforcement agents and drug dealers, and is a possible explanation for the increase in violence.)

We could also use the community correction system, probation and parole, in the consumer countries to substantially suppress the volume of drug abuse. Most users even of very dangerous illicit drugs use a little bit of them and take no damage from them. Most cocaine users are casual cocaine users. Most heroin users are casual heroin users. But as with alcohol, the minority, who are very heavy frequent users, account for most of the product. Pareto's Law applies everywhere; twenty percent of the users account for 80 percent of the volume. That's true of alcohol, for example. Eighty percent of the alcohol consumed in the U.S. is consumed by people who drink too much. So when the booze industry tells you
they're in favor of responsible drinking, they mean they're planning to go out of business, because it's not responsible drinking that built those breweries.

A lot of the people who are abusers, – not just users – of the illicit drugs, get arrested frequently: not for drug possession, but for the crimes they committed to get the money for the drugs. If they're on probation or parole, you can use drug testing and the threat of immediate and certain, but mild, sanctions to make them stop.

In the Hawaii HOPE experiment, 80 percent of a group of heavy duty long-term methamphetamine users were clean and free on the street at one year. Even a very good drug treatment program might have gotten 18 percent of that group clean. And since that group accounts for most of the heavy users, who account for most of the volume, if we did that to all of the offenders in the U.S. we could shrink the markets by removing the best customers. That wouldn’t even be expensive; in fact, it would actually save money because people on swift-and-certain sanctions programs wind up not going to prison because when they stop using drugs they drastically reduce their risks of rearrest and revocation.

So, by doing something that would save money and reduce our prison population and reduce our crime rate, we could reduce the flow of hard drugs from Mexico into the U.S. by more than 50 percent. That's the single best thing the U.S. could do for the Mexican drug violence problem. And it doesn't involve legalizing anything.

Finally, we could reduce the two most damaging forms of drug abuse with higher taxes and tighter regulations. In the U.S, tobacco kills 400,000 people a year. Alcohol kills 100,000 people a year. All the illicit drugs combined kill 20,000 people a year.

Alcohol and tobacco consumption are very sensitive to price. Phil Cook at Duke estimates that if we tripled the federal alcohol tax, by taking the cost of a beer from about a dollar to about $1.20, we would prevent 600 homicides, 1,000 automobile accidents, and 2,000 suicides a year in the U.S. No SWAT raids breaking down anybody's door. Nobody in prison, no illicit enterprise, just a modest increase in the price of a commodity with big social costs. The same thing is true for tobacco: higher taxes (and better enforcement of the taxes we have) would reduce drug abuse and protect health while increasing revenues.

So, there's no free lunch. We can't win the drug war. We can't reasonably un-prohibit most of the drugs we're currently prohibiting. We can't solve the drug problem, because the drug problem is not the sort of thing that can be solved. It's simply a fact about human beings and the way they react to particular chemicals. We could greatly reduce the damage done by drug abuse, drug dealing, and drug law enforcement, and that seems, to me, a sufficient objective to keep us energized. Thanks.