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LEGAL MARIJUANA?
NEW DOMESTIC AND INTERNATIONAL INITIATIVES CHALLENGE THE STATUS QUO

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PARTICIPANTS:

Welcome and Overview:

JONATHAN RAUCH
Guest Scholar
The Brookings Institution

Moderator:

JOHN WALSH
Senior Associate
Washington Office on Latin American (WOLA)

Panelists:

JONATHAN P. CAULKINS
Steuer Professor of Operations Research and Public Policy
Carnegie Mellon University

MARK A.R. KLEIMAN
Professor of Public Policy
University of California, Los Angeles

BEAU KILMER
Co-Director, Drug Policy Research Center
Rand Corporation

ALEJANDRO MADRAZO
Professor, Judicial Studies
Centro de Investigación y Docencia Económicas (CIDE)

Discussant:

THOMAS SCHELLING
Nobel Laureate and Distinguished University Professor Emeritus
University of Maryland

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P R O C E E D I N G S

MR. RAUCH: Good afternoon. Thanks to all of you for coming to Brookings. My name is Jonathan Rauch. I'm a guest scholar in Governance Studies.

I am not a scholar of drug policy, but I did have the good fortune to be asked by a publication in last December for one prediction for 2012, and mine was that marijuana would be legalized in at least one state. That may, in fact, actually happen. It didn't seem as close as I thought, as it turned out to be, at the time. We're here to talk about marijuana policy, which deserves a lot more discussion than it gets.

We're also here to commemorate and celebrate the publication of an outstanding new book from Oxford University Press, three of whose authors are here today, everything you want to know about marijuana in one place, smart and reliable. It shoots right down the middle. My job is to give just a minute or two of context for the debate and explain why I think this is an extremely timely session today.

Marijuana has been, as many of you know, federally prohibited in 1937. Some of you probably also know that arrests have doubled over the past 20 years, but still, apparently, not enough to have any increased deterrent value at all. In 2008, more than 40 percent of high school seniors had used marijuana at some point, exactly the same number as in 1995.

I am a participant in the gay marriage debate. I'm a supporter. And we tend to notice a pattern where the country is far, far away from change, then approaches something that starts to look like a tipping point, and then you can see change very quickly. We may be at such a moment right now. Here are a few things that have happened recently.

November of 2010, California's Proposition 19, which would have legalized marijuana, fails, but draws 46 percent of the vote, a very large number.

Summer of 2011, Barney Frank and Ron Paul, an odd couple if ever there was one, both members of Congress -- one R, one D -- introduce a federal legalization bill. Another taboo is broken.

October of 2011, one month later, for the first time Gallup finds support for legalization reaching 50 percent in the Gallup Poll versus only 48 percent for continued prohibition. That's a big first. Incidentally, gay marriage hit that number in as recently as 2009 -- and look where we are today.

June of 2012, Uruguay's president announces a proposal for a state-controlled, legally regulated cannabis market.

November of 2012, that would be for those of you not watching the calendar next month -- (Laughter) -- three states now have initiatives on the ballot to legalize marijuana: Colorado, Oregon, and Washington. We'll hear some discussion of that today, but the smart money is that if you multiply the odds, chances are at least one of these will pass. We may be at the same kind of turning point in the conversation that we're seeing on gay marriage, where things could begin to happen very quickly. So our session becomes very important.

At every Washington function the introducer says we could not possibly have a better panel, but I'm going to say it because it's true, we really couldn't. Our moderator today and convener is John Walsh, who coordinates the Washington Office on Latin America's Drug Policy Program since 2003, and has established the office as a key voice in the growing movement to make human rights and harm reduction central concerns of drug policy.

We have three of the four authors of the book with us today. John Caulkins is professor of public policy at the Heinz School of Carnegie Mellon University. Beau Kilmer is a senior policy research at the Rand Corporation, where he co-directs the Rand Drug

Policy Research Center. He has a doctorate from Harvard University. Mark Kleiman is a distinguished criminologist, professor of public policy at the UCLA Luskin School of Public Affairs. He also blogs for the Reality-Based Community, which you'll find at samefacts.org. We have a voice from south of the border, which as all of you know is an extremely important place in this debate.

Alejandro Madrazo is a law professor at CIDE University in Mexico, where he heads the Right to Health Project. He also has a law degree from Yale, but no one is perfect. (Laughter)

Finally Thomas Schelling, talk about last but not least, we're very honored to have with us Thomas Schelling, distinguished professor of economics at the University of Maryland. You may have heard of him. He won the Nobel Prize for Economics in 2005 for his landmark work on conflict, cooperation, and game theory analysis.

With that, I will turn the floor over the John Walsh and our participants. And thank you all again for being here. (Applause)

MR. WALSH: Well, thank you, Jonathan. And I am John Walsh with WOLA. And I just want to say a few words about WOLA. For those of you unfamiliar with us, we are an independent nonprofit organization. We promote human rights, democracy, and social justice, working with partners in Latin American and Caribbean.

I also want to say we're not neutral on today's topic. And at the risk of oversimplifying I just want to tell you how we see things. Drugs can obviously be harmful, but our policies meant to control drugs can also cause terrible damage. So the task for policy, as we see it, is to try to minimize both of those sets of harms and that tradeoffs are inevitable, no matter which approach is chosen.

We also recognize that different drugs may merit different policies. In our view, for example, we think marijuana prohibition in particular was a historic mistake and a

legal, regulated market would offer a better -- not risk free, but a better -- approach for marijuana. The details of the regulatory design and, as important, the broader political, institutional, and social contexts in which that design fits matter immensely.

So, we're encouraged about the growing debate over marijuana policy, both here domestically and abroad. And we're very excited to be able to collaborate on this event today with Brookings' Governance Studies.

On that note, I especially want to thank Brookings' Darrell West -- I'm not sure he's here today -- and Anna Goodbaum for actually making this event possible. Also note that we will miss Brookings' own Vanda Felbab-Brown, who would be on the panel with us if she were not traveling.

So, to our program, you can read more in your packets about the impressive speakers that Jonathan already mentioned. I'll simply tell you the order in which they'll be speaking and the format for our discussion. The three authors of *Marijuana Legalization: What Everyone Needs to Know* will lead off: UCLA's Mark Kleiman followed by Rand's Beau Kilmer, and then Carnegie Mellon's John Caulkins. They'll be followed by Alejandro Madrazo of CIDE. And finally, again, last but definitely not least, Nobel Laureate Tom Schelling of University of Maryland will offer his reflections on the presentations and the topic in general.

After discussion among the panelists, we'll open it to question-and-answer.

Just two more notes before I hand it to Mark then, our panel originally included our colleague Martin Jelsma of the Transnational Institute in Amsterdam. As it happens, Martin is this week in Montevideo, Uruguay, as the legislature there debates the government's proposal to legalize marijuana nationally. My colleague, Coletta Youngers at WOLA, will be in Uruguay later this month, so we'll be watching that closely and stay tuned.

Finally, before I turn to Mark, I'd like to call your attention to one sentence in

particular in the introduction to the book that I think provides a proper spirit for the discussion that we're going to have today. And the authors are admirably candid about the limits to their own knowledge on this topic, writing, "What we know is only a fraction of what is known, let alone the vast amount that remains unknown."

So on that note, Mark, you're up. (Applause)

MR. KLEIMAN: Thank you, John. It's always nice to be introduced as the exemplar of ignorance. (Laughter) And I want to thank both WOLA and Brookings for setting this up and all of you for coming out. And I really want to thank Jonathan Rauch for that very kind introduction. Only on one point would dissent: this could be a better panel if Angela Hawken could have come in from Pepperdine, but she's teaching today.

But the four of us have been thinking long and hard about the question of marijuana legalization, and I now have a very few minutes to summarize some of that thinking before I turn it over to John and Beau for the meat the presentation. And I'm going to really echo what John said, the U.S. has a drug abuse problem. We have an illicit market problem. We have a predatory crime problem. And we have an incarceration problem. They're all related, but they're not identical. And it's not the case that the correct policy to deal with one is going to be optimal for another.

Drug prohibition of whichever drug we're going to discuss, but in the case it's cannabis, is designed to reduce drug abuse by making the prohibited drugs harder to acquire and more expensive, and saddling their users with both legal risk and social stigma. And a comparison of the statistics on, say, cannabis use with the statistics on alcohol use, the one licit addictive intoxicant, suggests that those prohibition policies are at least partially effective. But prohibition creates the illicit market problem and worsens the crime and incarceration problems. So, as John said, there are tradeoffs.

Legalization of all drugs is a proposal with some elite support, especially in

law faculties and economics departments, but little public support and zero short-term prospect for action. Legalization of cannabis is a different question entirely. Seventeen states permit the medical use of marijuana and some of them, including California, allow massive open distribution virtually to all comers under medical or quasi-medical auspices. There is now substantial public support for full legalization -- 50 percent of the Gallup Poll, over 50 percent in a recent Rasmussen Poll -- where legalization means allowing production and sale for other than medical use, through whether the respondents to the polls are fully aware of the distinctions here isn't clear. A number of my students at UVA where I'm teaching this term, when I asked them are you for legalization of marijuana, they say, oh, yes. And then it turns out they're for decriminalization, that is to say not arresting and punishing users, which is a different policy.

So as noted, there are three referenda on the ballot this fall, and Washington seems more likely than not to pass. Colorado seems like a toss-up. Oregon is a joke. But, yeah, it's more likely than not that at least one of them will pass.

Now, legalization sounds as if it must be a yes-no question. Do you want to legalize or not? But the details matter, both the details of how prohibition is carried out and the details of legal availability if prohibition is done away with. That is what taxes and regulations would define the newly legal market? And John will spend some time on that.

But it's also worth noting that it would be possible without changing any laws to greatly reduce the cost of prohibition. We could cut back on enforcement and incarceration and/or we could adopt targeted enforcement strategies that aim not at reducing the flow of drugs, but reducing the violence and disorder that come from the illicit markets. That's the effective policy in most urban areas about commercial sex. It's prohibited in principle, but in fact the enforcement is designed mostly at protecting neighborhoods, not protecting the exchange of money for sexual services.

Conversely, the risk that legalization would lead to massively increased consumption could be buffered by taxes and regulations on a licit market, tough, of course, those taxes would need to be collected and those regulations would need to be enforced. If they're binding at all, they set up incentives for evasion, and that means that legalization would entirely break the link between the criminal justice system and drug abuse control.

There are more arrests every year in the United States for breaking the alcohol laws -- driving under the influence, sales to minors, drunkenness in public -- than for all of the controlled substances violations combined. So it's not the case that we can get the law out of the drug abuse problem and make it a purely public health problem simply by moving to regulation unless the regulations are so trivial that nobody bothers to evade them.

So, the question of whether to legalize is not the be-all and end-all of drug policy. And the right answer to that question, and the subordinate questions about either how to enforce prohibition or how to tax and regulate legal availability, are unlikely to be the same at all times and all places or for all drugs. And that was the point that John made, cannabis is different from most of the other currently prohibited drugs.

Marijuana legalization is strongly supported and strongly opposed as a first step to legalizing everything. And I can speak for my co-authors in saying we don't think that's sound logic. We don't think it's sound political analysis. Cannabis legalization deserves to be discussed on its own merits.

In some ways, it would constitute a massive change in drug policy. A good share of the 30 million Americans who break the law every year by using cannabis use no other illicit drug and commit no predatory crime. That's a large number of people to be moving back on to the right side of the law. And the 800,000 arrests a year for simple possession of marijuana outnumber all other drug law arrests combined. For some of these people -- we actually don't know how many -- that possession arrest is their first arrest, their

first experience of handcuffs and a jail cell.

The cannabis market at approximately \$15 billion a year isn't as large as the cocaine market, but it's larger than the heroin market or the methamphetamine market. That's a lot of money to be able to take away from criminals simply by moving something from the illegal to the legal side of the ledger. In other ways legalization of marijuana would be a smaller change than legalization of other drugs. Cannabis plays a small role in predatory crime by users, a small role in violence against and among dealers, and a small role in drug-related incarceration. If marijuana had always been legal, 90 percent of the people behind American bars for drug law violations would still be there because they're being punished for some other drug.

For most potential users, illegal marijuana is much easier to acquire than cocaine or heroin or methamphetamine. So the immediate increase in consumption as a result of legal availability might not be very large. But the medium-term consequences, over 5 or 10 years, of full-scale commercial legalization, more or less on the current alcohol model, which we think is the most politically likely outcome of the legalization debate -- not necessarily the best policy, but the one most likely to actually emerge and the one that's actually on the ballot in Washington and Colorado -- the medium-term consequences are hard to predict.

Analogies are often helpful, but the Netherlands and California provide only limited insight into what might happen if marijuana use were not only freed from legal risk and perhaps from pre-employment drug testing, but given the full commercial promotion treatment now given to beer. You can imagine Bud versus Bud Lite on the Super Bowl in a completely different way. (Laughter)

And under those circumstances, there's no reason to exclude the possibility that marijuana might approach alcohol in the prevalence of consumption and the prevalence

of abuse, which would mean about a five-fold increase from current levels. That is to say a legal cannabis industry might prove just as skillful as the legal alcohol industry in promoting the intemperate use that drives the sales volume, and we may get to find out just how good they are at that.

Now, say heavy cannabis use did soar. How bad would that be? Again, it's hard to say. If, as a matter of principle, if you want to follow John Stuart Mill and ignore the damage that marijuana abuse does to users and their families and consider only external harms, then the damage would not look very troubling.

And, of course, there would be gains as well as losses. Harmless pleasure at least for millions of new users and millions of current users suddenly freed of legal risk and social stigma and allowed a wider range of consumer choice. But if we include the problem that drug abuse causes for the people subject to it and their intimates, then a massive increase in consumption doesn't look quite so benign. Right now about 3 million Americans would tell a survey interviewer that their marijuana use is seriously interfering with their lives. If that number rose to the alcohol level, which is more like 15 million, that would not be a small amount of added suffering.

And what about the interaction with alcohol? By most measures cannabis use is much less damaging, even heavy use, cannabis use is much less damaging than heavy drinking, both to users and other people. So if marijuana proved to be an economic substitute for alcohol, if more heavy smoking meant less heavy drinking, that would represent a net social gain, probably a substantial one. And that's the implicit argument for legalization in some quarters. But what if instead the two drugs turned out to be complements, either simultaneously or over time. That possibility is not excluded by the data.

The total social damage from alcohol so dwarfs the social damage from

cannabis on every dimension, including incarceration, that even a small change in alcohol consumption in either direction would dominate any benefit-cost analysis of marijuana legalization unless from a strictly libertarian viewpoint. The fact that we don't even know the sign of the effect of cannabis legalization on alcohol abuse ought to give us pause.

Given the massive uncertainties, dogmatism about whether legalization in general or some specific legalization proposal (inaudible) is not a good idea, seems to us unlikely to be justified. So we urge people to broaden their priors.

The net benefit or cost is going to depend, again, except from a strictly libertarian viewpoint, on hard-to-specify tradeoffs and hard-to-predict unknowns. Decisions have to be made even in the fact of uncertainty. Legalization would not be without risk, but the current system is not without cost.

The four of us who wrote the book do not share an opinion about what ought to be done. We do share the belief that the questions are hard and complex rather than easy or simple, and that any change should be made in an experimental spirit with the provisions for modifying new policies in the light of experience. It's been said that no battle plan survives contact with the enemy.

We also believe that doing calculations is more helpful than shouting slogans. And as it happens, Beau Kilmer has some calculations to show us. Thank you.
(Applause)

MR. KILMER: Good afternoon. And I'd like to thank WOLA and Brookings for hosting and making this happen. And I'd like to thank all of you for being here.

I'm going to make about four or five general points about marijuana legalization and then I'm going to hand the mic over to John Caulkins to talk more specifically about the three initiatives that are on the November ballot. And he will also be discussing the possible federal responses if one of these initiatives actually does pass. A lot

of what we're going to be talking about is in our book, but a lot of it is also based on two Rand reports that came out in 2010 that were about marijuana legalization in California.

The first point I want to make is that if one of these states or some other country actually legalizes marijuana, they really will be breaking new ground. And when we talk about legalizing marijuana we're usually talking about removing the prohibitions on production, distribution, and possession of marijuana. Sometimes there's discussion about having taxes and regulations, but that doesn't necessarily have to be the case.

Now, as Mark said, that's very different from decriminalization. When people talk about decriminalization they're typically referring to reducing the penalties just for possession. For example, what California did in January of 2011, possession of marijuana went from being a misdemeanor and \$100 fine to being \$100 fine and a citation. These are very different. There is a literature out there on decriminalization. There isn't a literature out there looking on the empirical effects of legalization because no modern country has removed those prohibitions.

There are a lot of people that think that marijuana was legalized in the Netherlands, but that was not the case. Sure, if you're over 18 and you're in Amsterdam, you can walk into one of the coffee shops and buy up to five grams. So it's very much legal in the front door. However, it's still illegal to produce and actually sell to those coffee shops, so it's actually illegal in the back door. And what that ends up doing is it ends up keeping the prices high, which leads me to my second point -- that if you actually were to legalize the production of marijuana, the cost would just plummet. And there are a number of reasons why we would expect this to happen.

Most importantly, it comes down to risk. Right now when someone purchases marijuana, methamphetamine, cocaine, or heroin, a lot of what they're doing is compensating the drug dealer and everyone else along that supply chain for the risk of

arrest and risk of incarceration. You realize that risk goes away with legalization. You'd also expect there to be economies of scale as we move from basements and, you know, backyards to farms and greenhouses. And you'd also expect there to be changes in technology or at least a reduction in the technology cost. So for a number of reasons, in theory, we would expect the price to go down.

And sure enough, if we actually had national legalization and marijuana was treated like any other agricultural product, these costs would just plummet. Even the head of the California chapter of the National Organization for the Reform of Marijuana Laws testified in Sacramento a couple of years ago and said, you know, if marijuana was legalized and unregulated, the prices would drop to just a few dollars an ounce, pennies a joint. Right now in California, an ounce of kind of high-quality sensimilla goes for anywhere between 250 to \$350. That would be a big decrease. It was also consistent with what we found when we were doing our analysis of marijuana legalization options in California.

But even if you didn't have marijuana being farmed like a regular agricultural product and you had a situation to where a state may only allow marijuana to be produced in grow houses, you would still expect there to be a very large reduction. John Caulkins and a team of students at Carnegie Mellon actually did the calculations, and their best estimate is that if California allowed grow houses to be used for producing marijuana in a legal environment, the pre-tax cost could drop to less than \$50 an ounce. And as I said, right now when it goes for about \$300 an ounce, that's a fairly large reduction.

And we also have insights on this reduction in the production cost from places that have actually legalized marijuana production for medicinal purposes. Dale Gieringer just recently published a paper where he was discussing the medical marijuana program in Israel, and there it's outdoor-grown, but it's medical grade, so high THC. And the production costs are about 79 cents a gram or about \$20 an ounce.

And we also do have some insights from Holland. While I said it's illegal to produce in the country, there actually is one facility in the country that is allowed to produce marijuana for their medicinal program. And I was actually there earlier in the year and you could see this is their veg room and their flowering room. They're both only about 600 square feet. This is a place; it's about 2-1/2 hours north of Amsterdam. They produce about 400 pounds of marijuana bud annually. And so compared to a basement, yeah, you're getting into economies of scale, but in relation to what you would actually expect to see post-legalization, they aren't very far along that curve.

And so it was very nice, they kind of open their doors and gave me the tour, but then they also showed me their books. And so their marginal cost on producing a gram of high-quality 16 percent THC cannabis, no pesticides, consistent product, was about a euro. So once again just making it very clear that if you're able to produce this in an environment where you don't have to worry about risk of arrest or risk of incarceration, the costs are going to drop dramatically.

Now, of course, if we have taxes and we have regulations, we would be able to kind of increase the retail price. However, it doesn't seem very realistic that you're going to be able to completely -- or to be able to add enough taxes and regulations in order to keep it at its black market value. I mean, because if the taxes are set too high, you're just going to have tax evasion. And this is something we see right now with the tobacco taxes. In California, on a pack of cigarettes, which is roughly about an ounce, the federal plus state taxes are about \$2 a pack. And we know that the California Board of Equalization estimates that about 14 percent of all of the tobacco packs or packs of cigarettes that are actually consumed in California are actually avoiding all of the taxes. And there are other examples of this, too. And in the book we talk about how in Canada, in a few different provinces, they raised the taxes on cigarettes, but it ended up creating such a black market that they had to

rescind the taxes.

So this is important to keep in mind when you're setting these levels because, I mean, if we take that indoor grow option that I talked about with California, where the pre-tax price would have been less than \$50 an ounce, I mean, the idea that you'd be able to put a 200, \$250 an ounce tax on marijuana just doesn't make much sense. But that applies in the commercial market.

We do highlight in the book one particular scenario or a mode of production and distribution where we do think you might be able to offset a lot of this reduction, and that's if there actually was something akin to a state monopoly. Whether or not that would actually be politically feasible in the United States for a state to do that while the federal government's still prohibiting that remains to be seen.

But there also are some things that the federal government may be able to do if a state does legalize that could help inflate the prices. And that's something that we're going to actually talk about in John's presentation and I hope it's actually part of the discussion when it's opened up for Q&A.

And the final point I do want to make about taxes is that there are a lot of different ways that we could tax marijuana. A lot of the focus is on, you know, putting the tax on, you know, \$50 an ounce or \$25 an ounce, but you realize not only could the tax be *ad valorem*, but you could also imagine setting the tax as a function of THC, which is the intoxicating cannabinoid in marijuana. You know, in just as many states they have different taxes for beer, different taxes for wine, different taxes for hard liquor, one could imagine developing a taxation regime which would actually be a function of -- which would be a tax on THC or potentially a tax on some of the different cannabinoids. There are other cannabinoids besides THC in marijuana. So for those jurisdictions that are, you know, thinking seriously about this, there are a lot of options just besides taxing by weight.

And the final point I want to make is with respect to the criminal justice costs. And yes, legalization would reduce the cost to the criminal justice system, but it would also reduce the cost imposed by the criminal justice system. We know that for those individuals that are arrested and convicted that is a cost in and of itself, and that should be part of this discussion. You know, as Mark said, most of the people that do get arrested, they don't spend time behind bars, maybe a night in jail, depending on the state. There aren't a lot of people in prison for marijuana selling. But it's important to note that those convictions impose real costs.

We know that if you're convicted of a marijuana offense it can be hard to get federal aid for secondary education. It can be hard to get access into public housing. I mean, there are all these collateral consequences that come with having a marijuana conviction, and yet I have not seen one study which actually demonstrates that these collateral consequences actually improve social welfare.

And with respect to how much we actually spend enforcing marijuana prohibition, when we first started looking at this in California a couple years ago; there were two different figures out there. One figure said that California taxpayers spend about \$200 million a year. Another figure put it at closer to \$2 billion a year. So, I mean, it's not rocket science to figure out what the ballpark figure is. And sure enough, if you take information about arrests, adjudication, incarceration, the bottom line is that our best estimate was much closer to this \$200 million a year.

And the final point I want to make, though, is while I think legalization would reduce some of the criminal justice costs, it's not going to eliminate them. You know, most of the -- or actually all of the ballot initiatives in Oregon, Colorado, and Washington, say they would still have marijuana be illegal for those who are under 21. And we know at least in California, if you look at everyone who's arrested for marijuana, over 40 percent of them are

under the age of 21. Sure, some of those are for sales, so that would go away, but you still would have a large chunk of the population that would still be -- that actually still could get arrested if they are consuming. So you should expect there to be a reduction, but you're not going to completely eliminate those criminal justice costs.

So with that, I'll now hand it over to John to talk specifically about the proposals that voters will be voting on. (Applause)

MR. CAULKINS: Thank you, Beau. And thank you again to the organizers.

So this year, 10 U.S. states considered 17 different proposals to legalize, not just decrim, not just medical, but to legalize large-scale commercial production for non-medical use. Three of them made it onto the ballot, as Jonathan said. And this is the time trend on the public opinion poll of the straight-up question do you support or oppose legalization? And as Jonathan said, it reached 50 percent last year. In a poll earlier this year, it was 56 percent yes, 36 percent no.

Now, this is national and general. When you ask about a specific proposal the support tends to be a little bit lower because when you get specific, people see things in the specific proposals they don't like as much. On the other hand, the three states that will be voting next month tend to have stronger support than the country as a whole.

The first point that I want to make is to follow up on one that Mark foreshadowed, which is that these proposals are not all alike. The academic debate simplifies. It says legalization, yes/no. What are its advantages and disadvantages, if there is an "it?" The 17 proposals considered this year fell roughly equally into 3 broad bands: repeal only, repeal and delegate, repeal and regulate.

"Repeal only" is just what it sounds like, a very short statement -- Michigan's was literally only 88 words long -- that says the prohibition's over, all laws against it are removed or maybe all except consumption by juveniles and driving while you're intoxicated.

And you might say what difference could that make? Because the Federal Controlled Substances Act would still be in place. But state and local police make 97 percent of the arrests, so even this simple repeal only has a very dramatic effect on the incentives for people in the market. But none of the three that'll be voted on are repeal only.

Oregon's is repeal and delegate, so it does the repeal, sketches briefly the regulatory structure, but mostly delegates it to some agency. In Oregon's case it would be a newly created Oregon Cannabis Commission.

Washington and Colorado are repeal and regulate. They do still involve an agency -- Colorado Department of Revenue, Washington Liquor Control Board -- but the proposals themselves go into much more detail about the regulatory structure. The Oregon proposition prints on a single piece of paper; Washington, over 50 pages. I'm going to try to give you a feel for them.

Colorado and Washington are a lot alike, so I'm going to discuss them together. They are both fully free market proposals. The government would be limited to regulation and licensing. Private companies would do the growing, processing, and sale. They have taxes. They're *ad valorem*, percentage of value, so if prices drop a lot, then the tax rate will also be lower, so maybe evasion's not too big a deal, especially Colorado. Colorado's very low: 15 percent of wholesale value and only for non-medical. An important caveat since about one in four past month users in Colorado have a medical recommendation, so they could buy with no tax and if they provided three friends, then that revenue goes away. Washington has three different 25 percent levies at three different market levels. Both earmark some of these tax revenues for feel-good causes as a way of garnering support and perhaps making a sort of poison pill to make it harder for the federal government to seize the tax revenues as the proceeds of illegal transactions.

I think both Colorado and Washington are good-faith efforts to come up with

a responsible regulatory regime. Washington, in particular, stands out for having a variety of provisions that would control the retail end of the market, keep it unintrusive, limits on the location, limits on the number of outlets, limits on advertising, and so on.

Oregon, completely different ball of wax. The agency, the Oregon Cannabis Commission, would participate directly in the trade itself, having a government monopoly on retail selling. The production would still be private sector. Now, as Beau suggested, a government monopoly has a lot of advantages when it's a nation legalizing. It would play out completely differently when it's a state within a country that continues its prohibition.

In the Oregon proposition there's a lot of language that is aggressively pro-industry, most notably it literally builds in regulatory capture. The Oregon Cannabis Commission would be the government agency responsible for controlling the industry, doing things like preventing diversion to the black market. But by design five of the seven commissioners would be selected by the growers, who, of course, would have direct incentive to have diversion happen. And they'd ban local opt-outs, so you couldn't have, in effect, a dry county. There's startling language about what the Oregon attorney general would be obligated to do, including vigorously defending anyone prosecuted for acts which could be licensed under the proposition, i.e., if the federal government tries to enforce the Controlled Substances Act after this passed, the attorney general would essentially have to be on the legal defense team for the dealers.

The mention of the federal government gets me to my second main point, which is that when you try to figure out what would happen if one of these passed -- what would happen to price, what would happen to use, what would happen to market structure -- it's very hard to forecast the future, it always is, but a particular challenge is trying to figure out what would the federal government do? And the federal government has at least three broad tools.

One is judges could rule that portions of the propositions are preempted because they positively conflict with federal law. Now, we are not lawyers. It is not clear how this will play out in court, but a guess is that a state store, staffed by state employees, would be found to positively conflict, and so that would effectively be voided. It would be like that portion of the proposition didn't pass. On the other hand, Colorado and Washington would only have the state government involved in licensing and regulating, which are activities that the states already do for medical marijuana, and that has survived court tests in at least the state courts.

A second thing the federal government can do is hire a lot more enforcement agents and try to fill in for the missing state and local police. Now, I mentioned earlier that 97 percent of arrests were by state and local, which is true, but when you're thinking about prices and market structure, it's really the sales arrests that count. For that it's 90 percent. And this graph is supposed to give you a visual feel for those magnitudes. So the bar on the far side over there is the number of DEA marijuana sales arrests each year. The other bars are state-specific, the yellow portion being the arrests by state and local police.

So if Montana legalized -- they considered it; they're not voting, but it was considered -- the DEA would have no trouble filling in for the missing state and local police. If California legalized, different ball of wax. For the states that are actually voting, somewhere in between.

The third thing that the federal government could do is to write letters. U.S. attorneys could write letters, say, to the landlords of the facilities and say, you know what? Your tenant is violating federal law. You should stop that or we'll seize your building. This tactic has been used against dispensaries to good effect. Not surprising that the landlords do respond to this. And this is a very inexpensive tactic, costs nowhere near as much as

hiring lots and lots of agents.

And I want to use this idea of letters to make a point that Mark alluded to, which is the details of the propositions matter. They matter in all kinds of places, but let me pick this up with the letters.

I think it's possible that this letter strategy could quash the licensed, regulated aspect of the industry in Washington, but not in Colorado, because of a very subtle wording difference. Washington would license individual locations, one license for each location and the location has to get reported to the state. There's the mailing list for the letters. Colorado speaks of licensing facilities, but facilities are defined in the proposition as entities with no limit on the number of physical locations in which they could operate in and no requirement to report the location to the state government. Now, it's possible that the Colorado Department of Revenue would add in those kinds of requirements, but if they didn't, then the federal government would be able to go send out a bunch of investigating agents to find the locations, but if they were hidden that would take a lot more work.

I also want to use the idea of the letters to illustrate another general point, which is that the federal government will have some very difficult choices. So let's imagine that Washington passes the proposition and it would be possible to quash the licensed regulatory structure cheaply. That would not quash the repeal part of repeal and regulate. The absence of the state and local police happens irrespective of the existence of the letters, and so for the reasons Beau suggests the price drops a lot, presumably use goes up.

If you do have the regulated structure with these three 25 percent taxes and the restrictions on retail outlets, that could take some of the edge off of the price decline and the increase in use, but the federal government might not be able to do nothing. That might not be political possible. So the thing that would be easiest for it to take down is exactly the thing that would take some of the edge off the increase in use, so what should the

government do? And if it does nothing, for a variety of reasons other states might follow suit.

And I want to close by illustrating just one example why there might be dominoes because it gives me a chance to make the argument that any one of these propositions would affect the market throughout the country. And so for this exercise I want you for a moment to imagine you're a wholesale marijuana dealer in New York State. You're currently sourcing from Mexico or California or Quebec. If Colorado legalized, you would rather source from Colorado. It would be cheaper and potentially your risk of arrest would be less, particularly if you had one of your employees get a license to be a marijuana store, so you had a right to make large purchases. And by the way, if you sort of do the math, this would allow you to get your marijuana at about 25 percent of the current wholesale price in New York.

Now, would anyone in Colorado want to sell to you? Well, there's clearly an incentive. After all, the national market is about 50 times the size of the Colorado market. And frankly, the Colorado government would have some incentive for allowing this to happen because there are some economic benefits to hosting an industry. But furthermore, you are already buying from someone and that someone that you're buying from would have an incentive to move to Colorado because their enforcement risk might be less if they were simultaneously a legal licensed producer selling some into the legal Colorado market, but simultaneously having other locations not reported producing for sale, especially because if you were selling to the lackey of the dealer who had a store license in Colorado, you could say I had no idea it was going across the state.

So at any rate, it strikes me plausible that this kind of thing could happen. And if you run through the numbers for all the states you get a map that looks like this for the potential price declines throughout the country in the long run. This would not happen in a

year or two. It would take time for the industry to grow up to the point where it could put this downward pressure on prices.

But let me summarize. Marijuana legalization would be unprecedented. As Beau explained, it hasn't even happened in the Netherlands. It is entirely possible. As Jonathan said, the poll numbers are there. It would be a big deal. It would affect markets and use throughout the country, not just in that particular state. Exactly how is really hard to say for a variety of reasons, including the inability to figure out what the federal government would do and the federal government would have a heck of a dilemma on its hands. In fact, if I were the moderator at tonight's presidential debate -- (Laughter) -- in Denver, which focuses on domestic policy, I would love to ask the candidates what would they do if the proposition passes next month. (Applause)

MR. MADRAZO: Okay. So good afternoon. Thank you very much for the invitation to both WOLA and Brookings. My job tonight, as I understand it, is to tell you all something that I believe everybody needs to know, but that the authors of the book don't know. And that has to do with stuff that's coming south of the border.

Now, the reason the authors of the book don't know much of what I'm going to say is not because they don't read and it's not because they don't know about it -- or rather it's because they don't know about it because we haven't published it yet. So you need to understand something about academic studies of drug policy in Mexico, and that's that until 2010 they were practically nonexistent. In 2010, a paper was published by Fernandez Escalante Consalvo which documented the very strong correlation between the rocketing homicide rates and the presence of federal forces in Mexican cities, and that sounded the alarm.

Now, before that time, drug policy was basically taboo in legal academia and there were not many of us working on it. And since then, most of us who were working

on it are moving from other areas of study into drug policy, so we're getting the hang of it. So, please bear with me.

And I also have to say please bear with me because most of what I'm going to share with you tonight has been produced by economists, and I'm not one. I'm a lawyer. And as you all know, giving lawyers numbers is a dangerous thing to do. (Laughter) So, anyway, I hope you can bear with me.

So the first thing I do want to say is that I believe everyone needs to know and that is not in the book is that the framing of the question for designing policy, specifically in marijuana, but in general on drugs, is not as the authors frame it in their book. I'm going to quote, and this, I promise, will be the only quote from the book. The authors very candidly tell us, and I think correctly tells us, that there is no objective way of "weighing gains in liberty and pleasure against harms such as disease and injury." So the whole reflection is framed as one of weighing liberty and pleasure versus disease and injury.

Now south of the border this is not the proper dichotomy to use. South of the border it's mostly about weighing certain types of injury against certain types of injury. There's injury on both sides. Drug consumption generates injury. Drug policy generates injury. And I just want to illustrate this point with a couple of numbers.

This is a comparison between the number of deaths since 2007 that are directly attributed to drug consumption and directly attributed to violence generated by the black market. And this means either conflict between the warring gangs or conflict between a warring gang and the federal government. Now, both of these numbers are much smaller than they would actually be if we had good information not only on direct debts, but also on indirect debts. So just to give you an idea, there's about 2,500 direct deaths in 2009 associated to alcohol consumption, but if we take the indirect deaths caused by car crashes under the influence, that would jump to at least 35,000 in Mexico. So these are

underestimated, both of them.

The homicide rate that is shown here is what the government reports and it's basically the confrontations between the cartels or between the government and the cartels. But if we took in indirect homicides related to drug policy, as Escalante Consalvo pointed out in his paper in 2010, we would have to consider also the violence and homicides that have probably been caused by the absence of local police that are withdrawn when the federal police come in. So it's basically illegal markets are pirated DVDs that now have to be solved with knives instead of by corrupting police.

So what I'm saying is these are both much smaller than reality, but they give us an idea of what at least the government considers to be the direct costs in terms of death of one and the other phenomenon. And as you can see, there's over 15,000 deaths by 2010 for drug-related violence or narcotraffic-related violence, and there's only 630 deaths directly attributed to all different drugs. So from where we're standing, we're talking about injury versus injury in terms that are very comparable and that's death.

Now, this is another piece of information from the government. This is the main cause of death in Mexico in 2009. So 2009 was the first year in which homicide became the main cause of death in Mexico. In the ages between 15 years and 14 years of age -- 44 years of age, sorry, 15 to 44, the main cause of death in Mexico is homicide. Now, this is not minor, this is historic. In no time in history had car crashes due to alcohol abuse come in second place as a major cause of death. This is the first time that anything whatsoever becomes the first cause of death over alcohol-related car accidents in the ages between 15 and 29 years old. The government stopped producing those documents after this first try. Yeah, I will leave it at that.

So, anyway, we don't have the numbers yet, but in speaking to an epidemiologist last week, he told me that homicides have gone up so much since 2006 that

they have -- and I'm quoting -- "significantly diminished" life expectancy in Mexico. So for us, the problems related with the black market and the attempt at suppressing the black market are not about weighing pleasure versus injury or about injury versus injury, and about choosing between different types of injury.

So that's it for the PowerPoints. Let me now engage in something else.

One of the things that I keep bumping up against when we speak of legalizing marijuana specifically is that that's not really a big problem. Our big problem is cocaine, not marijuana. So I did a bit of research to try and get an idea of how important is marijuana and specifically marijuana in the United States to the Mexican violence. And so here are some numbers.

So the first set of numbers were produced by the School of Government of the Tecnológico de Monterrey, which is one of the most important private universities in Mexico. They're the team that we've been working with from CIDE. It's their School of Government, our Right to Health program. And they have an estimate of a range of what the international sales of the Mexican drug cartels sell in the United States. And there's, you know, a six-fold difference between the minimum and the maximum.

So if we take the minimum in the range marijuana accounts for 39 percent of the international sales of the Mexican drug cartels, most of it being United States. Cocaine accounts for 49 percent, heroin 4 percent, methamphetamines 7 percent. If we go to the maximum side of the spectrum we are looking at 52 percent marijuana, 28 percent cocaine, 8 percent heroin, and 11 percent methamphetamines. So those are the numbers that are estimated by our colleagues at the Tecno Monterrey. And just in general, in the minimum range the international sales account for about 75 percent of the total sales. In the maximum range they account for 79 percent of the total sales. So that's how big the marijuana market in the U.S. is to Mexican cartels.

Now, another issue that is relevant to take into consideration to realize just how important marijuana and marijuana policy in the U.S. is to Mexico is prisons. So we took the other piece of data. And so here's a bit of numbers that we do know.

So first, I'm going to give you the numbers that come from a prison population survey that has been done systemically in Mexico City and the state of Mexico, which is the surrounding area. It accounts for about 20 to 25 percent of the Mexican population. In 2002, of people in prison at local prisons for drug crimes, 52 percent were there for marijuana and 32 percent were there for cocaine. This is 2002. 2005 it was 44 percent marijuana, 46 percent cocaine; 2009, it's 32 percent marijuana, 53 percent cocaine.

That's what we do know and that's what has been published by my university. We have some estimates for federal prison population. These are estimates. These are very rough. We're trying to verify them and we hope to have something ready by the beginning of next year. But these numbers are even worse and that's natural because drug crimes are federal crimes in Mexico.

So our estimate is that of all drug crimes committed, of the prison population in federal prisons for drug crimes, 80 percent of the women in prison are there for drug crimes. Eighty percent. Sixty percent of the men in prison, in federal prisons, are there for drug crimes. So that gives you an idea of how relevant drug crimes are for the prison population.

Now, within that universe of drug-related prison population, 40 percent are there for possession, for simple possession. And 15 percent are there for petty dealing. So that's 55 percent of the prison population for either just possession and which they couldn't prove or even accuse them of actually dealing and dealing put together. Now, of that population, of the population that is there for all drug crimes, not only possession and dealing, but all drug crimes, 60 percent we estimate to be marijuana-related.

Now, the last set of numbers are not mine or the team I work with, but Alejandro Hope's. And they're about to be published, I understand, in the next couple of weeks. And he was kind enough to share them with me so that I could share them with you.

So these are models he's running to try to understand what would happen in Mexico if marijuana was legalized in the United States, and I think they're interesting. I mean, I tend to think that all economics is voodoo economics, but, you know, this is what we can work with and this is what we have.

He estimates that 55 percent of the marijuana market in the United States is Mexican marijuana. So that's how big the presence of Mexico is in the U.S. market. Now, he has two different scenarios and both scenarios assume that the U.S. Federal Government won't do much to stop trafficking from a state where it would be legalized to other states, and that Mexico wouldn't legalize marijuana once one state in the U.S. would. Now, those two are big suppositions and especially the second one -- I will speak to it in a second -- I think is not safe to assume. But anyway, those are the assumptions.

So for some reason, and this we're going to have to ask him, but I'll just report it the way I have it, he believes that if Colorado or Oregon legalize, the participation of Mexican marijuana in the U.S. market would drop from 55 percent to 5 percent. This has to do with the fact that the U.S.-produced marijuana will be probably less risky to get to the U.S. market and better quality. It's, you know, organic, enhanced, pampered marijuana whereas, you know, the Mexican marijuana is wetback marijuana, right? (Laughter) So Colorado and Oregon would drop from 55 percent to 5 percent. And Washington, he thinks it would drop from 55 percent to 18 percent. Now, the loss of the international sales for the cartels would represent -- or rather this would represent a 21 percent to 28 percent loss in international sales for the drug cartels in Mexico. So those are the numbers, however speculative or voodoo you want to take them or not. So let me just give you a couple of

thoughts on three things that I think are very important to consider when we speak of legalizing marijuana.

So one is -- well, I'll limit myself to two because I'm on time. One is what would happen politically? I think politically it would be gargantuan in Mexico and Latin America. I think it would open up a space for seriously thinking about policies that are oriented towards our needs, our health needs, which they're not right now. Most serious discussion is cut off very quickly by saying, well, there's no point in discussing this because if the U.S. doesn't legalize, we can't legalize. What will the U.S. do if we legalized? What would the U.S. do if we decriminalized?

So just to give you an idea of how absurd this immobility is in Mexico, because there's a belief that we can't do anything until the U.S. does something -- which I disagree with, by the way -- the definition for marijuana in Mexico is so stringent that not only is medical marijuana and industrial marijuana not allowed, but the whole of the plant is considered illegal and banned. So the backpack that I carry to the university every day, which is made out of hemp, technically under Mexican law is drug trafficking. (Laughter) Now, of course, I haven't been pursued even though I confess this every time I can in public. (Laughter) But as a lawyer, I do want to emphasize this, technically, according to Mexican law, I am a drug trafficker every single time I go to school and carry my laptop in my hemp backpack. So opening up a space for serious discussion is relevant and is something we would very much appreciate.

Now, economically there are two things that I want to say. If Alejandro Hope's estimations are correct, this would actually mean that marijuana in the United States, even if it's just one state, would considerably reduce the income of the drug cartels between 21 and 28 percent. So that's good news, right?

Not necessarily and not in everything. Because it also means less revenue

for one part of the chain of production which is quite vulnerable, which is the poor peasants. Now, I suspect that they're not going to go back to planting avocados if marijuana is legalized and they lose out their market to Colorado- or Oregon-grown marijuana, so we could see a shift in the production and the shift would naturally go, at least in Mexico, towards poppy production because we can't produce coke, coca leaf in Mexico. So we need to take into consideration also those displacements that could take place. You could end up lowering the price in poppy production if marijuana is legalized in the United States and not in Mexico.

Now, I do want to say that all of these estimates depend on Mexico not legalizing, which I think it would do very quickly. The moment we have a little bit of space to actually seriously engage in discussion about how to regulate marijuana, I think Mexico and all of Latin America would follow Uruguay's track. And that is because it's not really a big health problem, marijuana consumption in Mexico. When you look at it, relatively speaking, to other health issues, like, for example, drinking Coca-Cola and overweight. And so I do think that we would move towards regulation of a market. And that would balance out again the advantages of Oregon-grown marijuana and would probably nullify a lot of the effects that I was mentioned, for instance moving towards poppy production.

So I'll leave it at that and I hope I gave you something that everyone needs to know and that the authors haven't told us yet. Thank you. (Applause)

MR. SCHELLING: We haven't discussed the book very much. It's on marijuana legalizing. I want to spend a few minutes describing the idea behind the book and where it came from, and then I want to ask Mark Kleiman and his other authors how in the world they ever wrote the book.

See, this is a book, *What Everyone Needs to Know*. It answers how many questions? Well, the numbering is a little difficult, but roughly there are about 200 questions

answered at a little more than 1 page per answer. That's a lot of questions.

Now, there are two interesting things about the book. One is that the four authors of the book do not agree on the policies. The second is that they all managed -- they must have managed -- to agree on the answers to a couple of hundred questions. I wonder who thought up the questions. Did they just sit down and dream up all the questions they could or did they go through the literature and write down every question they came across? When it was time to develop answers to the questions, did they simply parcel out the questions, everybody took one, and everybody agreed that we won't dispute what you do with your question? Or did they sit down and work out the answers to all the questions and then assign somebody to write it up? How did it work?

I told Mark when I saw either this one or the other one, I forget which came out first, that I thought this was a breakthrough in publication format. (Laughter) How did he ever think of it? And I think he told me Oxford University Press had already thought of it or somebody had thought of it and Oxford University Press had done it before. And I think this is such an extraordinary new kind of policy presentation that I want Mark and any of the rest of his authors to answer these questions. How did you get the idea? How did you get the questions? How did you decide on the answers? Did you dispute over the answers? How come you can disagree eventually on your short policy chapters at the end of the book while you managed apparently to agree sufficiently on each specific answer, that there are no -- what do you call them? -- no footmark dissenting comments by anybody on any answer to any question? And I think that's an extraordinary accomplishment and I just couldn't help beginning my remarks by saying that. That strikes me as a remarkable maybe a precedent for how public policy people should do more of their work.

One question I had, which nobody mentioned, and that is the question whether the United States Government is precluded from certain kinds of marijuana

relaxation by international treaty. And I hope that one of them will answer that because nobody mentioned it.

And I think that to some extent Alejandro Madrazo's talk gave me a lot of things to think about I hadn't thought about before. One is I had thought that if Colorado and Washington or Oregon substantially legalizes marijuana, that that would be much less effective in Mexico than if the whole country took the step of legalizing marijuana. And I get the impression from his talk that Colorado itself and Washington and so forth could have a huge impact on sales in the United States. I forget, it's, you know, roughly from 50 down to 5 percent or something like that I think he said.

And I've been reflecting recently on what happens when a severe prohibition of something that is in great public demand is repealed. Now, my understanding is that in this country organized crime, so-called, racketeering crime really was nurtured by the 18th Amendment, which made not only illicit sales of alcohol profitable, but meant that monopoly of illegal alcohol was especially profitable. And once you're already breaking the law, you may as well break the law in other ways. And as a result, we had the advent of what used to be called racketeering, gangs. Everybody in my generation knew the name of Al Capone, who headed one of the big alcohol gangs in Chicago. And the FBI got a lot of its original reputation from gang-busting.

And what happened when Prohibition was repealed? Well, I think what happened was that Prohibition provided the market arrangement which made organized crime profitable or organized crime as monopoly crime, very often the crime of extortion, usually the crime of extortion. During original Prohibition the basic crime was importing or manufacturing and distributing and selling alcohol. But the part of the crime that got the most attention, which was the killings in Chicago and such places, was essentially the warfare between dueling monopolies who sometimes came to market share agreements

and sometimes came to massacre to settle a dispute.

When alcohol disappeared as a market, it had provided, in my judgment, the market basis for the development of an organized crime infrastructure you might call it. Because when the alcohol market was taken away from these organized criminal monopolies, they weren't ready to disband. They had spent 15 years organizing, developing methods of operation, and they weren't about to dissolve, so they went largely into the extortion business, preying on restaurants, bars, warehouses, bookies, drug dealers.

They went into business because it turned out that you could extort more from a restaurant if you made it buy your beer or made it use your laundry service than if you simply took cash because if you overcharge them for beer and laundry service, it was tax-deductible to the firm, but not if they handed you cash on the side. And it also meant that the restaurateur could complain about paying high prices for beer and linen services without having to admit that he was shelling out cash because he'd had his family or his business threatened. And it meant that the restaurateur wasn't engaging in an illegal activity in paying extortion to a criminal. He was simply unfortunately having to pay high prices for what he got from a criminal organization.

And furthermore, most of the -- let's call it the extortion of taxation, what was paid to these criminal organizations, was pretty regularized so that every restaurant in a city that was paying outrageous prices for linen service, laundry service, knew that all its competitors were paying the same prices and paying the same prices for exorbitant delivery of beer, so that most of the cost got passed on to the customers probably. They even, as some of you may be old enough to remember, went into the business of trying to take over various union organizations so that they could make special money by threatening disastrous strikes to construction firms and things of that sort.

And all of this came under the heading of extortion and it had to do with the

ability of -- what do we call them today? -- the innovating firms, what we're going to hear about tonight, how these innovating firms were capable of finding a whole new business when alcohol disappeared.

Well, I'm spending a lot of time on this because I've been wondering what happens if the U.S. market for South American cocaine or U.S. market for South American marijuana should either substantially disappear or become insufficiently profitable to keep these -- what do we want to call them? -- Cartels busy at what they do? And my impression is that, just from reading the newspapers, that the turn from selling illegal goods to engaging in extortion, which essentially was the transition from the 1920s to the 1930s, in the 1930s Thomas E. Dewey, the attorney general of New York, managed to make himself almost the President of the United States by going after extortion, not after illicit alcohol or anything of the sort.

My impression is that in Mexico, the cartels have already got there, not only in extortion, but even, as I read, kidnapping. I don't think racketeers in the United States ever engaged in kidnapping. It remained like bank robbery and so forth, an individual activity. And it may be that in Mexico, the cartels have already progressed beyond just illicit goods, drugs, already have become extortionists. And it makes it hard for me to imagine what happens -- if anything good will happen for Mexico if the United States ceases to be a lucrative market for the monopoly cartels.

So we haven't heard a lot this afternoon about the nature of the violence in the United States. My understanding is that a lot of drug dealing is by gangs. I read about a lot of how gangs in cities war on each other to take over each other's turf or something of the sort. But it doesn't look to me as if in this country anything like what happened in the 1930s upon repeal of Prohibition has happened yet, although it's happening in Mexico, as far as I can read. I don't think we've ever heard of a kidnapping in the United States that

was attributed to illegal gangs of any kind. So I'm interested in the phenomenon of the growth of illegal monopolies that have the organization that allows them not only to bribe the police and bribe the judges and bribe the district attorneys and all of that, but allows them sufficiently to intimidate the people they want to intimidate, including intimidating law enforcement, that they are a threat to social order.

Well, I think I've used up my 12 minutes. Thank you. (Applause)

MR. WALSH: While everyone's getting mic'd up we'll begin because we have less time now than I thought we might. But Tom gave us a lot of questions right off the bat in his comments. I would summarize some of them, give them to the panel, and then add a couple of my own, and then we'll open it up after we hear back.

To summarize some of Tom's questions, the incubator effect with regard to organized criminal groups that prohibition provides, while the criminal groups aren't necessarily going to disappear once prohibition ends, let's assume, so what happens? We can talk about it in terms of Mexico, but not only Mexico.

Another important question, it is addressed in the book, but we haven't talked about it a lot, what do the international conventions say about legal, regulated markets for currently prohibited or controlled substances as in efforts in Uruguay, for instance, with cannabis? And what would it say about even state-level initiatives to do the same? It's another question I could comment on myself.

How did the authors go about composing this book in terms of agreements, disagreements, questions to focus on?

I have a particular question myself, which is the prospect for large increases over time in marijuana consumption in the event of a legal, regulated market; much was discussed in terms of price mechanism as a key factor, which obviously makes sense. I wonder if you could talk more about the other mechanisms that may mediate that, both in

terms of social norms, culture, institutions, politics, regulations themselves that in the long run have to come into that equation?

And in general, I'd say the discussion made me think to avoid the maximalist claims one way or the other. There's a lot of cost and benefits both ways to be evaluated, so it's better to be eyes opened about what they are before you jump in. So I think we have a good start in that discussion already.

So I turn it to, in particular, the question about how did you compose the book. And then as you wish, take up these other questions.

MR. CAULKINS: So I should probably do the how we composed the book. We doled out chapters for first drafts, but every chapter was reviewed twice by every other author just to get to the second draft. Then there were selective re-reviews before it was sent out to other people. When other people commented we all reacted to it. So first draft was only a small piece of it. It was really joint work.

How do we disagree on the conclusions when we agree on the 150 or 200 questions? Basically different values. We have the same judgments about the quantitative projections of consequences -- modulo great uncertainty -- but we have different values and that leads us to different conclusions.

MR. KLEIMAN: As the answer of how it worked, the trick is to start out with four authors whose stake in their relationships with one another is greater than their commitment to any particular answer. (Laughter) And a first author who's a fairly skilled negotiator. So the benefits chapter changed somewhat under John's encouragement.

But yes, this was an Oxford format. This is 30th or 40th book in the *What Everyone Needs to Know* format. I dislike the subtitle a lot because of its apparent arrogance, but I realize what they really mean is what every man needs to know. Right? These are books by scholars, but not for scholars. They're not primarily for scholars. These

are books by people for people who are interested in the topic generally and don't start out with 30 journal articles under their belt.

No, it was a relatively peaceful process and pretty painless. It's a good way to write a book if you happen to have three people smarter than you and are prepared to work with you.

MR. WALSH: And it was quick, too. You turned it around in, what, about a year?

MR. KLEIMAN: Yeah, less than a year, yeah.

MR. WALSH: Less than a year. So I don't know if anyone wants to tackle some of the more substantive questions that have been raised. Well, the displacement question, prohibition ends, but it has been incubator for organized crime groups. Where to? And then the other question, what do the international conventions say or not? And what constraint do they impose or not on state actions to legalize, liberalize cannabis laws in this case?

MR. KLEIMAN: Well, it seems to me the treaty issues we ought to defer to you and to Alejandro, who have studied them. We really haven't.

I do want to say a word about the transition issue, and this really -- the process of doing the book and thinking about this otherwise has led me to think about a methodological issue. Those of us who've studied economies are used to the method of comparative statics. Change the condition, change the shape of the supply curve, and then ask what the new equilibrium is, and the difference is the impact of whatever that change was. Very useful method, fairly straightforward, doesn't really give you much insight into dynamics.

And in cases where there's lots of hysteresis, where the past influences the future, not just what's in the present. So my example here is always between an ice cube

and a soufflé. Right? If I take an ice cube out of the freezer and melt it and put it back in the freezer and it freezes again, I get back to pretty much the same ice cube I had. If I slam the oven door on a soufflé and the soufflé falls, I open the oven door, the soufflé does not rise again. And so to some extent this soufflé may have fallen and we can't get back to the world as it would have been without Prohibition simply via legalization. And that's going to greatly complicate all the computations.

MR. KILMER: And I wanted to say something about the amount of revenues that the Mexican drug trafficking organizations earn from exporting marijuana to the United States. Alejandro, I was thrilled for you to share those numbers that Alejandro Hope will be releasing because in 2010, as part the study that we were doing of legalization in California, we very much did those same calculations and our numbers were almost identical. Very, very similar. Because prior to 2010, when you would read a paper, you'd read a government report, you would hear about how the Mexican drug trafficking organizations were earning 20-, \$30 billion a year, and that 60 percent of that was actually coming from marijuana.

Well, we didn't simply believe that number and when we actually kind of dug into it, we actually tracked it back to a 2006 Office of National Drug Control Policy report that really didn't provide any evidence and it just kind of -- those numbers kept getting quoted by everybody. You'd see it in *The Washington Post*, you'd see it all over the place. And so finally, we actually went through the calculations. And I see that Peter Reuter just walked in and he was a big part of that report as well. And we found that in terms of the amount of money that Mexican drug trafficking organizations earned from exporting drugs to the United States, it was about 6- to \$8 billion a year. That's a sizeable amount, but that's a little different than, you know, claiming that it was 30 billion and that 60 percent of that's for marijuana.

Of that about 6- to \$8 billion a year, our best estimate was that between 16 to 25 percent of that was actually from exporting marijuana. But is that that different from the 21 to 28 percent that Alejandro Hope found? So it would be a sizeable amount, but it's not as if it's going to completely eliminate all of the revenues.

And the other thing -- and this is something that Professor Schelling was mentioning, too -- is that we know that the Mexican drug trafficking organizations are now doing a lot more than just trafficking drugs. So we were only focusing on just their export revenue of drugs, but we know there is a lot of extortion and also human trafficking happening as well.

MR. KLEIMAN: For those who are engaged in the drug policy activity or who simply read its product, you should be prepared to encounter a lot of what Mark Twain called vagrant statistics, living with no visible means of support. (Laughter)

MR. MADRAZO: Well, on the incubator effect, first of all, I'm very happy that it was brought up because I think exactly that's what's happening. Now, there are a couple of things to say about that.

The first is that this is one of the reasons why Mexico is very different from Colombia and why comparisons on what drug policies should be in Mexico based on what Colombia has done are out of whack. In Colombia, you had a 40-year-old civil war being waged, which was financed or began to be financed by the drug industry. In Mexico, you didn't have that kind of violence. You didn't have that kind of violence until President Calderón released the military towards the civil population in 2006. As simple as that. We had a 20-year declining tendency in homicides, which were reverted in the first 2 years of the Calderón administration. So whereas in Colombia the drug business was input for the violence, in Mexico the violence started off as input for the drug business.

Now, with the criminal gangs it appears -- and we don't know this for sure,

but it appears -- that different gangs use violence differently. So some of the gangs seem to be using it still as an input for the drug business whereas others have diverted much more into having violence be the business in itself.

Now, one final word and this is my central concern, to be honest, in drug policy and it's not -- the incubator effect not only, I think, appears with criminal violence, but also with official violence, with government violence. We have seen the human rights violations skyrocket in Mexico, especially -- clearly correlated with institutions that are engaged in fighting drugs: the army and then the marines. But we've also seen serious setbacks in terms of constitutional and fundamental rights. In 2008, we reformed our Constitution to allow things like basically disappearing somebody from the face of the Earth for 80 days without -- literally uncommunicated by the government. I mean, we used to do this in the '70s, but it was illegal and, you know, that's how some people disappeared. Now it's legal. It's called *arraigo*. It's supposed to be house arrest, but it's house arrest in wherever the police decides it will be. A metaphor I use to what we did in 2008 is imagine if you put the PATRIOT Act and Guantanamo together in the Constitution and that's what we did in 2008. So that has become entrenched in our Constitution. But also budgets tend to become entrenched.

We have increased our security spending six-fold in the last six years. That's a lot of salaries that are not going to easily go away once we try to deescalate the violence. And just to give you an idea, we have built eight prisons over the last six years, eight federal prisons, maximum security prisons. We used to have 4; we're going to have 12. Well, we're supposed to have 12 by the end of the administration.

Yesterday, the president announced that these prisons will not only be privately built, but privately run for the next 20 years. Last week, a high-ranking government official told me that the government has already compromised \$1 billion -- it varies, but

above \$1 billion in all cases for each of those prisons per year for the next 20 years. So we're going to see an entrenchment of the official violence business, both in prisons and in police. And that's going to be very hard to disentrench.

And when you have high indexes of corruption in your police, in your military, also, that's very dangerous because then these people are going to have a twofold business: they're going to be in the business of corruption with the drug cartels and they're going to be in the business of exacting budget resources in the form of prison meals, which, just to give you an idea, a prison meal in 5 of the 12 prisons costs about \$12 per meal, per person, per day, which is, for the standards of Mexican food, I mean, very high. (Laughter)

So the longer we take to revert what has been happening, the incubation, the harder it's going to be to disentrench the interests that have become entrenched because of the violence, both criminal and official.

MR. WALSH: I think before we open it to questions I just want to put a point on one of the things I mentioned before and then we can include the international conventions later, which is beyond the price mechanism, which I think is clearly important, what are the other factors that would affect and maybe attenuate the increases in use that you guess at, you don't forecast, but you guess at? And I think in particular we tend to focus on the United States here. That's where we are and we have, you know, a form of unbridled commercialism that you might be able to expect or predict in terms of a regulated market because we have a peculiar system where a corporation is a person and has the rights of a person. Other countries may be able to exercise a much stricter regulatory control because of their institutions, because of their culture, because of their politics. And I'm not sure how well that is taken into account so far in what we've talked about. So I'd like you guys, the authors in particular, to respond to that.

And the other question is, Mark, you mentioned something about the impact

of increased use on alcohol, one way or the other, could swamp all other, you know, net costs, positive or benefit. And I wonder if you could say -- you said the data doesn't tell us much. What does the data tell us?

Why don't we just start there? And then people want to get hands up and we'll take some questions.

MR. KILMER: I can handle that one.

MR. KLEIMAN: Yeah, go ahead.

MR. KILMER: Yeah, I mean --

MR. CAULKINS: So, one of my lines that I like to give is I think it'd be relatively easy to design a good legalization regime for a really paternalistic European country that believes in social engineering. I think it's much harder to design a good legalization regime for Americans. I would guess that if we go this route, we're going to end up with regulatory structures that are no more constraining than what we now have for alcohol. But if you were to allow a government a monopoly, that gets rid of a lot of the advertising, even if you don't ban it because there's no company that has an incentive to spend the money on marketing. And likewise, if it's a government monopoly it can decide where it wants to locate and so on.

You know, you said these non-price effects might restrain use, and there's the one that's always mentioned, the forbidden fruits. If something is no longer prohibited, you take away some of the allure. But a lot of the other non-price effects tend to lean towards greater consumption because it's less health risk if you know for sure what is in it. There's less social approbation. There's less risk of losing a job. There are a host of these things.

When we did the California analysis, Rob McCune was the one who was tasked with trying to look across the giant literature and take the best guess. And he had a

very broad range of the impact of the non-price effects, but they tended to be positive. That is the total change in consumption would be larger than the change predicted just by the price increase alone.

MR. KILMER: And John, with respect to your question about the impact of marijuana legalization on alcohol consumption, there is very little literature out there which says when you change the price of marijuana, how does that influence alcohol consumption? For the economists in the audience this is the cross-price elasticity.

There is some literature which looks at the effect of marijuana decriminalization on alcohol consumption, but a lot of that we now believe is kind of bogus because we don't put a lot of faith into those decriminalization measures. There were two studies that I'm aware of where they've actually looked at how changes in marijuana prices influence alcohol consumption. One came out in the late '90s, and it was Frank Chaloupka and someone else. And, I mean, their findings depended on the model, so they don't really come to a strong conclusion. And then Rosalie Pacula --

MR. KLEIMAN: And also on the ethnicity --

MR. KILMER: Yeah.

MR. KLEIMAN: -- and then positive results for white, Latinos, and a different outcome for African Americans, I think.

MR. KILMER: I don't remember. There were differential effects, but, I mean, there was no strong conclusion out of that paper. And then Rosalie Pacula and Jenny Williams had a paper published in 2004, where they were able to look at this. And they found that they were actually complements, meaning that when marijuana prices went down and marijuana use went up, alcohol use went up. That said, it was statistically significant, but it was very small.

MR. KLEIMAN: But notice: those are the effects of relatively small changes

in policy where alcohol is still legal and marijuana is still illegal. We've got nothing on the size of the change in availability and social approbation that would come from legalization.

There's one study that's not out yet, but Greg Bonet, one of my students at UCLA, looked at counties in California that did or did not permit dispensaries and found a decrease in the share of alcohol fatalities that were drunk driving in places that did permit dispensaries. So there's a tiny bit of evidence for substitution on a fairly large change in policy. But I think anybody who was willing to risk \$5 either way on whether heavy alcohol use would go up or down would be a gambler.

In particular, the effect over the first year and the effect over the first decade needn't be the same. One possibility is that if people have two legal intoxicants available to them, more will find the intoxicant they enjoy. The general social taste for intoxication will change and you'll get more use of both. I don't have evidence for that; it's a plausible story. There's no evidence you can gather under prohibition that would much inform you.

So my view about the Washington thing is, look, if Washington wants to do it, if Uruguay wants to do it, the U.S. Federal Government should say God bless you. Right? You guys want to take the risk? Be our guest. Unfortunately, that's not what I'm hearing from Washington as the likely response.

MR. WALSH: Great. That's a good note to open it up.

MR. MADRAZO: John, there's one thing I wanted to mention --

MR. WALSH: What's that?

MR. MADRAZO: -- on one of your questions. You asked about the measures that could take the edge off of some of the negative aspects of legalization. So coming from tobacco control one of the things I would say is that one of the very important measures that could be taken is to restrict, ideally ban, marketing. From tobacco control we know that most of the growth in markets, especially in the vulnerable population, comes from

marketing.

Now, in most of the world there are reasonable free speech laws that do not allow for marketing the way you have it protected here in the U.S. I mean, you know your free speech document is quirky when anonymously giving money is deemed speech, right? So for most of the world if you implement legalization with good policy measures, I think you can take a lot of the edge off. And again, you know, it's a plausible story, as you say, but a lot hinges on marketing. And I think probably there is no country worse prepared for regulating marketing than the United States.

MR. KLEIMAN: Which is true, but it's also worth saying, and this is back to John's point, all of us here, anybody in this room could design a sensible marijuana policy that would outperform Prohibition. We could also do the same thing for alcohol. We could also do the same thing for tobacco. But we have the policies we actually have and we have to ask the question, if we're not going to have state monopoly, will the policy we design on our blackboard survive the political process when the cannabis industry is out there lobbying as vigorously against cannabis controls as the alcohol industry lobbies against alcohol controls? So we have to ask about the political economy of legalization.

I have to say worldwide tobacco control does not fill me with optimism about how any country would regulate any licit industry, even state monopoly's are not 100 percent safe. Look what American states have done with their lottery monopolies with completely shameless marketing. The story is about Napoleon III, whose health minister came to him and said, look, you know, the state tobacco monopoly's a complete catastrophe from a health perspective. And Napoleon said I will be delighted to abolish that vice as soon as you can show me a virtue that yields an equal revenue. (Laughter)

MR. MADRAZO: Well, just one point on that. I fully agree if you had the tobacco industry lobby lobbying against regulations, then, you know, it doesn't look nice.

But you don't have a tobacco industry lobby yet. I mean, the tobacco industry has had years of developing its lobbying capacity. So in a very literal way, it all depends on whether you nip in the bud or not.

MR. WALSH: Yeah, all right, many questions. Many questions. I'm going to ask that you stand, identify yourself, and please be as brief as possible with your question.

MR. ILYCH: (inaudible) Ilych from COHA. The central question is why this idea doesn't get traction in the U.S.? I mean, Brookings and Rand are not your far left radical fringe organizations; they can talk about it. And I think Alejandro put his finger on the crux of this matter, the incarceration industry is a countervailing force that will not allow this to happen. And unless we focus on this problem, it's very similar to the Military-Industrial Complex, and it's not a question of rational policy, but it's a profitable policy for some people, and it has to be brought into public discourse. Thank you.

MR. WALSH: Thank you. Yeah, with the hat up and then we're going to come forward.

MR. WOOLDRIDGE: Howard Wooldridge, retired police detective, co-founder of LEAP, Law Enforcement Against Prohibition. It was my experience over two decades as a street cop that the War on Drugs has been the most destructive, dysfunctional, and immoral policy since slavery and Jim Crow. My question -- two questions.

One, on the issue of use going up, you said maybe even five-fold. Is this, from what you had from data or talking to experts, going to be a drug substitution or there's going to be brand-new users? In other words, what is the drug profile of a person not using marijuana today, but with a legal, regulated tax market start-up? Will Muslims and Mormons start using it, will teetotalers? For you young people that means people who don't drink.

People who don't drink today, will they start smoking marijuana? What did you gather in terms of facts from the doctors who are experts in addiction?

And a second question for Alejandro. Do you think persons in America who promote the end of Prohibition; do we have anything really to fear from the cartels trying to assassinate us? (Laughter)

MR. WALSH: Let's get -- on this side, we'll just get one more question now, ma'am? Yeah.

MS. McCOY: Hi. Sharon McCoy and I'm here with the Inter-American Dialogue. And I was really kind of surprised by the Gallup Poll result that you gave with 50 percent approval. And I just wanted to know, I was in California sitting there when they did vote and it didn't pass for the proposition. And I guess I just want to know, like, what is the actually likelihood of passage for these types of laws? Because I feel like if it doesn't pass in California, I mean, where else is it going to pass? And I also felt that one of the primary reasons was just that a lot of young people didn't go out and vote, even if they are in favor of this legislation. So what is the likelihood? And if you have any insights with regards to likelihood passage in Mexico, I'd also like to hear that as well, please.

MR. WALSH: All right. Let's take one last and then return to the panel. Yes, the gentleman mid -- back there with the red tie.

MR. HERNANDEZ: My name is Rafael Hernandez. I am from El Salvador and I'm a member of the board of directors of the World Bank and I represent Central America. And I have a question for Mr. Madrazo.

Could you tell us about what the new elected president in Mexico's going to do? Is he going to reverse everything that you said that has been entrenched? Is he going to let the cartel to run free now and then things will go back to normal, as they were before? Thank you.

MR. WALSH: Let's go back to our panel and as briefly as possible so we can get in another round or two of questions. Thanks.

MR. CAULKINS: I'll respond to if it didn't pass in California, could it pass anywhere? I think we suggested it's a close call. It may not pass other places. In California, it could have passed. Forty-six percent voted yes, 7 percent more said they favor legalization; they just didn't like Prop 19. For instance, Prop 19 would not have had a statewide system. It would have delegated regulation to each of the different localities, so you easily could have imagined sort of a race to the bottom as different municipalities competed to have the most lenient rules so they could host the industry. None of the three propositions have that problem.

And demographics matter in ways that aren't always obvious. For instance, Asians are one of the groups that's most strongly against legalization. There probably are more Asians in the electorate in California than in some of the other states.

I mean, not that this varies by state, but another big predictor is do you have kids at home? If you've got kids, you tend not to like legalizing marijuana. If your kids are gone, it seems like a much better idea. (Laughter)

MR. KLEIMAN: It's also worth noting that -- and this is one of the great ironies -- you know, medical marijuana was basically a fraud dreamed up by the legalization movement and it's now a problem for them. The three counties in California that grow all the marijuana all voted no on Prop 19. The main opposition to the Washington state marijuana legalization initiative comes from the Washington medical marijuana industry because their profitable racket gets destroyed the minute marijuana's legalized.

So life is complicated, but Prop 19 in California was an unusually stupid proposition. (Laughter) And it was voted on in an off presidential year, which means a much older and more conservative electorate. I think if a sensible proposition, if the

Washington proposition were on the ballot in California now, it would have passed easily. But the medical marijuana industry in California did not want to see a legalization proposition on the ballot.

And as somebody said, many of the supporters of the proposition wouldn't put their bongs down long enough to gather the signatures, so life was complicated.

MR. KILMER: With respect to how consumption would change, no one knows. No one knows. I mean, not only are there the price effects, but then we also don't know what's going to happen with respect to marketing or what the federal government's going to do. But when we were looking at this with respect to Proposition 19 in 2010, we tried. We estimated what we thought a reasonable price decrease would be and then actually tried to figure out, well, what would that actually mean for consumption. But it turns out we would expect such a large drop in the pre-tax price, in order to do those projections it actually requires that you know what the demand curve for marijuana looks like. And no one knows what that looks like.

So we walked through an exercise saying, well, you're in Econ 101 there are two types of demand curves: a cost elasticity and linear demand. What happens when we put both of those into the model? And the bottom line is that your assumptions about what the demand curve looks like really matters. I mean, it wasn't implausible to see increases of potentially 50 or 100 percent.

But to kind of put this in perspective, right now throughout the country -- or actually in California, past month consumption is around 6 to 7 percent. So if you look at everyone who's 12 and older, 6 to 7 percent admit to using marijuana in the previous month. If you were to double that and that was actually, you know, to where it would be 13 or 14 percent, you'd actually be back to where we were in the late '70s. Granted, the marijuana today is a little stronger and, you know, we have a little less disco, but we have actually lived

in a world where past month marijuana consumption was twice as high.

MR. KLEIMAN: The other way to think about it is I don't know of any strong argument that alcohol is more fun than pot. And look, I'm a child of the '60s. Smoking marijuana is more fun than drinking beer. (Laughter) If cannabis rose to the alcohol level, that would be a huge increase.

Now, if you think that everybody who could ever get in trouble with drugs is already in trouble with drugs, then by definition there's no problem. But I don't see any logic or evidence that supports that. I think if we offer a second legal intoxicant that's heavily marketed, we're likely to find some people who don't like getting drunk, who find out they like getting stoned. And that suggests to me the total number of people who are troubled with drugs is going to go up. I don't know how much and I don't think there's any way to know how much.

MR. CAULKINS: And the way to think about this is not to say would I as a 45-year-old suddenly change my intoxication consumption patterns. Nobody starts using an intoxicant that they've not tried by age 23. If you haven't started something by 23 it's very rare that you pick it up. You've got to roll back the clock and say suppose I were 16 or 18 or 19, and this was cheap, marketed, not subject to social sanction. Would I have changed my decisions then and then carried the habit forward? It's not that we're expecting a bunch of adults past that age to suddenly pick up the consumption.

MR. MADRAZO: Let me address some of the concrete questions and then the general one.

So first, as to the risk of cartels assassinating the pro-legalization advocates in the U.S., I certainly hope not because being one of Mexico's most visible legalization advocates, I certainly hope assassination is not something that I'm going to be looking for. (Laughter)

Now, this gives me a way to the second question, and that's passage in Mexico and how likely that is. I'm for legalization mostly because I think that we are going to legalize. I mean, I think that's going to happen within my lifetime, at least marijuana, and we better start thinking about how we're going to legalize it and how we're going to regulate it. So passage in Mexico, at some point I think it's going to happen. How soon? I couldn't tell.

When I started working on tobacco control in 2005, the Ministry of Health was in cahoots with the tobacco industry in Mexico. The Ministry of Health was getting 1 peso for every packet sold of tobacco. By 2008, Mexico City was the largest city with a smoking ban in public spaces. So the way things turn around can be pretty quick, you know. In 2002, Mexico City opened up a little bit the abortion law and by 2008, we had full legalization of interruption of pregnancies with health provision during the first 12 weeks. So things can move pretty quickly, especially when a country's convulsed, like Mexico is now due to the violence. So I think that we need to be very attentive and very open to what happens.

Now, Pena, what will Pena do, or president-elect? We don't know. I always jump at the question of whether is it going to go back to how it was? We don't know how it was. I mean, the idea that the president sat down with the drug cartels and split up the country I think is ludicrous and it's basically what our current president has been saying that happened before, but I don't think there's any basis to think that. I think most of the arrangements were done at mid-level and low-level, like most of the corruption that goes on in Mexico.

So what I think is going to happen, I think that there's two big forces pushing on the new government. One is the previous president -- and this I'm going to go into because it's changing very quickly -- the previous government is basically crying wolf and saying, literally, if there is a substantive reduction in violence when the new government

comes in, it will be proof that they're in cahoots with the narcos. So, I mean, that's just ludicrous. I mean, everybody wants violence to go down, right?

On the other hand, everybody's sick of the violence. The current president's party ran on a drug war platform in 2009 and in 2008, and in 2008 -- in 2012, sorry, in 2009 and 2012. And in 2012, it ended up third place in the presidential race, the first time that happens in Mexican history. Never in Mexican history has a sitting government ended up in third place in a presidential election.

So these two forces, I hope, are going to bring Pena to the sensible conclusion that whatever he does, he has to shift from what is being done right now, which seems to be tailored to be as harmful as possible for the Mexican population.

I think we will see -- just very briefly, Calderón a couple of days ago showed up at the United Nations and called for a review or a revision of the international regime, including prohibition. And he said we should even look at market regulations. People have asked me what do you think of that? And first off, I think he's either a cynic because he's saying exactly the opposite within Mexico or schizophrenic with multiple personalities. (Laughter) In any case, let's take advantage of that because that might just open up the space for a serious reasonable debate, which we haven't had in Mexico. If you haven't had it in the U.S., even less so in Mexico where the government has had it as its rallying cry for the past six months.

And just on consumption, I just want to say we need to distinguish very clearly between consumption as a general phenomenon and problematic consumption. I don't care if consumption goes up globally. I care about problematic consumption. Not all consumption is problematic. And if we focus our policies to work on the consumption that is problematic and focus our resources there, we can produce good, reasonable policies that will mitigate whatever health risks come from shifting policy.

MR. KLEIMAN: I really want to agree with that. If we look at the volume of marijuana, which is what most of these models are estimating, the volume of marijuana is not driven by the number of responsible users any more than the volume of alcohol is driven by responsible users. Responsible users are of no interest to the industry. They simply don't use enough. So when we're looking at big increases in total volume, we have to be looking at big increases in abuse. I completely agree with you. The number of people who get stoned on Saturday night is just of no interest from a policy point of view. It's hard to believe that that's all that would change. That the marginal user has a zero risk of going on to abuse seems to me not very plausible.

MR. WALSH: I'm getting the signal from on high, which is Brookings. That means that we're going to have to begin to close because we're already past time, and I apologize to people who had questions that we didn't get to. And I encourage you to come up and ask them individually, although it's not the same thing.

I did want to say something very quickly about the conventions question because it attaches to a lot of what was said. For instance, let's imagine that there is a country that has the institutions and the culture and the politics or the political economy to pull off a successful marijuana legalization short and medium term without many of the worst of the possible consequences that have been raised here, could it do it? Just because the United States doesn't feel like it might be in the position to do it now doesn't mean that someone else shouldn't be able to pursue it. As a matter of fact, the conventions don't permit that. As a matter of fact, the international drug conventions aren't self-executing treaties. So it's a political question ultimately.

And there's the question of if governments are willing to push the envelope now that is going to begin to change what the discourse is. And we can already see it, including from sitting governments raising this debate.

So I want to give all the panelists one last remarks that they want to make.
And I also want to thank Brookings and all of our participants for today's panel.

Let's start with you, John.

MR. CAULKINS: If you're interested in the topic, read the propositions.
They're not alike and the details matter.

MR. MADRAZO: Thank you very much for allowing me to speak with you.
One of the things that I've learned and that I've been increasingly convinced of as I work this topic is that not all drugs are the same, not all uses of one drug are the same, not all communities where one drug is used are the same. And I think it's very important that between communities, between countries we have a dialogue as to what the effects of the policies of one have on the other. And I think it's a very good step to start thinking about this differentiated, but in dialogue.

MR. KILMER: If one of these states does pass November, the federal government's going to have a number of options. They can either try to totally crack down or they could be hands-off, as John suggested, or they could actually use their discretion to help shape what it actually looks like. So this whole idea about trying to make sure you reduce marketing or you reduce advertising, potentially what some of the different federal agencies could do is they could use their discretion to make that their priority. If you advertise, if you market, we're going to go after you. There are a lot of options there and I hope there's more discussion about that.

MR. KLEIMAN: Since we're time-constrained I'm going to cede whatever time I would have taken to my teacher, Tom Schelling.

MR. SCHELLING: I was just going to say *What Everyone Needs to Know?*
That's false. I learned a lot here that isn't in the book. (Laughter)

MR. WALSH: On that note, I want to thank you all, the audience, and again

you all, the panelists, and Brookings. And this topic is -- I think the debate is only going to get more serious and more interesting. So thank you very much. (Applause)

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