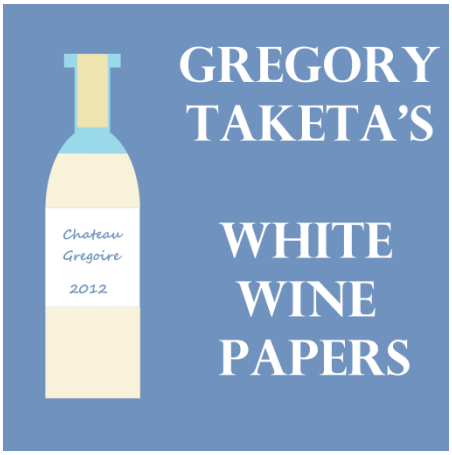
ANALYZE RESPONSIBLY

Welcome to the White Wine Papers! Please Enjoy Gregory's Most Aromatic (Or Intoxicating) Thoughts About Business Analysis.



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Efficient But Not Effective

The average (or absent-minded) analyst is paid to be efficient at the expense of your destruction.

What do these 3 have in common?

- The United States' War on Drugs
- Prostitution in Europe
- Kim Kardashian

Many analysts assume that if we destroy the supplier, we solve the problem (common sense dictates that you cannot buy what nobody sells).

I make no judgments here about the virtues/vices of anything; we will assume simply for the sake of argument that you have an incentive to reduce these three.

Is it easier to:

- Catch 1 illicit drug merchant or the 10-1000 users?
- Arrest 1 prostitute or the 10-100 "johnnies" (buyers)?
- Cancel a contract with Kim or ask millions of viewers/buyers to boycott?

Most interventions have focused on the supply side to be efficient. However, this efficiency has not yielded significant effectiveness (the social return on investment is egregious). We have yet to estimate effectively the incremental help from the 4-decades-running War on Drugs, though

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public perception is that 84% of American adults from a Rasmussen Poll believe we are losing the war. The overall cost of fighting the War on Drugs in 2011 had multiplied to 150 times what it cost in 1971 in nominal dollars (if we account for inflation, $1 in 1971 is about $6 in 2014, so real costs multiplied by about 25). Do you think we are 25 times better off in terms of drug abuse than if we did not spend on these programs?

Although programs do successfully arrest pushers and pimps, when demand is constant, it really is not that hard for another pusher/pimp/Kardashian to take the risk and enter. The input variable has an unforeseen "regenerative" property. If you killed 10 cockroaches, and 6 new ones hatched, then you really only destroyed net 4.

Nobel economics laureate Gary S. Becker and Kevin M. Murphy, both economics professors at the University of Chicago, write in the *Wall Street Journal* that in spite of cutting down supply, a constant demand would yield higher prices. This in turn either leads to new entrants tempted by the higher prices, or the incumbent drug gangs who can achieve higher profits get violent to avoid arrest.

While attacking supply seems efficient and common sensible, it often fails when the supply is regenerative and renewable.

The Other Side of the Story

Where there is no customer, there is no business. And the root cause is the demand side. Although demand side interventions seem less efficient intuitively, they are more effective.

Unlike supply, demand should be less regenerative. A rehabilitated person who receives lifelong follow-up treatment is unlikely to return to illicit drug use. A person who systematically finds legal alternatives to life's problems is also unlikely to revert. Students who are educated against peer pressure and addictions are incrementally less likely to start. Nothing so thoroughly kills a business more than sudden drops in long-term customers.

In January 2008, the Justice Policy Institute, a social think tank, writes, "Substance abuse treatment is more cost-effective than prison or other punitive measures" at "$18.52 in benefits to society" for "every dollar spent on drug treatment." This is likely because treatment attacks the root cause more than imprisonment, helps someone return to society, and discourages the need to return to drugs. Attacking the root demand is effective and provides a worthy return.

However, according to the Office of National Drug Control Policy, in most years the majority of spending was on the supply reduction, not demand reduction. In 2013, the proportions were as follows ($ in millions):

Treatment	Prevention	Domestic Law Enforcement	Interdiction	International	Total
$7,888.6	$1,274.9	$8,850.0	$3,940.6	$1,846.30	$23,800.4
31.3%	5.1%	35.1%	15.6%	7.3%	100%
Demand	Demand	Supply	Supply	Supply	

Although we do need some law enforcement to catch users, very little is spent on preventive measures when young folks are most likely to be helped.

Back to the Fizz

When approaching complicated problems like these, the absent-minded analyst has a bias to find the most efficient route (e.g. attack the supply side). Although the AMA can purport a cause (you cannot buy drugs or sex if nobody sells), the plan does not attack the root cause (the demand which created the sellers). We can also see that some variables are more "regenerative" than others, and the effective plan is often to attack the one which regenerates less (it is harder to replace a buyer than it is to replace a seller, so make demand drop).

The Taketa Takeaway: We Need to Stop this Bias for Efficiency and Focus on Effectiveness. We do this by Employing Experimenters/Doers and Not Just Thinkers.

Helan går!