Economic Impacts of Marijuana Legalization

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Abstract

This paper studies the economic impacts of marijuana legalization by exploring various articles. These articles look into economic benefits such as budgetary savings and revenue gains from taxation of the drug (Evans 2013). After studying all of the data and analysis, it suggests that the government will in fact, save a substantial amount of money and collect taxes at the same time. Unfortunately, the legalization of marijuana can have negative impacts on the public health and cause the government to spend more money on healthcare (Evans 2003). The data collected from Colorado backs up and proves these claims that the legalization of marijuana can have tremendous impacts on the economy (Drug Policy Alliance 2014).

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Marijuana is the most recreationally used drug in America. Marijuana is a hallucinogen and the main chemical that is responsible for its effects are THC. The prevalence of marijuana amongst 18 year olds is quite elevated. According to the National Institute On Drug Abuse, 35% of 12th graders claim to have smoked marijuana and 5.8% of them are doing it on a daily basis. Legalizing marijuana sparks a huge debate throughout the United States. Some states such as Colorado and Washington have already legalized this drug. The research paper will study numerous articles based mostly on statistics and observations in order to get a clearer idea of all the economic benefits of legalizing this drug.

In Evans’ (2013) summary article studying the direct economic benefits of the legalization of marijuana, the main economic benefit is the budgetary savings. Miron and Waldock’s (2010) article studies these budgetary savings and concluded that the legalization of marijuana would approximately save the government $8.7 billion and $32.6 billion would be saved from the legalization of other drugs. These savings come mainly from the reduction of the government’s expenditure on prohibition enforcement, which includes the time and money to prosecute drug offenders, put them in jail and the number of police officers on duty. Schneider’s (2014) article; “Pot Economics”, which was published in Dollars & Sense, stated that over 1.5 million inmates were held in jail for drug-related offences, in which marijuana was the majority of the drug. According to The Crime Report, it costs approximately $31,000 to keep an inmate in jail.

Another lucrative economic benefit is that of the revenue gains of legalization. Miron and Waldock (2010) predict that the government will be able to collect $8.7 billion from the tax revenues of Marijuana. The Government will equally be collecting money from marijuana licenses and the industry itself. Like the government gets taxes on cigarette packs, he will do the same for marijuana, a source of income that was never present due to the presence of marijuana in the black-market.

Evans’ (2013) furthermore studied how the legalization of marijuana leads to an increase in the government’s expenditure towards healthcare. The legalization of marijuana is directionally proportional with the number of consumers. This means the number of marijuana consumers will increase if it’s legalized. Numerous economists suggest that cannabis consumption will rise by 75% - 289% once legalized. It’s expected that this legalization will cause the price of marijuana to be much cheaper then the illegal marijuana found in the black market, which implies that it will be more affordable. This drop in the price will attract customers such as younger children and the poor. This relates to The Law of Demand, which was studied in depth in our Macro Economics course. Economics Today: The Macro View simply explains that the cheaper a product gets, the more people will buy it (Miller, Abbott, Fefferman, Kessler & Sulyma, 2014). If more people have access to the drug, the health of the public is at risk, the government will have to invest more money in healthcare and social services such as rehab centers according to Evans’ (2013) research. Marijuana has been related to many health problems such as immune system damage, birth defects, infertility, cardiovascular disease, stroke and testicular cancer. According to the Canadian Cancer Society, marijuana users who expose the public to second hand smoke can increase their risk of getting cancer. If there is an increase in the number of people getting cancer, this means the government will have to spend a lot of money on healthcare. If this occurs, the prices of healthcare will skyrocket.

The Drug Policy Alliance have concurred a status report on Colorado, which became the first state to legalize marijuana back in November of 2012. The numerous contributors have studied the tax revenues and savings of the state after 18 months of legalization. Colorado’s state department of revenue claims that they’ve collected about $10.8 million in taxes from sales in the first four months of legalization. These tax revenues come to the advantage of the state because the government has pledged to use some of this money to improving its schools. The state is projected to save about $12-40 million by decreasing the number of drug-related arrests. Employment has equally been thriving in Colorado, an estimated 10,000 individuals are currently working in the marijuana industry and the number of working opportunities is still currently growing. Governor Hickenlooper has described the state’s situation as “While the rest of the country’s economy is slowly picking back up, we’re thriving here in Colorado”.

Miller et al. (2014) discussed the factors that increase or decrease countries’ GDP. One of the main factors that aid to increase GDP is that of government expenditures. Before legalization, the sale and income earned from marijuana sales were included in the underground economy, which is not part of a country’s GDP because it’s hidden from the government. As stated above, if the government will have to spend more money on healthcare and services such as rehab centers, this will also increase the GDP of the country to a degree because it falls in the category of government expenditure. As seen in Colorado, employment is on the rise. If more people are working, the more they will be able to spend. This is known as consumption expenditure, another component of the GDP. All these factors together will increase the GDP of a country or state that has legalized marijuana.

To conclude, it is evident that the legalization of marijuana has great, positive economic impacts on a society. It has been proven by numerous economists that an ample amount of money can be saved from budgetary savings such as abolition of law enforcement on the drug and revenue gains from taxation (Evans 2013) if legalization is accepted.

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