



The Market Mogul

Why Legalising Cannabis Benefits Business, Research And Law Enforcement

Stephen Bitsoli

March 10, 2017

Uncertainty is bad for business, especially in a newly regulated industry. If the very legality of a product is in doubt, it stops cautious entrepreneurs from investing in or expanding operations.

Such is the situation in which the legal marijuana industry finds itself. The cannabis business is literally a multi-billion dollar industry, threatened by mixed signals from the new federal administration. There is a need for clarity.

Twenty-eight US states now allow the sale of medical marijuana, with eight of them also allowing recreational use (the District of Columbia allows its use, but not its sale.) Legal sales of marijuana were more than \$7bn nationwide in 2016 according to estimates – about \$1bn each in just Colorado and Washington, two states that recreational use in 2012.

New Frontier Data forecasts that legal marijuana could generate more than a quarter of a million jobs by 2020 and more than \$24bn by 2025. And those profits generate tax revenue for state and local governments. But that is under state laws.

State vs. Federal

Under federal law, marijuana is still illegal, even for medicinal purposes. Although the so-called 2013 Cole Memo restricted most federal enforcement of the marijuana laws, leaving it to the states and local law enforcement, cannabis still is a Schedule I drug. That means the Department of Justice (DOJ) and the Drug Enforcement Agency (DEA) believe it has a high potential for abuse, no currently accepted medical use, and no accepted safe use.

One of the areas that the Cole Memo left open to federal enforcement was “preventing the distribution of marijuana to minors.” That is one of the reasons the American Academy of Pediatrics is against the legalisation of even medical marijuana: it might imply that marijuana is not harmful – the organisation insists it is, especially for the adolescent brain – and increase its use among teens. The AAP feels rehab for teenagers should be encouraged.

Less restricted drugs in Schedule II with accepted medical uses include cocaine, opium, and the super-opioids fentanyl and carfentanil. The very powerful last drug, deemed a weapon of war, can tranquillise elephants.

Drug agents can overdose just by touching carfentanil with their bare hands. But under the Controlled Substances Act too much marijuana is more dangerous.

Bad for Business on Cannabis

Although President Trump said during his campaign that he would leave marijuana legalisation to the states, in February Press Secretary Sean Spicer said there would “probably” be greater enforcement of federal marijuana laws under Attorney General Jeff Sessions. Medical cannabis is probably safe from a crackdown, but if recreational use is curtailed, or even threatened, how does this affect the thriving legal marijuana industry?

It already has delayed or derailed plans in Alaska, a state that has seen recreational use approved in 2014. In February 2017, the state’s marijuana control board declined to clarify whether cannabis retailers could allow use on-site in a cafe-like area. One board member said he feared it would anger, or at least draw the attention of Sessions, who has said: “Good people don’t smoke marijuana.”

Retail canna-business Rainforest Farms in Juneau had been planning a vapour lounge, but now it is on hold. The state’s Alcohol and Marijuana Control Office says it can still approve applications for on-site consumption, but will probably not do so until the establishment of regulatory and review procedures.

While no one is saying teens should be allowed to smoke marijuana – though a large number of the people keeping it illegal probably did, without requiring rehab for teenagers – not even the conservative think tank Cato Institute thinks there is evidence of increased teen marijuana use because of legalisation (Cully Stimson of the conservative Heritage Foundation remains steadfast in his opposition anyway.)

Potential Health Benefits

There are potential health concerns with marijuana, but there also are – despite DOJ and DEA – potential benefits, too. With legalisation, it becomes easier to study both. A recent study by the University of British Columbia suggests that marijuana can replace more addictive drugs, such as opioids, for treatment of social anxiety, depression, and post-traumatic stress disorder (PTSD). It might even help alcoholics stop drinking. Marijuana could actually be an aid to rehab for teenagers.

Cannabidiol or CBD oil, a non-psychoactive derivative from cannabis, has shown promise in treating epilepsy and other conditions. Because of its promise, and that it does not cause a marijuana high, several states that do not even permit medical marijuana have legalised it.

Yet, federal law still prohibits it. In February, Alaska’s Alcohol and Marijuana Control Office seized stocks of CBD oil from several marijuana retailers – including Green Jar in Wasilla and Arctic Herbery in Anchorage – claiming they were violating state “testing and packaging requirements.”

Caleb Saunders of Green Jar said sales of the CBD oil sales had allowed them to remain open while waiting for local government approval to sell marijuana.

Probable Financial Benefits

Legalisation not only generates revenue and creates jobs, but it reduces law enforcement costs by eliminating a prosecutable offence, which also substantially reduces the black market for cannabis. Economist Jeffrey A. Miron estimates that legalisation of marijuana could help save the local, state, and federal levels of government around \$13.7bn per year.

Those who feel businesses are taxed too much might support legalisation, too. In August 2016, the Washington Post wrote that “the current federal status of marijuana makes it impossible for state-legal marijuana businesses to take the same tax deductions afforded to other business,” making these businesses’ effective tax rate between 60% and 90%.

“Federal restrictions also make banks reluctant to work with marijuana businesses, leading many of them to become all-cash operations — with all the risks that entails.”

Finally, there is competition. Canadian Prime Minister Justin Trudeau campaigned on a promise to legalise cannabis and expects to see it introduced by summer (while also taking measures to prevent children’s access to marijuana, maybe providing rehab for teenagers, too).

If the US cracks down while Canada opens up, those billions in revenue and 250,000+ new jobs might head for the border. Could the profit motive help encourage legalisation? Time will tell for retailers, law enforcement, and cannabis users.