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The Economics of Legalization

Jeffrey A. Miron has been the leading economist in studying the fiscal effects of the drug war. Just in time for the home stretch on Prop 19, he has teamed up with Katherine Waldock and CATO Institute to publish a white paper: [The Budgetary Impact of Ending Drug Prohibition](#)

The report concludes that drug legalization would reduce government expenditure by about \$41.3 billion annually. [...]

Legalization would also generate tax revenue of roughly \$46.7 billion annually if drugs were taxed at rates comparable to those on alcohol and tobacco.

Now that's a set of numbers to get a little bit excited over. But it's only a set of numbers — a realistic look at what could be, assuming full legalization, and taking advantage of all the resulting cost savings and tax revenue. That's what this kind of estimates are about. It doesn't mean that we're going to see \$88 billion.

The most intellectually dishonest of the prohibition enablers out there see numbers like this and then, finding a reason why we might not see all of it, irrationally act like they have disproved legalization arguments.

But Miron understands, as do all us reformers, that economic benefits of legalization are just one of many benefits, and that any portion of that \$88 billion is a bonus.

The conclusion is worth quoting at length:

First, the total impact of drug legalization on government budgets would be approximately \$88 billion per year.

Second, about half of the budgetary improvement from legalization is due to reduced criminal justice expenditure. But for this component of the impact to show up in government budgets, policymakers would have to lay off police, prosecutors, prison guards, and the like. Because such a move would be politically painful, it may not occur. It is certainly true that reduced expenditure on enforcing drug prohibition can still be beneficial if those criminal justice resources are re-deployed to better uses, but that outcome is difficult to achieve.

Third, only about \$17.4 billion in budgetary improvement can be expected to come from legalizing marijuana in isolation. Yet the current political climate gives no indication that legalization of other drugs is achievable in the short term. So the budgetary impact from the politically possible component of legalization—marijuana—seems fairly modest.

None of these considerations weakens the critique of drug prohibition since that critique has always rested mainly on other considerations, such as the crime, corruption, and curtailment of civil liberties that have been the side-effects of attempting to fight drug use with police officers and prisons. What the estimates provided here do provide are two additional reasons to end drug prohibition: reduced expenditure on law enforcement and an increase in tax revenue from legalized sales.

Exactly.



September 28th, 2010 by Pete | [Permalink](#)

7 comments to The Economics of Legalization



Buc

[September 28, 2010 at 11:12 pm](#)

Jeff Miron is right up there with people I would love to meet, just for the opportunity to praise him.

It's great to see somebody as brilliant as him be as determined as he is in ending prohibition. A lot of times people will write a piece here or there, but he's on the ball all of the time.



Paul
September 28, 2010 at 11:18 pm

The Cato Institute is awesome.

I wonder if their calculation included any impact on the economy of returning prisoners to society and to work? Their time in prison not only includes the actual cost of keeping them there, but the lost productivity to the marketplace because they can't work.

There are all manner of other costs that really can't be calculated. What is the cost of growing up without your incarcerated father? How many people are directed from the legitimate economy to the black economy, where their productivity is lost to criminal enterprises? How much could we save with relaxed customs standards on inspections and on barriers to trade?

The drug war has twisted and perverted all manner of societal institutions with vast and complex costs and consequences. I'm glad Cato was able to put a number on some of the expense, but it really is just the tip of the iceberg.



Just me.
September 29, 2010 at 6:31 am

but it really is just the tip of the iceberg.

Yep and icebergs have tendency to rise when 10% is removed. I look at cannabis prohibition as that 10%.



kaptinemo
September 29, 2010 at 6:59 am

Given that the effects of the Meltdown will be felt for years, the economic situation of this country is starting to look like Japan's Lost Decade. The sooner we jettison unsupportable expenditures like the DrugWar, the sooner the government can concentrate on re-allocating resources for things the country actually needs.

Since America worships Mammon, a.k.a. money, our side needs to hammer home again and again and again the fact that a trillion dollars have been wasted on this boondoggle, money that could have been used more wisely...and in kitchen-table terms.

Winter's coming, and it promises to be as much of a bitch this year as it was last; point out that the money spent on JP fuel for every FLIR-equipped helicopter flying around looking for grow-ops is costing poor families their heating fuel. Every dollar spent on imprisoning non-violent drug users is taking money from school lunch programs...not to mention schools, themselves. Every dollar spent on 'foreign aid' in service of the DrugWar is money that's desperately needed right here. That sort of thing. The sort of thing that gets right to the core of most American family's awareness.

Americans in the main don't care about lost rights; most have yet to realize that the vast majority of those rights have been stolen long ago thanks to the DrugWar. But talk *money*, and the normally dull eyes take on a sharp gleam. That's the tack we must take.



claygooding
September 29, 2010 at 7:46 am

The study is about impact on the budget for the government but does not give any information on the impact to our economy when billions of dollars quit leaving this country untaxed because American farmers and people can grow their own.

Fortunately the CATO institute got a response from ONDCP or the GAO on how much of their 15 billion dollar budget is spent on marijuana, as compared to the other illicit drugs they chase, but never quite catch.



darkcycle
September 29, 2010 at 8:54 am

I totally agree, the savings estimates don't reflect the total because of the many hidden costs. And the savings can be productivity, or reduction of man-years spent by large segments of society in cages.

But I fear the drug war is too useful to them to give up. It has been the vehicle for consolidating control, expanding government power, and has provided the excuse for all manner of unconstitutional intrusions on our rights. More importantly, it keeps people who might otherwise be politically active on the sidelines out of fear. When your family and job and entire life as you know it can be taken away for a simple possession bust, a lot of people choose not to go out and be identified with a movement. I know, in the past I scrupulously avoided public protests for just those reasons. Years ago, a single pot bust would have cost me my career, since a background check was required for every single position I ever held. My wife taught at that time in a small district elementary school as well, and likely would have lost her job as well, had I been busted. Not to mention what the ghoulish local media might have made of it "Local child psychologist, employed by County youth services, and elementary teacher arrested in drug house"

To this day, Darkcycle is a nickname, applied to a pseudonym. I still can't afford a legal issue.



kaptinemo
September 29, 2010 at 9:31 am

Darkcycle, you're literally amongst scores of millions of like-minded, civilly-engaged citizens who care about their communities...but must remain off the radar thanks to their (rational!) choice of intoxicant. And yes, that's exactly how the authoritarians infesting far too many of our public institutions like it. Keep the *hoi polloi* in check by threatening their economic survival – and therefore threaten, in this corp-rat-ly controlled economy, their *physical* survival. That's really all that p*ss tests are for.