

The State News

Impact of legal pot remains debateable

By: Alex Brooks – March 24, 2013

The legalization of marijuana generally has been an issue of morality and social acceptance above all else, and because of that, the debate never has particularly interested me.

However, recently I have been reading about the potential economic benefits of its legalization and now feel compelled to weigh in.

For the sake of this article, let's try to avoid the moral issues and health issues and look, instead, at how the legalization of marijuana might benefit the U. S. economy.

More than 500 economists have signed a petition to legalize marijuana claiming it would save the federal government \$7.7 billion annually in enforcement costs alone.

Assuming the government taxes marijuana in a fashion similar to alcohol and cigarettes, they estimate it also would generate roughly \$6 billion per year in tax revenue.

Add those two fun facts together and that is \$13.7 billion to the plus side.

A good real-life example is the state of Colorado. Colorado legalized marijuana for medical purposes some years ago and imposed a 2.9 percent sales tax on all medical marijuana sales.

The result? The state collected \$631,000 in revenue from 199 dispensaries from July 2009 to February 2010, Colorado Department of Revenue spokesman Mark Couch said.

Economic benefits also can be found at the local level.

The city of Denver, for instance, charges dispensaries \$5,000 in licensing and registration fees and collected an additional \$1.4 million in revenues for the city through those fees.

We also might find growth in industries associated with marijuana usage. One likely would expect a boost in horticultural equipment and associated paraphernalia. (Don't overlook "munchies" sales.)

All in all, we are looking at a revenue boost to the United States economy that has been loosely estimated at \$6 billion to \$10 billion per year.

As is always the case in economics, it is a critical mistake to evaluate only the initial effects of changes in public policy.

The effects in stage one are often an illusion. Legalizing marijuana might just be a similar trap. According to the Cato Institute, "Roughly half the budgetary savings comes from reduced criminal-justice expenditure on drug prohibition."

For this component of the effect to show up in government budgets, policy makers would have to lay off police, prosecutors, prison guards, and the like.

Such a move would be politically painful, so it might not occur.

Reduced expenditure on enforcing prohibition still can be beneficial if those criminal-justice resources are redeployed to better uses, but that outcome is not easy to achieve.”

An additional burden is placed on society in the form of external costs.

The external costs of alcohol, for example, are the costs stemming from accidents while cognitively impaired, such as automobile accidents, related hospital expenses and rehabilitation expenses.

It would be foolish not to expect that similar external costs will be associated with the wider use of marijuana.

Researchers hired by the National Organization for the Reform of Marijuana Laws sought to quantify the costs for various substances.

They estimate the social impact of smoking to be 38 cents per pack of cigarettes. For every “excess ounce” of alcohol consumed, there is a whopping charge of a \$1.19.

For every joint of marijuana inhaled, they estimate the external costs to be between 40 cents and 95 cents.

Of course, we always need to be aware of the source. Another source on the opposite end of the spectrum, the National Institute on Alcohol Abuse and Alcoholism, provides some cautionary figures.

They state that while the federal government collects roughly \$8 billion per year in alcohol taxes, the government pays out roughly \$72 billion to cover the costs associated with alcohol consumption.

These government expenditures provide for services, such as Medicare and Medicaid, for the treatment of alcohol-related health illness, long-term rehabilitation, unemployment benefits and disability benefits.

The Heritage Foundation, a conservative think tank, said the United States government recently collected \$25 billion in tobacco taxes but spent more than \$200 billion on costs associated with health issues stemming just from tobacco products.

One thing appears clear, however.

Regardless of the organization, there is agreement that the costs associated with these behaviors are probably greater than the government revenues or the economic activity they generate.

Although many will make the case that marijuana is a less dangerous substance than alcohol, it is difficult to imagine the long-term financial effect will be positive.