**ECONOMY WATCH** 

Google Custom Search

High Hopes: Does Legalised Marijuana Have A Future? **F** FACEBOOK **EMAIL** LINKEDIN **TWITTER** 

In November this year, the U.S. states of Colorado and Washington embarked upon an unprecedented social experiment by legalising the consumption of marijuana for recreational use. Citizens, by a 55 to 45 percent margin, voted to make it legal for adults to possess an ounce of processed pot; and most significantly, the new laws will allow businesses to sell marijuana. Colorado and Washington have gone much further than the European countries, such as Portugal, Spain and the Netherlands, whose liberal drug policies still fall short of legalisation. "What Colorado and Washington have done is unprecedented. Up until now, no modern jurisdiction had removed prohibition on commercial production and distribution," said Dr Beau Kilmer, co-director of the RAND Corporation's Drug Policy Research Center and coauthor of Marijuana Legalisation: What Everyone Needs to Know.

Portugal's drug policies are the most radical in Europe, but they are quite different from the legislation in Colorado and Washington. Decriminalisation, which was introduced in 2001, applies to all drugs in Portugal, not just marijuana. And nothing has been legalised. Users caught with banned substances will not be prosecuted, but they must still attend

addiction panels composed of psychologists, judges and social workers.

Public Policy at Carnegie Mellon University.

drug-related crimes.

UN.

drugs from illicit sources.

**Changing Times?** 

Washington.

Washington's programmes.

**Pot Profits** 

billion per year.

he said.

believed.

falling prices," he said.

than its current price of about US\$300.

stands to earn US\$500 million in tax revenue.

generate US\$60 million a year in tax revenue for the state.

practice is marijuana.

because the of the US trend towards legalisation.

so the federal government may cave in eventually," he said.

Related: Legalize It??? Pot As Cure for California Fiscal Disaster???

Related: Why Legalising - And Taxing - Marijuana Is Great Economics

"Decriminalisation is nothing like legalisation. Equating the two is the biggest

misconception when it comes to understanding drug legislation," said Jonathan P.

the grocery store, but from criminals. True legalisation, such as in Colorado and

products. We should see spectacular reductions in the costs of production."

Washington, allows large-scale commercial companies to aggressively market their

What the Portugal liberalisation has done, however, is reduce the number of addicts of hard drugs from 100,000 in the 1990s to around 50,000 today, according to the nation's

reduction in the number of infections among intravenous users and a significant drop in

Although there are similarities between the policies of Colorado and Washington and the

differences. The world-famous Netherlands cannabis "coffee shops" operate in a legal

The trend in the Netherlands, however, is towards a less relaxed approach. The previous

government was frustrated at the size of the Dutch black market, which supplies cannabis

country's annual flower exports, which are worth US\$6.6 billion. The Government was also

In 2010, the Netherlands coalition Government decided to stamp down on drug tourism

southern provinces were required to present a government-issued "weed pass" for admission. Non-Dutch citizens could not get a weed pass, halting the flow of French,

German and Belgium drug tourists across the border. This will cut marijuana use

by phasing in restrictions on the "coffee shops". Starting in May this year, Dutch citizens in

dramatically as only 5.4 percent of Dutch locals smoke the drug annually, according to the

The ban will become active in the rest of the Netherlands on January 1, 2013, although not in Amsterdam where the hash coffee shops get 1.5 million visitors a year. The Dutch Government feared that frustrated drug tourists would start roaming the city looking for

Meanwhile, in Uruguay, a political experiment is planned which rivals the audacity of the new laws in Colorado and Washington. President José Mujica intends to introduce a legal, state-controlled market for cannabis. The law is not yet on the statutes, but his proposal

Related: Uruguay To Become First Government In The World To Sell Marijuana To Citizens

Not long ago, greater tolerance of marijuana would been inconceivable in the US, but a recent Rasmussen poll showed that 56 percent of Americans now believe marijuana

should be legalised and regulated like alcohol and tobacco. To date, 14 US states have decriminalised cannabis possession, and 17 states now allow medical cannabis. In some

But Colorado and Washington are the first to take the great leap towards legalisation. In

Amendment 64 will be enacted by December 23. Both states will allow for individual cities,

Washington, Initiative 502 comes into effect on December 6, whereas Colorado's

districts or counties to ban recreational marijuana usage altogether. One interesting

divergence is that home growing – up to six plants - is permitted in Colorado, but not in

There are still issues to resolve, however. State officials have yet to write the rules, tax codes and other regulations creating state-licensed retail marijuana shops. But an even bigger potential stumbling block is a potential clash with the federal government, which

still views marijuana as a Schedule I prohibited substance and has cracked down on

Jeffrey Miron, a Harvard University economist, and the author of *Drug War Crimes: The* Consequences of Prohibition expects the federal Government to frustrate Colorado-

"My guess is they will make sure that when a business growing marijuana in Colorado puts money in a bank account, that bank will have to report to the bank examiners that they are doing something illegal under federal law and they will be guilty of felonies. That's going to

have a chilling effect so it's not obvious how the State v Federal dynamic will play out."

"More states will legalise and gradually the trend of public opinion might become broader,

Miron has been an ardent campaigner for the legalisation of all drugs. He has argued that legalising marijuana, cocaine, heroin, and methamphetamine would save US\$85 billion a

year in the US. He accepts, however, that the only drug which could be legalised in

"A lot of commentators keep the arguments for the legalisation of marijuana and other

drive-by shootings over ice cream. We've seen that for alcohol and many other goods."

the potentially greater harm to the user, although that is typically exaggerated."

"So, to me, the only dimension where other drugs are substantially different to marijuana is

In a well-respected paper on the economics of marijuana distribution, Miron said the US government would save US\$7.7 billion annually if it legalised marijuana by not having to

estimated 46 percent of all drug arrests are for offences related to marijuana possession.

year if the Government taxes marijuana at rates similar to alcohol and tobacco. More than

support of his research. One economist who did not sign the petition was Stephen Easton who believes Miron has underestimated the savings. In an article in Businessweek, Easton

wrote that the financial benefits of pot legalisation could be closer to US\$45 to US\$100

Clearly, legalising marijuana use in two US states would not have the same economic

NORML, a non-profit lobbying group working to legalize marijuana, shows that legal

impact as national legalisation. But there are still huge potential repercussions, such as a major price falls in Colorado-Washington. A report by Dale Gieringer, director of California

marijuana in an open market could cost as little as US\$3 an ounce, which is 100 times less

But the real cost of marijuana will be influenced by how the two states decide to tax it on

three times over - when the grower sells it to the processor, when the processor sells it to the retailer and when the retailer sells it to the user. Estimates indicate that Washington

In Colorado, taxes will be lower at 15 percent of the wholesale price of marijuana through

2017. The Colorado Center on Law and Policy estimates that marijuana sales would

But the basic taxes are only part of a complex and unpredictable economic equation,

according to Caulkins. Amsterdam-style drug tourism could bring in a lot more revenue.

"We've seen the large revenues generated in Amsterdam. If people from other US states and abroad come in, it will generate bigger tax revenues than excess tax on marijuana. Lots of drug tourism means regular sales tax on restaurant meals and hotels, and so on,"

Caulkins said that a regulated industry would also bring in more income tax. "If they only supplied Colorado and Washington it would not be a big deal, but there's a chance that in

five years time these states could host the industry for the whole country because of

In addition, if Colorado and Washington host the bundled cannabis goods industries revenue will be much higher. "For straight-up cannabis prices may drop so much that

Colorado where the laws are friendlier, it becomes a much bigger industry," Caulkins

"It would take only eight to 10 farms in the mid-West to produce enough cannabis for the

Ironically, after the decisions in Colorado and Washington, shares in Medbox, an American company that makes cannabis vending machines, soared 3,000 percent in a week. They later dropped back, but remained well above the usual price. The run on prices was based

consumption, which may be true. But the punters did not take into account the potential

One misconception about the legalisation of marijuana, Caulkins says, is that it will cripple

620,000 of heroin users and 972,000 of hallucinogens, according to the Substance Abuse

the drug gangs. This false assumption is based on the size of the marijuana market. In 2011, there were 18.1 million users, compared with 1.4 million users of cocaine users,

and Mental Health Services Administration. But marijuana is cheaper and it does not

"It would only modestly reduce the financial power of drug gangs. A lot of marijuana distribution takes place in friendship networks rather than professional dealers with

buyers being reimbursed at cost. A lot of the time there's no violence at all," Caulkins said.

Around 60 percent of US cannabis comes from Mexico, however, and that market could be hit severely if Colorado and Washington become the suppliers for the whole of the US, or in the unlikely event that their social experiment triggers legalisation at federal level.

Dr Kilmer, of the RAND Corporation, says it's difficult to predict how the situation will pan

"There's a lot of uncertainty about the number and types of producers they will allow. Will

cannabinoid linked with anxiety and psychosis. Some forms contain more CBD, which has

Kilmer says that even though the potency of some forms of cannabis has tripled in recent years, excess cannabis use is rarely as damaging as excess alcohol intake. "People do go

to the emergency room for panic attacks. But the social costs pale by comparison with heavy alcohol consumption in terms of violence and chronic disease. And drunk people

There is a general consensus, Kilmer says, that cannabis use will increase when legal.

But it is not clear whether that increase will be 25 percent or 100 percent. It's also

There will be greater faith in the product, prices will fall, and there will be less social stigma.

unknown how the legalisation will impact on alcohol consumption. More cannabis could

Kilmer is unwilling to predict the long-term prospects for federal legalisation, but he would

not be surprised to see legalisation on the ballot in other US states between 2014-16.

Meanwhile, Jeffrey Miron says that if the Colorado and Washington experiment is

"The US is the single biggest force behind the international Single Convention On

Narcotic Drugs. If it backs away from prohibition, there would be an incentive for other countries to follow suit. But right now that's speculation and we'll have to see how it all

Get more special features in your inbox: Subscribe to our newsletter for alerts and daily

Do you have a strong opinion on this article or on the economy? We want to hear from you! Tell us what you think by commenting below, or contribute your own op-ed piece at

See also: Why Legalising - And Taxing - Marijuana Is Great Economics

successful and is copied by other US states, it could have a dramatic effect on drug

One possibility, he says, is to tax cannabis at a higher rate if it contains more THC, the

Related: Fake Highs, Real Risks: The Dangers of "Legal" Synthetic Drugs

out until Colorado and Washington determine their regulatory regimes.

anxiety-reducing properties and lowers the risk of psychosis.

reduce alcohol consumption, but the two could simply co-exist.

are far more likely to have car accidents."

policies worldwide.

updates.

pans out in the next year."

By David Smith, EconomyWatch.com

editorial@economywatch.com

**y** in

News Desk

More

Australia in Danger of Credit Downgrade

Trade Balance Expands as Fed Turns Soft Indian Prime Minister Visits Mozambique

Russian Economy Shows Little Sign of Improvement

Is Chinese Push for Innovation Just a New Economic Bubble?

**SUBMIT** 

An English journalist who, when he's not exploring the social consequences of political

actions, likes to write about cricket for some light relief.

Betting Markets 'Trump' the Polls when it comes to Presidential Forecasting

participate in the world's largest independent online economics community today!

Got something to say about the economy? We want to hear from you. Submit your article contributions and

**MARKETS** 

UNITED STATES

EMERGING MARKETS

▶ EUROPE / MIDDLE EAST

INVESTMENT MANAGEMENT

ASIA PACIFIC

CANADA

INVESTING

BONDS STOCKS

**▶** FUNDS

**INDUSTRIES** 

ENERGY

HEALTHCARE

UTILITIES

Terms of Service **Privacy Policy** 

INFORMATION TECHNOLOGY

COMMODITIES CURRENCIES

Initial U.S. Job Data Strengthens

Newsletter Signup

WE RESPECT YOUR PRIVACY

First Name

Last Name

Email

Contributors

**DAVID SMITH** 

INVESTIGATIVE JOURNALIST

View all contributors

CONTACT US

**ECONOMICS** 

**ECONOMIC CONDITIONS** 

INTERNATIONAL ORGANIZATIONS

**GLOBAL CHALLENGES** 

INTERNATIONAL TRADE

MONETARY POLICY

PERSONAL FINANCE

CREDIT CARDS

BANKING

**TAXES** 

POLITICAL ECONOMY

Call for Contributors

British Brexit was a Victory for Far Right Politics Hillary Plays Dangerous Game with Bill's Legacy

it be four or 400? Until we know, it's hard to predict total tax revenues," he said.

profits will be low, but if the bakeries mixing it with wheat in Minnesota relocate to

whole country. That's where marketing comes in. We could see cannabis growers

on the assumption that a more relaxed attitude to marijuana will boost nationwide

cultivating healthy images - like niche wine producers - based on it being cultivated a

In a regulated market, aggressive marketing would distinguish brands.

wonderful piece of earth so people spend five times more," he said.

lowering of costs in a regulated market.

dominate the black market in terms of revenue.

Related: Drug Capitals of the World

the open market. In Washington, marijuana will be taxed at the high rate of 25 percent

Miron's calculations of savings from legalisation also include a further US\$6 billion per

300 fellow economists, including three Nobel laureates, recently signed a petition in

enforce prohibition. The scale of arrests is certainly mindboggling. In 2010, US Police made 853,838 arrests in for marijuana-related offences, according to the FBI. Marijuana arrests now comprise more than a half (52 percent) of all drug arrests in the US and an

drugs separate, but some of the same reasoning applies. Criminalising anything for which there is a substantial demand leads to black markets and associated violence, corruption and quality control problems. So if you prohibited ice cream, we'd have black markets and

However, Miron believes that, in time, the Federal Government will relax its stance

states, like California and Montana, which have allowed medical marijuana.

grey area where their activities are technically illegal, but are tolerated and licensed.

to the whole of Europe. They claimed Dutch cannabis exports were greater than the

worried about the growing potency of marijuana.

forms part of a general global trend towards liberalisation.

Related: Spanish Town Wants To Grow Marijuana To Pay Off Debt

areas, the distinction between medical and non-medical use is blurred.

longstanding tolerance of cannabis in the Netherlands, here again there are key

Institute of Drugs and Drugs Addiction. Portugal's approach has also seen a large

Caulkins, co-author of Marijuana Legalisation and a professor of Operations Research and

"In Portugal, drug gangs still do the same things. You don't buy a kilogramme of cocaine at

The American states of Colorado and Washington have gone beyond the decriminalising policies in place in European countries like the Netherlands and Portugal by becoming the first modern jurisdictions to legalise marijuana - with far-reaching legal, social and economic repercussions.

DECEMBER 5, 2012 • SECTOR • BY DAVID SMITH