Economic Benefits of Marijuana Legalization

Marijuana prohibition is so controversial that it has become a source of humor in comedy clubs. My favorite comic, Ahmed Ahmed, has made his case for marijuana legalization:

I dated a girl for six months. She broke up with me over smoking pot. She said, “I don’t date people who do drugs; so you have to make your mind. It is me or the pot. Which one is it?” Well, that is not brain surgery! Let’s stop fighting sweetie and you tell me where you hide the … Doritos. Thank you! (crunch … crunch … crunch). I will miss you!

Listen, I am not advocating it; I am not promoting it. Marijuana is a plant. It grows from the ground. Our good Lord put it here. We didn’t put the … here. She wasn’t hearing me though. So, I sat her down one night for three hours and explained to her the story of Moses and the burning bush. She didn’t know the … story. They said God spoke to Moses through a burning bush. Helloooooo! That is what it says in the book. I believe the bush was burning. Perhaps, it was burning because Moses was smoking it! They say he came down the mountain with a glazed look on his face! No wonder he was lost in the desert for forty years! I can’t even go to the store high without getting lost!1

Fair enough, Mr. Ahmed! Let me now make a “dismal science” case for legalization.

1 http://www.youtube.com/watch?v=Lfr42upb3KQ&feature=fvser
A critical aspect of marijuana legalization is its effect on the demand and supply. Prohibition imposes a risk on marijuana production and consumption. Legalization removes this risk. The supply is going to increase as more growers switch to the crop. However, the government can control the supply increase by imposing a sizable production tax, which would cause the cost to growers to rise. In the short-run, the demand is going to skyrocket as marijuana becomes easily available and more people feel like trying it. Though, the long-term effect of legalization on the demand is hard to predict. Consumer taste may gradually shift away from marijuana, as some recreational users choose not to take it, just like many people today abstain from alcohol and tobacco use.

Referring to a study by Jeffrey Miron (2005)\textsuperscript{2}, more than 500 economists, led by Nobel laureates Milton Friedman, George Akerlof, and Vernon Smith, supported marijuana legalization.\textsuperscript{3} They agreed that, like alcohol and tobacco, marijuana legalization generates substantial tax revenues and create considerable public savings for the federal government and state and local governments.

Miron illustrates that the government can generate revenues from replacing prohibition with a regime in which marijuana is legal, but taxed and regulated like other goods. He estimates that legalization generates $6.2 billion annually if it were taxed like alcohol and tobacco. When I adjust this amount for inflation, the annual tax revenues balloon to $8.9 billion in 2011 prices.\textsuperscript{4}

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\textbf{Estimated Benefits of Marijuana Legalization (2011 Prices)} & \textbf{United States} & \textbf{California} \\
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\textbf{Tax Revenues} & $8,928,000,000 & $151,776,000 \\
\textbf{Public Savings} & $11,088,000,000 & $1,414,080,000 \\
\textbf{Police Protection} & $2,550,240,000 & $328,320,000 \\
\textbf{Judicial and Legal} & $7,761,600,000 & $982,080,000 \\
\textbf{Corrections} & $776,160,000 & $103,680,000 \\
\hline
\textbf{Total Benefits} & $20,016,000,000 & $1,565,856,000 \\
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Additionally, Miron argues that prohibition requires direct enforcement costs. If marijuana were legal, government expenditure decline in the area of law enforcement, including police protection, judicial and legal systems, and corrections. He estimates that legalizing marijuana saves $7.7 billion per year in government expenditure to

\begin{itemize}
\item \textsuperscript{2} Miron, J., “The Budgetary Implication of Marijuana Prohibition,” 2005, http://www.prohibitioncosts.org/mironreport.html
\item \textsuperscript{4} To make the adjustment, I used the average values of the Consumer Price Index for alcoholic beverages and tobacco products for 2005 and 2011.
\end{itemize}
enforce prohibition. Once again, when I adjust this amount for inflation, the annual public savings expand to $11.1 billion in 2011 prices. This benefit is distributed to $2.6 billion for police protection, $7.7 billion for judicial and legal systems, and $813 million for corrections. Of the total public savings of $11.1 billion, $7.6 billion accrue to state and local governments and $3.5 billion ensue to the federal government.

Adding the inflation-adjusted estimates of $8.9 billion in tax revenues to $11.1 billion in public savings results in total benefits of $20 billion annually from marijuana legalization for the United States economy.

Likewise, Miron estimates that California’s share from marijuana legalization would be $105 million in tax revenues and $982 million in public savings per year. California’s total benefits add to $1.1 billion annually. Adjusting for inflation, California gains nearly $1.6 billion in 2011 prices, including $152 million in tax revenues and $1.4 billion in public savings.5

No worries, Mr. Ahmed! Prohibition will eventually end as it did for alcohol in the 1930s. Like alcohol and tobacco use, parents, schools, governments, and the media must educate the youth about the health effects of smoking the pot. Education is the best vehicle to control the demand.

5 Miron’s estimates are consistent with the study by Gieringer, who calculates the total benefit of legalization to California between $1.5 and $2.5 billion annually. See Gieringer, D., “Benefits of Marijuana Legalization in California,” California NORML Report, 2009