

The Economic Case for Marijuana Legalization in Canada

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Abstract: *This paper examines the impact on the Canadian economy of the current policies regarding marijuana production and consumption. In the literature review, the reader will find an analysis of scholarly articles regarding current policies and their estimated costs to society, along with a proposed tax scheme for legalizing marijuana. In the conclusion, the analysis of the data presented shows that marijuana legalization would benefit the economy, as legalizing its sale would float new revenues to the government, while regulating it would create greater safety for users, ensuring that quality control tools, sales restrictions and licenses are in place.*

1. Introduction

Cannabis, the plant from which marijuana¹ is derived, is the most widely used, produced and trafficked drug worldwide (United Nations, 2011). Governments across the globe have invested heavily in fighting drug production and consumption. Notwithstanding, even though the war on drugs has increased cannabis seizures, data show that the drug's availability in the market has also expanded while trends in consumption have remained stable. In Canada, cannabis usage is estimated to be much higher than the world average of 2.8-4.5% (United Nations, 2011). Furthermore, data indicate that 12.6% of the population, roughly 4.39 million adults, have used cannabis at least once in the past year, while the estimate for youth aged between 15 and 24 was 26.3% (United Nations, 2011). Considering the size and breadth of the cannabis market, it is clear that prohibition has shuttered the Canadian government, like others worldwide, from an expansive additional source of revenue at a time when cuts in benefits and investments are being used to balance the budget. However, the loss of tax revenues is not the only problem associated with the current policies: prohibition has kept the

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drug industry illegal and, subsequently, deregulated. This makes for risk-premiums that create a monopolized market with high barriers to entry, while, concomitantly, leading to increases in violence, organized crime and the diversion of limited government resources to prosecuting drug users (i.e. non-violent crimes).

2. Literature Review

Latter-day policies have created substantial profits for drug dealers and producers; profits that could, were cannabis to be legalized, be transferred to the government's coffers. Stephen T. Easton (2004) estimates the retail price of a marijuana cigarette to be approximately \$8.60 while costing around \$1.50 to produce, yielding roughly a \$7.10 profit. In a free market such a profit margin would be fleeting, as new entrepreneurs would be induced into the market, increasing drug supply while driving down its retail price. However, in the illegal market, such a profit has staying power because the possibility of facing jail time serves as a barrier to entry, creating an effective risk-premium for those who participate in the illegal production and sale of such substances.

This paper does not, however, advocate a free market approach to drug legalization under which competition would reduce prices, for extra tax revenues would not be raised and consumption of the drug might rise to historic levels. A better approach would be to legalize cannabis while maintaining the current retail prices, transferring the risk-premium profits to the government by implementing a tax equivalent to the difference between the costs of production and current street prices. As Easton (2004) estimates, the consumption of marijuana in Canada is approximately 160,000 kilograms per annum, meaning that the suggested tax scheme would produce revenues of about \$2 billion. Considering the 2012 budget plan, if the government were to use tax revenues from the sale of marijuana, by 2014-2015 it would have a budget surplus of \$2.7 billion, instead of the current projection of a \$1.3 billion deficit (Government of

Canada, 2012). Likewise, considering annual health expenditures of \$5,614 per person, these tax revenues could be used to optimally cover the yearly health insurance costs of 356,252 Canadians (Health Canada, 2012).

Aside from permitting considerable mark-ups, prohibition gives greater flexibility to the drug industry and other advantages not enjoyed by regulated sectors. While legitimate Canadian businesses must comply with the rules imposed by trade agreements in order to garner free access to certain markets, the drug industry, as it is unregulated and illegal, pays no import duties. Drug pushers have tariff-free access to all markets. This, combined with no regulation, gives the industry greater malleability. The risks it faces are equal whether it sells pure or contaminated drugs, providing the industry zero incentive to utilize quality control measures. The lack of regulation does not effectively impede selling to minors, while also placing no geographic borders on distribution. This creates an industry that pays no taxes, is open to all markets and faces no red tape.

Meanwhile, as the drug industry profits while tax revenues falter, prohibition has led to allocating scarce government moneys to fund the prosecution of consensual behavior while filling prisons with non-violent offenders. Resources are not only used to fund growing operations, but also to prosecute and penalize offenders: in 2011, there were 113,100 police-reported drug crimes, of which 54% were for cannabis possession (Brennan, 2012). While there is contention about the dangers of addiction to cannabis and its harms in comparison to tobacco and alcohol, it seems that the greatest risk to cannabis users comes from criminal and civil sanctions: on top of fines and prison terms, otherwise law-abiding citizens gain a criminal record, which affects future employment opportunities as well as one's ability to travel and apply for citizenship internationally (Riley, 1998; The Canadian Bar Association, 2011). Such repercussions are in direct contrast to efforts to increase general welfare and reduce social disparities.

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3. Conclusion

The evidence presented shows that drug prohibition has high costs while offering relatively little benefit. Legalizing and regulating cannabis would float tax revenues to the government, ensuring that quality control tools, sales restrictions and licenses are in place, while simultaneously decriminalizing cannabis possession. As is done with tobacco consumption, adults and youth should be discouraged from using marijuana. This creates a sensible cannabis policy, economically and in terms of public health and safety, minimizing both the harms of cannabis use and of government policies.

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¹ Cannabis encompasses not only marijuana but also cannabis resins, but since the latter account for less than 1% of total cannabis seizures in North America (United Nations, 2011), this paper uses both terms interchangeably.