

# Legalizing marijuana in California would lower the price of the drug and increase use, study finds

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Legalizing the production and distribution of marijuana in California could cut the price of the drug by as much as 80 percent and increase consumption, according to a new study by the nonprofit RAND Corporation that examines many issues raised by proposals to legalize marijuana in the state.

While the state Board of Equalization has estimated taxing legal marijuana could raise more than \$1 billion in revenue, the RAND study cautions that any potential revenue could be dramatically higher or lower based on a number of factors, including the level of taxation, the amount of tax evasion and the response by the federal government.

Past research provides solid evidence that marijuana consumption goes up when prices go down, but the magnitude of the consumption increase cannot be predicted because prices will fall to levels below those ever studied, researchers say. Consumption also might rise because of non-price effects such as advertising or a reduction in stigma, researchers say.

In addition to uncertainty about the taxes levied and evaded, researchers do not know how users will respond to such a large drop in price. Even under a scenario with high taxes (\$50 per ounce) and a moderate rate of tax evasion (25 percent), researchers cannot rule out consumption increases of 50 percent to 100 percent, and possibly even larger. If

prevalence increased by 100 percent, marijuana use in California would be close to the prevalence levels recorded in the late 1970s.

The analysis, prepared by the RAND Drug Policy Research Center, was conducted in an effort to objectively outline the key issues that voters and legislators should consider as California weighs marijuana legalization.

"There is considerable uncertainty about the impact that legalizing marijuana in California will have on consumption and public budgets," said Beau Kilmer, the study's lead author and a policy researcher at RAND. "No government has legalized the production and distribution of marijuana for general use, so there is little evidence on which to base any predictions about how this might work in California,"

The analysis also suggests that the annual cost of enforcing current marijuana laws is smaller than suggested by others. The RAND study estimates that the cost of enforcing the current laws probably totals less than \$300 million.

"It is critical that legislators and the public understand what is known and unknown as the state weighs this unprecedented step," said Rosalie Liccardo Pacula, a study co-author and co-director with Kilmer of the RAND Drug Policy Research Center.

Two proposals are pending that would legalize the production and sale of marijuana in California. Assembly Bill 2254 authored by Assemblyman Tom Ammiano (D-San Francisco) would legalize marijuana for those aged 21 and older and task the state Department of Alcoholic Beverage Control with regulating its possession, sale and cultivation. The bill would create a \$50 per ounce excise tax and these funds would be used to fund drug education, awareness, and rehabilitation programs under the jurisdiction of the State Department of Alcohol and Drug Programs.

In November, California voters will consider a ballot measure titled the Regulate, Control and Tax Cannabis Act of 2010 that would make it legal for those aged 21 and older to cultivate marijuana on a 5-foot-by-5-foot plot, and possess, process, share or transport up to one ounce of marijuana. In addition, the initiative would authorize cities or counties to allow, regulate and tax the commercial cultivation and sales of marijuana. Such activities would remain illegal in jurisdictions that do not opt in.

In only two countries have there been changes in the criminal status of supplying marijuana. The Netherlands allows for sale of small amounts of marijuana (5 grams) in licensed coffee shops and in Australia four jurisdictions have reduced the penalties for cultivation of a small number of marijuana plants to confiscation and a fine. Neither has legalized larger-scale commercial cultivation of the sort California is considering.

In 1975, California was one of the first states to reduce the maximum penalty for possessing less than an ounce of marijuana from incarceration to a misdemeanor with a \$100 fine. In 1996, California became the first state to allow marijuana to be grown and consumed for medical purposes.

RAND researchers say one effect of legalizing marijuana would be to dramatically drop the price as growers move from clandestine operations to legal production. Based on an analysis of known production costs and surveys of the current price of marijuana, researchers suggest the untaxed retail price of high-quality marijuana could drop to as low as \$38 per ounce compared to about \$375 per ounce today.

RAND researchers caution there are many factors that make it difficult to accurately estimate revenue that might be generated by any tax on legal marijuana. The higher the tax, the greater the incentives would be

for a gray market in marijuana to develop, researchers say.

"A fixed excise tax per ounce may give producers and users an incentive to shift to smaller quantities of higher-potency forms of marijuana," said study co-author Jonathan P. Caulkins, the H. Guyford Stever Professor of Operations Research at Carnegie Mellon University's Heinz College and Qatar campus. Such a shift is another factor that could lower revenues collected from marijuana taxes.

In addition, since the November ballot initiative leaves it to local governments to set tax rates, the size of any levy could vary broadly. A jurisdiction with a low tax rate might attract marijuana buyers from elsewhere in the state or even other states, further complicating efforts to predict government revenues from the sale of legal marijuana, according to researchers.

The RAND report also investigates some of the costs to the state and society in general, such as drug treatment and other health expenses, that may change if marijuana is legalized in California.

It's unclear whether legalizing marijuana may increase or decrease drug treatment costs, according to the study. More than half of the 32,000 admissions for treatment of marijuana abuse in California during in 2009 resulted from criminal justice referrals, which could drop if legalization is approved. However, an increase in marijuana use could cause a spike in those who voluntarily seek treatment for [marijuana](#) abuse, researchers say.

**More information:** The report, "Altered State? Assessing How Marijuana Legalization in California Could Influence Marijuana Consumption and Public Budgets," can be found at [www.rand.org](http://www.rand.org)

Provided by RAND Corporation

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