

Contemplating the Costs of Marijuana Prohibition

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Article:

A recent column in the online magazine Slate noted that economics is “not so much a subject matter as a tool kit.” The tools of economics are most often used to analyze markets and employment and production, but they can be applied to other areas as well.

As a case in point, on this weekend four years ago I wrote a column about the high cost of capital punishment. Surprisingly, it’s actually cheaper to sentence convicted murderers to life in prison than to execute them. A 1993 study by researchers at Duke University found that in North Carolina, the *excess* cost of the death penalty (above and beyond the projected cost of lifetime imprisonment) was over \$2 million per execution.

My point four years ago was not to argue against the death penalty, but to note that the only rational way to support it was to place a “value” on each execution of well above \$2 million. If we’re paying \$2 million extra for each execution, then our “moral satisfaction” per execution had better be bigger than that. When it comes to public policy, even morals come with a price.

Drug policy is no exception. Most Americans view the use of drugs like marijuana and cocaine to be immoral and we tend to support politicians who pledge to keep them illegal. The Supreme Court’s recent decision on medical marijuana, though based on the legal technicalities of the U.S. Constitution, reinforced the blanket prohibition on marijuana. Let’s take a look at the fiscal side of current marijuana policy. How costly is it to maintain the ban?

The U.S. spends extensively to conduct its war on drugs. Since 1990, the federal government has expanded at a rate of 4.5 percent per year, but the budget of the federal Drug Enforcement Administration has increased by 8.5 percent per year. In 2002, a total of \$13.6 billion was spent by the DEA and other federal agencies on the interdiction of all drugs (not just marijuana).

Whether all that government activity has been a success depends on where you sit on the issue. Not surprisingly, the federal government believes it to be money well-spent, regardless of whether the inhabitant of the White House is a Democrat or a Republican.

The story told by arrest and seizure statistics is less clear, muddled by developments in society and the economy. For example, marijuana seizures by the DEA are much lower now than in the late 1980s. Is this a signal of the DEA’s success? Or is it a sign of reduced activity in the underground marijuana market, or reduced effectiveness of law enforcement?

In any case, direct federal spending doesn’t account for the entire cost of the prohibition on marijuana. State and local governments help carry out the ban, and there are implicit costs as well. Legal marijuana could, like any other product, generate sales or excise tax revenues.

A recent report by Harvard economist Jeffrey Miron takes a comprehensive view of the costs of marijuana prohibition. He compares the current situation to one in which marijuana is not just decriminalized, but entirely legal and regulated by the government.

The potential savings from legalizing marijuana are extensive. At the state and local level, there would be lower costs for police, prosecutors, and the courts. Correctional systems would need fewer guards and cells. Miron estimates these cost savings by looking at the percentage of arrests and incarcerations due to marijuana. He adjusts for such factors as the inclusion of charges for possession after a person has already been arrested for something else, because that person would be arrested whether or not marijuana were legal. He also adjusts for the revenue accruing to state and local governments from seizures and fines.

Miron finds that at the state and local level, legalizing marijuana would have saved a total of \$5.3 billion in 2003 in police, judicial, and correctional costs. In North Carolina alone, legalization would have saved state and local governments about \$100 million in 2003. I'll bet the budget negotiators in Raleigh would like to get their hands on some of that (the money, not the marijuana).

At the federal level, Miron estimates that the government would have spent \$2.4 billion less in 2003 if marijuana had been legal. Therefore, the total cost of maintaining the prohibition of marijuana in 2003 was \$7.7 billion.

If marijuana were legal, its manufacture and sale would generate tax revenue just like any other legal product. Miron estimates the potential revenues, net of the additional cost of regulating marijuana. He also takes into account the likely effects of legalization on the supply of and demand for marijuana. The change in demand would probably be minimal, but legalization would certainly increase supply, thereby decreasing the market price and increasing marijuana usage.

Based on all this, Miron estimates that if legal marijuana were taxed like other products such as root beer and tampons, it would generate about \$2.4 billion per year in taxes for governments at various levels. This figure would be an overstatement if much marijuana continued to be produced at home. But Miron notes that after Alcohol Prohibition was lifted in 1933, most alcohol production shifted from the black market to legitimate businesses.

Of course, what is more likely is that legal marijuana would be taxed aggressively, as is the case with currently legal drugs like tobacco and alcohol. For this Miron assumes a sin tax that would raise the market price of marijuana by 50 percent. A higher tax would risk driving activity back to the black market.

Based on this assumption, Miron finds that legal marijuana would generate tax revenue (net of bureaucratic cost) of \$6.2 billion per year. Based on figures for state-by-state marijuana usage, population, and so on, he projects that North Carolina's tax revenues would be between \$20 million and \$23 million annually.

Putting all this together implies that if the U.S. were to legalize marijuana, it would save \$7.7 billion in police, judicial, and correctional costs *and* it would gain \$6.2 billion in tax revenues (assuming marijuana were taxed like tobacco and alcohol). Therefore, the net gain to the American economy from marijuana legalization would be nearly \$14 billion per year. The net gain to North Carolina governments would be in the neighborhood of \$120 million per year.

Remember that these figures apply only to the legalization of marijuana and not other drugs like cocaine and heroin. Marijuana is an interesting drug for this fiscal exercise because it's relatively benign. Unlike alcohol or cocaine, no one's ever died from a marijuana overdose. And in spite of the government's rigid laws, marijuana appears to have some limited medical uses.

The question then is whether continuing to ban marijuana is worth a cost, both direct and implicit, of nearly \$14 billion each and every year. Unfortunately, there have been few good studies of other fiscal aspects of legalization. For example, the federal government says that drug use reduces worker productivity by over \$100 billion per year. If the portion of that lost productivity due to marijuana use were, say, \$20 billion, then \$14 billion would seem to be a pretty good price.

However, the \$ 100 billion figure derives from a quick study done in the 1980s by North Carolina's own Research Triangle Institute, and few researchers outside the government find it credible. Even the study's authors have backed away from it, saying it was never meant to be a precise estimate.

In lieu of hard data on lost productivity, other social costs, as well as potential benefits, we may have little choice but to try to put a price on our collective moral view of marijuana. Does our moral disapproval of the drug warrant a \$14 billion price tag? Answering that question is the only way we can have a rational debate on marijuana policy.