

Economics Project: Should The South Australian Government Consider The Legalisation Of Marijuana

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Introduction

For decades the question of whether or not marijuana should be legalised has been constantly debated and proposed towards governments around the world. There are certainly positive impacts that this would have particularly if a tax was placed on it. This includes a vast increase in tax revenue and a reduction in police resources. With that being said there are also negative impacts that could come along with this such as an increase in motor vehicle accidents, unemployment, the youths level of marijuana consumption and more. All of these aspects need to be addressed to be able to decide whether or not the South Australian Government should legalise Marijuana

Background

Currently, in South Australia, it is illegal to keep, use, grow, sell or give away cannabis, cannabis oil, or cannabis resin. Minor offences such as possession of cannabis, cannabis resin, or smoking-related paraphernalia can result in a fine yet no criminal conviction. Trafficking and large-scale growth of cannabis can result in a penalty between AU\$50,000 and AU\$500,000 or imprisonment for 15 years to life.¹ With that being said there are some aspects of cannabis use that are legal. The only way cannabis can be consumed legally within South Australia is medicinally. If a patient is dealing with a medical illness that exists for more than three months the patient will become eligible for treatment. Cannabis flowers may be received but it is much more common to be treated with cannabidiol oils. A patient will be prescribed these products by a cannabis clinic or authorised doctor and will then receive the medicine itself from a pharmacy.² As shown it is a very extensive process to obtain cannabis legally in South Australia. If South Australia were to legalise marijuana for recreational purposes there could be many potential economic benefits including extreme amounts of tax revenue, extreme savings from the reduction of police resources wasted on cannabis-related crimes.

Economic Impact

If cannabis was to be legalised nationwide or just within South Australia for recreational or medicinal use the Government would be looking at major amounts of tax revenue. Countries such as the United States where it has been legalised in many states have reaped major benefits and Australia could expect the same. Nevada, a state where marijuana has been legalised for not only medical purposes but also recreational, has made a revenue of US\$319,286,415 through its tax on marijuana.³ Arkansas has only legalised marijuana for medical purposes and has still been able to earn a tax revenue of US\$21,476,000.⁴ If Australia were to legalise marijuana for recreational use nationwide with a 10% licence fee and goods & services tax (GST) in place studies would expect this to boost the Government revenue by AU\$1.44 billion over four years.⁵

¹ Sahealth.sa.gov.au. 2021. *Illicit drug laws* | SA Health. [online] Available at:

<<https://www.sahealth.sa.gov.au/wps/wcm/connect/public+content/sa+health+internet/conditions/legal+matters/illicit+drug+laws>> [Accessed 14 September 2021].

² Sahealth.sa.gov.au. 2021. *Medicinal cannabis - Patient access in South Australia* | SA Health. [online] Available at:

<<https://www.sahealth.sa.gov.au/wps/wcm/connect/public+content/sa+health+internet/conditions/medicines/medicinal+cannabis/medicinal+cannabis+patient+access+in+south+australia>> [Accessed 14 September 2021].

³ Tax.nv.gov. 2021. *Marijuana Tax Revenue*. [online] Available at:

<[https://tax.nv.gov/uploadedFiles/taxnv.gov/Content/TaxLibrary/NV-Marijuana-Revenue-FY21\(5\).pdf](https://tax.nv.gov/uploadedFiles/taxnv.gov/Content/TaxLibrary/NV-Marijuana-Revenue-FY21(5).pdf)> [Accessed 20 August 2021].

⁴ Sparkman, W., 2021. *Arkansas' medical marijuana sales proving to be a boon for the state*. [online] Axios. Available at: <<https://www.axios.com/medical-marijuana-sales-arkansas-4bf388f7-a408-4ae2-88b2-9d217260b629.html>> [Accessed 9 August 2021].

⁵ Hale, S., 2021. *NWS Greens Policy Initiative*. [online] End The War On Drugs Legalise Cannabis. Available at:

<<https://greens.org.au/sites/default/files/2019-03/NSW%20policy%20initiative%20%E2%80%93%20cannabis.pdf>> [Accessed 6 September 2021].

Another way the Government would benefit is the vast amount of police resources that would be saved by legalising the substance. It is no secret that the war on drugs has been a failure. Those who struggle with addiction instead of receiving the help they need have been treated like criminals. From an economic standpoint, the Government has wasted a plethora of taxpayer money on court time, resources, and money spent by police departments enforcing these laws⁶. This money could be much better spent on real crimes with real victims or even reallocated towards other sectors such as health or education. If South Australia was to legalise marijuana it would become regulated and reduce harm for users, bringing in revenue and stop people from needlessly coming into contact with the police, courts and prisons. Other countries have been able to reap the same potential benefits that we face by legalising marijuana. In July 2017 Uruguay legalised marijuana. This led to a 20% decrease in drug-related crime. Evidence in the US points to a similar outcome as the country has witnessed a reduction in alcohol consumption, violent crime and prescription opiate overdoses. In Canada, the use of marijuana did not increase after legalisation.⁷ Each year, AU\$78.1 million is spent in NSW on dealing with marijuana via our police, courts and prisons. Legalising marijuana will mean a total boost in net revenue of almost AU\$200 million each year that can be spent on things like schools, hospitals, parks, pools and libraries.⁸

With that being said there are also potential negative consequences to the legalisation of cannabis. Users who would consider them moderate users may become more dependent with the increased accessibility of the substance⁹. Another concern is the impact of marijuana on the brain and how the legalisation of the substance will impact this, particularly the brains of the adolescent as those who have brains that are still developing are particularly vulnerable to long term damage.¹⁰ Multiple studies on animals and humans have indicated that marijuana usage during development can cause long-term or possibly permanent adverse changes in the brain.¹¹ Another study of over 230 teenagers showed that teenagers are more likely to use marijuana after it's been legalised.¹² This may be due to the legalisation destigmatising the drug and making it appear safer yet there are still many consequences to be cautious of particularly as a person whose brain is still developing.

If marijuana was to be legalised recreationally there would be 3 main different types of elasticity of demand that would depend on each user (Figure 1). Those who use marijuana rarely or those who do not use it will display a relatively elastic demand in regards to a tax being placed on marijuana. The change in price shows a dramatic decrease in the quantity demanded. Those who use marijuana but not necessarily regularly and mainly on the occasional weekend in social circumstances strike a balance between inelastic and elastic demand (Figure 1). The final type of elasticity



Figure 1: Price Elasticity Of Demand - Marijuana Tax

⁶ Hale, S., 2021. *NWS Greens Policy Initiative*. [online] End The War On Drugs Legalise Cannabis. Available at: <<https://greens.org.au/sites/default/files/2019-03/NSW%20policy%20initiative%20%E2%80%93%20cannabis.pdf>> [Accessed 6 September 2021].

⁷ Ibid

⁸ Ibid

⁹ Dillis, A., 2021. *The Effect of State Marijuana Legalizations: 2021 Update*. [online] Cato.org. Available at: <<https://www.cato.org/policy-analysis/effect-state-marijuana-legalizations-2021-update#marijuana-other-substance-use>> [Accessed 23 September 2021].

¹⁰ National Institute on Drug Abuse. 2021. *What are marijuana's long-term effects on the brain?* | *National Institute on Drug Abuse*. [online] Available at: <<https://www.drugabuse.gov/publications/research-reports/marijuana/what-are-marijuanas-long-term-effects-brain>> [Accessed 9 September 2021].

¹¹ Ibid

¹² Gorman, L., 2014. *Consequences of Legalizing Marijuana*. [online] NBER. Available at: <<https://www.nber.org/digest/oct14/consequences-legalizing-marijuana>> [Accessed 1 September 2021].

that will be expected to take place under the legislation and taxation of marijuana would be an inelastic demand which could be expected from those who are either addicted to marijuana or are heavily reliant on it for medical purposes. Even with a heavy increase in price due to the taxation, it can be seen that the quantity demanded only witnesses a minuscule decrease.

In regards to marijuana's elasticity of demand, it is very similar to that of cigarettes and tobacco with the exclusion of medicinal usage. If marijuana was to be legalised cigarettes would still bring a much higher amount of revenue due to them being a less taboo substance and their high level of addictiveness. In 2019-2020 the Government earned AU\$6.96 billion in excise taxes.¹³ It should be noted that there is a strong correlation between cigarette and marijuana smokers. The Graduate School of Public Health and Health Policy, City University of New York, found that cigarette smokers are 5 times more likely to use marijuana on a daily basis in contrast to non-cigarette smokers.¹⁴ A previously mentioned concern was the impact legislation would have on the youth's amount of marijuana usage and this correlation was most prevalent in those between 12-17.¹⁵

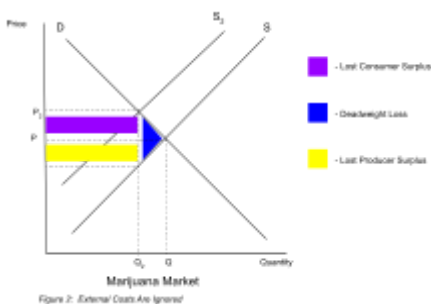


Figure 2: External Costs Are Ignored

With the legalisation of marijuana, there would be potential negative externalities involved that would cause third parties to suffer (Figure 2). The most notable of these negative externalities would be the impaired driving of those who are driving whilst being affected by the substance. Marijuana significantly impairs judgment, motor coordination, and reaction time, and studies have found a direct relationship between blood THC concentration and impaired driving ability.¹⁶ The solution to this problem is also not a simple one. A roadside drug test will be able to detect marijuana for 12 to 30

hours depending on the frequency of usage.¹⁷ The effects of the substance themselves generally only last from 1-6 hours, a much smaller time frame than that of the roadside drug test.¹⁸ This makes it hard to gauge whether or not a user's driving is actually being currently impaired by the substance. In the US a common solution to this is a field sobriety test yet they are not always accurate. Another potential negative externality was proposed by a 25-year study in Norway that showed that workers who used marijuana were less dedicated to their work compared to the contrary. In the US, marijuana use by employees leads to increases in absenteeism, accidents, job turnover and worker compensation claims.¹⁹ This means that unemployment could potentially increase along with a decrease in the amount of demand in the labour market (Figure 3).

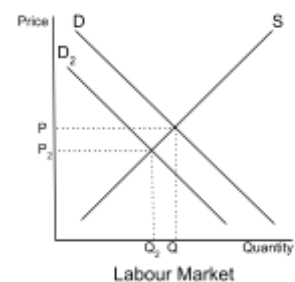


Figure 3: Marijuana Legalisation Impact On The Labour Market

¹³ Holden, R., 2019. *Why governments are addicted to smoking and alcohol - Australia's Science Channel*. [online] Australia's Science Channel. Available at:

<<https://australiascience.tv/why-governments-are-addicted-to-smoking-and-alcohol/>> [Accessed 20 September 2021].

¹⁴ Goodwin, R., 2017. *Cigarette Smokers Are Five Times More Likely to be Daily Marijuana Users | Columbia Public Health*. [online] Publichealth.columbia.edu. Available at:

<<https://www.publichealth.columbia.edu/public-health-now/news/cigarette-smokers-are-five-times-more-likely-be-daily-marijuana-users>> [Accessed 8 September 2021].

¹⁵ Ibid

¹⁶ National Institute on Drug Abuse. 2021. *Does marijuana use affect driving? | National Institute on Drug Abuse*. [online] Available at: <<https://www.drugabuse.gov/publications/research-reports/marijuana/does-marijuana-use-affect-driving>> [Accessed 12 August 2021].

¹⁷ Adf.org.au. 2019. *Roadside drug testing - Alcohol and Drug Foundation*. [online] Available at: <<https://adf.org.au/insights/roadside-drug-testing/>> [Accessed 12 September 2021].

¹⁸ Miller, H., 2020. *How long does a weed high last?*. [online] Medicalnewstoday.com. Available at: <<https://www.medicalnewstoday.com/articles/how-long-does-a-weed-high-last>> [Accessed 20 September 2021].

¹⁹ Van Esch, P., 2020. *Undecided on the cannabis referendum: 10 pros and cons of legalising the drug*. [online] The Conversation. Available at:

<<https://theconversation.com/undecided-on-the-cannabis-referendum-10-pros-and-cons-of-legalising-the-drug-146399>> [Accessed 11 September 2021].

Some countries have also witnessed an increase in housing prices due to the legalisation of marijuana. In Colorado, the legalisation of marijuana was found to increase the value of property prices by up to 6%. A separate study in Colorado found house prices could increase by up to 8.4% if they were within 160m of a marijuana dispensary. New Zealand also witnessed an increase in housing prices as the median housing market price sharply rose by 12% in one year. If this growth was to continue many could potentially be priced out of the market.²⁰ Marijuana users would value houses that are close to dispensaries higher than the contrary.

Consequences Of The Tax

If the South Australian Government were to legalise marijuana and implement a tax there will be consequences whether those are intended or not. The tax and legislation would be mainly motivated by being able to gain more tax revenue and reduce crime. This reduction in crime can lead to a positive externality as communities will become safer with less drug-related crime and illegal dealing of drugs (Figure 4)²¹. With this tax, there will also be unintended consequences, unfortunately. One expected unintended consequence would be the taxes impact on the black market. Many users may still purchase marijuana illegally to avoid tax, a common habit of tobacco smokers. According to the

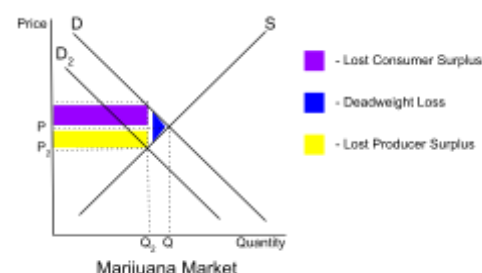


Figure 4: External Benefits Are Taken into Account

Australian Border Force, 1 in 5 cigarettes smoked in Australia has been purchased illegally²². Marijuana could witness a similar trend if the substance is taxed and legalised. With the substance becoming legal its consumption may increase. This would be particularly concerning if it led to an increase in the aforementioned negative externalities. This includes a potential increase in motor accidents, an increase in unemployment, and an increase in housing prices.

Implications

There are also social and economic implications that should be taken into consideration before forming a decision on whether or not the substance should be legalised. With a reduction in crime, the Australian population may witness less social pressures within households. With an increase in tax revenue, the Government will be able to spend more money on sectors such as the military, medicare and health, education²³. It was previously mentioned that the legalisation of marijuana may increase unemployment yet with the increase in government tax revenue they will have more money to spend on social security,

²⁰ Van Esch, P., 2020. *Undecided on the cannabis referendum: 10 pros and cons of legalising the drug*. [online] The Conversation. Available at: <https://theconversation.com/undecided-on-the-cannabis-referendum-10-pros-and-cons-of-legalising-the-drug-146399> [Accessed 11 September 2021].

²¹ Jorgensen, C., 2020. *How marijuana legalization would benefit the criminal justice system*. [online] The Blue Review. Available at: <https://www.boisestate.edu/blureview/how-marijuana-legalization-would-benefit-the-criminal-justice-system/> [Accessed 23 September 2021].

²² Styles, A., 2021. *Black market cigarettes a growing boom trade in WA, warns ex-top border cop*. [online] Watoday.com.au. Available at: <https://www.watoday.com.au/national/western-australia/black-market-cigarettes-a-growing-boom-trade-in-wa-warns-ex-top-border-cop-20210121-p56vzf.html> [Accessed 23 September 2021].

²³ Hawkins, P., 2021. *Australian Government expenditure – Parliament of Australia*. [online] Aph.gov.au. Available at: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview2021/AustralianGovernmentExpenditure#:~:text=Social%20security%20and%20welfare%20is,the%20National%20Disability%20Insurance%20Scheme. [Accessed 23 September 2021].

unemployment, and labour. The government will have to discuss whether or not these repercussions will be beneficial or not.

Conclusion

All aspects of this topic have been covered including the current marijuana laws, the economic impact, the negative externalities, the consequences of the tax, and the social and economic implications. Whether or not the South Australian Government should legalise marijuana, this is a decision that should be made by the Government and the Australian population. With that being said it is important that whilst doing so all this previously addressed aspect of the question is considered.

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