

**If the Australian government was to legalize all forms of Cannabis consumption how would that affect the economy?**

## Table of Contents:

<b>Title Page</b>	<b>Page 1</b>
<b>Table of Contents</b>	<b>Page 2</b>
<b>Table of Figures</b>	<b>Page 3</b>
<b>Introduction</b>	<b>Page 4</b>
<b>Context</b>	<b>Page 5 and 6</b>
<b>Outcome</b>	<b>Page 7,8 and 9</b>
<b>Recommendations to the Governments</b>	<b>Page 10</b>

**Table of Figures:**

Figure 1	Elasticity of Cannabis Diagram	Page 7
----------	--------------------------------	--------

## Introduction:

The cultivation of Cannabis in Australia is illegal, the current charges depends on how many plants you are growing, however, no matter what if you are cultivating or trafficking Cannabis you will be charged with a fine and/or prison sentence.<sup>1</sup> These sentences clog up our prison and increase the cost for taxpayers. The legalization of Cannabis should also increase economic growth as it would not need to be sold on the black market therefore can be taxed which the government can gain revenue from. Last financial year the Australian Government collected an estimated AU\$15,000,000,000 on Tobacco<sup>2</sup> and in 2015 the Government made AU\$2,000,000 on the taxes they have on alcohol alone.<sup>3</sup> However, taxes on the drug wouldn't be the only boost for our economy as complementary goods, such as drug paraphernalia should generally grow in sales. Companies such as Australia's Gatorbeug would grow substantially from this change in law and therefore create a new market in the business world opening up our economy to another revenue stream.<sup>4</sup>

---

<sup>1</sup> Caldicott + Isaacs Lawyers. 2021. *Cultivation of Cannabis & Growing Marijuana Charges | Penalties, Defences*. [online] Available at: <<https://www.caldicottlawyers.com.au/criminal-offences/drug-offences/cultivation-of-Cannabis>> [Accessed 1 November 2021].

<sup>2</sup> Smh.com.au. 2021. *Alcohol, cigarette use down: The budget hit that will affect all taxpayers*. [online] Available at: <[https://www.smh.com.au/politics/federal/alcohol-cigarette-use-down-the-budget-hit-that-will-affect-all-taxpayers-20210702-p586al.html#:~:text=These%20increases%20had%20made%20tobacco,petrol%20excise%20\(%245.9%20billion\).>](https://www.smh.com.au/politics/federal/alcohol-cigarette-use-down-the-budget-hit-that-will-affect-all-taxpayers-20210702-p586al.html#:~:text=These%20increases%20had%20made%20tobacco,petrol%20excise%20(%245.9%20billion).>)> [Accessed 1 November 2021].

<sup>3</sup> Publish.csiro.au. 2021. [online] Available at: <[https://www.publish.csiro.au/ah/pdf/AH15146#:~:text=Revenue%20generated%20from%20alcohol%20consumption,billion%20to%20government%20\(taxes\).>](https://www.publish.csiro.au/ah/pdf/AH15146#:~:text=Revenue%20generated%20from%20alcohol%20consumption,billion%20to%20government%20(taxes).>)> [Accessed 1 November 2021].

<sup>4</sup> Gatorbeug.com.au 2021, (online) Available at: <https://gatorbeug.com/> (Accessed 1 november 2021)

**Context:**

The legalization of Cannabis is a topic that is very popular yet controversial worldwide. The debate on whether Cannabis should be legalized has been going on since the 1950's yet only recently have we seen countries/states start to legalize the drug.<sup>5</sup> In an article written by Mayada Farraj in early March of this year it states that

*“The social impact of the legalization of marijuana is believed to have benefits for all ages, races, and social classes. Marijuana legalization has been linked to lower rates of opioid-related overdoses, harm, and death, which can improve public health significantly, according to Cannabiz Media.”*<sup>6</sup>

The main issue with the government legalizing Cannabis is that there are a number of negative externalities which they can't control. These include who consumes Cannabis, the amount consumed and the effect on the consumer. Large amounts of Cannabis can have adverse effects on your health. These effects include paranoia, restlessness, confusion, anxiety or panic, decreased reaction time and detachment from reality.<sup>7</sup>

If Cannabis can be proven to lower the effects of opioid related mishaps the legalization could decrease the issue of crowding in our hospitals, which has been a problem that our government has been facing for a while now and therefore improve the overall health of our nation.<sup>8</sup> However a common negative side effect of Cannabis is the impairment of learning.<sup>9</sup> If Australia was to make the drug legal that could have profound effects on groups of people such as University students as the information they are retaining in lectures could be hindered therefore grades would plummet. This would in turn increase the rate of people dropping out of University which would hinder the amount of graduates Australia has annually. This drop in graduates would result in a huge drop in upcoming staff at jobs which fuel our economy such as Doctors, Nurses, People in Marketing and Business, etc. which could damage our economy for decades to come.

---

<sup>5</sup> Wikipedia. Org. 2021 (online) Available at: [https://en.wikipedia.org/wiki/Legality\\_of\\_Cannabis#:~:text=Countries%20that%20have%20legalized%20recreational,Australian%20Capital%20Territory%20in%20Australia.](https://en.wikipedia.org/wiki/Legality_of_Cannabis#:~:text=Countries%20that%20have%20legalized%20recreational,Australian%20Capital%20Territory%20in%20Australia.) (Accessed November 1 2021)

<sup>6</sup> TCNJ Signal .net. 2021 (online) Available at: <https://tcnjsignal.net/2021/03/07/legalization-of-marijuana-reflects-significant-social-impact-across-state-country/> (Accessed November 1 2021)

<sup>7</sup> Mydr.com.2021 (online) Available at <https://www.mydr.com.au/Cannabis-marijuana-what-are-the-effects/> (Accessed November 1 2021)

<sup>8</sup> Recovery answers. Org . 2021 (online) Available at <https://www.recoveryanswers.org/research-post/opioid-use-disorder-Cannabis-produce-harm-reduce-harm/> (Accessed November 1 2021)

<sup>9</sup> Very Well Mind .com . 2021 (online) Available at <https://www.verywellmind.com/heavy-marijuana-use-affects-learning-social-skills-67794> (Accessed November 1 2021)

Much like the city of Amsterdam located in Europe the social implications for our Australian society if Cannabis was to be legalized might not be very pretty. We could be faced with a generation of lazy, mentally damaged and immature humans, which would make our community much less productive and efficient in most workplaces. Despite the revenue the government could make from taxes on Cannabis and drug paraphernalia they would lose on a decrease of productivity and efficiency which in turn could damage the economy as the unemployment may increase and economic growth decrease.

Depending on the form of legalization the government chooses will determine how the “drug” affects our society and economy. If The Government were to legalize only medical Cannabis we might not see such a large drop in our societies productivity and therefore the economy as the “drug” should only be used by people who actually require it to make them more productive, such as a painkiller for people with broken bones. Of course it may fall into the wrong hands, however it already does currently while the drug is illegal. So it wouldn't be any different to the current situation. However, if the government were to legalize all forms of Cannabis, medicinal and recreational, the effect on our society could be a huge drop in productivity which would decrease the productivity of our economy and throw us into a downturn much like Portugal.<sup>10</sup> Even though the government would see a large revenue stream from Cannabis taxes they'll lose other forms of revenue, such as, income tax as potentially less people are looking for jobs and working. This is all based on the assumption that if recreational Cannabis was to be legalized the rate of users would increase.<sup>11</sup>

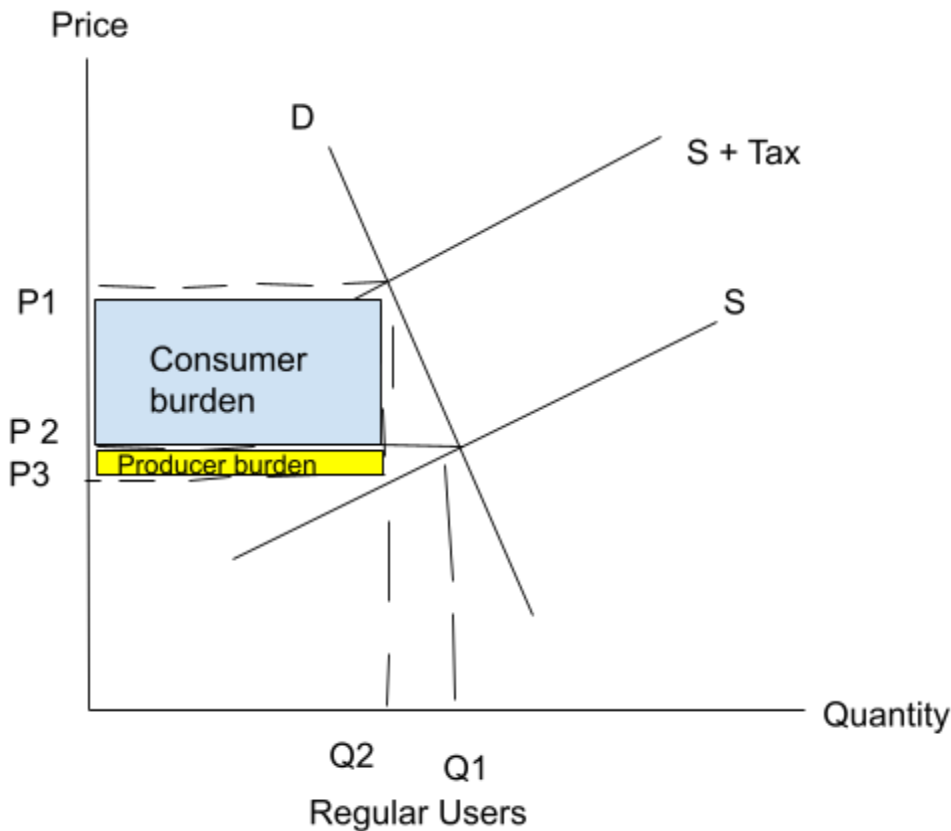
---

<sup>10</sup> The guardian .com . 2021 (online) Available at: <https://www.theguardian.com/news/2017/dec/05/portugals-radical-drugs-policy-is-working-why-hasnt-the-world-copied-it> (Accessed 1 November 2021)

<sup>11</sup>ABC. net. 2021 (online) Available at: <https://www.abc.net.au/triplej/programs/hack/does-legalising-marijuana-lead-to-more-people-smoking-we-ed/11556162> (Accessed 1 November 2021)

**Outcome:**

A study conducted by researchers at 'Columbia University's Mailman School of Public Health', 'Graduate School of Public Health and Health Policy' and 'The City University of New York' found that Cigarette Smokers whether daily or occasional users were 5 times more likely to be Cannabis users.<sup>12</sup> This creates a strong correlation between the two substances. That suggests that the revenue that the government could be making from a tax on Cannabis could be very large due to the already strong revenue stream of cigarette smokers as a large amount of cigarette tax is pumped into the Australian economy. As cigarettes are highly inelastic due to them being a habit with an addictive nature that can be hard to kick and as Cannabis has similar psychological properties as Cigarettes that would also make them a highly inelastic good as shown in the figure 1.



\*Figure 1 - Elasticity of Cannabis Diagram\*

No matter the change in price regular users who are being represented in figure 1 are still likely to consume the substance with an increase in price, making the product inelastic.

However, the report also found that many cigarette smokers were using Cannabis as a substitute for Tobacco as a complementary good. This means that legalizing Cannabis may in

<sup>12</sup> Public Health Columbia . edu . 2021 (online) Available at: <https://www.publichealth.columbia.edu/public-health-now/news/cigarette-smokers-are-five-times-more-likely-be-daily-marijuana-users> (Accessed November 1 2021)

fact lower our nation's cigarette smoking population and increase the Cannabis smoking population. This will of course lower the amount of tax the government receives from Cigarettes, however it should grow a different revenue stream in the form of Cannabis smokers as the government would have a higher percentage of tax on Cannabis compared to Cigarettes. For example, America currently has all forms of Cannabis legal in 18 states and medical Cannabis legal in 37.<sup>13</sup> Oregon was the first state in America to decriminalize the drug in 1973, yet they only put a 20% tax on the drug, therefore their revenue wasn't as high as other states, such as California and Washington who legalized the drug and put around a 45% tax on it.<sup>14</sup> However, it stays constant that all states in America their economies grew when Cannabis was legalized. The tax on Cigarettes is 12.5% in Australia<sup>15</sup> and is one of the government's largest revenue streams. If the government were to mimic America and put a tax on Cannabis at a higher percentage such as 30%, Cannabis taxes in Australia would become one of the highest grossing revenue streams our Government has seen assuming the consumption is similar to Cigarettes. If the government was to go through with legalizing Cannabis in all forms (recreational and medical), there would be profound social impacts on Australia, which could change our economy and damage or grow other revenue streams for the government.

The impact of tax if Cannabis were to be legalized would be exponential as the government would be able to tax Cannabis users like they do cigarette users. Cigarette users are currently one of the government's largest revenue streams as users of the substance are addicted to cigarettes and therefore cannot live without it making the substance highly inelastic. Therefore when it comes to tax the users are classed as regular users meaning they pay a much higher percentage of the tax than the producers. Represented in Figure 1. The Blue Box is the consumer burden in relation to the tax on Cannabis. The yellow box is the producer's burden. As shown when considering regular Cannabis consumers the highest percentage of tax comes from them.

An Australian Market Research Company (Roy Morgan) conducted a meta-analysis of Australians from the age 14-65+ asking them how they feel about the legalization of Cannabis. In total 31.8% of Australians say no, 56.8% say yes and the rest are undecided.<sup>16</sup> Roy Morgan

---

<sup>13</sup> Business Insider .com .2021 (online) Available at: <https://www.businessinsider.com.au/legal-marijuana-states-2018-1?r=US&IR=T#:~:text=Marijuana%20is%20legal%20for%20adults,reform%20measures%20in%20recent%20months>. (accessed november 1 2021)

<sup>14</sup> Wikipedia .com. 2021. (online) Available at: [https://en.wikipedia.org/wiki/Timeline\\_of\\_Cannabis\\_laws\\_in\\_the\\_United\\_States#:~:text=Starting%20with%20Oregon%20in%201973,majority%20of%20states%20by%202016](https://en.wikipedia.org/wiki/Timeline_of_Cannabis_laws_in_the_United_States#:~:text=Starting%20with%20Oregon%20in%201973,majority%20of%20states%20by%202016).(accessed november 1 2021)

<sup>15</sup> Yahoo sports. Com. 2021 (online) Available at: <https://au.sports.yahoo.com/has-australias-cigarette-tax-230653562.html#:~:text=Company%20offers%20non%20smokers%20more%20vacation%20time&text=The%20September%202019%2012.5%20per,most%20expensive%20in%20the%20world>.

<sup>16</sup> Roy Morgan .com. 2021 (online) Available at: <http://www.roymorgan.com/findings/6026-how-australians-feel-about-marijuana-201501272145> (accessed november 1 2021)



also found while conducting their survey that University Graduates are more likely to say yes to legalizing Cannabis than people who didn't finish high school.<sup>17</sup> This is more than likely due to the fact that University Graduates are more likely to see the benefit of medical marijuana and that is why they want it legalized and they don't care about the tax on Cannabis because they less likely to use Cannabis themselves, whereas, the 'high school dropouts' might consume cannabis and don't want to pay a large amount of tax on the drug and would prefer to smoke illegally.

---

<sup>17</sup> Roy Morgan .com. 2021 (online) Available at: <http://www.roymorgan.com/findings/6026-how-australians-feel-about-marijuana-201501272145> (accessed november 1 2021)

### **Recommendations to the governments:**

It is recommended that the Australian Government legalizes Cannabis in all forms (recreational and medical), as the benefits outweigh the negative impacts of the substance. Firstly, our prisons could be less crowded from offences linked to cannabis and used for more appropriate prisoners. The government could also then tax the consumers and producers of Cannabis at an extremely high rate which will boost the Australian economy and create a strong revenue stream for the government in the form of Cannabis taxes. The money received from the taxation of cannabis can be used for education and any health costs. There is evidence of this through the strong correlation that cigarette smokers and Cannabis smokers have with one and other. Finally the benefits medical Cannabis can have for certain sick people is exponential and can help the government with other issues such as overcrowding hospitals.