

The Economic Impact of the Legalization of Marijuana, Part 2

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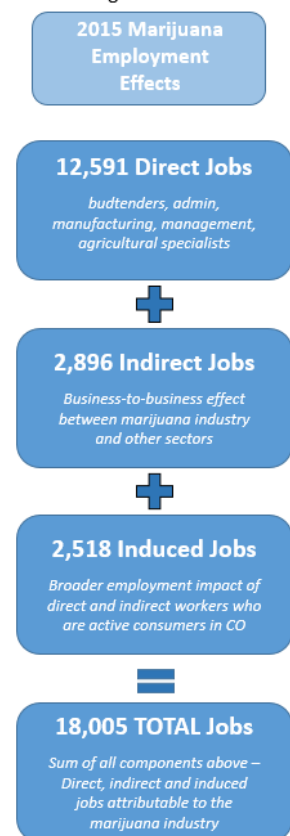
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Last month, the first piece in the series on the legalization of marijuana unveiled that the medical and retail industries generated almost \$1 billion in sales in 2015. The economic multiplier, or “ripple” effect, within the state economy is only surpassed by new, federal government dollars infused into the state. The marijuana multiplier is so high because of original legislation mandating that cultivation, processing and selling all had to occur within the state, which captures and holds virtually all of the economic benefit within state boundaries. By 2020, sales are projected to reach \$1.52 billion, a 5.6% increase over 2015 (<http://www.uccseconomicforum.com/publications/By-the-Numbers-Jul-21.pdf>).

Billion dollar industries have large employment effects, and this is certainly true of the marijuana industry. Not unlike the agricultural industry as a whole, the marijuana industry has a range of jobs including workers who grow, cultivate, harvest, process, and sell the product. These are labeled “direct” jobs. In addition, there are jobs resulting from the business-to-business activity associated with the industry, such as commercial real estate brokers and transporters. These are the “indirect” jobs. Lastly, all of these workers are active consumers in the community buying houses, cars, groceries and the like. These consumers buy from in-state businesses in various sectors, and employees in these other sectors make up the “induced” jobs. Figure 1 shows the breakdown of these employment effects with over 18,000 jobs attributable to the marijuana industry in 2015. Of these jobs, 12,591 were directly attributable to the marijuana industry. This includes agriculturalists, manufacturers and “chefs,” and sales clerks, often called “budtenders,” which is downright funny. The remaining 5,500 jobs emanate from the indirect and induced impacts described above. To put this in context, these roughly 18,000 jobs are comparable to the utility or the agriculture/forestry/fishing/hunting industry, but with the projected 16% increase in marijuana sales by 2020, marijuana jobs will surpass these other industries within the next 3 years. It is important to note that not all of these jobs are new jobs. As mentioned last month, much of the economic impact represents a shift from the black market to the legal market although some inherent growth in demand is also contributing to the growing job and revenue impacts.

Another major and often discussed positive effect of the legalization revolves around tax revenues. Proponents of legalization state that sales will happen regardless of legal status, so local and state governments should legalize and benefit from industry sales via taxation. Indeed, tax revenues from marijuana quickly provided a new and significant revenue source for the state. In 2015, tax revenues were \$121.5 million, or three times the tax revenues from alcohol and up 92% from the \$63.4 million in tax revenues in 2014. This represents revenues from both excise, or “sin” taxes on the suppliers, which are inevitably passed onto consumers, as well as the taxes at points of sale. The only other excise tax that generated more revenue in 2015 was for cigarettes although cigarette use has been declining since 2005 and is projected to continue its decline. As Figure 2 shows, by 2020, marijuana tax revenues will likely surpass other sin tax revenues at almost \$150 million per year. It is important to point out that these are tax dollars coming directly from the sales of marijuana products. They do not capture the additional sales tax dollars that come from the taxation of other goods and services by either marijuana tourists or marijuana-related employees.

Figure 1 - Jobs



Source: Marijuana Policy Group, 2016

Figure 2 – Colorado Tax Impact

Source of Tax Revenue	2015	2020 (projected)
Cigarettes	\$180.1 million	\$147.7 million
Marijuana	\$121.2 million	\$149.6 million
Alcohol	\$43.0 million	\$47.3 million

Source: Marijuana Policy Group, 2016

As other sources of tax revenue have declined, particularly in Colorado, local and state governments have had to look for new revenue streams in order to not only maintain necessary public services, but also to accommodate increasing population. From 2000 to 2016, the population in the state of Colorado has increased from 4.4 million people to 5.6 million, or 28%. By 2050, we are projected to have 8.5 million people, a 53% increase. Meanwhile, tax revenues are declining proportionately to population, and it is painfully evident in the educational realm.¹ This decline in tax revenues is much of the rationale for legalization as most of the dollars are earmarked for increases in education-related spending.² This may prove to be paradoxical given that many studies are now confirming that marijuana use is particularly harmful to the growing brain, and among moderate to heavy users in particular, there are long-term, negative ramifications in terms of mental health and memory function. That will be further discussed in the next article, which will focus on the other side of the benefit-cost equation: the health impacts of legalization.

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¹ In 1982, Colorado spent \$232 per pupil more than the U.S. for K-12 education. By 2014, Colorado spent \$2,030 less than the U.S. for K-12 education (National Center for Education Statistics).

² www.entrepreneur.com/article/289613 or www.colorado.gov/pacific/revenue/disposition-marijuana-tax-revenue