

Marijuana: The effect of legalization

According to federal law, the use, sale, and possession of marijuana has been illegal since the 1970s. More recently, many states have legalized marijuana. In 1996, California was the first

Joe McGarrity



state to legalize marijuana for medical use. In 2012, Colorado was the first state to establish a robust legal market for the recreational use of marijuana. These two states just got the ball rolling. Today, 36 states allow people to use marijuana for medical purposes and 18 states allow people to use it for recreational purposes. From what you've already read, you can see that these state laws conflict with the federal law. That is, in 36 states, state laws allow an activity that federal law prohibits. In recent times, these conflicting standards haven't caused too many problems since the federal government has generally not enforced its marijuana laws.

Opponents of marijuana legalization fear that if the drug were made legal, its use would explode. They fear that way too many people would be high and their impairment would cause

many social problems. They could even turn to economics to support their argument. Economists would acknowledge that legalizing marijuana would lower its price. The story is that once this drug becomes legal, more people will want to sell it now that they don't face jail time for doing so. With extra competition, firms will have to lower their prices to make sales. Economists will further acknowledge that people buy more of a product when its price decreases. You know this instinctively. Think about how you react when Kroger runs a half-price sale on steak: you'd buy more of it. Marijuana is no different. When its price decreases, people buy more of it.

However, the opponents of marijuana legalization should keep their dialogue going with economists. Economists have more insight to add. Economists can measure and interpret how responsive people's purchasing decisions are to price changes. Economists say people have a significant response to price changes when a 1 percent decrease in price leads to more than a 1 percent increase in their desired purchases. In contrast, economists say people have only a slight response to price changes when a 1 percent decrease

in price results in less than a 1 percent increase in their desired purchases.

In a paper in *Empirical Economics*, Professor Mark Nichols and his coauthors find that people's purchasing decisions are not very responsive to changes in marijuana prices. They estimate that when the price of marijuana increases by 1 percent, people only want to purchase about 0.7 percent more of it. Their estimate also means that if the recreational use of marijuana was allowed everywhere, there would not be an explosion in marijuana use. At least to me, this estimate isn't surprising. I do not care how low the price of marijuana gets. If half an ounce of weed costs \$100, I don't want any. If it only costs one penny, I still don't want any.

If Arkansas legalizes recreational marijuana use, its consumption would not skyrocket as many people fear. Instead, many people are like me. They will be relatively unresponsive to the lower marijuana prices that would come with legalization. In fact, elasticity estimates suggest that people are much more responsive to price changes in white bread or in restaurant meals than they would be to price changes in marijuana.

Joe McGarrity is a professor of economics.