



How Might Marijuana Legalization in California Affect Public Budgets and Marijuana Consumption?

California Assembly Bill 2254—often referred to as the Ammiano bill—and the Regulate, Control, and Tax Cannabis (RCTC) Proposition would legalize marijuana use for those 21 and over in California. The Ammiano bill would allow the state to regulate production and distribution and initially apply an excise tax of \$50 per ounce. The RCTC proposition would allow local governments to choose whether and how to regulate and tax production and distribution.

Two issues central to the debate are how legalization would affect marijuana consumption and public budgets. Governor Arnold Schwarzenegger suggested that “it was time for a debate” about legalization to generate revenue, and one government analysis estimated that taxing marijuana at \$50 per ounce would generate \$1.4 billion annually in revenues.

In work funded by the RAND Corporation, researchers addressed these two issues by constructing a model based on a series of estimates of current consumption, current and future prices, how responsive use is to price changes, taxes levied and possibly evaded, and the aggregation of many nonprice effects (such as changes in attitudes). The goal was to help legislators and voters understand the impact of key assumptions required for estimates, not to provide a comprehensive cost-benefit analysis of the impact of legalizing marijuana in California.

Key study highlights include the following:

- The pretax retail price of marijuana will substantially decline, likely by more than 80 percent. The price consumers pay will depend heavily on taxes, the regulatory regime structure, and how taxes and regulations are enforced.
- Consumption will increase, but it is unclear how much, because neither the shape of the demand curve nor the level of tax evasion (which reduces revenues and the prices consumers face) is known.
- Tax revenues could be dramatically lower or higher than the \$1.4 billion estimate; for example, uncertainty about the federal response to California legalization can swing estimates in either direction.
- Previous studies find that the annual cost of enforcing current marijuana laws ranges from around \$200 million to nearly \$1.9 billion; estimates from this study show that the costs are probably less than \$300 million.
- There is considerable uncertainty about the impact that legalizing marijuana in California will have on public budgets and consumption, with even minor changes in assumptions leading to major differences in outcomes.

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