

Marijuana Legalization in New York: Promising Economic Prospects

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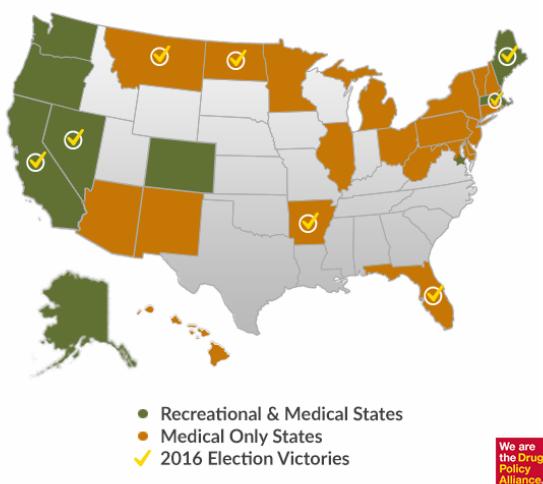
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Legalization in the United States

The marijuana law landscape in the United States is quickly evolving. Within the past five years, the number of states that have adopted medical marijuana laws has ballooned from sixteen—plus the District of Columbia—to twenty-nine.¹

Additionally, voters in eight states and Washington D.C. have elected to allow legal access to marijuana for adults 21 and over.

The New State of Marijuana Reform



Now, more than three-fifths of all Americans live in medical marijuana states and nearly one in five Americans live in a state where marijuana is legal.² Steady increases in support for marijuana legalization—which reached an all-time high of 64 percent in 2017 compared to 26 percent in 1996—strongly suggest that this momentum will continue to build.^{3, 4}

An Expanding Industry

This evolving legislative landscape has paved the way for an emerging regulated marijuana market valued at more than \$6.6 billion nationally.⁵ By 2025, annual adult use and medical marijuana sales are expected to exceed \$10.9 billion and \$13.2 billion, respectively.⁶

It is important to note that these numbers represent estimates about the market's potential for growth *if no additional states legalize marijuana*—which is unlikely considering recent movement in states like Massachusetts, New Jersey, Vermont, and New Hampshire.^{7, 8, 9, 10} In anticipation of additional legislative shifts at both the state and federal level, some financial analysts have predicted an industry value as high as \$50 billion by 2026.^{11, 12, 13}

The economic growth experienced as a result of legalization has also spread beyond the marijuana industry into related sectors including legal services, financial services, tourism, real estate, construction, and security.^{14, 15, 16} Additionally, legalization has provided an indirect boost to states' coffers through enforcement and criminal justice savings, income tax revenues from newly created jobs, and retail tax revenues from increased consumer spending by the newly employed.¹⁷

For New York State, there is ample evidence to project the positive impact legalization could have on the state's economy. For example, illicit marijuana sales in New York are estimated at \$3 billion,¹⁸ and an official study by the NYC Comptroller in 2013 estimated potential tax revenue for a legal marijuana market in NYC alone would be more than \$400 million, acknowledging that the actual revenue could be much higher.¹⁹

By comparison, Colorado has now collected more than \$500 million in taxes and fees from legal marijuana since retail sales began in 2014, with increased revenue projected for this year.²⁰ Between January 2016 and March 2017, state and local governments in Washington and Oregon were able to collect over \$80 million and \$75 million, respectively, in tax revenue.^{21, 22, 23, 24} There are more people in New York than all of these states combined.²⁵ Meaning New York would likely generate even larger revenues than these three states.

Additionally, legal marijuana states have been outpacing their projected revenue estimates.^{26, 27} For example, Oregon collected \$60.2 million in revenue in 2016, compared to original projections as low as \$10.7 million.²⁸

New York City alone is estimated to generate \$400 million dollars in adult use marijuana tax revenue for the state, and revenue from additional jurisdictions would push the

total fiscal benefit higher. The \$1 billion expected to be generated by the recreational marijuana market in California,²⁹ a state with a population nearly twice the size of New York's, likely represents an extremely high ceiling.

An Opportunity for New York

The state of New York has an economic output comparable to that of Canada.³⁰ However, New York continues to lag in the bottom half of states in terms of annual GDP growth.³¹ With the exception of Alaska, every state that has chosen to legalize adult use of marijuana is experiencing greater rates of economic growth than New York.³² For example, Washington and Oregon currently rank first and second in annual GDP growth among states, and Colorado currently has the nation's second lowest unemployment rate.^{33, 34} While these facts do not indicate that legalization is solely responsible for the progress being made in these states, they do suggest that marijuana legalization may have helped these states thrive.

Researchers predict that the national marijuana industry will create nearly 300,000 jobs by 2020, while many other industries like manufacturing continue to lose jobs. This suggests that legalization could serve as a better option for reducing unemployment than continuing to rely on shrinking industries.^{35, 36, 37, 38} However, state marijuana laws must create avenues for participation by Black and Latino people and low-income people in order to avoid establishing new barriers to employment for the persons most harmed by marijuana prohibition. Such measures will help New York begin to repair its legacy of racially disparate marijuana enforcement.

In upstate New York, marijuana legalization represents an opportunity for many communities to pivot from a failing prison economy to a more historically familiar agrarian economy.³⁹ Embracing the alternative of growing an extremely profitable and sustainable plant like marijuana would help disjoin the economic interests of these communities from a problematic industry. Additionally, a licensing structure designed to create a favorable environment for small businesses creates space for entrepreneurial efforts to be launched in small towns and rural areas, as well as disproportionately impacted communities across the state.

There is no reason why New York, a global economic powerhouse, should not be able to provide its residents with the same opportunities that are being afforded to individuals in states that are generating millions of dollars in revenue from legalization.⁴⁰ For example, Colorado was recently able to award \$420,000 in scholarships entirely funded by marijuana tax revenue.⁴¹ New York, which recently decided to invest more than \$170 million of the state budget into free college tuition for middle-class families, could similarly use revenue from taxed and regulated marijuana sales to pursue innovative programs to help residents, without having to dip into the state's coffers to fund the projects. The Marijuana Regulation

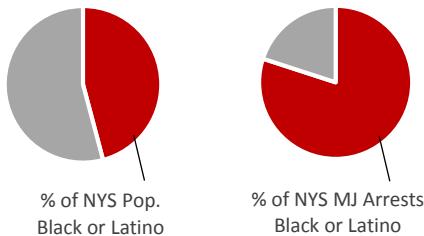
and Taxation Act (MRTA)—the proposed legislation for ending prohibition in New York—directs marijuana tax revenue to education and job training in communities most harmed by the drug war, as well as drug prevention and health services for New Yorkers.

Building Racial Equity and Economic Justice

Nationally, legalization presents a unique and much-needed racial equity and economic justice opportunity, while restoring communities most damaged by this country's failed war on drugs. For New York—the marijuana arrest capital of the world⁴²—legalization offers a chance to assume an active role in repairing the harms of the drug war, particularly for the state's most vulnerable communities.

The extreme racial disparities in marijuana arrests in New York have been well-publicized. Despite similar rates of marijuana consumption across racial and ethnic groups,^{43, 44} 80 percent of the nearly 23,000 people arrested for marijuana across New York in 2016 were Black or Latino.⁴⁵

Racial Disparities in NYS Marijuana Arrests^{46, 47}



These disparities have persisted for the past two decades and lead to serious collateral consequences.⁴⁸ For example, Black and Latino unemployment rates in New York at the end of 2016 were 6.8 percent and 6.5 percent, respectively, compared to the state average of 4.9 percent. Diminished prospects for employment and the consequent reduction of resources within impacted communities are among the many problems that follow a minor marijuana arrest.⁴⁹

Outlook for Regulated Marijuana Industry

In early January 2018, U.S. Attorney General Jeff Sessions rescinded the Cole memo,⁵⁰ which previously instructed the Department of Justice to allow states to implement their own marijuana laws with limited federal interference. This sets up a showdown with states that have legal marijuana markets and signals an attempted double down on the draconian war on drugs.

As a result, some of potential participants in the legal marijuana industry are wary of federal crackdowns. However, the money being generated in states that have legalized makes such a crackdown increasingly unlikely.⁵¹ Eliminating jobs and a tax revenue source would not be in the best interest of this administration—especially at a

time when bipartisan support for marijuana legalization is at an all-time high compared to historically low approval rates for this presidential administration.⁵²

Further, legalization in New York would add a significant amount of momentum to the national movement to end marijuana prohibition. If New York legalized marijuana, the combined GDP of states with adult use marijuana markets would make up nearly a third of the nation's entire GDP.⁵³

Additionally, New York's status as the nation's financial center would likely place pressure on the federal government to allow banks to do business with marijuana companies.⁵⁴ This could lead to growth in both the financial services sector and the marijuana industry as potential investors and entrepreneurs are likely to be less wary of an industry that is no longer cash-only.⁵⁵

The SMART Choice: Establishing a Well-Regulated, Inclusive Marijuana Industry

A wave of momentum in favor of ending marijuana prohibition has been sweeping the nation.⁵⁶ In 2016, people in states as far away as California and as close as Massachusetts chose to speak with their ballots and vote in favor of legalization. As marijuana use becomes destigmatized and more New Yorkers are made aware of the harms of marijuana prohibition, an increased demand will be placed on elected officials to make decisions that reflect their constituents' increasing support for marijuana legalization in the state.

A number of parties, who view the state as a potential "untapped" marijuana market, will be actively working to engage lawmakers and advance their financial interests in Albany. Any legislation truly concerned with the interests of New York must center the communities most harmed by marijuana prohibition through revenue reinvestment and offer remedies to the problems that stem from biased enforcement, which disproportionately affects Black and Latino New Yorkers.⁵⁷

The Marijuana Taxation and Regulation Act (MRTA) will:

- Remove penalties for personal possession, preventing New Yorkers from being unnecessarily swept into the criminal justice system and left to deal with collateral consequences that diminish their employment prospects.
- Create a process to seal convicted persons' offense records for conduct that is no longer criminal, and vacate marijuana violations (summons) and public view possession misdemeanors.

- Create thousands of new jobs both directly and indirectly related to the new legal market.
- Improve industry accessibility by keeping licensing and application fees reasonable and avoiding limits on the number of licenses that may be issued.
- Establish a license structure that allows for a diverse array of businesses and entry points with low start-up costs.
- Restrict vertical integration to provide the maximum amount of space for new companies to develop and contribute to a New York focused market.
- Create a micro-licensing program that is similar to the micro-brewery model that has allowed for New York's boutique wine and craft beer industries to thrive.
- Limit felony restrictions for participating in the industry to those that are both recent *and* relevant to owning and operating a business.
- Direct revenue toward efforts that will help repair communities harmed by the war on drugs and mass incarceration through job training, economic empowerment, and youth development programming.
- Protect youth by preventing access to marijuana and reducing interactions with the criminal justice system that can have lifelong consequences by removing criminal penalties for youth use.

The NY State Legislature should make the SMART choice: End prohibition, create a system to tax and regulate marijuana, and repair and reinvest in communities most harmed by the war on marijuana and communities by voting for the Marijuana Regulation and Taxation Act.

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