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Economics Council of New Orleans on  
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# The Evolution of the *Cannabis* Industry: From Illicit to Legal

The *Cannabis* industry has undergone a remarkable transformation, transitioning from a predominantly illegal market to a regulated sector across numerous states. This evolution reflects changing societal attitudes, legal reforms, and economic opportunities, culminating in a robust market projected to reach a valuation of \$44.3 billion by the end of 2025.



# Historical Context: Cannabis in America (1920s - 2025)

This timeline highlights the pivotal events surrounding *Cannabis* use and regulation in America leading to its prohibition.

1920s

*Cannabis* was the leading analgesic in America, dominating the medicinal market with significant usage and acceptance.

1937

The introduction of the Marihuana Tax Act effectively criminalized *Cannabis*, marking a drastic shift in perception and legality, leading to a drastic decline in research and medical use.

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## *Criminalization of Cannabis*

The 1937 Tax Act **effectively** criminalized *Cannabis* by imposing heavy regulations and prohibitively high taxes, leading to a significant reduction in its availability and usage for both medical and recreational purposes. This shift altered public perception, associating *Cannabis* with illicit activity rather than medicinal benefits.

## **Shift from Acceptance to Prohibition**

Prior to the 1937 Tax Act, *Cannabis* was a very widely used medicinal product in America, often prescribed for various ailments - especially chronic or intractable pain. It was second only to aspirin in the US pharmacopeia up until the early 1900s. The Act reversed decades of acceptance, pushing the plant into the shadows and severely limiting research opportunities.

## **Opposition from Medical Community**

The American Medical Association (AMA) strongly opposed the Tax Act, arguing it would hinder medical research and patient care. This opposition marked a crucial moment in the ongoing battle for *Cannabis* legalization and recognition as a legitimate medicine.

# Consequences of the 1937 Tax Act on *Cannabis*



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### Establishment of Schedule I Classification

The Controlled Substances Act (CSA) was enacted under the Nixon Administration in 1970, categorizing Cannabis as a Schedule I substance, which indicates it has a high potential for abuse and no accepted medical use. This classification **actually** criminalized Cannabis and severely restricted its availability for research purposes.



### Research Restrictions and Stigma

The CSA's classification of Cannabis as a Schedule I substance significantly hindered scientific research, limiting the ability to study its potential medicinal benefits and other therapeutic uses. As a result and by design, the stigma surrounding Cannabis grew, impacting public perception and policy.



### Long-lasting Stigma

The classification under the CSA contributed to a long-standing stigma against Cannabis, framing it as a dangerous drug. This **stigma** has persisted in public discourse and policy decisions, influencing societal attitudes toward Cannabis even decades later and up to the present time.



# Impact of the Controlled Substances Act or CSA

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# California's Proposition 215: A Turning Point for Medical Marijuana



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Passed in 1996, Proposition 215 was a landmark legislation that legalized medical marijuana in California, breaking decades of federal prohibition. This legislation not only provided access to *Cannabis* for patients in need but also inspired similar laws in other states, catalyzing the broader reform movement toward legalization across the nation.



## Successful Transitions to Adult-Use Cannabis

Many states have successfully transitioned from medical marijuana to adult-use *Cannabis*, reflecting shifts in public sentiment and regulatory acceptance. This evolution often manifests in expanded access and increased market participation, allowing consumers to purchase *Cannabis* without medical prescriptions. States like California, Washington, and Colorado have led this transition, setting examples for others to follow.

## Challenges and Conservative Approaches

Conversely, some states face challenges in this transition due to existing regulations, market saturation, and differing public or political opinions on *Cannabis* use. For instance, states like Louisiana maintain a more conservative approach, with high retail license costs and an ongoing oligopoly that severely limits any competition. The varying degrees of success highlight the need for tailored strategies that consider local market dynamics and cultural attitudes towards *Cannabis*.



# Market Growth and Future Projections

## Projected Market Value by the end of 2025

The value of the combined medical and adult-use *Cannabis* markets in the USA is projected to reach \$44.3 billion by 2025, a significant increase from \$3.9 billion in 2016. This growth reflects changing public perceptions and regulatory landscapes regarding *Cannabis* use.

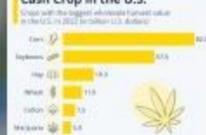


## Evolution of State Regulations

The cannabis market has rapidly evolved since the early 2000s, with states like California leading the charge in legalizing medical marijuana, which has paved the way for recreational use in other states, thereby significantly expanding market opportunities.



## Marijuana is the Sixth Biggest Cash Crop in the U.S.



## Future Market Projection for 2028

The projected market value for 2028 is \$56.9 billion, indicating that the trend of expansion and acceptance of Cannabis is likely to continue, driven by both medical and recreational markets across various states.



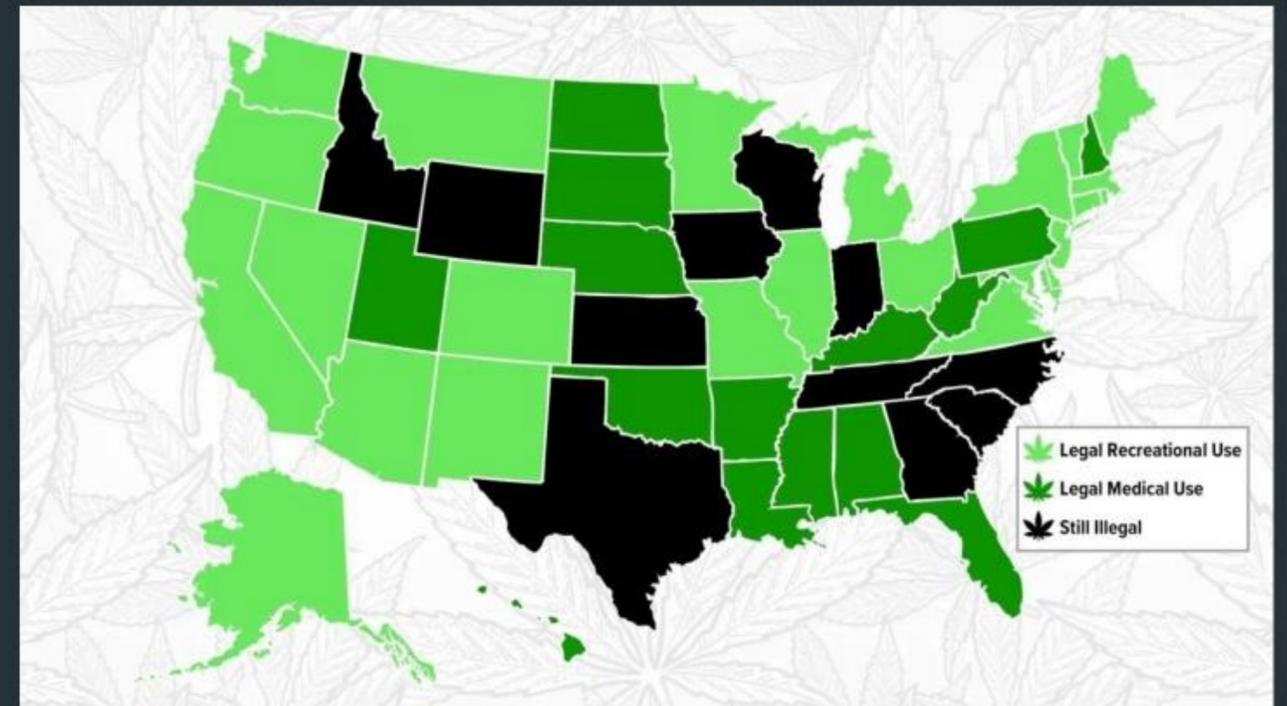
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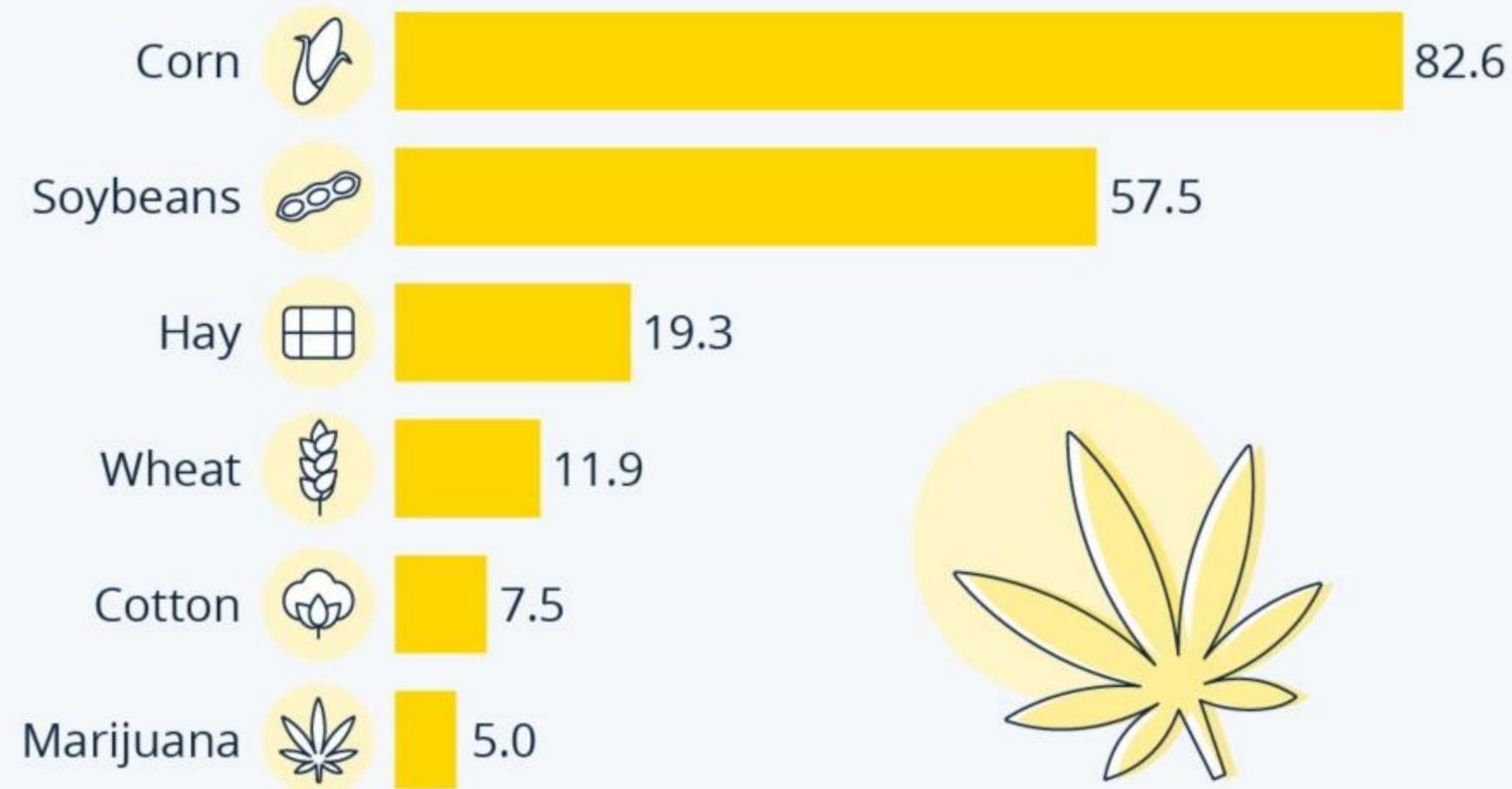
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# Marijuana Is the Sixth Biggest Cash Crop in the U.S.

Crops with the biggest wholesale harvest value in the U.S. in 2022 (in billion U.S. dollars)



Source: Leafly Cannabis Harvest Report 2022



# Understanding State-Specific Market Dynamics



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Market dynamics for *Cannabis* vary significantly across states due to factors like the maturity of the program, regulatory liberalization, and the rate of patient participation. Each state exhibits distinct multipliers in retail sales, influenced by its unique regulatory environment and consumer engagement levels. For instance, states that have adopted adult-use laws tend to experience higher multipliers compared to those with only medical marijuana programs, as they attract a broader customer base without the barriers of medical card costs.





# Tax Implications and Revenue Generation from Cannabis Sales

Examining the financial benefits and challenges associated with *Cannabis* taxation across various states.

2014

The first states legalize recreational *Cannabis*, initiating a new wave of tax revenue generation.

2021

States collectively generate over \$24.7 billion in tax revenue from legal *Cannabis* sales since the inception of legal markets.

2024

Leading states like California and Illinois report over \$1 billion and \$577 million respectively in *Cannabis* tax revenue, showcasing the financial potential of the *Cannabis* industry.

2028

Projected tax revenue continues to rise as more states legalize *Cannabis*, further impacting state budgets and public services.

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## 280E Restriction on Deductions

Section 280E of the Internal Revenue Code prohibits *Cannabis* businesses from deducting ordinary business expenses, which creates a significant financial burden on their operations and profitability. This restriction applies to any business involved in trafficking controlled substances, including *Cannabis*, classified as a Schedule I substance.

## Impact on Profit Margins

The inability to deduct expenses under 280E leads to higher effective tax rates for *Cannabis* companies compared to other industries, often resulting in lower profit margins and constrained cash flow. This can hinder growth and investment opportunities within the *Cannabis* sector.

## Challenges to Competitiveness

Given the financial strain caused by 280E, many *Cannabis* businesses struggle to remain competitive, as they cannot reinvest profits into expanding operations or improving product offerings. This can lead to market consolidation as larger firms might be better positioned to absorb these costs.



# Economic Impact of Section 280E on *Cannabis* Businesses

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# Consolidation Trends in the *Cannabis* Industry

The cannabis industry is witnessing a significant consolidation trend, where larger companies acquire smaller operators. This shift is reshaping market dynamics, influencing competition, and altering consumer choices. The ongoing consolidation is driven by factors such as regulatory challenges, high operational costs, and the need for economies of scale. For instance, in states like Louisiana, the value of retail licenses can range dramatically, with some being sold for up to \$60 million, highlighting the growing oligopoly in certain markets. As the industry matures, this trend could lead to fewer but larger players dominating the landscape, impacting product diversity and pricing.



## Potential Rescheduling Benefits

If *Cannabis* is rescheduled from Schedule I to a lower schedule, it will likely lead to increased research opportunities, a reduction in stigma, and greater access for medical patients. This could expand the market significantly and allow for more financial and operational flexibility for businesses.



## Impact of Descheduling

On the other hand, if cannabis is descheduled entirely, it would remove it from federal control, enabling states to regulate it independently. This could lead to a more competitive market and potentially lower prices, but also raise concerns about public health and safety regulations.



# The Future of the *Cannabis* Industry Holds Promise

With projected market values soaring to \$56.9 billion by 2028 and states generating over \$24.7 billion in tax revenue, the cannabis industry is on a trajectory of substantial growth. The ongoing evolution from medical to adult-use markets, coupled with the potential for federal action, will further shape this expanding landscape, highlighting the need for adaptive public policy and regulatory frameworks.



"Over the long haul of life on this planet it is the ecologists — and not the bookkeepers of business — who are the ultimate accountants." —Stewart Lee Udall, Interior Secretary — 1961 to 1969



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