



Research Working Papers

Economic Benefits and Social Costs of Legalizing Recreational Marijuana

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Economic benefits of legal recreational marijuana are broadly distributed, while costs are more concentrated among individuals.

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We analyze the effects of legalizing marijuana for recreational use on state economic and social outcomes using difference-in-differences estimation robust to staggered timing and heterogeneity of treatment. We find moderate economic gains accompanied by some social costs. Post-legalization, average state income per capita grew by 3 percent, house prices by 6 percent, and population by 2 percent. However, substance use disorders, chronic homelessness, and arrests increased by 17, 35, and 13 percent, respectively. Early legalizing states experienced larger economic gains yet similar social costs, implying a potential first-mover advantage.

JEL Classifications: H71, I18, R52

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Elior Cohen is a senior economist at the Economic Research Department of the Federal Reserve Bank of Kansas City. His research interests lie at the intersection of labor and public economics. His research applies empirical methods to study various topics, including homelessness, housing, immigration and innovation. Elior joined the Bank in 2021 after completing his Ph.D. in Economics at UCLA.



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Alison Felix is Senior Policy Advisor at the Federal Reserve Bank of Kansas City. In this role, she is responsible for briefing the Kansas City Fed's president—a member of the Federal Open Market Committee—on economic and business activity in the Tenth District. In addition, Felix conducts research on issues related to public finance, labor dynamics and regional growth trends. Felix recently served as Vice President and Denver Branch Executive where she conducted research and outreach related to the economies of Colorado, Wyoming and northern New Mexico. Felix used her time in this position to broaden her understanding of the Tenth District regional economies, as well as recruiting and working closely with the Branch's board of directors. Felix joined the Federal Reserve in 2007 as an economist in the Regional Affairs Department in Kansas City, and was promoted to Denver Branch Executive in 2012. She holds a Ph.D. and M.A. in economics from the University of Michigan and a B.A. in mathematics and economics from Kansas State University. Felix currently serves on the Advisory Council for Kansas State University's Department of Economics and on the Colorado Governor's Revenue Estimating Advisory Committee. She also participates on the Metropolitan State University's Community Cabinet, Mile High United Way's Community Impact Committee and is a member of the Denver Association of Business Economists.
