American Journal of Agricultural Economics **Media Review:**

"What happens when a state grows way too much weed?" by *Vice News* (Reporter: Roberto Ferdman)

Original Air Date: December 6, 2018, on VICE News Tonight on HBO.

This Draft: *December, 2019*

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In 2014, Oregon voters passed Measure 91, which legalized the production and sale of marijuana. The state issued its first license to farmers of cannabis two years later. Unlike other states with regulated cannabis markets, either restricted for medicinal purposes or, like Oregon, that also allow recreational use, Oregon instituted few requirements to obtain a license. Farms could be practically any size, and license holders could even live out of state (as long as production remained within the borders). By January 2018, Oregon's Liquor Control Commission--the agency tasked with administering cannabis regulations--permitted over 1,000 producers. With a consumer base legally constrained within state borders, agricultural economists should be able to guess what came next. Oregon's growing legion of cannabis producers saw wholesale prices for their product plunge from $1,500 per pound to below $500. The once profitable crop, likely still Oregon's most valuable, had seemingly become just another commodity, leaving farmers reeling under the burden of their successful harvest. Is there an older story in agriculture?

The short documentary by *VICE News*, "What happens when a state grows way too much weed?" tells that story through a series of interviews with farmers, retailers, regulators and customers, all facilitated by voice over narration set on a bed of ominous music.

With a short running time-six minutes!--and a quasi-taboo subject, the 'film' seems almost tailor-made for a Principles course. *VICE* packs so many canonical economics lessons into their story--the relationship between supply and the number of sellers; the shutdown point; consumer versus producer surplus; barriers to entry; price discovery; trade restrictions; product differentiation--only the B-roll overstuffed with shot after shot of cannabis plants of every variety reminds the viewer they are not watching an agricultural economics textbook production.

Happily for instructional purposes, the film omits a single mention of these terms. Show but not tell works here. For those wanting to get acquainted with the newly quasi-legal business of producing cannabis, *VICE* offers a decent introduction.

But the film never seriously confronts the framing found in three little words in the title: "Way too much" Too much for whom? After all, *Vice* goes to great length to depict a competitive environment where prices have been bid down closer—though not all the way—to production costs, and firms unable to innovate and adapt face the prospect of being ‘weeded’ out. Is that not what a well-functioning market looks like?

Indeed, the viewer must wait until the final minute to see the consumer's perspective sneak onto the screen, when the unease of owners trying to keep their businesses afloat is replaced by the simple joy of customers getting a lot for a little. Consumer surplus on the march.

Despite these happy customers, the film takes a sympathetic stance towards cannabis producers. Translating that sympathy into policy relief is a high priority for farmers. They are likely to find themselves in an odd alliance with legalization skeptics opposed to the normalization of cannabis consumption. Each is loath to see prices fall further.

The transition of Oregon's weed economy into the formal sector, portrayed in the film, portends some key policy debates likely to dominate the next stage of legal reform. Many of these issues--farm consolidation, barriers to entry, and trade restrictions--should sound familiar to agricultural economists.

Decades of prohibition have kept cannabis farms small. For those farmers that have made the transition to the legal market, and for new entrants that have followed the 'craft weed' scale of that tradition, 'big ag' is seen as an existential threat. That fear is animated in no small part by a realization that larger-scale operations can achieve efficiencies unmatchable by small farms. Farm size restrictions have thus far been a cornerstone of many legalization efforts, but the balance of power may be shifting. California, for example, has allowed single operators to 'stack' their one-acre licenses together in order to create multi-acre operations. Tellingly, the California Growers Association (CGA), the cannabis farm lobby group, initially sued the state to block these consolidated farms, but has recently had a change of heart. After all, the large farms are growers, too, and powerful ones at that. Many see cooperative-like structures and appellation models as the best avenue for keeping small producers vibrant in the legalization era, and are pushing for supporting policies. Though as our research in Northern California shows, in comparison to larger operations, existing small farms have more often responded by foregoing the state’s newly enacted and often costly permitting process altogether, choosing for now to remain outside the legal system.

Incumbent producers also want to keep potential competitors out. Because recent legalization efforts have been accompanied by strict licensing for producers, regulators have the means to do so. Not long after the documentary aired, Oregon issued a moratorium on new licenses. And as long as this policy lever exists, governments are going to be pressured to pull it.

The uneasy compromise of federal illegality and state sanctioning has begotten a potentially unstable equilibrium: within the closed confines of their borders, states may do as they wish with their own supply. But as the case of Oregon demonstrates, these constraints may chafe rather quickly. A contiguous border of legal cannabis links the 54 million inhabitants of Washington, Oregon, California and Nevada. Currently, suppliers of raw product in one state cannot link with processors in another, nor can any finished product cross state lines. As the industry matures, the distortions birthed by these trade restrictions will become ever more glaring. Even states such as Oklahoma and Nebraska, which (unsuccessfully) sued their more permissive Colorado neighbor on the grounds that its legalization had led to increased trafficking in their own states, may find the logic of continued federal trade restrictions wanting. Currently, cannabis smuggled out of a legal state carries the same potential risk no matter whether the destination is a similarly legal jurisdiction or a prohibitive one. For producers in legal states that find themselves suddenly confronting a glut, the incentives to push their product to illicit areas with higher black market prices are clear. By smoothing the boom and bust cycles in the legal market, allowing normal trade can alleviate some of these perverse incentives.

Regulators seem aware that efforts to keep cannabis in the regulated supply chain could be threatened if producers find illicit markets a more attractive option. If that happens, the benefits of legalization—both the tax revenue, as well as the chance to curb potentially harmful environmental and criminal activities associated with some unsanctioned production—will be missed.

But the film is at its haziest when confronting the issue of black markets. To bolster its view that allowing so many legal farms in Oregon was "shortsighted", *VICE* glosses over the state's long history of illicit production. Oregon, and its neighbor to the South, California, have been producing "too much" cannabis for its own citizens to consume for decades. That background may explain the stance of Oregon's cannabis program administrator, who rejects the interviewer's premise that allowing easy entry into the legal system was a mistake. For these net exporters, low barriers to legal entry may be a more sensible route than onerous permitting requirements.

In that regard, California's experience will be telling. Though its illicit farming sector has thrived for decades despite intermittent crackdowns from law enforcement, state regulators are promising that farms failing to go legit will face severe consequences. They appear to be banking on a new array of potentially more effective enforcement tools: civil fines, property forfeiture, and perhaps the cooperation of newly minted permit holders looking to close ranks. However, as long as the patchwork of state laws and nominal federal prohibition persist, no individual state policy can fully overcome the incentives to engage with the illicit market.

Of course, even if the federal government's executive branch takes a more sympathetic stance towards interstate trade, there is a good chance reform efforts will be opposed from within. Oregon's moratorium on new licenses provides a glimpse into how the myriad incumbent license holders along the cannabis supply chain will try to shape a policy process in which state rules so directly impact profitability in the legal market. The next stage of regulatory reform will occur amidst a backdrop of entrenched interests. That could prove harmful for cannabis farmers if retailers and processors leverage upstream permitting rules and the trade closure to exert monopsony power.

Though legal restrictions have kept cannabis production sequestered from the mainstream of the agricultural research community, agricultural economists have the relevant tools and background to make significant contributions. *VICE*'s short film about Oregon's market provides a nice orientation, and a nicer demonstration that weed economics is still just economics.