

BLACK, WHITE, AND GREEN:
THE EFFECT OF LEGALIZATION ON COLORADO'S CANNABIS BLACK
MARKET

A THESIS

Presented to

The Faculty of the Department of Economics and Business

The Colorado College

In Partial Fulfillment of the Requirements for the Degree

Bachelor of Arts

By

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May 2017

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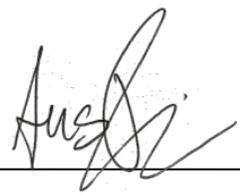
Abstract

This study aimed to investigate the results of new cannabis policies, focusing on the state of Colorado and how the implementation of retail legalization affected the illicit black market of cannabis in the state. It analyzed ten interviews from black market operators using Grounded Theory methods, including the process of open-coding, the creation of axial codes, and finally the formation of a tentative core. After studying the tentative core, it was clear that they aligned perfectly with a strategic management Environmental Scan model for industry evaluation. Careful analysis of the operations of the black market industry, including opportunities and threats stemming from the effect of legalization, showed that the implementation of this policy has forced a change in black market operations in Colorado.

KEYWORDS: Cannabis, Black market, Legalization

JEL Codes: H70, K42, J18

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UNAUTHORIZED AID ON THIS THESIS

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ACKNOWLEDGMENTS

I would like to send my most sincere and deepest gratitude to Jim Parco, Dave Levy, Phoenix Van Wagoner, and Haley Parco for allowing me to be a part of this amazing research. Without your support this project would have never come to fruition. I would also like to acknowledge and thank all of the anonymous subjects that agreed to participate in this study. Without their willingness to provide all of their valuable insights this project would not be possible. Finally, I would like to thank everyone who provided feedback and constructive advice along the way.

1. INTRODUCTION

“The black market was a way of getting around government controls. It was a way of enabling the free market to work. It was a way of opening up, enabling people.”

-Milton Friedman (American Economist)

Despite advances that have taken place over the past few years, regarding cannabis legalization, there are many uphill battles still ahead, so black marketers shouldn't give up on their enterprises completely, for the government may just put them back in business.

Recognizing that they were unable or unwilling to stem the tide of the legalization movement across the country, the former Deputy Attorney General, James Cole, on behalf of the government, put out what has come to be known as the “Cole Memo” in 2013. While not conceding to or condoning the sale of marijuana on a federal level, it outlined the priorities for law enforcement and prosecutors on where and how to focus their efforts regarding marijuana. These priorities included the following: (1) preventing the distribution of marijuana to minors; (2) preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels; (3) preventing the diversion of marijuana from states where it is legal under state law in some form to other states; (4) preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or illegal activity; (5) preventing violence and the use of firearms in the cultivation or distribution of marijuana; (6) preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use; (7) preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands,

and; (8) preventing marijuana possession or use on federal property (Cole, 2013). The memo clearly stated that anyone abutting one of these guidelines could face criminal repercussions. It also emphatically explained that they are only guidelines and that the federal government can step in at any time, under any circumstances to uphold the law on a federal level and, therefore, supersede state laws. Cole also noted that his memo, "...had a "catch-all" at the end that would allow federal prosecutors to bring cases even when the defendants didn't violate any of the eight federal priorities" (Reilly, 2013). Additionally, it does not allow for anyone being prosecuted to use these priorities as a form of defense.

Furthermore, to call attention to just how precarious this situation is, just last month, Attorney General Jeff Sessions strongly voiced the views of the current administration on this issue, which included the continued use of misleading propaganda to refocus people on the "ills" of marijuana use, asserting that bad people use it, it breeds violence and mention of its harmful effects. These statements do nothing but exemplify the motivation to reaffirm the traditional stigma based on fear and disregarded and/or discarded information.

If you put marijuana up against tobacco (480,000 deaths), alcohol (31,000 deaths), overdose from illicit drugs (17,000 deaths), prescription drug overdose (22,000 deaths), with zero deaths attributed to cannabis, it becomes clear that the only thing that makes marijuana bad is the bad laws around it and the fear-mongering upon which these laws are built ("Annual Causes of Death", 2014). How does one make a judgment that these other substances are okay for people, not to mention many other things in our

culture that are harmful such as television, video games, the extreme over indulgence of food and overall unhealthy dieting, but not cannabis?

This question leads to an even more grand moral issue of how and who gets to determine what is right or wrong for the individual, as long as these choices don't infringe upon another's freedoms? In fact, one of the greatest things to come from more and more states legalizing the use of cannabis is the sense of true democracy taking place where the people's votes can actually change the governmental policies in place. In a recent survey from Quinnipiac University it showed that, "a strong majority of American voters — 71 percent — want the federal government to respect state marijuana laws. In that survey, majorities of Republicans, Democrats, independents and every age group polled agreed the feds should not enforce prohibitionist laws on states that have legalized marijuana" (Reilly and Ferner, 2017). However, people in positions of power (such as Jeff Sessions) with small-minded agendas leave us to fight for our personal freedoms. If they wield their power with impunity, then the few steps forward may just turn into several giant leaps backward, opening up fertile ground for a black market to once again thrive and leaving the federal government as a hindrance to free-market enterprise.

The backbone of government is based on keeping its citizens safe. The cornerstone of capitalism is allowing for a free market that doesn't infringe on one's personal freedoms and a free market consists of a transaction between two parties, both of whom benefit and are willing participants. For the government to obstruct this notion simply undermines what it means to live in a free society.

1.1 What is a Black Market?

Black markets, or parallel economies, exist across the globe and trade in a variety of markets ranging from weapons to media to fashions to electronics to drugs and even humans. Due to the clandestine nature of black markets, it is virtually impossible to determine size or scope. A black market is defined as one where goods and services are bought and sold illegally, with blatant disregard for regular taxation, rules, and regulations, outside government sanctioned channels (Picardo, 2017). Despite the potential negative impacts of the black markets such as no after market support, no testing and regulations, which address safety and health concerns, and the potential for counterfeit products, which question quality, consumers still choose to trade in the black market because of convenience, availability, anonymity, and price. These markets can have negative economic impacts because they create shadow markets in which economic activity is not recorded and managed, thereby allowing higher profitability for illicit operators, missed revenue from taxation that could be utilized for more beneficial programs, and skewed economic data for further analysis. As long as government regulations, taxation, and scarcity exist, there will always be black market activity. Clearly, people are willing to trade off the threat of potential consequences to get what they want and from this criminal enterprises will no doubt flourish.

1.2 Effects of Prohibition.

When certain policies are implemented regarding drug prohibition, they are generally designed with protocols intended to reduce the amount of overall drug use. Consequently, “Government efforts to restrict drug use swell public budgets, restrict

liberty, and encourage black markets. So both drugs and drug policy can be harmful to the public good” (Boyum, 2001).

The two most fundamental elements inherent to any marketplace are supply and demand. Therefore, in order to appropriately devise policy, it is imperative to understand this basic concept as it applies to any market during prohibition. Even with this type of policy in place, drugs continue to be supplied and demanded, “...abundant evidence from prohibitions of drugs, alcohol, gambling, prostitution, and other commodities demonstrates that a sizeable fraction of the population continues to supply and demand commodities that are prohibited. Thus, drug prohibition creates a black market in drugs rather than eliminating drugs” (Miron, 2001). The idea behind the use of prohibition policies is that it will directly affect the demand of the good by punishing the purchaser, seller, and possessor of such commodities. However, even with over one million drug arrests occurring every year since at least 2001, there are close to thirty million illicit drug users in the United States as of 2015 (“Crime in the United States”, 2016 and “Crime, Arrests”, 2016).

In addition to affecting the demand for drugs, prohibition policies also have an effect on the supply of the products. As Miron discusses in his study, *The Effect of Drug Prohibition on Drug Prices: Evidence from the Markets for Cocaine and Heroin*, certain aspects of prohibition allow for black market operators to find a cost-advantage and, therefore, increase their profitability against legal markets. As is with all black markets, the most obvious cost savings for these illegal operators comes in the form of skirting taxes and compliance costs. This maneuvering around government regulations not only saves them on taxes on their product, but on their labor and capital as well. Additionally,

black market operators are able to evade further cost-increasing policies such as environmental, safety, and health regulations. When operating legally, certain expectations must be met in order to ensure a specific level of quality for the public.

Numerous other important costs avoided through under-the-table operations would include marketing, advertisements, minimum wage laws, antidiscrimination laws, collective bargaining laws, fees and permits, local zoning rules, liability insurance, etc. (Miron, 2003). All these expenditures add to the multitude of costs that the black market is able to eliminate, thereby giving illicit operators an even higher level of profitability and a cost-advantage with which legal competitors cannot compete. However, illicit businesses face certain repercussions not experienced by legal operators, most notably the risk they take by running an enterprise in direct opposition to the law and, therefore, expenditures associated with risk management.

1.3 Other Byproducts of Prohibition.

Other negative factors stemming from prohibition policies include diminished product quality, safety, and variety to name a few. Additionally, in legal markets there is recourse for consumers against the supplier if they have received faulty goods. These actions include, "...liability claims, by causing bad publicity, by avoiding repeat purchases, or by reporting such events to private or government groups" (Miron, 2001). Because products involved in illicit sales do not come with guarantees, supplier power within the industry is increased. A propensity for corruption is also a byproduct due to the nature of the market. To assure the profitability of these illegal activities, law enforcement officials and politicians are consistently bribed for further protection and

opportunity. The larger and more powerful the black market is, the more corruption can be expected.

1.4 Other Relevant Data.

Forming a comprehensive and accurate picture of black market operations is almost impossible since they conduct their business in the shadows. This means that much of the data is predominately conjecture. Currently, there is very little relevant research that could provide clear answers and bring about definitive insight into how the black market of marijuana specifically has been affected by the legalization of retail cannabis. One caveat to mention before delving into this research is that the data collected is often inconsistent. This can most likely be explained by the fact that cannabis is considered a Schedule 1 drug, meaning it has zero medical benefits and, therefore, with the processes in place, there is no consistent governmental research conducted on the substance. In order to do clinical research on cannabis, a DEA license and approval by the FDA are required and when it comes to obtaining research-grade cannabis, one must go through the National Institute on Drug Abuse. All of these requirements make it extremely difficult for researchers to administer consistent studies (Ferro, 2013).

One of the most blatant examples of contradictory information comes from myriad estimates of the overall market value of the marijuana industry as well as estimates for the parallel black market economy of the substance. As CNBC reports, “Economists, reformists, law enforcement authorities and the pro-marijuana lobby...” have all released estimates with a range from \$10 billion to \$120 billion every year (Nelson, 2010). Such a wide margin is hardly capable of revealing profound economic insight. Additionally, back in 2010, law enforcement officials estimated that the United

States black market for cannabis was at \$41 billion (“Global Black Market”, n.d.) while more recent estimates site reports with values of \$82 billion (“Black Market and Illicit Trade”, 2015) or even \$100 billion (Williams, 2016). Depending upon which report is used to make an economic impact analysis, many discrepancies will arise in the data and unfortunately, “By its taboo nature, marijuana consumption and demand is not well-measured” (Nelson, 2011).

The Marijuana Policy Group (MPG) recently published what is likely one of the only comprehensive reports of the marijuana industry and one of the first post-legalization analysis of the marketplace. The research states, “...that legal marijuana activities generated \$2.39 billion in state output, and created 18,005 new Full-Time-Equivalent (FTE) positions in 2015” as well as bringing in \$126 million in combined sales and excise tax revenues and \$996 million in total sales with a projected peak value of \$1.52 billion by 2020 (Light, Orens, Rowberry, and Saloga, 2016). Furthermore, and most relevant to this paper, the MPG reports a 36.2% reduction in the black market due to a supply shift away from the black market toward licensed producers. Their results, however, still contain certain voids in their methodology, leaving room for uncertainty.

1.5 Purpose of Study.

In an attempt to provide greater insight into black market operations and eliminate questions about the accuracy of existing information, this study aimed to accrue more valid and unbiased details by speaking directly with those involved. With legalization spreading, it is imperative to collect accurate data. As of February 2017, 28 states, as well as the District of Columbia, Guam and Puerto Rico, have implemented comprehensive cannabis policies including both medical and adult-use marijuana. Seventeen states have

also recently approved the use of "low tetrahydrocannabinol (THC), high cannabidiol (CBD)" products for medical reasons in specific situations ("State Medical Marijuana", 2017). With the pendulum beginning to swing in favor of full marijuana legalization, it is still a wildcard due to individual state regulations and its illegality on a federal level. It is interesting to watch as the laws evolve in Colorado, as their intent, in large part, seems to be to eradicate the black market. Although there is limited data (1) because it is such a new industry; (2) because of limited testing due to its listing as a Schedule 1 drug; and, (3) because of the underground and secretive nature of a black market, this study intends to shed light on the effects of legalization on the black market of cannabis in Colorado.

In the following paragraphs, this empirical study attempts to explicate the relationship between the implementation of legalization of cannabis and the black market surrounding it. In the next section we describe our approach to data collection and methodology followed by sections of analysis, theory development and discussion.

2. METHODS

2.1 Sample.

The sample was obtained through social media advertising, targeted towards black market operators. Nine volunteers replied to an anonymous online survey using fictitious names and anonymous email accounts. The resultant interviews yielded 128 pages of transcripts, professionally transcribed, which were then used for analysis. All participants were at least 21 years of age at the time of the interview and self-reported to have purchased, sold or grown cannabis through the black market, or had manufactured a cannabis infused product for sale or trade both before and after January 1 of 2014, specifically in Colorado. Subjects were all residents of Colorado both before and after January 1, 2014 and were not currently charged with any drug related crimes in Colorado or at the federal level. A tenth interview was also conducted and in order to ensure anonymity and safety for both parties, this participant was given an anonymous email address by a third-party and the interview was conducted through the same professional conferencing system used for all prior interviews.

2.2 Procedure.

To begin the analysis process, we followed Grounded Theory procedures (Glaser and Strauss, 1967 and Strauss and Corbin, 1990) and began by open-coding all interview transcripts to break down the data and delineate major themes and concepts. Based on the overall open-codes, we created memos that blocked out the data into manageable pieces. From these memos, we could develop a set of axial codes, which related all the major themes together. After the axial codes were developed, we went back again and created a second set of memos that was more refined and directed. Using this new set of memos,

which gathered the commonly observed themes and concepts, we arrived at a tentative core, which explains the mindset and business decisions of black market operators: (1) economic components; (2) sociological elements; and (3) legal factors. Upon further analysis, we noticed that the three major themes that we observed aligned with the “General Environment” found in the Environmental Scan model, common within the discipline of organizational strategy.

2.3 Measures.

To ensure reliability of the data, all researchers coded the transcripts separately as described above and then gathered for an open discussion regarding the coding results. These results were later relayed to myself for comparison and feedback of my own coding results. Any question of the validity of the data was justified through the method of open dialogue with the participant through recorded conversations, which were then transcribed word-for-word in written transcripts. No follow up questions or dialogues were deemed necessary by the researchers.

3. ANALYSIS AND FINDINGS

The Environmental Scan (hereafter, ES) is a commonly known model within the discipline of strategic management used to systematically identify external opportunities and threats within an industry. The ES process allows for a gathering of information of the conditions under which a certain firm conducts their business and, therefore, can detect opportunities and threats that may influence both current and future plans. Moreover, this provides researchers with a greater understanding of the mindset and thought processes of those who are involved in the industry. In the “General Environment” of the ES there are five major categories: Economic, Social, Political/Legal/Technological, Global and Demographic. The first three categories align with what we uncovered and then identified as our tentative core. Economic, social, and legal aspects are crucial pieces for understanding any industry but in particular, the black market for cannabis.

3.1 Economic.

Economic indicators and trends are vital for recognizing current and future opportunities and threats to an industry. These points provide insight into the profitability and the compensation that firms stand to make. In the case of this study, these components are even more telling because the risks, rewards and trade-offs hold a much greater level of consequence. Inherently, when dealing in the black market, every decision must be calculated in order to protect one’s investment and oneself. Therefore, economic opportunities and threats must be carefully studied and the risks one takes must match up with the potential level of profitability, which is exactly what we found in our data.

Throughout our study we uncovered repeat patterns within the economic trends of the black market operators we interviewed, which allowed us to develop a theory about some of the economic factors of the black market industry. What we noticed was that, even before legalization, the quality was continuing to rise and when legalization took effect in Colorado, beginning with medical and followed by recreational use, the prices began to change dramatically.

“Tom” described the benefits of the changes in price structure due to legalization when he stated:

Well when I was a kid, going back to 1979, marijuana was \$35 an ounce and you could buy a quarter pound for \$80. And it was very low grade smuggled in from Mexico, much, much lower quality than what we have today. It probably didn't have 20 percent of the power of the marijuana that is available today. Then like in recent history, the early 90s and early 2000s, when very high quality marijuana was available, like stuff that you still see now, a lot of the strains, northern lights was showing up then and blueberry, G13 and stuff like that were showing up then and it was all very, very high quality, very potent, but the price was about \$400 an ounce. And it stayed there for years. It stayed there until about 2004, maybe even 2006. When the medical marijuana started really taking off, whenever that was, that had a good effect on price for black market. It came down quite a bit. It came down to the area of probably about \$250 an ounce, which was a big savings. And then since recreational has shown up, the price has come way, way down. Black market is selling for about \$100 an ounce and the quality is really quite fantastic. I don't see a whole lot of difference between what they're growing in the dispensaries and what's being grown with your better black market growers. But they're having – the same guys who were getting \$400 an ounce are now only getting \$100 an ounce. So it's had a good effect.

In fact, “Tom’s” statements regarding the dramatic decrease in prices were echoed in the interview conducted with a separate black market cultivator who went by the name of “Mister Trichomes” for the purpose of the study.

This was in the 90’s. So all the way through from the 90’s all the way up until four and a half to 5 years ago or when things changed in Colorado, it was pretty much \$350 an ounce up. When I say 350 up, I mean all the way up to like 4,800 for a unit, meaning a pound. So that was like that for 15, 20 years and then when things medically changed in Colorado prices started to drop like literally \$200 a pound every six months and that happened for like a few years. So were talking from 4,800 to 4,600 to 4,400 to 4,200 to 4,000 to 3,800 to 3,600 to 3,400 to 3,200 and now were at, if you’re good, like 2,200, 2,400, if you’re good.

“Mitdog” shared a very revealing story about the impacts that legalization has had on the black market of cannabis in Colorado. His story illustrated a substantial change in the marketplace when legalization came about. He explained how he went from making between \$100,000-\$200,000 per year by selling ounces between \$400-\$500 to being completely pushed out of the market when medical marijuana entered the scene in Colorado.

I can say that the years that I was in Colorado, it shut us down, because you can’t sell the best weed in the world for \$135. The only price that people will pay for an ounce of marijuana in Colorado Springs right now is \$125. If you charge them \$130, they’ll go somewhere else.

Responses from other subjects added to the study’s findings with references to the newly found higher prices on the white market side. With the glut of supply in circulation, black marketers were forced to drop their prices in order to remain competitive amongst themselves. However, the new high price of retail cannabis has

actually provided them with a competitive advantage against the legitimate market. For buyers who are more price-conscious and cannot find a local, lawful cannabis store with agreeable prices, the black market is still a viable option. Although legalization has taken a significant chunk of profits away, it still leaves room for a certain level of competition.

Prices, the recreational prices are really high and I don't know that it had a super big effect on medical prices, but it seems like in some cities it seemed to have a bigger effect than others. In some cities it stayed consistently high, almost the same as the recreational prices, and then in other cities it was like much cheaper still to get it.

Black market operator, "Cheese"

And it pretty much stayed those high prices [\$300-\$350 per ounce] for years and years and years all the way up to – the medical had been out for a while – I want to say 2002, 2004, 2005 is when President Obama came out and said that the judicial courts, the federal judicial courts, were going to leave the medical states alone and not mess with what they had chosen to legalize. The minute that word came out, dispensaries popped up in Colorado like they were going out of style. Within the first month of that announcement made by Obama we probably had over 2000 dispensaries open up in our state if not more, because they all thought that they now were protected and that they could open up to the world about what they were doing and stuff. Once that happened, the prices plummeted. They went down to as much as \$99 an ounce to about \$150 an ounce once there was so much marijuana out there. So they killed the market as far as that and drove the prices down. Now the prices within the past year since the legalization of recreational and everything, medical patients' prices have gone up some and there's such a wide price differentiation between dispensaries here in town.

Black market operator, "Mary Jane"

Later in the interview, "Mary Jane" went on to add:

Yeah, the black market is still cheaper than what you can buy recreational weed. You probably deal more to recreational patients – not patients, but recreational customers now than you do the medical customers, because the medical customers can go to the dispensaries and they don't have to pay all of the taxes and excise taxes that they put on the recreational weed. When I was in the black market before medical, you would sell a quarter of weed for \$100. Then once all those dispensaries popped up everywhere, it dropped down to where you were lucky if you could get \$40 or \$50 for a quarter. Now with the recreational side, people are paying \$140 to \$150 for a quarter of weed, not that the weed costs that much. The weed probably costs \$12, but all the taxes and the special fees and stuff that they put on the recreational side drives that price up to more even than it was before it was legalized.

Furthermore, as we continued to investigate, we became aware of more substantial ways in which the black market has adapted. What we found was that the modifications have come in the form of exportation. By changing business practices in this way, black market operators adjusted their business model to better match their risks with new rewards. While in-state residents seem to be purchasing more from dispensaries, residents from other states who do not have the luxury of local retail shops are obtaining their product from states that do.

Colorado and California and Oregon, Washington. And the funny thing is that if you live in Colorado and you cultivate and that's your living, 99 percent of the time, that's going out-of-state. Never staying in state. I don't know anybody whose product stays in state. Because the thing is that there's all these dispensaries, that's the "in state". Same thing with Oregon, I know a shit ton of growers out there. I don't know one person that has their product in Bend, Oregon, like at the college. It's because there's all those dispensaries so it is going to surrounding states, maybe Montana or some shit like that.

I remember when I first moved to Colorado if you grew

herb, your herb was going to either CU or like Winter Park and now that is not happening. Now, it doesn't go to CU or Winter Park, it has to go to Kansas or Chicago or Atlanta.

Black market operator, "Mister Trichomes"

I have not seen marijuana smuggled into Colorado in a good five or six years, maybe longer. I think it's all smuggled out of Colorado. There's been a big grow culture here for a long time, even before legalization. I'm a transplant to Colorado and whenever people I know that I grew up with whatever might want to get some marijuana or whatever, they get it out of this state. It comes out of here or Washington State, Oregon. And that's the way it's been for a very, very long time. The best marijuana comes out of Colorado, Washington state and Oregon and northern California.

Black market operator, "Tom"

"Cheese" also commented on the profitability of moving cannabis out-of-state in her anecdotal story of selling while at college in a state without decriminalization.

Although dealing was more risky, it presented a lucrative opportunity.

When I heard what it was going for out there and it was crazy, it was like \$20 a gram whereas I was getting that for like 3½ grams or 4 grams back home.

Yeah, it became very profitable to do that.

In addition to the obvious increased risk of dealing over state lines because of the jump into a federal crime, it also carries a financial burden, which black market operators must consider as well.

You got to think about transporters, you got to pay for that, and there's insurance and assurance and there's time. It takes time, you know, a lot of people use the mail. I've never done the mail thing but some people drop it in the mail and cross their fingers, you know. So there's a lot of

risk, a lot of risk. Because even if it's going across state and your paying someone, you know, I don't know, a couple grand to do something like that, a driver. Well, there's a lot of risk and if that driver gets in trouble you potentially just lost 40 grand. And if you're a nice person you're going to help that person get out of jail as well so that's going to cost you money. If you're a dick then you're going to say good luck and I've watched that happen as well. There's a lot of risk and a lot of money involved.

Black market operator, "Mister Trichomes"

Overall, the economic impact uncovered from this data revealed that with the introduction of medical sales followed by retail sales, black marketers took a hit on prices due to excess supply. However, with high retail prices they were able to remain viable and still compete. A restructuring towards exportation provided an avenue by which they could recoup losses and regain profitability.

3.2 Social.

Another critical element facing these firms is the sociological aspect of the ES. Since black market enterprises, by nature, work underground for the purposes of avoiding detection, the entire marketplace depends upon the illegality of its products in order to be profitable. This clandestine nature of the business, coupled with its dealing in drugs and the adverse propaganda used to instill fear, paints an unfavorable picture adding to the stigma. Additionally, prohibition turns law-abiding citizens into criminals by forcing them to make a moral decision in favor of a personal choice. It stands to reason that as the trade becomes legal, profitability for black marketers will dip since buyers will no longer have to put themselves at risk. This allows consumers to step out from behind the curtain and no longer act as "criminals", thereby reducing social stigma. With the allowance of medical marijuana sales has come a better understanding of cannabis and its

benefits, also leading to more social acceptance. Our data exhibited that significant social changes have occurred since legalization.

Based on our interviews, the overall stigma towards marijuana has declined and more people are inclined to indulge in cannabis usage. Since legalization and the decreasing concern of being caught, people are seemingly more honest about their use. This, along with with a more enlightened perspective, is leading to a diminished bias.

People feel a little more free to smoke it openly. It's still against the law to smoke it openly. You're only allowed to smoke it within your residence or on your patio, kind of like if you were drinking a beer outside. It's not like you can walk down the street smoking it, but people do. People walk around and openly smoke or they don't have to hide so much.

Black market operator, "Mary Jane"

For me growing up it always had a stigma that it was an illegal drug and as soon as it became a medical thing in Colorado I guess the stigma started fading. There was a movement of trying to do something good and for the counterculture it was something that everybody could kind of get behind.

Black market operator, "Robert"

It is definitely slow, but I'm seeing that as more and more people – I kind of alluded to before a lot more people use marijuana than you think, and I think as more and more people come out of the closet, if you will, about it, I think that has reduced the social stigma because people who had a big problem with it are saying "Well, wait a minute, I've known this person for 20 years and they're fine." I think that's part of it and it's just as people become more aware and more aware of how dangerous some of the stuff they're presently taking is, I think that's changing it to.

Black market operator, "Tom"

I noticed though that the stigma is changing. As an example from my boyfriend's life, he was speaking with a group of co-workers at work and one co-worker was talking about how she did not smoke marijuana and then she paused and felt like she had to give an excuse as to why she doesn't, because all her other co-workers did. So it seems like the stigma almost was swinging the other way in that conversation.

Black market operator, "Mary Jane II"

While this may seem like a positive for black market operators due to an increase in demand, what we discovered is that since the stigma has declined, people are less likely to use the underground to avoid detection and rather, they appreciate the convenience of the legitimate stores. Furthermore, the data collected gave insight into certain aspects that the white market brings, such as more options, a certain level of novelty and the insurance of safety, which seem to draw customers in. This continues to pull business away from the black market.

As "Mister Trichomes" pointed out, even loyal customers of his began to give their business to legitimate enterprises for these reasons.

It's the nostalgic thing, like people whether you're from Colorado or out of state, like even good friends of mine that used to grab a sack off of me they go to a dispensary now because there's options and it's kind of cool to go into a store and buy something and have a little container from Terrapin Station or some shit. So yeah, there're more options for everybody out there and yeah.

Despite the added tax cost it seems that people are willing to pay more for peace of mind and greater convenience.

They also feel safe too. You know what I mean, it's safer than— or they just feel safer than going to somebody's

house, or whatever.

And, these stores are open from 9-9. You know, 9 am to 9 pm, so they can go in, they don't have to deal with my schedule or Johnny's schedule. They can go in whenever they want and if the dispensary closes earlier, they can go to the one down the street that is still open. So, it's also about convenience. It's convenience.

Black market operator, "Mister Trichomes"

Another interviewee, "Cheese," echoed the importance of convenience in her statement regarding dispensaries.

It's way easier. You never have to wait for anybody. You can just go during business hours. It's very convenient and it's way better.

A bit further in the conversation, "Cheese", also remarked:

Pot's all over the place. Everybody's got it. You can go get it anywhere. And with the recreational dispensaries, even if people don't have a medical card, they still don't have to wait until someone can be ready to give them pot. They just go when it's open.

With this change in culture and societal perceptions regarding the use of cannabis, we also found evidence of how even those who do not fit the stereotypical "pot smoker" have been enjoying the benefits of legalization. The stigma of being illegal brings with it the preconceived notion of who a drug user is, despite the fact that people from all walks of life indulge.

I have seen a lot more professional business type people coming into dispensaries. A lot more people upwards in their 40s have been coming in since legalization. They don't want their name on the "list" for a medical marijuana card, but they still use recreational marijuana obviously. I really feel like a lot more people are opening

up to the idea. Hell, even my own mom has opened up to the idea of recreational marijuana.

Black market operator, “Mia”

When discussing the legalization of cannabis one argument that consistently arises is that of the potential for more underage kids (below 21 years of age) to be able to gain access to it. One of our interviewee’s, “Mary Jane II”, spoke to this point when relaying a quick anecdotal story of finding marijuana in her teenage daughter’s room.

Sadly the unfortunate thing about that is I have seen an increase in use by teenagers and I do know – we have discussed how she may have gotten it and things like that and I do know that at some point there were adults selling to teenagers specifically.

However, even with that being said, it is important to point out that of the 10 subjects we interviewed, seven mentioned that they began smoking between the ages of 12 and 16. The remaining three interviewees started around 20 years old. Almost all purchased from friends and/or relatives. From this data, it is clear that even prior to legalization teenagers have always found an avenue to purchase marijuana. With dispensary owners being vigilant in their practices, our data shows that they are not contributing to any potential increased consumption.

The last sociological component that we found relevant to our research came from the remarks made by, “Tom”, a 50-year-old male who uses cannabis medicinally for multiple sclerosis. He provided a compelling story that touched on the idea that people are now beginning to see cannabis as an alternative medicine for serious illnesses. He discussed his on and off usage through the years since starting as a minor and how he ended up where he is today.

And then in 1997, the late 90s, I started having a lot of health issues, strange health issues and it led to I got diagnosed with multiple sclerosis in 1997 and that left me with a lot of neurological damage and I had a lot of twitching and spasms, muscle spasms, and general body pain. And what was given to me at that point was for the most part benzopines and opiates to deal with it. And I did not like the effect of them. The opiates made me itch and both of them, the benzos and the opiates, both make me very drowsy and made me feel very numb. I went through I feel like the whole pharmacy. I was prescribed painkillers from simple anti-inflammatories like naproxen, large doses of naproxen, all the way up to fentanyl patches, which are really highly addictive, very potentially dangerous drug. I did not like the way any of it made me feel, but I did remember times through life smoking marijuana and feeling better when I smoked marijuana. And so I decided to go back and try that. Like many of the other drugs they gave me, it takes about a week to kind of get it to level out. The first week I used it I felt kind of stoned for about a week, but after that it kind of goes away and levels out and I was able to get the relief I needed from the muscle spasms and the feeling of pressure that I have all the time, the neurological pain that I have. It does not work as well as the combination of the benzos and the opiates. However, it works good enough and I can function a lot better. It leaves me a much more productive person. And then I'm not on a chain. When I was taking the other drugs, if I missed a dose, you notice it and you start feeling for lack of better words like a junky. Your skin itches, you're crawling and you've got to have it. The nice thing with marijuana is I don't have to have it. My symptoms come back stronger without it, but I don't have any additional symptoms from the drug. I have to carry a lot less side effects with it. I know frequently in the medical community it's argued that there's drugs that work better, that are stronger. Yes that's true, but that's sort of – I follow that argument like somebody that drinks coffee and saying that if you like the zip of caffeine, you should smoke methamphetamine. Well, I don't want methamphetamine; I'll just take the cup of coffee. I feel like that's what the laws have kind of pushed people into, taking much heavier drugs than they really need.

He finished with a brief description of how the so-called “legal” prescription drugs adversely affected him.

I really felt like they were taking over my life and I did not like the way that they made me feel. They made me feel like an actual drug addict. And then getting off of them was difficult. You actually go through detox with the shakes and the hot and cold fever and all of that. It's pretty horrible really.

Stories of families moving to states where cannabis is legal simply to access the medicine they need to combat their illnesses or to free themselves from the addiction they now face due to their prescribed medications is becoming all too common. This speaks to the progressive attitudes towards an increasing acceptance of marijuana.

What we found from the data is that with legalization in effect there has been a reduction in stigma. This has adversely affected black marketers because users no longer have to hide in fear of judgment. Retail establishments have brought a level of convenience and ease and have raised marijuana's profile from a sketchy, back alley exchange to an acceptable transaction. Furthermore, most importantly, societal views and attitudes have changed as individuals have begun to overcome their conditioning from misconceptions and become more accepting as they recognize its value.

3.3 Legal/ Political.

The third hurdle facing black market entrepreneurs is the benefits afforded to customers through legalization. Governmental changes can either be devastating or supremely advantageous to businesses in any industry. With one simple change in policy and regulation, an industry can take a massive hit to its operations or be set up for great success depending on the laws levied. In the case of any black market industry, this ES

category is, obviously, of significant importance because the sustainability of the black market rests on these decisions.

Many of the legal aspects that black market operators have to face are greatly intertwined with the other categories that have been previously covered. However, there were a few notable points that fall directly under this category of the ES that we uncovered during our research. Prior to any sort of legalization, the black market held a stranglehold on the production, distribution, manufacturing, and purchasing of cannabis. Under Colorado state law, individuals can now grow up to six plants with three flowering and caregivers are allowed up to 99 for patients (“Marijuana Grey Market”, 2016). These legal grow-ops constitute the grey market. So, the underground marketer is not only competing with legal white market outlets but with this loophole market as well. Obviously, increased sources of sanctioned product decrease potential sales of illegal product. Since legalization, the marketplace has changed significantly because individuals can enter with less risk. In fact, black market operator “Cheese” mentioned that she did not begin growing until after legalization took effect for this exact reason.

Because [before] there's no way to not claim it if it's at your house. It's just a way bigger risk and it just turns into way more things that – it's more than one charge than just buying pot from someone.

In fact, we discovered that since legalization, the black market has become flooded and saturated with growers and as “Mister Trichomes” pointed out, this happened for a few reasons both legal and social.

I think it became cool, you know. So not necessarily for a living but— and that's another thing, since it became legal in Colorado on a recreational level you are allowed to

grow, if you live in Colorado, you're allowed to grow six plants in your house, legally. So even if you have a job and you're doing that, that one person that is able to grow in his closet or in his upstairs spare bedroom, is growing for himself and doesn't buy, say, \$15,000 worth of weed a year off of his neighbor. So that's another—just bumped right out and that happens—like everybody is doing that, why not? You're saving money and possibly making money.

“Robert” reiterated this idea with his remarks:

Now with the rec side of it, I believe every resident is allowed three plants. Does the state ever check up on people? Does the state ever really enforce anything? I think it's so rampant that I don't know how they would do it unless they're already showing up to a house. And even then I've had the police show up to my house when I had plants at my house and they didn't go look at them. You could obviously smell it and they didn't – it's not their priority anymore. With that being said, their priorities have changed and there are so many people now that are growing at home and when you're growing at home, you're obviously going to be supplying your friends, people you know. I don't necessarily know that it's the street level, people out on the street, hustlers, but it's definitely people you know a lot of growers here in town that do their own thing, that don't have any kind of licensing or anything like that.

So, what is actually happening with these changes is a decrease of supplier power and an increase toward buyer power. This means that the saturation of growers in the market gives buyers more choices from where to purchase and, therefore, they no longer have to rely on any particular source. In turn, this makes it that much more difficult for the black market industry to have complete control as “Mister Trichomes” also pointed out in his interview:

You got to think about it, there's several people out there doing that so you got to bring it. You got to make someone look at it and go wow that's sick, great price. And when

you have an option to look at 50 different situations— out of 50 different samples, you got to really wow somebody. But the point is that prices actually just kept plummeting because even people out of state, and it's happening right now, I can get this for this price from California, cheaper, brought to me on the (inaudible). And how are you going to compete with that? But that is because those guys are struggling too. So they are willing to literally give someone in say, Illinois, a big pack and when I say pack I mean several pounds, and play catch up— here take this and move it and talk to me when you're done, that's a huge risk. Because we're talking several thousands of dollars, not just 5 grand. We're talking like, \$100,000 sometimes.

Another common theme we found throughout our research was that of uncertainty about the future. Even with the legalization in Colorado, it is still illegal at the federal level and for that reason things could change very quickly if government policy dictated such. If policy were to change in favor of national legalization, then black market operators face a serious threat to their industry as “Mitdog” explained:

This is exactly what we knew would happen to the marijuana industry if the federal government legalized it over the country, it would shut the entire drug market down. Every bad person and every drug dealer would quit doing it, because it's not worth it anymore.

However, if they decide to try and transfer their business to the white market, it forces them to carefully consider their financial investments as well as risk publicly associating their names with the industry if policy changed and the federal government enforced prohibition.

It costs a lot of money. And I don't feel like asking investors to do that. It's too many hoops, too much money and then not to mention it is only a state situation so I don't want to invest everything I have worked hard for, on top of that take loans out, on top of that get investors and then potentially have that rug swept out from underneath me.

No, I am not doing that. I'd rather get a job at a gas station, to be honest with you.

Black market operator, "Mister Trichomes"

The market got so saturated that I quit for a while. Eventually I'm going to go back, but I'm just going to wait for it to settle down. Everyone went back to the black market because even though we legalized it, that's not to say the next election it doesn't pass if someone gets another ballot on the market and it doesn't pass this time and now your name's out there everywhere. It's with the dispensaries, the police have your name. They have access to that information.

And that's why a lot of people still stayed underground and didn't even bother to get their medical licenses even if they qualified, because they were still worried that someday it could get overturned and now their name's on record as being a marijuana grower.

Black market operator, "Mary Jane"

The legal benefits to legalization are quite obvious. Without risk of prosecution, more people can enter the marketplace. This has led to an increase in supply and the creation of new competition for the black market – the grey market. Although retail cannabis costs more, we found that people are willing to pay the price to avoid legal hassles. Moreover, what does provide the black market with a potential for resurgence is the constant threat that the federal government has the power to take this all away, leaving states impotent and individuals vulnerable.

It is evident that there are aspects from all three ES categories that overlap and their impacts on the black market cannabis industry are real and important considerations in the creation of future policies surrounding marijuana legalization.

4. THEORY AND DISCUSSION

The data collected from this study came from a variety of black market operators. They ranged on the spectrum from simple recreational buyers to large operation cultivators and suppliers. With only ten total samples, we cannot definitively conclude that our analysis gives precise answers to the question of how black market operators think and their processes for determining business practices, nor, how legalization has affected their business. However, what is clear through our study is that their decisions carry economic, sociological, and legal/political components. These elements align exactly with three of the five categories of the general environment from the standard industry analysis of the Environmental Scan.

Regarding the economic component, most importantly, black market suppliers must analyze whether or not the risks that they incur match up with the reward that they potentially stand to gain. Overall quality, market price, and unique black market expenses all factor in to this category. Since legalization, the trends from our research show that quality has been steadily increasing, market price has continued to drop, and in order to keep themselves profitable, black market operators have adapted to a business model involving increased exportation from Colorado. In terms of the social element, the black market is inherently influenced by societal perceptions and cultural changes due to the underground nature of the market. After the legalization of cannabis, the study suggests that the stigma surrounding the use of marijuana has dramatically decreased and, therefore, changed the need for many users to hide in the shadows and use illicit sources. Legally, since the allowance of recreational use in Colorado, the black market has seemingly become flooded with growers who now deem cultivation much less risky.

With many more options available and an increase in supply, the market has shown a transfer of power from supplier to buyer. However, even with an abundance of available product keeping prices low on the black market, most individuals are willing to pay more to avoid any legal ramifications.

To reiterate, this research provides important information and valuable insight into how we, as a nation, should consider moving forward with cannabis legislation. Especially in light of the new administrations outlook on marijuana, this study is deserving of consideration.

What is evident is that black markets are ubiquitous and exist everywhere in some form or size. The will of people is entirely too strong to be completely altered simply based on a governmental decree of illegality. When people hear “black market” the immediate reaction is negative because it refers to activity surrounding something deemed illegal. However, when the government decides something is illegal, their decisions are not always based on facts but rather internal biases and profit. Such is the case with marijuana. As many studies have shown, the plant itself is not physically harmful, but due to a high level of fear-based propaganda and purposefully ignored reports, many people view the plant as such. Moreover, what is bad is that the black market creates an unfair market place from which consumers can purchase. In these parallel markets, power is taken away from the consumer, quality and safety suffer, money is put in the hands of those who shouldn't have it, and otherwise law-abiding citizens are turned into criminals simply by purchasing from this environment. For these reasons alone, a dismantling of this black market should be considered a great success for the public. If the ultimate goal is to create an optimal society in which its denizens can

safely and freely live their lives as long as they do not impede on anyone else's freedoms, then we should be looking to provide people with the liberty to choose. The fact that there even exists a black market for cannabis is the real issue and by moving forward with legalization policy we can begin to eliminate the illicit trade as a whole. These markets exist in every state, but based on our findings in Colorado, we can postulate that legalization across the country would continue the downward trend. Additionally, our findings showed that the black market has changed its structure and become much more exportation based. By legalizing federally, this opportunity would cease to exist and allow all consumers to use properly sanctioned channels in which to conduct their commerce, which is the most equitable way.

Unfortunately, the pharmaceutical, tobacco and alcohol industries have the most to lose with legalization, to say nothing of the government (and the industries that would lose out to hemp). Profits would take a hit from the competition cannabis would present, and their powerful position in the lobby won't allow this to happen. This brings up the notion of corruption and, again, the proliferation of misinformation, which cannabis seems to be plagued with since it first became illegal in 1937. The manipulation of data, the turning of a blind eye to legitimate reports and the disregard of truths all lead to the blatant and calculated fear-mongering that keeps the public ill-educated about the actual facts.

An additional advantage to the free market and local economies through legalization would be benefits received by entrepreneurs interested in entering the industry. The ever-present threat from the federal government leaves business owners with the continuous fear of the proverbial rug being pulled out from under them. As

things stand now, an investor could lose their capital/equity/investment and a business owner could end up on a watch list should the government choose to turn the tables and override state law. This potential threat impacts possible industry growth. Furthermore, under the misguided, misused and outdated tax code 280e, cannabis entrepreneurs are not afforded the ordinary and necessary business tax write-offs as other enterprises (“Internal Revenue Code”, 2015 and Yakowicz, 2016). Despite conducting lawful trade they are still being construed as trafficking Schedule 1 or 2 substances, making profitability more difficult, as do the high fees and severely limited availability of secure banking systems. Because they are forced to deal in cash, their liability and security expenses are another drain on the sustainability and profitability of these enterprises.

The trickle down effect of federal legalization is advantageous to states and citizens alike. Monies from increased tax revenues could be used to fund state programs, dollars used to combat cannabis use could go towards combating other crimes and overcrowded prisons would become less of an issue. Projected continued growth could be realized through the creation of new jobs brought about by new businesses such as cultivation, sales, manufacturing, testing, warehousing, cash management, security, legal services, climate engineering, edibles and tourism to name a few. As states open up to legalization, not only will they will find an increase of dollars generated from the purchase of cannabis but they will also see an increase simply because of the unique exclusivity to in-state producers. Since all supply and sale must be contained within state boundaries, all of the subsequent revenues must remain in state as well. This continues to increase the amount raised in addition to keeping these cannabis monies circulating in the specific state economy. The fact that cannabis actually produces effectively for a state is

evidenced in the MPG report where it details that marijuana has “generated more state output than 90% of Colorado industries” (Light, Orens, Rowberry, and Saloga, 2016). Though federal legalization may eliminate this cyclical nature of requiring all transactions to remain within the state, it brings along with it even more enticing elements including continued opportunity for business growth within the industry as well as revenues brought in on a much larger scale.

The final piece to this cannabis theory lies in the complication of what is known as the grey market. The grey market exists from certain loopholes in both Amendment 20 and Amendment 64, which allow patients and patient caregivers as well as individuals and cooperatives to home grow marijuana plants (“Marijuana Grey Market”, 2016). These loopholes provide the perfect opening for black market operators to expand their profits. These opportunities only exist because of complicated and confusing laws and regulations as outlined within the state’s cannabis policy. However, there is no need whatsoever for their existence if the black market is dismantled through federal legalization. By no means does this suggest that caregivers or the right to home grow should be taken away from citizens. Even with complete legalization, caregivers should absolutely still exist for patient convenience and individuals should maintain the right to grow the plant just as they can with products such as fruits and vegetables. The most important piece of our recommendations build upon the foundation that the main objective must not be to serve the state or federal government with the maximum amount of revenues as possible, but rather to provide citizens with all of the civil liberties they deserve.

With that being said, it is an easy jump to argue that with home grows being allowed, the resulting product would spark the rise of another black market. However, the truth is that even if there was full legalization, the black market of cannabis could always present a potential threat for re-entry if consumers do not feel that they are being treated fairly. For instance, if policy were designed allowing for legalization at the federal level, under the caveat that there would be a ludicrous tax levied upon purchase, you would find push back. While it is apparent that people are willing to spend more to avoid the threat of prosecution, they do have their tipping point and would, most likely, revert back to a black market just as they did with prohibition (of both alcohol and cannabis). Therefore, the proper solution is to allow caregivers the same benefits of no additional taxes and the ability to grow an adequate number of plants in order to properly service their clientele, while increasing the regulations on how the plants are tracked. This would mirror the current retail regulations, following these plants with seed-to-sale traceability allowing for further confidence that patients are getting exactly what they need and product is going to the appropriate recipient. Furthermore, if federally legal, businesses would compete on core competencies and competitive advantages, like in normal marketplaces, and the need to turn to home grows strictly based on prices would diminish. Once again, civil liberties should take precedence over generating revenues but perhaps the most wonderful thing about the case of cannabis is that with certain policy, there is an opportunity to do both due to the extremely high demand. Federal legalization could eliminate many of these issues overnight and allow for free enterprise/commerce the way capitalism is intended.

5. CONCLUSION

In 2012, Colorado's constitutional Amendment 64 brought about a significant change in cannabis policy for the state and pushed Colorado to become a front-runner in this new industry. Through the legalization of marijuana, black market operators were provided an opportunity to legitimize their business practices, while at the same time new entrepreneurs were afforded the chance to enter this burgeoning marketplace. This study aimed to explore the effects that legalization had on the black market of cannabis in Colorado. From our industry analysis we have concluded that illicit sales have suffered, however, during this downturn black market operators have adapted and found new avenues to exploit for continued profitability. This matches what The Rocky Mountain High Intensity Drug Trafficking Area reported in their 2016 analysis. It indicated that, "Highway patrol interdiction seizures of Colorado marijuana increased 37 percent from 288 to 394 during 2013-2015, when recreational marijuana was legalized" (Wong, Clarke, and Harlow, 2016).

This research was completed in order to gain a more comprehensive understanding of the thought processes of black market operators in Colorado. Just as one would find when analyzing a legitimate industry with the standard Environmental Scan model, we found that illicit operators base their decisions primarily on three of the five major "General Environment" factors; Economic (increasing supply, decreasing prices and adaptation for profitability), Sociological (greater acceptance and reduced stigma), and Legal/Political (flooding of the market, uncertainty about the future and tradeoffs of price and security). The Environmental Scan process allows for a gathering of information of the conditions under which a certain firm conducts their business and

therefore can detect opportunities and threats that may influence both current and future plans. When analyzing this industry through this lens, we were able to interpret how legalization affected these operators' businesses. Overall, based on our findings, legalization has shown a significant positive change. Not only has this legislation decreased the negative impacts of the parallel market, such as forcing people to purchase in an unfair market where power is taken away from the consumer, questionable quality and safety and money ending up in the hands of those who shouldn't have it, but it has also brought in a great deal of revenue and increased employment opportunities. These positive trends will only continue as more and more states begin to follow suit and recognize the potential of this new industry.

Although Colorado was one of the first states to pass the legalization of retail cannabis, it must continuously review, modify and update its legislation in order to minimize unintended negative consequences as they arise. Until it truly becomes a free market, whereby retailers are not forced into charging exorbitant prices in order to cover the high costs of entry and doing business, their difficulty in being allowed to utilize the banking system for their transactions, the inability for these business owners to write off expenses afforded to other industries and the outrageous "sin tax" levied upon purchasers (all costs passed on to the consumers), there will always exist an opening for the black market. Until cannabis is fully legalized on the federal level, certain aspects of the black market will continue to coexist with the newly formed white market. Furthermore, if the overall objective is to maximize individual personal freedoms, allowing citizens to make their own choices and give those who benefit medically the option without hindrances, rather than focusing on maximizing governmental revenues and corporate profits, the

choice becomes even clearer. However, the beauty of the cannabis industry is that there is a potential for both.

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