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## Discussant Comments
# Marijuana Liberalization and Public Finance:
# A Capital Market Perspective on a Public Health Policy

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# Marijuana liberalization and public finance: A capital market perspective on a public health policy

- Cheng, Franco, Lin examine how timing and implementation of medical marijuana laws affect states' credit risk and cost of issuing debt

- Follows other work using bond prices as an indicator for the results of changing public policy rules
  - Legalizing medical marijuana, increased use, increased costs to places?
    - *Could there be a beneficial effect – legalization leads to revenues for states/locals?*
  - Empirical question about whether changing policy affects fiscal bottom-line for states
  - Careful study and they find that MML increase state offering spreads by 7 bps, which seems related to more marijuana use in place. Careful analysis and compelling work.

# Could other factors be driving the results?

- Immediately wondering if both passage and change in bond costs could be driven by other factor.

- Could passage of medical marijuana laws correspond with fiscal stress or be picking up changing activities or other things happening that affect bond rating? (Pattern of passage, and geography)

  - Authors do a good job of providing evidence that their results are driven by the passage of MML rules and evidence of the mechanism being through increased marijuana use.

  - I believe the results but also had more questions about some of the mechanisms and was also curious about how robust the results are and how heterogeneous across places. (Maybe follow-on work)

# What is the mechanism at work?

- Authors posit related to higher marijuana use and possibly health and social issues.
  - If so, is there a way to check if areas close to borders also face increase usage and higher bond costs?
    - *That is look at not whether medical marijuana legal in state but closer to place where it is legal*
    - *Would this mean results from cross-border tests should go in the opposite direction? If close to place with higher levels of access, would there be spillovers?*
  - Can you check differences between state and municipal issuances and see how it varies with number of dispensaries or usage within states?
    - *Does it vary across type of government depending on who pays/responsible for public health costs?*

# What is the mechanism at work?

- Are any of the expenses or bond premiums mitigated depending on revenue generated by expansion?

  - That is do taxes or fees on products or dispensaries mitigate effect?

  - What level of government gets to keep any revenue raised?

- How does this change over time? Especially as more states adopt?

- Hoping for more details about what might be driving variation as can help us understand what the markets are pricing.

- And how are results affected by the regional pattern of passage?
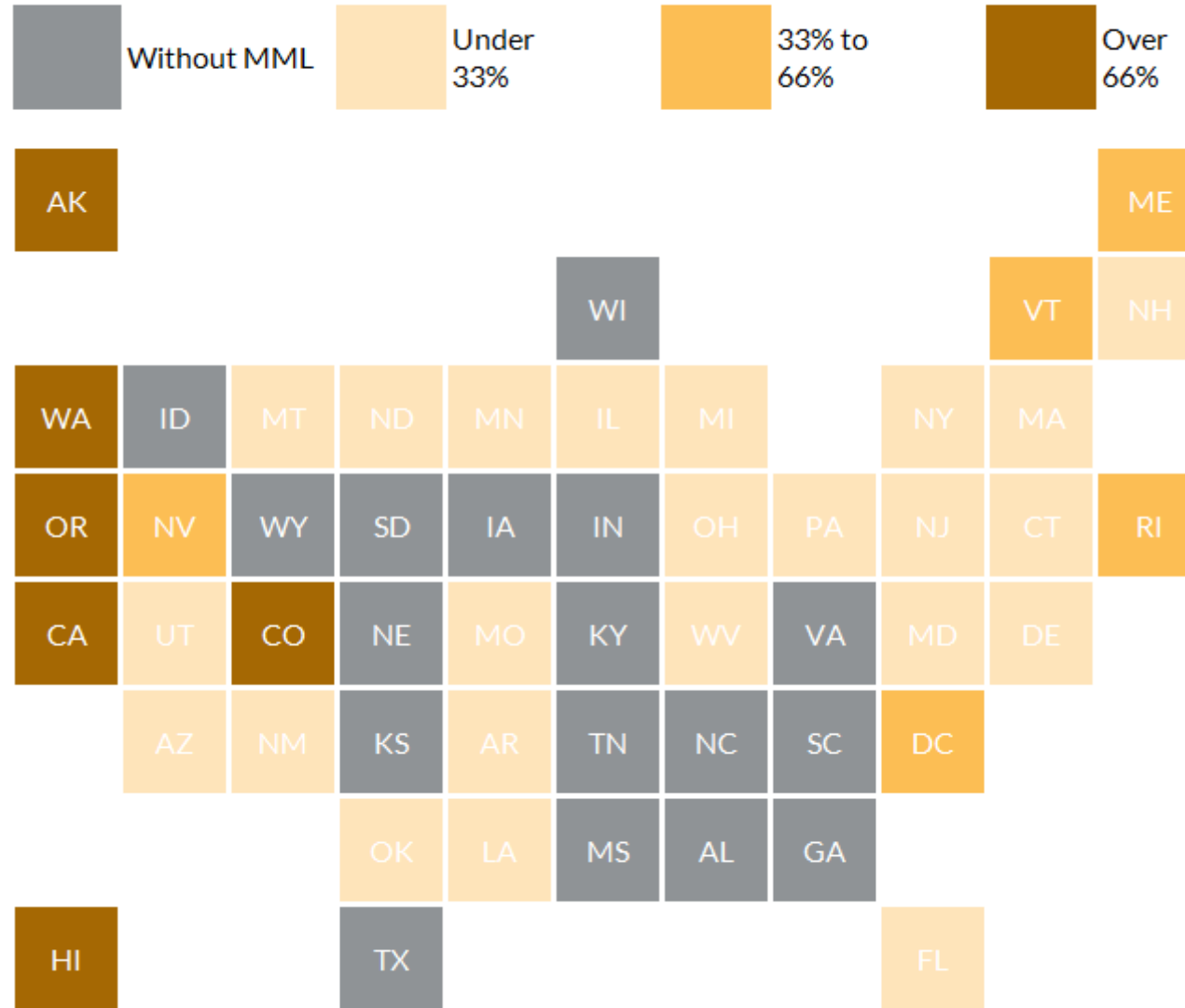
States with Medical Marijuana Liberalization (MML)
As of sample period end (i.e., 2018)

States without MML (17)
States with MML (33 + DC)
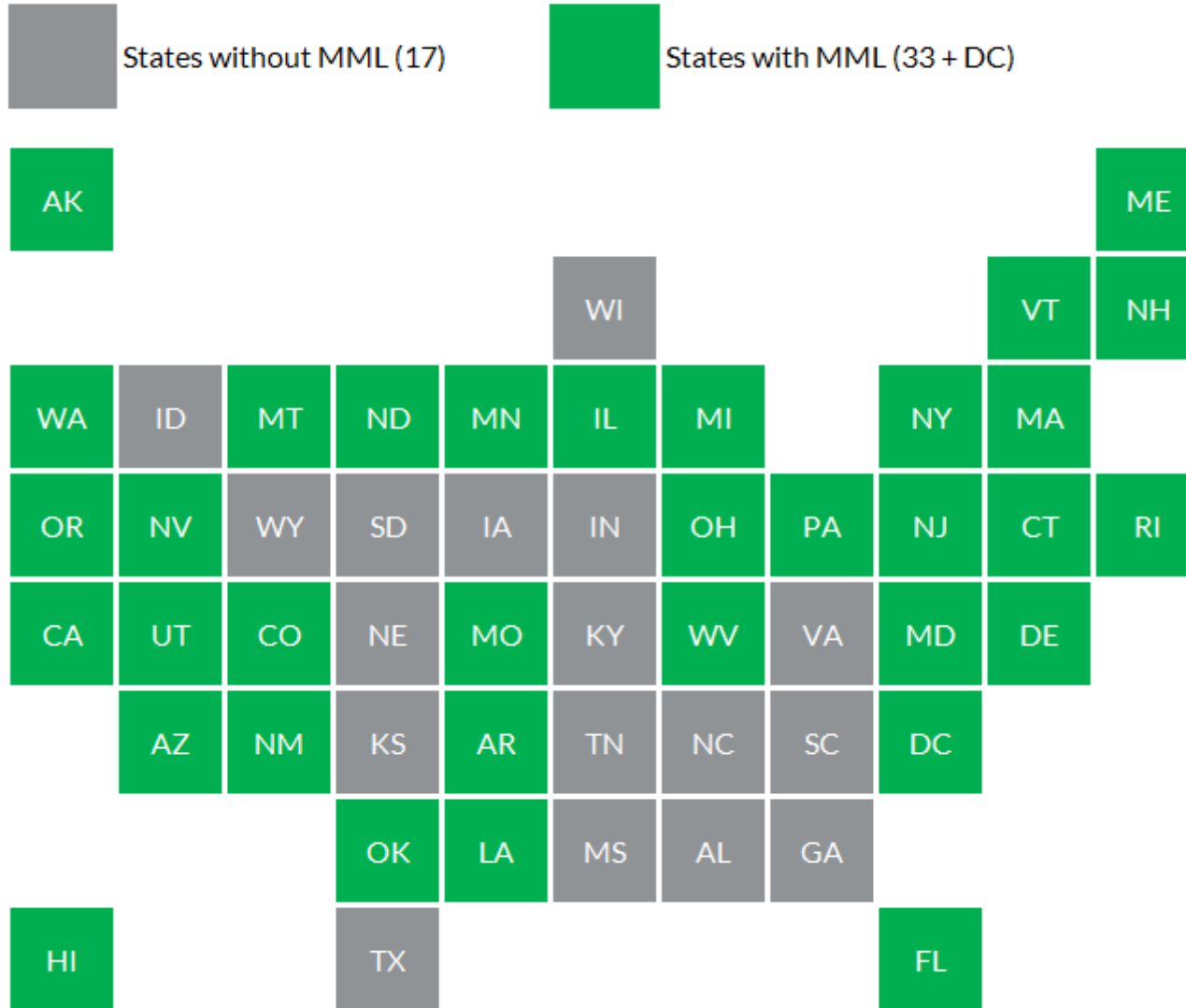
Source: Cheng, Stephanie F. and De Franco, Gus and Lin, Pengkai, Marijuana Liberalization and Public Finance: A Capital Market Perspective on a Public Health Policy (July 6, 2020).
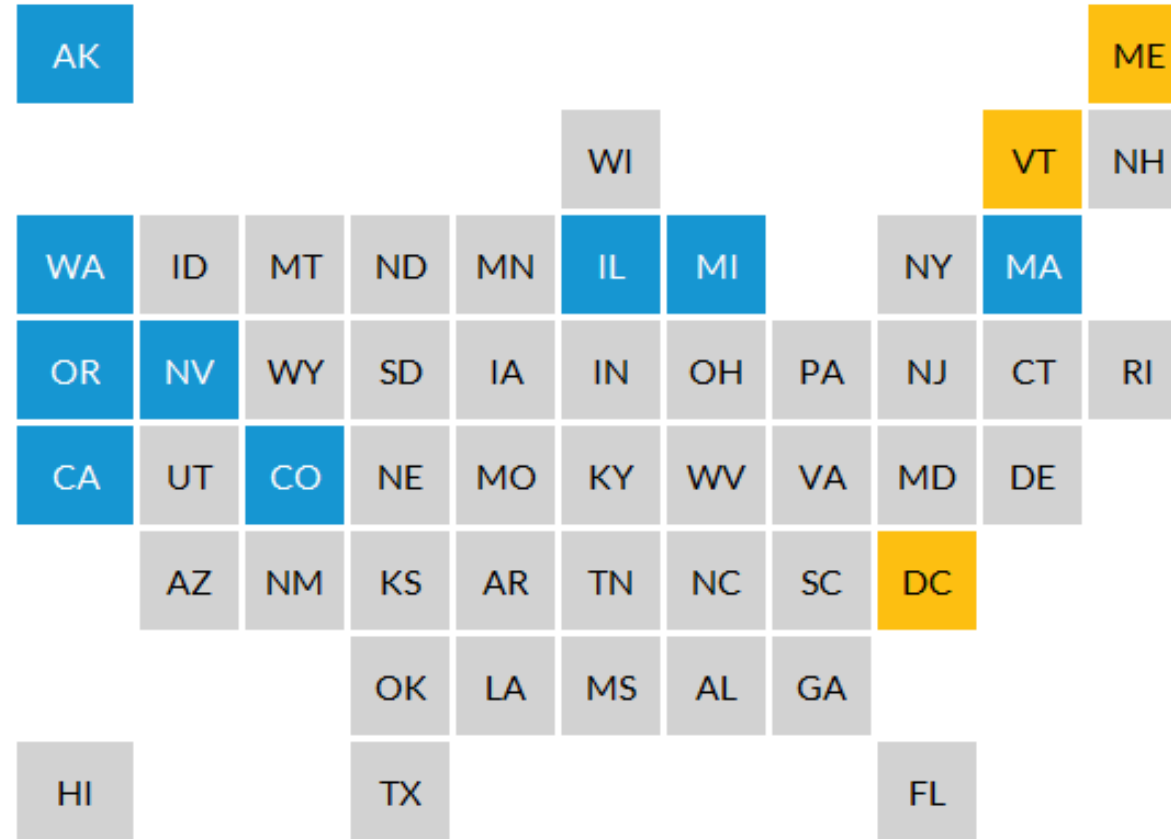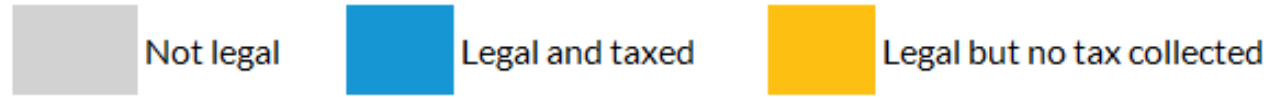
# Share of Bonds Issued After Passage of MML

Relative to all bonds issued by state during the sample period (i.e., 2018)

Without MML | Under 33% | 33% to 66% | Over 66%

| AK | | | | | | WI | | | | ME |
|----|----|----|----|----|----|----|----|----|----|----|
| | | | | | | | | VT | NH | |
| WA | ID | MT | ND | MN | IL | MI | NY | MA | | |
| OR | NV | WY | SD | IA | IN | OH | PA | NJ | CT | RI |
| CA | UT | CO | NE | MO | KY | WV | VA | MD | DE | |
| | AZ | NM | KS | AR | TN | NC | SC | DC | | |
| | | | OK | LA | MS | AL | GA | | | |
| HI | | | TX | | | | FL | | | |

Where is Marijuana Legal and Taxable?

2020

Not legal · Legal and taxed · Legal but no tax collected

Source: State government websites.
Note: Medical marijuana is legal in 33 states.

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# Conclusion

- Interesting and carefully done paper examining the capital market consequences of passage of medical marijuana laws

    - *7 bps increase in spreads about ($7.35M in interest costs)*

    - *Highlights possibly unconsidered costs of changing policy*

    - *Way to try and measure how markets respond to changing public policy*

- Would love to see authors push further in understanding the mechanism and variation across places, how policy implemented and type of bonds most vulnerable

- Is there evidence that bond markets have taken account of other risky behavior?

    - *Can you examine introduction or bans on vaping?*