

ENDURING RACIAL DISPARITY AFTER CANNABIS POLICY REFORM

By

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ABSTRACT

Enduring Racial Disparity after Cannabis Legalization

As cannabis is legalized across the United States for medical and recreational purposes, a multi-billion dollar industry is being born. Missing from this nascent industry are people of color in both organizational leadership roles and as employees. The disparity has been covered by the media, which has led to more attention to the matter and a push for public policy to be inclusive of minorities. This research paper sought to determine the contributing factors leading to the disparity and suggests possible solutions to encourage more participation in the industry on behalf of minorities. The results of the research determined that the top three factors contributing to the lack of minority representation in the new cannabis industry were fear, lack of access to capital, and previous criminal charges. To overcome the disparity, this study recommends policy changes to be more inclusive, reparations in the form of reduced licensing costs, and the creation of small business loans for minorities interested in starting a cannabis related business.

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Chapter1

INTRODUCTION

It has been over two years and a half since the new recreational cannabis market in Colorado started, and six years since the medical marijuana regulatory framework enabled the growth of licensed cannabis retailers and manufacturers. Despite having to overcome many expensive obstacles, many businesses are thriving. Yet, in this new soon to be multi-billion dollar industry, there is a lack of minority business owners, primarily African American and Hispanic leaders. African Americans and Latinos have been disproportionately targeted by the drug war, and that disparity continues on after cannabis legalization in the lack of representation of minority cannabis business owners in the states that have legalized cannabis (Dreibus, 2015).

In 2012, African Americans represented nearly 38% of prisoners imprisoned for drug offenses, Hispanics almost twenty percent, and Caucasians almost thirty one percent yet African Americans represent only twelve percent of the population, and Hispanics constitute only seventeen percent of the U.S. population (“Race and Prison,” 2014; “Criminal Justice,” 2015; “Facts for Features,” 2014). In Colorado, those that are out of prison for non-violent drug crimes are face barriers to entry. Those with prior felony drug convictions are banned from applying for a license for a cannabis retail or manufacturing license, and they are also restricted from getting a badge to work in the industry as support staff (“Business License,” 2015). Formally known as suitability, these restrictions on people entering the cannabis industry aren’t the only barriers, high costs to get into the industry are also impacting minorities, who according to the American Psychological Association (2015), are more likely to live in poverty than Caucasians.

With minorities still in prison for convictions for something that is no longer a crime, and many still with prior non-violent drug convictions, there is a lack of representation in the new cannabis market, prompting law professor and author of the book *The New Jim Crow: Mass Incarceration in the Age of Colorblindness*, Michelle Alexander, to exclaim,

Here are white men poised to run big marijuana businesses, dreaming of cashing in big—big money, big businesses selling weed—after 40 years of impoverished black kids getting prison time for selling weed, and their families and futures destroyed. Now, white men are planning to get rich doing precisely the same thing? (Short, 2014, para. 3)

As a result of ongoing persecutions and barriers to entry, minorities are largely underrepresented in the new cannabis industry with Caucasians having an advantage by having a significant portion of, and control over, the new cannabis market. While topics like reparations can bring about controversy, it is necessary to examine the reasons that minorities are underrepresented in the cannabis industry to make adjustments to increase the level of participation by minority business owners.

Purpose of the Study

The purpose of the study is to identify the factors that are contributing to the ongoing racial disparities in the new cannabis industry, and to make recommendations to remedy the disparities. The study seeks to uncover social and economic reasons that minorities are

underrepresented in the industry. Cannabis legalization is a new phenomenon in the United States, and there are other states poised to legalize marijuana in the next several years. Creating policies that promote equal opportunity in the industry could help level the playing field for the future.

It has also been claimed by minority cannabis leaders that the inability for minorities to become licensed business owners or employees of cannabis businesses has also led to sustaining black market growth (Griego, 2014). There have been many stories done on the possibility of these contributing factors to black market growth, but has not been empirically studied. As noted later, the purpose of this thesis is not to determine the size of the black market and the ratio of minorities to whites participating in the market, but it is within the scope to explore other possibilities that can be the focus of future research when making policy decisions.

General Background for the Study

It doesn't take much data analysis to notice that there is a lack of minority business owners and community leaders in the states that have legalized recreational and medical cannabis use. A quick internet search of marijuana businesses and nonprofit organizations show that the majority of these organizations are owned and operated by whites. Yet, there is not much, if any, information outside of a few recent news articles that highlight and discuss this disparity. One article does mention initial investigation that in a sample of 50 top dispensaries in Colorado showed that 85% of business owners were white males (Bacca, 2015). Most of the discussion around the lack of diversity in the new cannabis economy is speculated that it is due to a variety of reasons ranging from social factors, such as a fear of getting into an industry that continues to disproportionately persecute minorities, or social and cultural stigmas surrounding drug use; to economic and barrier to entry issues such as suitability requirements, high application and licensing costs, and hefty capital investment costs like real estate and production equipment (A. Way, personal communication, March 28, 2015; Bealum, 2015).

In legal recreational and medical cannabis states, entry to market costs are very high due to strict regulatory requirements and regulatory fees. In Colorado, medical marijuana application fees range between \$7,000 and \$16,300, and licensing fees range between \$5,200 and \$15,400, making the minimum total fee \$12,200; furthermore, it costs \$300 to apply for a badge to work in the industry ("Medical Marijuana Fees," 2014). For retail marijuana, the application fees are \$5000, and licensing fees range between \$3,000 and \$13,200, the higher costs depending on if a person applies for extended plants counts and an infused product manufacturing license ("Medical Marijuana Fees," 2014). This costs are on top of the costs required to meet regulatory standards, such as child-proof packaging, security systems, and inventory tracking systems. Nevada, a state that has a regulated medical marijuana market requires applicants to have \$250,000 in liquid assets to even apply for an application ("Adopted Regulation," 2014). Washington has more reasonable application fees at \$250, and applicants only need to file for a local business license ("Adopted Rules," 2014).

Also worth considering is that the bill that legalized recreational cannabis in Colorado states cannabis should be regulated in the manner of alcohol (Col. Const. Art. XVIII pt. 16, 2012). Yet, in Colorado, the application fee for a liquor license is \$1000 locally, \$600 statewide,

and a license for a retail liquor outlet is no more than \$312.50 (“Colorado Liquor Enforcement,” 2015). A license to manufacture liquor is \$1,050 with a \$300 application fee (“Colorado Liquor,” 2015). The Marijuana Policy Project encourages on its website that, “while medical marijuana dispensary fees should not be so low that they encourage frivolous applications, it is important that they are not prohibitively high (“Medical Marijuana Dispensary,” 2015, para. 2).

Banking is another issue impacting the ability for minorities to gain entry into a market that has high start-up costs. Since cannabis is still illegal federally, banks are reluctant to provide banking and lending services to cannabis related businesses (Rogers, 2014). This means that only those with access to significant capital resources, whether their own, from friends, or family, can afford to open cannabis businesses. This also holds true for ancillary businesses trying to get new business loans and bank accounts. Pikes Peak National Bank President, Robin Roberts, explains that, “banks refer to them [cannabis businesses] as marijuana related businesses. So if any revenue is derived from the sale of marijuana, directly or indirectly, that business triggers costly and frequent reporting requirements” (R. Roberts, personal communication, March 28, 2015). Since there are few if any banks willing to lend money, there are also no lending programs specifically for minorities through public assistance.

Guiding Questions

This project seeks to discover the reasons behind the shortage of minority business owners in the new cannabis industry. It assumes that high licensing and applications fees, high capital investment costs, and lack of access to banking services and lending are contributing to the small number of minority cannabis business owners. However, since this is a new topic that is just now being explored, this assumption carries with it lots of questions related to sub-problems of the overall problem that this project seeks to shed light on. Other questions that this study seeks to answer include:

- Are high application and licensing costs contributing to the lack of minority business owners?
- Are suitability requirements keeping out minorities who disproportionately have higher drug offence convictions?
- Are there social reasons, such as social conservatism or fear of retribution from law enforcement, keeping black entrepreneurs from entering that cannabis industry?
- Since fees are deliberately set high to encourage only “serious” applicants are they discriminatory as a result?
- Is banking and access to loans an issue for minorities trying to open a business in the cannabis industry? Is this issue common in other industries?
- Have minority owned businesses shut down operations because of the inability to keep up with costly regulations? If so, then how many?
- Are there other factors unrelated to the cannabis industry that negatively impact minority entrepreneurship that are common in the United States economy in general?
- How much does White privilege come into play in helping Caucasians have a stronger presence in the new cannabis market?

Delimitations and Limitations

The cannabis industry is a brand-new market, which means data collection is going to be limited and challenging. Tools like social media will come in handy in reaching out to potential subjects, but not yield a lot of information in a dependable manner. This study is to add to the new and limited amount of information on the new cannabis industry and to encourage more in depth studies on the social and economic aspects of this emerging market.

Delimitations

This study is a qualitative analysis as to why there is a lack of minority business leaders in the new cannabis industry. It does not seek to do a quantitative analysis of the number of minority businesses that exist and the reasons that they have successfully launched and maintained their cannabis industry, but instead wants to understand the social and economic reasons that minorities are underrepresented. This study is also only focusing on minorities of color, including women of color, but not women as a minority group. There are a lot of Caucasian women business owners and leaders in the cannabis industry, which can be entirely another research project; however, minority women are still underrepresented in that market segment as well.

Limitations

The cannabis industry is new, and data and information is limited. It will be difficult to gather data from minorities who have thought about or tried entering the cannabis industry. This will have to be accomplished through creative means such as social media, or perhaps putting an ad in local paper, both options more than likely yielding limited results. Much of the data collected will be from open records requests from states as well as through personal interviews which could be costly and provide logistical challenges respectively.

Significance of the Study

Cannabis legalization and the subsequent emerging market is only a few years old. Very little data, whether qualitative or quantitative, is available for researchers. This study adds to the growing body of research and will hopefully open up new areas of research. This study will also be used to guide policy for the new cannabis industry, including the creation of programs, whether public or private, to encourage the growth of minority owned cannabis businesses.

Chapter 2

REVIEW OF LITERATURE

As mentioned in Chapter 1, there is very little data on the new cannabis industry, therefore there is very little literature on it available to use for this study. There is no peer reviewed literature on the topic of this study. In fact, most information is limited to news articles. Also, most of the news articles on minorities and the cannabis industry focus on African Americans. There are, however, several peer reviewed studies on minority entrepreneurship and business development of minority owned businesses, including access to capital. This literature review will examine these articles to identify the overall issues and successes that minorities face in starting and growing new businesses and compare them to the new cannabis industry and issues that minorities face.

Minority Owned Cannabis Businesses

Social Conservatism and Fear

There is no peer reviewed information on the influence of social conservatism on minority participation in the new cannabis economy; however, it has been discussed in conversation between policy makers. Art Way, Colorado policy director of the Drug Policy Alliance, noted “Many of those over 50 years old or who came from the old civil rights guard did not support marijuana legalization and really took a hard line in the drug war” (Brown, 2014, p. 4). There is no data to support this claim, and there are levels of conservatism in all cultures and races; however, the drug war has created a disparity that disproportionately impacts minorities, and it could be possible that the best alternative is to avoid any interactions with illicit drugs, legal or illegal.

Younger generations embrace cannabis though, as seen in African American pop culture, where cannabis use is celebrated in campy movies, such as *How High?* and the *Next Friday* series, and in Hip Hop music, such as Snoop Dog, Dr. Dre, and Ludacris. It would appear that they would be flocking to get into the cannabis industry with no real explanation why. It has been speculated that fear of being targeted by law enforcement is a reason, although there is no data in published literature to support that assertion; however, according to Wilking (2015), there is still an ongoing disparity in marijuana arrests between whites and minorities in states that have legalized cannabis use. A recent report released by the Drug Policy Alliance has also confirmed that after cannabis legalization, blacks are still 2.4 times more likely to get arrested for still illegal and petty marijuana offenses than whites; however, cannabis distribution charges have dropped for black men (Gettman, 2015). Mona Lynch, professor of criminology, law, and society at the University of California holds that the patterns of arrests that disproportionately impacts minorities has created an element of fear because the federal government can still prosecute cannabis related crimes (Dreibus, 2015).

Thornhill (2011) found that support for among black community members for legalization was high in urban areas where black drug arrests were the highest, however this

support does not translate to participation in the cannabis industry. According to Bacca (2015), there is only one black cannabis dispensary owner in the state of Colorado, and 85% of business owners. This needs to be confirmed with further investigation. It is important to note that upon an initial Colorado Open Records Request to determine what data could be collected on cannabis business applicants approved and denied was not granted because Colorado law does not allow for the release identifiable information on applicants such as sex or race (Julie Posthleit, Colorado Department of Revenue, personal communication, April 1, 2015) This means that surveys will need to go out to cannabis business owners and their states records that do allow identifiable information will be relied upon for further analysis.

Reparations

The topic of reparations is one that is controversial. How does the United States rectify this as states and potentially the federal government legalize cannabis? There is no peer reviewed work that studies whether reparations should be given to ethnic minorities who have suffered the most harm in the war on drugs. However, minority leaders in the cannabis community have brought up the conversation. Carolyn Brown, director of communications for the Drug Policy Alliance, writes in an article for *Black Enterprise* magazine that whether minorities are compensated for the damage caused by the drug war or not, there needs to be conversation about reducing barriers to entry for African Americans (Brown, 2014). In the same article, author Michelle Alexander, is quoted saying on a press call,

“After 40 years of impoverished black men getting prison time for selling weed, white men are planning to get rich doing the same things. So that’s why I think we have to start talking about reparations for the war on drugs. How do we repair the harms caused?” (Brown, 2014, para. 8).

Clearly the African American policy making community is aware that there is a disparity, and that something needs to be done to address it, only the industry is so new that research still needs to catch up to support observations.

Minorities and Entrepreneurship

Entry into Markets

Cannabis is a new market economy; however, by reviewing data related to entrepreneurial behavior exhibited by minorities, it is possible to get an idea on the behavior of minorities entering into the cannabis industry. Minorities are very entrepreneurial, and blacks are almost two times more likely to start a new business; however, data also show that despite this, Hispanic and African Americans exhibit lower rates of self-employment (Kollinger and Minniti, 2006). This information indicates that there may be other factors keeping minorities from launching a successful business in the United States, which can be further examined by exploring why minority owned start-ups fail.

Access to wealth seems to be a reasonable assumption behind people being more inclined to start or invest in a new business, yet, the data supporting this is conflicting. According to Kim, Aldrich, and Keister (2006), wealth and entrepreneurial entry are not highly correlated, and individuals who come from a family of wealth, or are wealthy themselves, are no more likely of entrepreneurial entry than those without access to wealth. A more recent study by Fairly and Robb (2013) found that the wealth levels of white families were 11 to 16 times higher than that of Hispanic or African American families, and that low levels of wealth and liquid assets create greater barriers to entry. Since data supports that minorities are entrepreneurial, yet are more likely to be unsuccessful at maintaining their businesses, it will be interesting to see if this is the case with cannabis business start-ups. More information is needed, such as the amount of cannabis businesses that have shut down, the race of business owners, and ability to keep their businesses running in a fast changing and often very expensive regulatory process.

White Privilege

Possibly even more controversial and contentious than the topic of reparations, is the topic of white privilege in the United States. Yet, the topic is gaining traction as the United States goes through another wave of controversial issues surrounding race. White privilege, as it turns out, may have an impact on successful entrepreneurship. A study by Levine and Rubinstein (2013) to study personality traits found that entrepreneurs had high learning aptitudes, were rebellious as youths, and that only incorporated businesses, and not self-employed entrepreneurs, were most successful. Journalist Jordan Weissman (2013), points out in an article in *The Atlantic* on the study that of these successful entrepreneurs, the clear majority of them were white and postulated that whites had more access to better legal representation since their parents were wealthier than parents of minorities, therefore, they were less likely to be held back by the constraints of having criminal juvenile convictions. Data to support this is limited; however, Melvin (2001) holds that, “the past has trapped us [United States] in a legacy of racial inequality and privilege that is a power constraint or limit on our sense of possibilities for economic and social equality. Clearly privilege has a huge impact on the advancement of minorities in any capacity in the United States, and more than likely has an impact on entrepreneurial behavior.

Another area of privilege that impacts the ability of minorities to obtain licensing in the cannabis industry is the criminal justice system. According to Pewewardy and Severson (2003), white privilege, in relation to the United States criminal justice system, is a form of social control that has led to the disproportionate rate of incarcerations of African and Hispanic Americans. There is no doubt that this is present in the war on drugs, and since suitability for cannabis related businesses require clean criminal records, many minorities are being shut out of opportunities in the cannabis industry. Based on the studies mentioned in the next section of this review on discriminatory lending practices, and the history of minorities being prosecuted more than whites for non-violent drug offenses resulting in criminal records that keep them from obtaining business licenses or jobs in the new cannabis industry, white privilege could potentially be a contributing factor to the lack of minority cannabis business owners. There could also be outright discrimination at play, and it would also be interesting to review data on cannabis businesses that were shut down and how many of those were owned by minorities.

Minority Owned-Business Development and Survivability

According to a study done by Robb (2002), minority owned businesses are less likely to survive than those owned by white business owners. Access to capital that is necessary to start and maintain a business plays a major role in the success of minority owned start-ups. It may be even more critical in the cannabis industry, which spans three industries: manufacturing, retail, and services. Retail and service industries require little capital investment compared to manufacturing, and have higher turnover rates; and since manufacturing businesses require high capital investments, there are constraints that keep many people from starting them (Robb, 2002). Both of these factors could be contributing to the disparity between white and minority cannabis business owners, especially if minority owned businesses are unable to survive because of not being able to access capital.

Entrepreneurial survival has been directly linked to minorities being discriminated against in the business credit market and black-owned businesses are more often than white-owned businesses to be denied loans despite being credit-worthy, which is partly to blame for the high exit rate that black Americans have from self-employment (Kollinger and Minniti, 2006). According to Fairlie and Robb (2010), minority-owned firms are more likely to avoid applying for loans because of fear of rejection, and when they are able to secure loans, they are in lower amounts with higher interest rates what is given to businesses with white owners. Data from a study done by as recent as 2013 still shows racial disparity in access to capital and that Hispanic and African Americans relied less on formal financing channels than Caucasians (Robb, 2013). The impact of the lack of access to lending and capital is already being seen in the cannabis industry. In early April 2015, the Florida Black Farmers Association complained that the new law enacted to grow a non-euphoric strain of cannabis called Charlotte's Web discriminated against blacks because the new law requires that farmers have at least 30 years of continuous existence which shuts out all black farmers because they have been arguing with the Department of Agriculture for the past 30 years or discriminatory lending practices (Klas, 2015). This will serve to further alienate minorities from large-scale cannabis businesses.

There is substantial data supporting that access to lending tremendously helps minority owned businesses achieve greater success. By providing access to lending and credit, small businesses can pay their bills on time and build stronger credit, leading to more successfully launched minority owned business (Bates and Robb, 2013). According to Dadzie and Cho (1989), outside assistance obtained during the early growth stages are effective at helping young minority owned businesses survive. Interestingly, disparities in access to capital between minority owned businesses and non-minority owned businesses increase in the years just after a start-up, white non-minority businesses ((Fairlie and Robb, 2010). Based on these studies, it could be that access to capital before and after starting up are the primary reasons why minority owned cannabis businesses are so rare.

Summary of Literature Review

While there was no peer reviewed studies of the racial disparity in the cannabis industry, the topic is gaining traction in the mainstream media. There are several news articles discussing

the lack of minorities, primarily African Americans, in the new cannabis industry. There is at least one new research article by the Drug Policy Alliances highlighting the issue that minorities are still getting arrested disproportionately in states that have legalized recreational marijuana, such as Colorado, show that there continues to be ongoing disparity. The information found on issues that impact minority entrepreneurs and successful business owners is useful because they serve as a basis of comparison and provide guidance on the types of questions to be asked while conducting research.

Chapter 3

METHODOLOGY

Theoretical Framework

Cannabis is being legalized across the United States for medical and recreational use. Colorado, Washington, Arizona, New Mexico, Nevada, and the District of Columbia regulated cannabis markets, including recreational and medical cannabis, and have licensing for businesses and manufacturers, as well as a regulatory framework for these businesses to operate under. This has resulted in hundreds, soon to be thousands, of cannabis businesses. As mentioned in Chapter 1, of these businesses, very few are owned by African Americans or Latinos (Dreibus, 2015). This also extends to the leaders and board members of national nonprofits that have been working to legalize cannabis or on cannabis related policies. A quick internet search of board members of nationally known organizations shows that the majority of board members are white males.

There are many possible reasons behind the lack of minority representation at the leadership level of the new cannabis industry. The disparities of the drug war, which is now being called the “new Jim Crow” by African American leaders including author Michelle Alexander in her new book, *The New Jim Crow: Mass Incarceration in the Age of Colorblindness*, have put minorities in a system that they cannot climb out of because criminal records keep people from obtaining employment or from obtaining student loans, thus forcing minorities into a lower class (Alexander, 2012). This also bleeds into the cannabis industry because of policies that keep people from obtaining licensing or jobs because of previous non-violent drug charges. At best, cannabis legalization has resulted in less minorities being arrested; however, as mentioned in Chapter 2, there are still disparities in arrests in Colorado after legalization.

Since much of the research reviewed in Chapter 2 points to social-economic issues as being primary reasons that hold minorities back from achieving entrepreneurial success in any industry, research conducted in the cannabis industry will focus on those same issues such as access to capital and white privilege, including the impact of the drug war that has disproportionately targeted minorities. It will also consider the socio-cultural issues that may be keeping minorities from participating in the new cannabis market.

There is not as much information on the lack of Latino business owners in the cannabis industry as there is on African Americans. This study assumes that there are similarities between the two communities because they have both been disproportionately impacted by the war on drugs, and will be researching both groups.

Research Questions

As mentioned in Chapter 1 under Guiding Questions, there are a lot of questions that this study seeks to answer to shed more light onto the reasons for the lack of minorities in the cannabis

industry. The questions concern multiple reasons that are impacting minorities' ability to enter the cannabis market and create a sustainable business. The interview questions seek to understand from community and policy leaders issues what are the barriers to entry to the cannabis market, such as the number one reason that minorities are not participating in the cannabis industry, are issues related to the drug war impacting the ability to open new businesses, is white privilege something to consider in the underrepresentation of minority cannabis business owners, social-cultural reasons, and financial reasons.

The surveys seeks to address research questions related to how people identify their race, the process of applying, if people where successful or unsuccessful and why, and if they were able to launch a successful business, how they obtained capital for their business and other factors that contributed to their success. The surveys also asks for opinions on if the drug war had a negative impact on minorities being able to participate in the new cannabis industry. Finally, the surveys ask for why people believe there is a lack of minority cannabis business owners and seeks policy suggestions to help answer questions from policy makers.

Method

This qualitative study is focused on the lack of minority representation in the new cannabis industry. It seeks to identify the different issues that minorities face when pursuing a cannabis business as well as other reasons keeping minorities from participating in the new industry. One of the purposes of this study is to identify the relevant issues related to minority participation in the cannabis industry. These issues may serve as a basis for future more specific research. As it stands, there is very little qualitative or quantitative research on multiple areas in the new cannabis industry, including barriers to entry. The primary issues that this study explores are: the drug war's impact on the ability for minorities to enter the cannabis industry because nonviolent criminal drug charges, white privilege as a result of drug war policies, fear of entering a market after decades of persecution focused on minorities in the war on drugs, lack of capital resources to start a business with expensive overhead costs.

To get a balanced view of the variety of issues impacting minority business leaders in the cannabis industry, this study will employ a case study methodology describing the evolution of the cannabis industry in Colorado, Washington, Nevada, Arizona, New Mexico, and the District of Columbia, including the regulations that have grown out of the new industry, the growth of new businesses and the number of them that are minority owned or run, and socio-cultural reasons, such as fear, that keep minorities from participating. To accomplish this, the researcher will conduct interviews of minority community leaders, gather information from newspaper articles, survey minority community members through minority membership organizations, and gathering information from state applications for licenses that have been approved or denied using the United State Freedom of Information Act. The latter two methods will include quantitative analyses looking for simple ratios, discussed in further detail later in this chapter under Data Analysis. This case study will also be using elements of other research designs, including phenomenological study and content analysis. Phenomenological studies are used to determine people's perceptions and perspectives of particular situations, and content analysis looks at data to determine themes, patterns, or biases.

Interviews

Minority business leaders associated with the cannabis industry will be interviewed to provide answers to questions related to reasons they believe have kept minorities out of the new cannabis industry and what should be done to encourage minorities to open cannabis related businesses. Minority business leaders who were successful in starting a cannabis business and those who were not will be interviewed, with the intention of identifying five community leaders and three to five unsuccessful business owners. The questions to be asked during the interviews are:

- What is the number one reason that minorities are not participating in the new cannabis industry?
- In what ways has the federal government war on drugs impacted minorities being able to participate in the cannabis industry?
- In what ways has white privilege been is a factor in lack of minority representation in the cannabis industry?
- What are the social and/or cultural reasons that minorities are not participating in the cannabis industry?
- Do you think that fear of persecution related to past drug war disparities contribute to the lack of minority cannabis business owners?
- In what ways does access to capital impact on the ability of minorities to participate in the cannabis industry?
- What are possible solutions to encourage and enable minorities to participate in the new cannabis industry?
- Do you own a cannabis business?
- If so, what has contributed to your success that others can learn from and emulate?

Surveys

The first survey will be a simply survey of cannabis business owners in Denver. The sampling will include emails to business owners asking them to participate in a quick survey to determine the number of different races in the new cannabis industry. The email will state that this is simply to gather information for a research project and not intended to malign any one group, and to also be used for making policy suggestions. The survey will consist of these questions:

- What race are you?
- What was the primary reason that you decided to participate in the cannabis industry?
- How did you find capital to open and maintain your cannabis business?
- How do you think the disparities of the drug war that has resulted in a disproportionate amount minorities in prison has impacted the ability for minorities to participate in the new cannabis industry?

- What type of policies or programs should be put in place to help encourage more minority participation in the cannabis industry?
-

The research is also intended to identify the reasons individuals in minority communities have not participated in the new cannabis industry, including whether they tried unsuccessfully to be a part of it, and if they are successful, what contributed to that success. An additional intent is to identify socio-cultural-economic issues that are impacting on their decisions to participate in the new cannabis industry. A survey that has two parts will be developed and sent to individuals in the minority community. These individuals will be identified through their membership in minority business organizations. The first part of the survey will be composed of general questions addressed to individuals who do not or have not owned a cannabis based business. The second part of the survey is to be answered only by those who have successfully or unsuccessfully tried opening a cannabis business. The questions I will ask on the survey are:

Part 1

- Do you currently own a cannabis business? If not, please respond to the questions below. If yes, skip to part 2.
- Are you now, or have you been, interested in opening a cannabis business? If so why? (Respondent to answer in detail in provided space)
- Have you tried to open a cannabis business and were unsuccessful?
- If yes, why? (Respondent to answer in detail in provided space)
- Why do you think there is a lack of minorities in the cannabis industry? Please check all that apply:
 - Lack of personal capital resources
 - Lack of access to capital resources
 - Fear of persecution or harassment from law enforcement
 - History of criminal drug charges
 - Spillover effects from the federal drug war
 - Discrimination
 - Cultural beliefs against drug use

Please use this space to clarify your choices and/or to add additional comments.
(Respondent to answer in detail in provided space)

Part 2

As a successful cannabis business owner, please explain what has contribute to your success? Include details such as sources of capital investment and community support.
(Respondent to answer in detail in provided space)

Analysis of Data

After collecting the data, it will be summarized qualitatively to reveal patterns to show the majority of reasons that minorities are not participating in the cannabis industry. Interviews will be recorded and subsequently transcribed into written format that details all that was said in each interview. Responses to surveys will be summarized and tabulated for both the business owners group and the non-owners. Content analysis will be used as the primary tool for analysis of transcribed and tabulated information from the interviews and the survey. Identification of

similar and dis-similar statements will determine the results of this project. The results or outcome of this project will then be used for guidance to other researchers who want to further study the results quantitatively, as well as provide implications and suggestions for future policy making.

This study will also be conducting quantitative analysis looking for simple ratios. Simple ratios will consist of percentage of people referring to similar factors contributing to the disparity between minorities and whites in the cannabis industry, the percentage of races represented, and the percentage of those that have been success, including stated reasons behind the success. Content analysis will be the primary tool used of transcribed and tabulated information from surveys and interviews. The results can then be used for future quantitative research.

Chapter 4

RESULTS

Actual Data Collected Versus Expected

Collecting data was more difficult than anticipated, which is further discussed in detail in Chapter 5. Instead of interviewing people in person, the interview questions were posted to the social media tool Facebook which became the source for participants for the survey that was initially intended to be sent to minority business associations. During the course of this project, a new organization called the Minority Cannabis Business Alliance (MCBA), a minority-based cannabis industry trade group was formed. Initially the research was going to target members of existing organizations such as the National Association for the Advancement of Colored People (NAACP).

The only minority organization that it made sense to send the survey to was the MCBA because they were directly tied to the cannabis industry which would be more efficient than trying to enroll organizations such as the NAACP, which is not cannabis related and has thousands of members. Enrolling the MCBA into assisting with disseminating surveys and providing people for interviews was difficult and time-consuming. In the end, only one of the executive board members provided interview responses and failed to return requests to send out surveys, or to refer minority cannabis leaders for interviews. Again, this is not to condemn the organization and is merely what occurred during the data collection process.

Data Analysis

The majority of responses received were from cannabis industry and advocacy leaders who participate in the ancillary market. There was only one response from a cannabis business owner of a cannabis touching business, in this case an edibles manufacturer. Several attempts to enlist the Minority Cannabis Business Association to reach out to owners, and reaching out independently to businesses owners did not yield responses at all, or some people agreed to be interviewed and never followed through. This could be because of multiple reasons that should be explored further, for example, the industry being referred to as the green rush, is exactly that, a rush to build businesses while simultaneously working on policy. This leaves limited time for extra commitments. Another possibility is fear of gaining too much attention, especially as the data shows, fear is a common factor in preventing minorities from engaging in multiple aspects of the cannabis industry.

In analyzing the data, it is easier to lay out the responses and then calculate how many people answered the same question. Because of multiple people providing similar answers, this was the most efficient way to assimilate all the data. The responses were made according to the educational level and language skills of the respondents, and therefor were further analyzed to decipher and categorize the meaning. The following are the results of interviews of cannabis industry and advocacy leaders:

Question #1

What is the number one reason that minorities are not participating in the new cannabis industry?

Responses

1. Incarceration\racial bias in incarceration rates: 2
2. Fear: 2
3. Lack of access to capital: 4
4. Lack of access to expertise: 1
5. Not considered during the lawmaking process: 3
6. Lack of awareness of available opportunities: 2
7. Not being able to meet suitability requirements: 1
8. Lack of education: 1

Question #2

In what ways has the United States Federal government's war on drugs impacted minorities being able to participate in the cannabis industry?

Responses

1. Minorities make up the majority of people who are arrested for drug crimes and as a result do not meet suitability requirements: 6
2. Large number of overall arrest rates of minorities in general: 3

Question #3

In what ways has white privilege been a factor in the lack of minority representation in the cannabis industry?

1. Structural inequity: 1
2. Structural inequality: 1
3. Upper-middle class Caucasians have more access to capital: 5
4. Caucasians have more advantageous starting points: 1
5. Fear on behalf of Caucasians of losing the status quo to demands for equality: 1
6. More minorities are needed in the legislative process: 1
7. Caucasians are less likely to have a criminal record: 3
8. Familiarity to the use of social networks: 1
9. Lack of access to information needed to navigate complicated regulatory requirements for cannabis business licensing: 2
10. Minorities have been left out of the legislative conversation: 2

Question #4

What are the social and/or cultural reasons that minorities are not being in the cannabis industry?

Responses

1. Lack of trust: 1

2. Feeling the impression of needing to work twice as hard as Caucasian counterparts: 1
3. Overcoming oppression
4. Fear of being directly impacted by the war on drugs and drug laws, past and present: 3
5. Cannabis is primarily being marketed to a Caucasian demographic: 1
6. Negative social stigma due to a history of harsh drug crime laws: 8
7. Religious reasons: 1
9. It is easier for some minorities to remain in a familiar illicit market than trying to learn how to operate in a regulated market: 1
- 10: The majority of a population in certain areas (Respondent noted that this was not supported by data: 1
11. Cannabis regulations are currently geared towards exclusivity that shut that minorities: 1
12. Fear that participation in the cannabis industry would be a negative mark on a resume: 1

Question #5

Do you think that fear of persecution related to past drug war disparities contributes to the lack of minority cannabis business owners?

Responses

1. Yes: 9
2. Loose regulations may be a contributing factor: 1
3. Lack of legal representation contributes to that fear: 1

Question #6

In what ways does access to capital impact the ability of minorities participate in the cannabis industry?

1. Unfair lending: 3
2. No, or very little access to startup capital: 4
3. Criminal record limiting access to jobs: 1
4. Only ensuring that the wealthy and privileged are able to participate: 1
5. Obtaining a license for a cannabis touching business is resource intensive: 3

Question #7

What are possible solutions to encourage and enable minorities to participate in the new cannabis industry?

1. Redefine moral turpitude, which are what define the suitability requirements: 1
2. Draft legislation that promotes inclusiveness: 2
3. Create startup funding and resources for cannabis businesses: 3
4. Reparations: 2
5. Abolishment of agencies such as the Department of Justice and the Drug Enforcement Administration: 1

6. Develop education campaigns that target minorities: 2
7. Create merit-based applications for minorities for cannabis touching business licenses: 1
8. Allow for the conversion of illicit plants to legal plants to encourage regulated market participation: 1
9. Create government-sponsored training programs for minorities interested in entering the cannabis industry: 1
10. Create regulation that includes residency requirements that guarantee licensing priority to local residents: 2
11. No restriction on licensing to promote an open market: 1
12. Expungement of cannabis related charges: 1

Question #8

Do you own a cannabis business?

Reponses

1. No: 2
2. Yes: 7

Question #9

If so, what have contributed to your success that others can learn from and emulate?
(Related to #8. One yes to owning a cannabis business did not answer #9.)

1. The cannabis industry is about who you know: 1
2. Participating in the cannabis industry requires a lot of hard work: 1
3. Build a strong team with a varied skillset: 1
4. Create a flexible plan: 1
5. Set clear goals: 2
6. Be able to face ridicule and even alienation from family and community members: 1
7. Previous professional experience in policy: 1
8. Ability to evolve when necessary: 1
9. Bootstrapping and building a business on limited resources: 1
10. Activism and networking with cannabis advocates: 1

As mentioned before, there was only one response from a license cannabis touching business. The response came from a Hispanic woman who just launched a cannabis infused edibles company. Below is a synopsis of her responses with her complete responses attached in the appendix.

Question #1

What race are you?

Response

1. Hispanic

Questions #2

What was the primary reason that you decided to participate in the cannabis industry?

Responses

1. The industry is in its infancy allowing for innovation and precedent-setting pioneering.
2. Possess entrepreneurial ambition with the professional and educational background in software and accounting.
3. Best decision ever made and a valuable learning experience.

Question #4

How did you find capital to open and maintain your business?

1. Epitome of bootstrapped business using savings, personal loans, and credit cards.
2. Future revenue will be used to maintain the business and outside funding will only be used for big ventures such as expansion.

Question #5

How do you think the disparities of the drug war that has resulted in a disproportionate amount of minorities in prison has impacted the ability for minorities to participate in the new cannabis industry?

Responses

1. Lack of knowledge of awareness of ways to get involved in the industry.
2. There are misconceptions that the only way to be involved in the cannabis industry is through a plant touching business.

Question #6

What types of policies or programs should be put in place to help encourage more minority participation in the cannabis industry?

1. Education programs.
2. Mentorship programs.
3. Funding

The following survey responses were collected off of Facebook from a group entitled POC Cannabis Action Network. The group has 470 members and after several attempts to recruit participants, three responded to the survey sent via Survey Monkey. Note that not

everyone in the group is in the cannabis industry, an activist, or advocate, and not everyone is on social media all the time, so the messages could have easily been missed.

Two out of three respondents had cannabis businesses that were in operation, one for profit one non-profit. The third responded was in the process of building their business, making all three of them involved in the cannabis industry. None of them skipped to part 2, which was to be answered by business owners who are or have successfully launched a cannabis business. They did answer the last portion of Part 1, which should have also been added to the end of Part 2. As noted in chapter 3, the survey questions were as follows:

Part 1

- Do you currently own a cannabis business? If not, please respond to the questions below. If yes, skip to part 2.
- Are you now, or have you been, interested in opening a cannabis business? If so why? (Respondent to answer in detail in provided space)
- Have you tried to open a cannabis business and were unsuccessful?
- If yes, why? (Respondent to answer in detail in provided space)
- Why do you think there is a lack of minorities in the cannabis industry? Please check all that apply:
 - Lack of personal capital resources
 - Lack of access to capital resources
 - Fear of persecution or harassment from law enforcement
 - History of criminal drug charges
 - Spillover effects from the federal drug war
 - Discrimination
 - Cultural beliefs against drug use

Please use this space to clarify your choices and/or to add additional comments.

(Respondent to answer in detail in provided space)

Part 2

As a successful cannabis business owner, please explain what has contribute to your success? Include details such as sources of capital investment and community support.

(Respondent to answer in detail in provided space)

The respondents answered the last part as follows:

- Lack of personal capital resources: 3
- Lack of access to capital resources: 0
- Fear of persecution or harassment from law enforcement: 3
- History of criminal drug charges: 3
- Spillover effects from the federal drug war: 2
- Discrimination: 2
- Cultural beliefs against drug use: 2

Lack of personal capital resources, fear of persecution or harassment from law enforcement, and a history of criminal drug charges were the top three reasons why the

respondents believed led to the lack of minorities participating in the cannabis. These were followed by spillover effects from the federal drug war (for this research, spillover includes families and communities torn apart by the war on drugs), discrimination, and cultural beliefs against drug use. These responses cite similar concerns to those shared by industry and advocacy leaders.

Chapter 5 DISCUSSION

As mentioned in chapter 4, research for this project was more difficult than anticipated, and can be attributed to many reasons that need further exploring. It took quite a bit of effort to contact and enroll people into answering the questions. It is a startup industry with multiple startups and everyone is rushing to grow their businesses or to lobby state and federal lawmakers for either decriminalization or legalization. Also, minorities only represent between 1-3% of the entire cannabis industry, thus limiting the pool of candidates to interview (Young 2016; McEvers, 2016). The intent was to determine why minorities are underrepresented in the cannabis industry, and as discussed in Chapter 1, this study set out to answer the following questions:

- Are high application and licensing costs contributing to the lack of minority business owners?
- Are suitability requirements keeping out minorities who disproportionately have higher drug offence convictions?
- Are there social reasons, such as social conservatism or fear of retribution from law enforcement, keeping black entrepreneurs from entering that cannabis industry?
- Since fees are deliberately set high to encourage only “serious” applicants, are they discriminatory as a result?
- Is banking and access to loans an issue for minorities trying to open a business in the cannabis industry? Is this issue common in other industries?
- Have minority owned businesses shut down operations because of the inability to keep up with costly regulations? If so, then how many?
- Are there other factors unrelated to the cannabis industry that negatively impact minority entrepreneurship that are common in the United States economy in general?
- How much does white privilege come into play in helping Caucasians have a stronger presence in the new cannabis market?
-

Structural inequality is the theme that resonates the most in all the answers; however, structural inequity, as mentioned by one respondent, is also a common theme. Structural inequality is a common term to use for the underrepresentation of minorities in decision making process and access to resources. Structural inequity narrows the scope to focus on issues that are economic, like access to banking and transportation to jobs (What is Structural, 2009). Research results showed that the largest barriers to entry in the new cannabis industry are access to capital and fear. In fact, fear of persecution was the number one reason that all experts interviewed for this project cited for the lack of representation of minorities in the cannabis industry. The lack of access to capital was the most discussed issue in this research project; however, it is interesting to note that survey respondents from the POC Cannabis Action Network cited that it was lack of access to personal capital resources, as opposed to access to capital resources in general. This is a problem that is not unique to the cannabis industry; however, since cannabis remains federally illegal, most of the money that is being invested into new cannabis businesses comes from private equity because banks are not allowed to provide services to people operating illegal business and risk losing their ability to insure money (Quinton, 2016) .

The issue of the lack of minorities in the cannabis industry has received a lot of press, especially from African-American media sources. Many of these problems may seem obvious for minorities; however, these issues need to be identified so that minorities can capture the market share while profit margins are still high. Otherwise, beyond minorities being grossly underrepresented in the cannabis industry, it could be argued that they missed the boat almost entirely when it comes to licensed cannabis touching businesses. Some of the first dispensaries in Colorado are selling out to expanding cannabis dispensary chains, which will make it even more expensive for new people entering the industry if they want to compete with other well-funded businesses (Wallace & Baca, 2016).

As cannabis legalization takes effect across the nation, which is very much a possibility after the 2016 election yielded a majority of states with some sort form of law that allows for the use of recreational or medicinal cannabis (28 Legal Medical Marijuana, 2016). The price of wholesale cannabis continues to drop significantly, for example, in 2016, the average wholesale price of recreational cannabis dropped over 40% between January and June, from \$1,800 to \$750 (Schroyer, 2016). A study conducted by RAND Corporation in 2010 stated that it can cost as low as one dollar per pound to grow cannabis outdoors and anywhere from \$70-\$400 per pound for indoor in a 1500 square foot home or half of an acre covered with greenhouses (Caulkins, 2010). With prices dropping so low so quickly, so will profit margins, and only those with a large amount of capital to invest in growing a multi-acre farm to produce and manufacture cannabis, or two start or buy out a chain of dispensaries, will be making large amounts of money. Running a dispensary will be similar to a liquor store, only more regulated. There are multiple businesses being started by minorities that may evolve to be one of big producers in the industry. However, minorities were late to participate, giving Caucasians entering the industry a major advantage.

There are solutions to help encourage more minority participation in the cannabis industry. The ancillary market is rich with innovation and is not nearly as resource intensive to launch a startup. Systemic issues such as fear and lack of access to capital can be addressed through a collaborative effort within the industry and with lawmakers. To overcome fear, an educational campaign needs to be launched to help educate minorities on how they can participate in the cannabis industry in the multiple verticals that exist. There are multiple solutions to overcome the issue of lack of access to capital resources whether through private or public services. Organizations can create private funds for seed money to start businesses founded by minorities, and lawmakers can create small business loans for minorities starting businesses the cannabis industry. Collaboration between lawmakers and organizations such as the MCBA and the Minority Business Council at the National Cannabis Industry Association, as well as citizen advocates, can yield legislation that provides incentives to businesses started or staffed by minorities.

Fortunately, minorities are still able to take advantage of wealth building strategies in the cannabis industry. There is still time to develop better or even breakthrough products, and powerful organizations are emerging to demand a more equitable industry. Some minority community members are even calling for reparations after years of being targeted in the war on drugs. However it is approached, it is clear that a disparity exists and that it should be further

investigated and discussed to ensure a fair and equitable start in a new multi-billion dollar industry that they helped to carry along while participating in the black market.

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