

The Costs of Australian Drug Policy

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1. Introduction

The advent of the AIDS epidemic has refocused attention on Australian drug policy, and this interest may increase if we follow the trends evident in the U.S.A. Australian drug laws are expensive but ineffective. The cost of the laws is borne by the taxpayer, by households, and by the hapless drug users themselves. Just how much does present policy cost the Australian taxpayer? To what extent does the ineffectiveness of the law in preventing illicit drug use indirectly add to costs borne by Australian households? These are the questions to be addressed here.²

2. Drug-Law-Enforcement Costs

Drug-law-enforcement (DLE) costs include the expenditures by government to enforce the drug laws. The 1989 Report by the Parliamentary Joint Committee on the National Crime Authority (hereafter referred to as the Cleeland Report) calculated the drug-law-enforcement costs as shown in Table 1.³ The figure for *Courts* is based on the proportion—around 3.34%—of drug offences dealt with, and does not include the costs of legal representation and the costs of the time and delays for non-forensic participants.

Marks (1991) argues that across the State police forces the proportion of officers who are employed directly and exclusively in drug law-enforcement is less than 2.5% of the total number of officers in all States, and closer to 1% in most. Compare this with the figure that of all prisoners in all Australian gaols in June 1988, 11% had been convicted of “drug offences” (*Australia Year Book 1990*), which indicates that while a small proportion of officers are engaged in enforcing the drug laws, a significant proportion must be engaged

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1. I should like to thank Hazel Church, Peter Swan, Russell Fox, John Walker, and Nick Heather for their assistance and comments. All responsibility, of course, remains mine. A more detailed paper (Marks 1991) is available on request.
 2. In some respects this paper parallels Nadelmann (1989), but we attempt to quantify the costs associated with the Australian drug laws. Collins and Lapsley (1991) cover all drug use—legal and illegal—but do not attempt to distinguish those costs that would change with a regulated drug-use regime.
 3. The National Crime Authority, in some ways equivalent to the U.S. Federal Bureau of Investigation, was established in 1985 to pursue organised crime. Under its first Chairman, it targetted the illicit drug trade. Its Parliamentary oversight committee’s Report noted that despite the policy of prohibition, consumption of illicit drugs had increased beyond the “most alarmist predictions”. The Report was a reëxamination of the policy’s effectiveness in controlling the abuse of the illegal drugs.

	\$ million
Australian Federal Police	18.1
National Crime Authority	9.8
Australian Customs Service	6.9
State Police	25.7
Prisons	45.3
Courts	17.4
Total	123.2

TABLE 1. Drug-Law-Enforcement Costs, 1987–88.

Source: Cleeland Report (1989, Table 4)

in coping with crimes committed by those circumventing these laws. Moreover, the Australian Federal Police (1988) state that they have about 650 staff “actively involved in the collection of intelligence on and investigation of drug-related offences,” compared to the 350 officers reported to Cleeland, which would pro-rate their DLE costs to \$33.6 million. Focusing on the small percentages of exclusively drug-law-enforcing officers is to underestimate considerably the actual costs of the drug laws. Similarly, the number of drug offences underestimates the number of crimes which are drug-use related, such as income-generating crimes.

On 30 June 1988 5,431 prisoners (44.1%) were held in Australian gaols for various kinds of theft, and only 1,351 (11.0%) were there for drug offences (*Australia Year Book 1990*). If only 40% of the total theft offences/charges were associated with the high price of illicit drugs, then regulated, low-price regime for these drugs would have reduced the prison population by a further 2,172 prisoners in 1988, at a saving of \$71.7 million in recurrent costs for that year. This should be added to the cost of the drug laws, which would result in a 258% increase in the figure for *Prisons* in Table 1. If we assume a round factor of 250%, then the annual recurrent cost of *Prisons* due to the drug laws becomes \$113.3 million. If the same factor of 2.5 applied for the *Courts* and *State Police* costs, those figures would become \$43.5 million and \$64.3 million, respectively.

Using a figure of \$200,000 per cell and assuming dual occupancy and a discount rate of 12% p.a., Marks (1991) calculates the annualized cost of housing 3,523 prisoners as \$352.3 million, equivalent to an annualised total cost of \$42.3 million, or \$12,000 per prisoner.

A further cost to taxpayers ignored by the Cleeland Report is the cost of legal aid, which in 1987–88 was \$70.6 million (Mukherjee Neuhaus and Walker 1990:56). If we pro-rate this figure by the ratio (3.34%) of the number of drug offences reported to the number of all offences reported, we obtain a

figure of \$2.4 million. Using the factor of 2.5, we obtain drug-crime-related legal-aid costs of \$5.9 million.

We present these revised figures in Table 2, in which the figures for the National Crime Authority and the Australian Customs Service are unchanged.

	\$ million
Australian Federal Police	33.6
National Crime Authority	9.8
Australian Customs Service	6.9
State Police	64.3
Prisons (recurrent)	113.3
Prisons (capital)	42.3
Courts (recurrent)	43.5
Courts (Legal Aid)	5.9
Total	320

TABLE 2. Revised Drug-Law-Enforcement Costs, 1987–88.

The figure of \$320 million for 1987–88 represents the cost to the Australian taxpayer of the resources diverted from other law-enforcement work to attempt to enforce the drug laws. Although conservative, it is over twice the Cleeland Report's \$123.2 million.

In order to derive the total costs associated with the criminal-justice system, it is necessary to have estimates of the full costs of legal representation and the costs associated with court delays. The costs of court congestion may be met by the taxpayer when more courts are built and more judges appointed; otherwise these costs are borne by society at large through justice delayed.

3. The Costs of Crime

Because of the law-enforcement effort, the prices of the illegal drugs are much higher than the costs of supply. In a recent paper, Marks (1990*b*) compares the gross returns for heroin at the three stages in the distribution process of importing, wholesaling, and ounce dealing in 1974 New York, in 1981 Melbourne, and in 1988 Sydney. His study reveals the extremely high incentives for unscrupulous entrepreneurs to undertake the risk of smuggling the illicit heroin into Australia.

The Cleeland Report provides survey estimates for three prohibited drugs, cannabis, heroin, and cocaine, which are reproduced in Table 3. We shall use the prices cited in Dobinson and Poletti (1988), the structure of the industry revealed by the 1981 Melbourne survey described in Marks

Drug	Cannabis	Heroin	Cocaine
Used in last 12 months	780,000	33,600	84,500
Frequent, regular users	226,000	3,360	6,640
Estimated annual consumption	120,000 kg	350 kg	65 kg
Estimated annual turnover	\$1,905 m	\$699 m	\$13 m

TABLE 3. Estimates of the Size of the Illicit Drug Industry

Source: Cleeland Report (1989: ix)

(1990*b*)—in particular the consumption and prices paid by the frequent and regular users contrasted with the occasional users—and the numbers of frequent and regular users of heroin in 1987 from various trends (Marks 1990*a*) to estimate the net revenues generated by the exchange of black-market heroin in Australia.

3.1 *Numbers of Heroin Users*

Despite disagreement on the actual numbers, there is growing agreement on the ratio of the numbers of occasional or “social” heroin users to the numbers of frequent and regular users—addicts, in the popular view—of between eight and ten to one, which has appeared in overseas studies (Marks 1990*a*), and in an unusual survey made in 1981 Melbourne by the illicit industry itself (Marks 1990*b*).

As Marks (1990*a*, Figure 1) and CDCSH (1990, Table 5.11) report, the opiate-related deaths per 100,000 have risen from 0.4 in 1977 to 2.0 in 1987. If, following Marks (1990*a*), we assume that in 1977 there were 8,000 regular and frequent users of illicit heroin, and if one assumes that these numbers are correlated with the death rates and other indicators, then the estimate of regular and frequent heroin users in 1987 would have been 40,000, with around 300,000 occasional or “week-end” users. These figures are in broad agreement with the National Advisory Council on AIDS study of Australian experience of injecting illicit drugs, which suggested that 600,000 people had self-injected illicit drugs at least once in their lives, and that 240,000 had self-injected illicit drugs at least once in the previous twelve months (NACAIDS 1988), and with the National Drug Abuse Data System’s “conservative” estimates of “30,000 to 50,000 frequent, regular dependent heroin users,” although our numbers of occasional users are greater than their “at least 60,000 irregular, ‘recreational’ non-dependent heroin users” (NDADS 1988).

3.2 Prices, Amounts, and Costs of Heroin Used

In 1988, the importers were paying between \$12,000 and \$15,000 per kg for 80%-pure heroin in Thailand, and selling it in Sydney for between \$200,000 and \$250,000 per kg (Dobinson and Poletti 1988). As the drug moved down the distribution pyramid, its purity fell as it was successively diluted, while its effective price (for the 80%-pure equivalent) rose, and while some of the drug was consumed before it reached the street at the bottom of the distribution pyramid. The effective price on the street was equivalent to between \$800,000 and \$1,000,000 per 80%-pure kilogram.

Conservatively, we assume 30,000 regular and frequent heroin users and 200,000 occasional heroin users. If we accept the 1981 Melbourne data on quantities consumed, the regular and frequent heroin users consume on average 98 g per year per person of 80%-pure, and the occasional users consume on average 4.5 g per year per person of 80%-pure (Marks 1990b:76).⁴ Our figures correspond to a total of 2,940 kg per year for the regular and frequent users, and a total of 900 kg per year for the occasional users, a grand total of 3,840 kg per year, or eleven times more than the Cleeland Report estimated (Cleeland 1989:ix).

Conservatively, we assume that the total amount of heroin successfully smuggled into Australia in 1987 was 2,500 kg of 80%-pure equivalent. From the figures presented above, this would have cost between \$30 million and \$37.5 million in Thailand, with a theoretical value added of between \$2 billion and \$2.5 billion at Sydney street prices. From Marks (1990b: 76), roughly 70% by mass (or 60% by value) of any imported kilo is consumed by the regular and frequent users, paying wholesale prices, and the remainder is consumed by the occasional users, paying street prices. The consumption at the wholesale level reduces the theoretical value from \$2 billion per year to \$1.5 billion per year, which, less distribution and handling costs, is the return to the people in the distribution pyramid. It underlines the lure of heroin trading for unscrupulous entrepreneurs. It also represents the value of the income necessary to obtain heroin.

3.3 How to Pay for Drugs

The cost of recreational drug use—about \$40 per week per user on average, or about \$600 million in aggregate—may well be met from legitimate sources of income. That leaves up to \$900 million per year spent by the regular and frequent users, who are in general unable or unwilling to generate more than a small fraction of this amount legally.

It is clear that illicit drug use and property crime are correlated (Wardlaw 1981, Dobinson and Ward 1985), and that there is a broad relationship over time between the number of regular users—addicts—and the property-crime rate (Brown and Silverman 1974, Silverman and Spruill

4. There is a misprint on line 26 of page 76 of Marks (1990b), which should read “the weekly supply of 12 lb of 20% pure heroin,” not 80% pure.

1977, Parker and Newcombe 1987). Brown and Silverman have also found that there is a short-run positive correlation between increases in the price of heroin and increases in property crime. We assume that a regulated, low-price regime would eliminate the number of drug offences and reduce by 40% the number of drug-related property crimes.

Apart from illicit drugs dealing, the major sources of income for the regular and frequent heroin users include property crimes, prostitution, and other illegal activities, such as shoplifting, fraud, and armed robbery. Dobinson and Poletti (1988) gathered data on the weekly incomes of 129 active regular heroin user/sellers in inner Sydney in 1987.

Source	Amount (\$ per week)	Share (%)
Selling heroin	4,526.12	
Selling other drugs	39.11	
Past drug credit	13.95	
less past drug debt	23.64	
	4,555.54	
Other income	592.49	100.0
Property crime	205.45	34.7
Social security	124.89	21.1
Family/friends	114.46	19.3
Prostitution	64.96	11.0
Savings	23.14	3.9
Odd jobs	16.71	2.8
Gambling	15.47	2.6
Drug-dealing rip-offs	10.62	1.8
Pawning/selling possessions	7.99	1.3
Employment	4.96	0.8
Services	3.84	0.6
Total income	5,148.03	

TABLE 4. Sources of Income, Street Heroin Users/Sellers, 1987

Source: Dobinson and Poletti (1988: Table 69)

Table 4 shows that for these user/sellers most income occurs from sales of the drug, but that up to two-thirds of the rest is obtained from illegal activities: 34.7% from property crimes, up to 30.3% from prostitution, and a further 1.8% from drug-related rip-offs. At some level in the distribution pyramid below the level surveyed by Dobinson and Poletti there must be an end to on-selling; the users buy for their own consumption alone. The figure of \$1.5 billion represents the sum of the income necessary for own-consumption

purchases. For this reason we focus on the pattern of *Other income* presented in Table 4, and ignore the revenues from sales to other drug users.

\$900 million comes from non-drug-selling income. From Table 4, this means \$312 million from property crime, \$190 million from social security payments, \$174 million from family and friends (including some prostitution earnings), \$99 million from prostitution, and the balance of \$125 million from the remaining (legal) activities. The Cleeland Report (1989:79) was told that as much as 70% of all crime and 80% of property crime in some States is drug-related. In 1987–88 312,432 break-and-enter offences were reported to police in Australia (Mukherjee and Dagger 1990:19). Based on an average figure reported by NSW Police of property worth \$1,100 stolen in such burglaries in 1985–86, such crimes could generate up to \$400 million (in 1988 dollars) alone. The costs associated with such crime are shared across Australian society, through higher insurance premiums and tighter security.

In the absence of data on the importance of the various types of property crimes in generating income, we shall use the percentages of the incidence of these crimes (Dobinson and Ward 1985, 1987) as equivalent to their shares of income generation, which means that break-and-enter plus larceny is 60.7%, shoplifting 11.8%, fraud 10.5%, receiving 5.3%, motor vehicle theft 5.3%, armed robbery 1.9%, and robbery 1.1% (Marks 1991, Table 9).

Following Casey and Preble (1974), we calculate the value of stolen goods necessary to generate the above proportions of the total proceeds of drug-user property crime, of at least \$312 million. Break-and-enter and larceny is a source of revenue for 60.7% or \$189 million. To determine the dollar transfers brought about by these crimes, it is necessary first to determine the proportion of the \$189 million that constituted cash stolen—the balance was derived from the sale of fenceable goods. Roumasset and Hadreas (1977) reported a 50% discount in the second-hand market in which such stolen goods are sold. If only cash were taken, the transfer would be equal to \$189 million; if, instead, only fenceable goods were taken, the amount would be \$379 million (twice \$189 million). There is no direct evidence on the basis of which to predict where in this range the actual transfer will fall. We take the mean of \$284 million per year, which is conservatively less than the \$400 million mentioned above. The figure of \$284 million stolen to fetch \$189 million implies a destruction of value of \$95 million in the imperfect market for stolen goods.

Shoplifting, motor vehicle theft, and receiving together generate 22.4% or \$79 million. Since these crimes result in the theft of fenceable property, the total transfer that results is equal to \$140 million, with a destruction of value equal to \$79 million. Fraud, robbery, and armed robbery involve transfer of money. These three crimes together generate 13.5% or \$42 million. Our conservative estimate of the total value of forced transfers as a consequence of drug-related property crime was thus \$466 million in 1987. Furthermore, the value of prostitution by drug users or their de factos may have been as much as \$273 million in the prostitutes' hands (from total

revenues of perhaps twice that).

3.4 Cannabis and Cocaine

As stated in Table 3 above, the Cleeland Report's conservative estimate of the annual turnover of the heroin industry in Australia was \$699 million in 1988. We have argued that a very conservative estimate of this turnover is \$1.5 billion, which is associated with forced transfers of property worth \$466 million, and other direct and indirect costs: the market for stolen goods is imperfect—we have estimated a destruction of value of \$174 million. If the Report's figures for cannabis and cocaine are pro-rated, these annual turnovers are \$4,090 million and \$28 million, respectively.

4. Other Social Costs and Transfers

4.1 Crime

In addition to the tangible costs of crime associated with drug use, there are intangible traumas and fears which stem from higher levels of crime in society. Further, the very high returns (Marks 1990*b*) attract unscrupulous entrepreneurs into the trade, people who are willing and able to corrupt and intimidate. In the case either of an effective prohibition or of a regulated, low-cost regime, all such costs would be much reduced.

In response to the property losses resulting from drug-related property crimes, households and firms will spend more on insurance and security. If people spend as much or more on defensive measures (including insurance) as they expect to lose through property crime, then the social costs will be higher by another \$466 million or so. A U.S. study (Casey and Preble, 1974) estimated that such defensive measures were worth about 49.5% of the value of property stolen, which would be \$230 million if the ratio held for Australia.

4.2 Health Care

Universal health insurance through Medicare results in Australian society bearing the cost of health care for those who could not otherwise afford it. One effect of the drug laws, especially on those who inject the illicit drugs, is to increase the risks that they will suffer bad health, and contract infectious diseases, such as AIDS, through sharing needles. Moreover, as the Cleeland Report (1989:84) notes, their preoccupation with raising the required money and then using the drug when they can means that the regular and frequent heroin users will often pay little attention to their general health, fitness, and adequate nutrition. To the extent that this neglect adds to the burden on the public hospital and health-care systems, it is properly counted as a further cost of the existing drug laws.

Unfortunately, there is no consistent measure of hospital costs Australia-wide. As a consequence, the National Drug Abuse Data System conservatively estimates that as few as one in ten of the total number of drug-caused separations are identified. There is increasing awareness of the

importance of reducing the spread of HIV infection from intravenous drug users to the heterosexual population at large. The needle-exchange schemes instituted in Sydney and Melbourne are an attempt to reduce this spread. The emotional costs from the AIDS epidemic will be high. So too will the social costs: Coe (1987) estimated that the cost of the unchecked epidemic to Australia would be \$22 billion.

To the end of 1987–88, \$56.7 million had been allocated by Australian governments on new and expanded treatment and rehabilitation centres for drug users (CDCSH 1988). As of June 1988, there were 6,120 clients in methadone maintenance programmes, at a cost per client per week of between \$61 and \$239 (Baldwin 1987), depending on the degree of support, an annual bill of between \$19.4 million and \$76 million. We take the mean of \$48 million.

4.3 Forgone Production due to Premature Deaths

The morbidity and mortality associated with the drug laws impose a cost on Australia through reduced production. Calculations in Marks (1991) show that the 709 deaths from illicit drug use in 1987 resulted in 20,490 working years forgone through premature death. At an average annual labour cost of \$23,980 in 1987–88 (*Australia Year Book 1990*) and assuming that this reflects the average productivity per worker and assuming no increase in real productivity, then the premature deaths in one year, 1987, from all illicit drugs resulted in a present value of forgone future production of \$178 million using an 8%-per-annum discount rate. This understates the value of lives and health, since it does not include the value people place on the lives and health of themselves and their families.

4.4 Social Security Payments

21.1% of the non-drug-dealing income of the group of user/sellers interviewed by Dobinson and Poletti (1988) came from government pensions. For some frequent and heavy users, these funds may be in the form of invalid pensions, as well as unemployment benefits or other payments. It may also be the case that some of the payments from family/friends also originate from social security payments. Pro-rating these direct payments across the required income implies a total annual cost of \$190 million, close to \$125 per week for each of 30,000 regular and frequent heroin users we have assumed.

5. Conclusion

Using data published in Marks 1990*b*, and the three studies by the NSW Bureau of Crime Statistics and Research (Dobinson and Ward 1985, 1987; Dobinson and Poletti 1988), we have argued that the Cleeland Report (1989) underestimates the true costs of the law enforcement against illicit drug use by a factor of at least two. Our estimates of the social costs and drug-related transfers are presented in Table 5. The conservative assumptions underlying these calculations are clearly discussed above. We have not included the costs of morbidity and mortality in terms of forgone production due to the

<i>Losses</i>	
Drug-Law-Enforcement Costs	\$320 million
P.V. of Future Production Lost	\$178 million
Methadone Maintenance Costs	\$48 million
Value Destroyed in Property Crime	\$174 million
Defensive Costs against Theft	\$230 million
Total Costs	\$950 million
<i>Transfers</i>	
Property-Crime Losses	\$466 million
Social Security Payments	\$190 million
Total Transfers	\$656 million

TABLE 5. Social Costs and Transfers from Illicit Drug Use 1987–88

drug-related spread of the AIDS epidemic. We believe that a large proportion of these costs would be eliminated if the drugs were made available, at cost, to regulated drug users, rather than the existing situation of black-market availability. The cost of such regulation need not be high; in a study of methadone maintenance clinics in Sydney, Baldwin (1987) has costed a “bare-bones” clinic at \$61 per patient per week. If only a relatively small number of addicts commence productive, tax-generating work under the regulated regime, the cost of administering it will be recouped in higher income-tax receipts, and the addicts and their families will experience great relief and a sense of accomplishment, which, however, we have not attempted to evaluate here.

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Abstract

Despite seventy years of increasing restrictions, and in the case of heroin almost forty years of absolute prohibition, by all measures the consumption of illegal drugs in Australia has continued to grow. Despite—or perhaps because of—these policies, the costs of enforcement borne by the taxpayer and other costs borne by residents at large have continued to grow as well. The AIDS epidemic exposes IV drug users and their partners to the risk of HIV infection, a further cost, but it has encouraged discussion of the effectiveness of the existing policy and the feasibility of alternatives. This study is an attempt to put dollar amounts on these costs, and to estimate how they would change under an alternative policy of drug-use regulation.

We argue that the recent Cleeland Report underestimates the true costs of the law enforcement against illicit drug use by a factor of at least two. We estimate a total annual cost of existing drug laws in 1987–88 to Australia of \$950 million, as well as forced transfers of \$656 million.

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