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Taxing drug users could plug budget black holes

BY: ADAM CREIGHTON From: [The Australian](#) April 05, 2012 12:00AM



The economic costs of banning drugs such as opium are massive. Photo: AFP Source: AFP

"Owing to total prohibition, the price of opium has risen enormously. The Commonwealth gladly gave up about 60,000 pounds of revenue with a view to suppression of the evil, but the result has not been what has been hoped for. What now appears to be the effect of total prohibition is that, while we have lost the duty, the opium is still imported pretty freely."

WRITING to the Australian parliament in 1908, the commonwealth customs comptroller-general HP Wollaston was highlighting the futility of banning drugs (in this case opium) in 1906.

Earlier this week, think tank Australia21 published a report arguing that Australia spends "considerable sums" in policing illicit drugs but "there is very little evidence to support the view that Australian taxpayers are getting a good return".

That is putting it mildly.

The economic costs of prohibiting drugs are difficult to measure but massive, and the federal government forgoes significant tax revenues to boot.

And as in Wollaston's time, prohibitions have not been especially effective either.

Ever since Richard Nixon declared a "war on drugs" in 1971, prompting parallel efforts worldwide, use of every sort of illicit substance has increased in Australia.

About 15 per cent of Australian adults have used one or more illicit drugs in the past 12 months, a growing fraction of Australians potentially facing jail.

Heroin, which has legitimate medical benefits, was legal in Australia until 1953 and became a problem after its prohibition.

Federal and state governments spend more than \$4 billion a year dealing with the consequence of illicit drug use, and of this about 75 per cent goes to administering and enforcing Australia's drug laws and mopping up the costs of associated crimes.

Only 5 per cent of expenditure stems from health-related consequences of illicit drug use.

Other social costs, including chronic hospitalisation and work absenteeism, are about \$10bn a year and Drug Law Reform Foundation president Alex Wodack believes these would fall if drugs were regulated and controlled.

Because the drug market is so opaque, the effect of legalisation on drug prices and quantities consumed is hard to predict, making it difficult to ascertain how much Australian governments could earn from imposing excises.

But a study by the Cato institute in the US estimates the reduction in expenditure from legalising marijuana, cocaine and heroin would be more than \$US40bn (\$39bn) and taxing them at rates similar to those levied on alcohol and tobacco would generate a greater sum in revenue for US states.

In the Australian context, a government gain of at least \$6bn a year could be in the offing.

Professor Alison Ritter of the University of NSW reckons a tax on marijuana would raise more than \$600 million a year in NSW alone. Taxes could be tailored to the characteristics of drug users: ecstasy, whose users are typically wealthier and are more intermittent, might attract a stiffer excise than marijuana, whose more feckless clientele might turn to the black market more readily.

As Australia's governments face trying fiscal circumstances, they might consider the multi-billion-dollar windfall drug legalisation would offer.

Drug taxes are relatively efficient too, since they are less likely to change behaviour.

Taxing illicit drugs could offset income tax, a far more damaging impost, but full legalisation of drugs is not without extra costs.

Public information campaigns and a new regulatory architecture would follow, and falling prices would boost usage, which might have health side effects.

Professor Ritter thinks marijuana users, for instance, might increase by 10 per cent or so. But does that even matter?

John Stuart Mill made clear the moral case for legalising drugs in 1859: "The only purpose for which power can be rightfully exercised over any member of a civilised community, against his will, is to prevent harm to others. His own good, either physical or moral, is not sufficient warrant."

Whether or not you subscribe to that view, the economic case for legalising drugs is clear.