
6 The benefits of gambling and some implications

Key points

- Gambling provides significant enjoyment for many Australians and is an important revenue source for governments. Gambling venues are often seen to be friendly, secure and accessible by people in the community.
- Gambling venues, particularly clubs, also make significant social contributions. However:
 - many of these benefits are to members, not to the public at large
 - the claimed benefits of gambling revenue on sporting activities and volunteering do not appear strong. Indeed, the presence of gambling may adversely affect volunteering rates
 - the (gross) value of social contributions by clubs is likely to be significantly less than the support governments provides to clubs through tax and other concessions
 - given this, there are strong grounds for the phased implementation of significantly lower levels of gaming revenue tax concessions for clubs, commensurate with the realised community benefits.
- Many people are employed in the gambling industry. However, most are highly employable and would be in demand in other parts of the service sector were the gambling industry to contract. In that sense, the gambling industries do not create *net* employment benefits, because they divert employment from one part of the economy to another.
- While it is not possible to be definitive about the costs and benefits of gambling, the Commission estimates that in 2008-09:
 - the benefits from tax revenue and the enjoyment of gambling for recreational gamblers ranged between \$12.1 and \$15.8 billion
 - the costs to problem gamblers ranged between \$4.7 and \$8.4 billion
 - the overall net benefits ranged between \$3.7 and \$11.1 billion.
- The net benefits could be much larger if governments reduced the costs through effective harm minimisation and prevention policies.

This chapter addresses the nature and scale of benefits of gambling, what they mean for policy and how they compare with the costs. In part, the chapter responds to the calls by participants to address the benefits of the gambling industry to a fuller extent than undertaken in the Commission’s draft report, as well as to the evident confusion about how the benefits should be assessed. Section 6.1 to section 6.9 are organised around the main types of benefits identified by the gambling industries:

- demand-side benefits through entertainment for consumers
- social benefits from the contributions made by the industries to community organisations and local infrastructure
- supply-side economic benefits, such as employment creation.

Section 6.10 brings the benefits (including those associated with tax revenue) and costs into a single cost-benefit framework, explaining why the most relevant numbers for policymakers are not the aggregate benefits and costs of the industries as they are at a point in time, but the *changes* in those costs and benefits arising from new policies. This section also provides some numerical estimates of costs and benefits, which indicate the scope for significant gains from well-targeted policies.

6.1 The benefits to consumers of gambling

While the gambling industry accentuated the social and employment benefits of gambling, the most important benefits are gains to consumers.

Many people enjoy gambling and the associated activities in the venues where it takes place (box 6.1). Moreover, prohibition would erode people’s freedom and would risk the criminality and corruption associated with the provision of illicit gambling. This provides the rationale for one of the most important policy stances of government in relation to gambling — simply allowing it to be legally supplied.

Australians spend billions on gambling across all of its multiple forms — the most simple indicator of the collectively high value they place on it. While people express ambivalence about gambling, that does not usually relate to their own gambling. And indeed, as shown in chapter 2, most Australians do gamble to some degree. With the exceptions of those with control problems or significant faulty cognitions, people’s willingness to pay for gambling over alternative products reveals their underlying preferences.

The extent of that benefit is measured by what economists call ‘consumer surplus’. For each consumer, this is the difference between how much they value a service and what they pay for it. The total consumer surplus is the sum of the surpluses of

individual consumers. Note that the consumer surplus is not equal to consumer spending. Some people might spend \$10 on buying a particular good, but only value it at \$11 (a surplus of just \$1), whereas others spending this amount might value it at \$100 (a surplus of \$90). To understand the magnitude of the consumer surplus requires knowledge about how much demand changes with rising prices — the ‘demand function’ and the ‘price elasticities’ of demand.

Box 6.1 Gambling is enjoyable for many

As shown in chapter 2, most Australians participate in at least one form of gambling each year. The high participation rates suggest that many people enjoy gambling. A survey of EGM and TAB punters found that around 90 per cent were motivated to gamble because it was an entertainment or something to do (McDonnell-Phillips 2006, p. 7).

A similar survey found that around 70 per cent of regular Victorian gamblers were motivated to gamble because it was a hobby or favourite recreational activity; and 60 per cent were motivated by the thrill of winning (Centre for Gambling Research 2004a).

For some people the entertainment values are high. For instance, a 2007 survey found that around 2.5 per cent of Tasmanian gamblers thought gambling had made their lives a ‘lot’ more enjoyable (SACES 2008b, p. 54). A further 20 per cent thought it had made life a ‘little’ more enjoyable’. Not surprisingly, regular players found gambling more enjoyable than non-regular players. (On the other hand, around 74 per cent of gamblers thought it had made no difference to their lives over the past year, while 2.3 and 1.3 per cent considered it had made life a ‘little’ and a ‘lot’ less enjoyable respectively.)

A survey by ClubsConsulting of club goers in 2006 (cited in Clubs Australia, sub. 164, p. 51) found that nearly 35 per cent of patrons thought keno was an important or very important source of club enjoyment. The comparable figures for gaming machines and TAB services were just under 30 per cent. Surprisingly, given the importance of gambling to club revenues, gambling was subjectively rated as 17th, 19th, and 20th out of 22 items. A good atmosphere, friendly staff and bistro/restaurants were rated as important or very important by nearly 100 per cent of patrons. But it should be noted that gambling and such services are complementary, often seen as part of a package of services by patrons.

It might be thought that the net gains from liberalising gambling should be close to zero (as they are for employment, section 6.8), because other forms of consumption would have been displaced. However, that is not true. The values that recreational gamblers place on gambling already take account of the fact they could spend their money elsewhere, as discussed further in the Commission’s 1999 report (PC 1999, p. C.3). As shown below, given reasonable assumptions, the implication of this is

that the majority of Australians who do not experience problems with their gambling would lose an entertainment worth billions of dollars to them collectively were they no longer able to gamble.

Benefits from taxes on consumers?

As shown in chapter 2, gaming taxes provide significant revenue to state and territory governments. These taxes are included in consumer's expenditure, but are not included in measures of the consumer benefits of gambling. Rather, like all taxes levied on consumption, these taxes represent a transfer from consumers to the community at large, and their benefits must be separately included in any cost-benefit analysis (section 6.10). Nevertheless, it remains the case that the most significant source of social benefits originates from consumers' enjoyment of gambling.

6.2 What are the perceptions of social benefits to communities?

While hotels and casinos also provide community benefits (box 6.2), clubs particularly emphasised their community support role. The Commission received around 200 submissions from clubs, peak bodies representing clubs, or the beneficiaries of club contributions, outlining the benefits to local communities of contributions ultimately underpinned by gaming revenue (box 6.3). Clubs' list of direct contributions to the community included:

- *donations to sporting teams, charities and community organisations* (cash and in-kind support, such as free access to office space and club rooms, courtesy transport services)
- *sporting and recreational facilities*. Clubs provide members and their guests with a range of amenities such as restaurants, bars, entertainment and sporting facilities including fitness centres, swimming pools, golf courses, bowling greens. While club members and their guests are usually charged for sporting facilities and other recreational services, they are typically charged at less than commercial rates, with the difference being made up from income earned elsewhere in the club (notably gaming revenue)
- *promoting volunteering*. Clubs provide a supportive community hub for promoting volunteering, as well as using volunteers in their own right as club directors, sporting team coaches and in welfare services (such as hospital visits and transport assistance for elderly members).

Box 6.2 Hotels and casinos also make community contributions

Casinos and hotels are subject to a range of (usually) mandatory 'Community Benefit Levies' directed at various community uses. In 2007-08, these taxes totalled \$33 million for casinos (Allen Consulting Group 2009b). For example, the casino in NSW pays a levy of 2 per cent on gaming revenues. Such contributions are really hypothecated taxes and should be distinguished from voluntary contributions made by casinos and hotels.

Apart from these legislated requirements, casinos and hotels make considerable community contributions. Casinos provide funding to community groups, cultural and sporting events and charities. In 2007-08 these contributions totalled \$10.9 million, of which \$4.6 million was directed to sponsorship of sporting and cultural events and \$1.8 million went to charities (ACA 2009). In-kind support is also provided to the community, including by donating accommodation and facilities for use by community fundraising activities.

Hotels contribute to their local communities for a mix of civic and commercial reasons. Financial and other support is commonly provided to sporting teams, community groups, health and social services organisations, education groups, emergency service organisations and religious groups. Support to sporting groups is the primary purpose of contributions. Over 60 per cent of hotels surveyed by PricewaterhouseCoopers indicated that they provided support to sporting groups, over 50 per cent gave to community groups and one-third made contributions to health and social services (PwC 2009). They also found that hotels with EGMs were more likely to provide support than those without.

Of those hotels contributing to sporting and community groups, an average of \$8792 and \$4733 was provided respectively to these purposes, and around \$29 000 was provided on average per hotel across all community purposes. PricewaterhouseCoopers extrapolated their survey findings across all Australian hotels and estimated that \$75 million is provided to communities in support and sponsorship each year, with about half of this amount provided to sporting groups (excluding in-kind contributions).

Clubs also pointed to a range of indirect or intangible benefits they provide to local communities, including improved quality of life for the elderly, secure environments for community members to socialise, and greater social cohesion. Clubs Australia, for example, said 'club goes value more than just the services' (sub. 164, p. 64), while others described clubs as the 'social fibre' or 'hub' of their community. RSL Victorian Branch said they were a 'home away from home' for some of their members. It was also noted that clubs are often the focal point of towns and surrounding areas in regional and rural areas (box 6.4). This applies to many hotels as well.

Box 6.3 Clubs and sporting groups provided details of community support

Leagues Clubs Australia

Member clubs of the Association play a vital role in fostering the sport of Rugby League at all levels in NSW and Queensland. They provide substantial support in the form of funding, equipment, infrastructure and facilities to more than 400 000 seniors and juniors that play Rugby League across these states, and bring untold joy to the many fans that support the game. Our members also provide similar substantial support for a wide range of other sporting activities — rugby union, soccer, cricket, hockey, netball, swimming, athletics, cycling, tennis, Australian rules, and a number of indoor sports. ... As well Member Clubs provide financial and in-kind support for numerous organisations, charities, schools and support groups within each of their communities. (sub. 159, p. 1)

Returned & Services League (Vic Branch) Inc

We make a significant contribution to local communities across Victoria in terms of both our veteran welfare activity and our support for the broader community. In addition to the tangible benefits, RSL Sub-Branches also provide a host of intangible benefits such as fostering social inclusion, improving the quality of life for the aged, and embracing younger generations. (sub. DR368, p. 3)

RSL & Services Clubs

Virtually all NSW RSL and services clubs offer a range of quite sophisticated amenities for members including food and beverage, entertainment, social sporting clubs, snooker facilities, ten pin bowling, fitness centres, swimming pools, golf courses, bowling greens and aged care in addition to gaming. In many cases it can be said that clubs provide what Government's don't or cannot afford to provide either in provision of their core facilities or their more diversified activities such as gymnasiums or age/veteran care. (sub. DR374, p. 2)

NSW Institute of Sport (NSWIS)

ClubsNSW, as the Principal Partner of the NSW Institute of Sport, has annually provided over \$1 million a year in sponsorship support since 1995, This annual contribution helps ensure that the NSWIS remains one of Australia's leading sporting Institutes. Through this affiliation, ClubsNSW has contributed over \$13 million to elite sport across NSW and the benefits of the financial support are wide spread. (sub. 46, p. 2)

Recreational, Sports and Aquatic Club

Recreation, Sports and Aquatics Club is a registered charity that provides sport, recreation, vacation, carer support and personal development activities for people with disabilities across ten local government areas of Sydney. ... Registered clubs have supported RSAC since before the inception of CDSE and continue to support to this date. ...In addition Bankstown Sports Club has provided free office space and club rooms for our organisation, giving us a rent-free space accessible by public transport. (sub. 30, p. 1)

Clubs Australia

A further measure of clubs' contribution to social capital is through the level of volunteering. ... Clubs act as an important catalyst and organising force for people to find 'causes' to which they can devote themselves. ... The Allen Consulting Group estimated that in 2007 there were 44,000 club volunteers in NSW, committing over 6.3 million hours of their time as club directors, assisting with trading activities or organising sporting and community events. This contribution is estimated to be worth approximately \$126 million. (sub. 164, pp. 193-4)

Box 6.4 'Club goers value more than just the services'

Alligator Creek Bowls and Recreation Club Inc

... like other small clubs, we're not just a club — we're a community who care about each other — something money can't buy. (sub. DR399, p. 2)

Tuncurry Bowling Club

A large proportion of the Great Lakes region consists of retirees. Without the large club many of these people would lose the main focal point of their lives. The club is their place to meet, have lunch or dinner, play a game of bowls or bingo and enjoy a drink in comfort and safety. (sub. DR405, p. 2)

Caboolture Sports Club Inc

... many clubs are the social fibre of their communities. (sub. DR334, p. 5)

Mittagong RSL Club Ltd

Does the Commission understand that the community organisations that our Club industry supports are at the heart of the social fabric of Australia and assist in making the communities in which we live a better place? (sub. DR312, p. 15)

RSL Victorian Branch

... RSL Sub-Branches also provide a host of intangible benefits such as fostering social inclusion, improving the quality of life for the aged, and embracing younger generations. ... Many of the older community members — whether ex-service or not — use their RSL as a social hub. They eat, drink, play sport, participate in day clubs, attend organised outings/excursions and in general, see their RSL Sub-Branch as a 'home away from home'. And it is gaming revenue that has allowed this 'home away from home' to offer the services and facilities it does today. (sub. DR368, p. 3)

Clubs Australia

Clubs, in their entirety and by virtue of their very existence, provide social benefit. In an era of increasing social isolation, the internet, home theatre and 'gated' communities, the Club Movement stands out as one of the few institutions that encourages, facilitates and nurtures community connectedness. (sub. 164, p. 165)

Clubs Australia, quoting UMR Research Pty Ltd (2009)

If you're in the country, quite often the club in the country is the heart of the town ... everyone is a member of the club and everyone uses that club. It's a real hub for that town. Social and business network. It's used for everything. (sub. 164, p. 158)

Measuring social contributions — some context

Measuring social contributions is difficult. Community benefits reported by clubs include expenses not usually seen as genuinely arms-length community benefits. For example, in Victoria, licensed clubs are required to provide annual Community Benefit Statements (CBS) detailing the activities and expenditures they are claiming as community benefits (and thus avoiding a tax applied at 8.33 per cent). While arrangements were tightened after implementation of a ministerial order in July

2008, capital expenditure, financing costs, operating costs, retained earnings, the cost of most plant and equipment with a value of \$10,000 or more (with the exception of purchases of gaming machines) continue to be allowable as community class B benefits. Subsidised meals (but not alcohol) and wages of gaming room staff are also still allowable items.¹

Using these criteria, in the commercial sector, many employment and investment decisions aimed at maximising shareholder interests could be seen as encompassing ‘community’ contributions.

More generally, annual reports of clubs often fail to disclose detailed information about expenses or revenue sources (Con Walker 2009), making it difficult to determine the genuine magnitude and form of community contributions or the role that gaming machine revenue may have played in funding them. In some instances, financial accounts are not disclosed to non-members, which is problematic for public scrutiny of finances that can include considerable implicit tax subsidies.

This suggests that considerable care needs to be taken in regard to the value assigned to these contributions.

6.3 Empirical evidence about community impacts

The testimonies of individual clubs and of recipients of their contributions strongly suggest that clubs play an important community role. The key questions are how much, in what form and the nexus between these contributions and gambling.

Surveys of club members provide one perspective (Clubs Australia, sub. 164, p. 51). They reveal that, in addition to low prices and good food, the key sources of enjoyment for patrons are intangibles — friendliness, safety, and a pleasant atmosphere.

Other research substantiates this. In summarising an extensive literature, Moore et al. (2008) and Thomas (2009) also found EGM venues were attractive because they provided amenities to people that might otherwise not have been available in their local environments. They were accessible, open for long hours, offered a pleasant and safe social environment, were appropriate for people on their own and provided a retreat from stresses and problems — an ‘oasis’. However, this was a two-edged sword. While some features, such as the venue atmosphere and entertainment facilities, appealed to all gamblers, being attracted to venues that provided an

¹ Notably, hotels cannot represent such claims as community benefits and pay 8.33 per cent of their revenue into a Community Support Fund, administered by the Victorian Government.

escape was positively related to gambling problems. This particularly applied to community venues, and much less to casinos (which were seen as destinations for a special night out).

Hospitality clubs without gambling may also provide some of the benefits of community gaming venues. The crucial difference is that gaming machines are so profitable to clubs that they provide a large surplus (table 6.1 and figure 6.1) that must be spent elsewhere, providing the scope for more facilities to members in clubs with gaming machines.

Table 6.1 Identifying cross-subsidies?
NSW Clubs 2007^a

	<i>Share of total revenue</i>	<i>Share of total expenses</i>	<i>Contribution to profits</i>
	%	%	%
Membership	1.4	2.4	2.0
Food	7	8	-1.7
Bar	14.8	14.3	17.0
Facilities & venue rental	0.8	1.1	0.4
Gaming machines	68.4	32.9	174.6
Other gaming	1.9	3.3	0.0
Sports	1.3	3.7	-6.3
Ancillary business and other	4.5	34.4	-85.8
Total	100.0	100.0	100.0

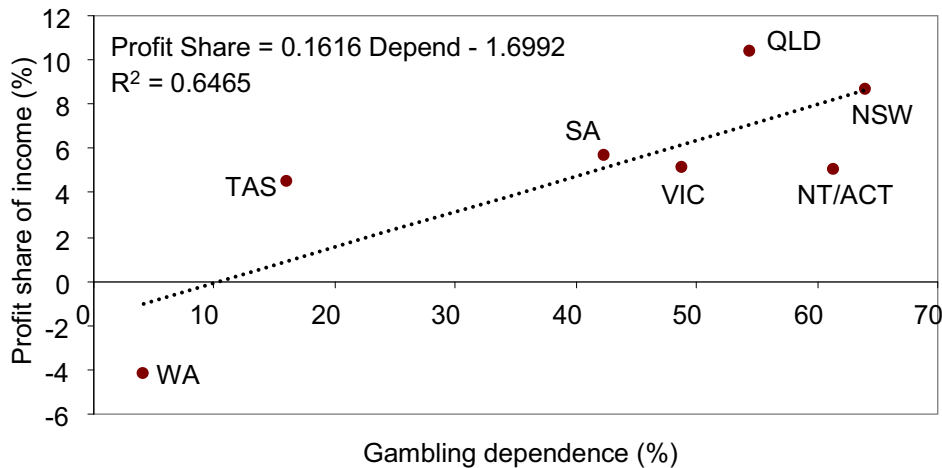
^a Other includes short and long-term rental accommodation, aged and child care facilities, promotional activities and donations and cash grants. Sum of items may not add to 100 due to rounding.

Source: Clubs Australia (sub. 164, pp. 37, 95 and 113).

Notwithstanding some perceptions about how gaming machine surpluses are allocated, the accounts in table 6.1 suggest that alcohol is a profit centre for clubs, and that food is not substantially subsidised. However, other data from Con Walker (2009, p. 45) suggest that accounting methods may conceal larger subsidies to food, and there is compelling evidence that at least some clubs do significantly cross-subsidise food sales for their members. That said, the largest source of cross-subsidisation is in sports facilities and the 'other' category, which is revealed as substantial losses on operating costs for accommodation, aged and child care, and a range of general expenses, such as promotion.

Figure 6.1 Profits and gambling

2004-05^a



^a Depend is gambling dependence, defined as the share of income from gambling. The data relate only to 'hospitality' clubs, those that generated income predominantly from sales of alcohol, gambling, meals and other hospitality services. Clubs whose main activity was the provision of sporting services were not included within the scope of this industry.

Data source: ABS 2006, *Clubs, Pubs, Taverns and Bars, 2004-05*, Cat. No. 8687.0.

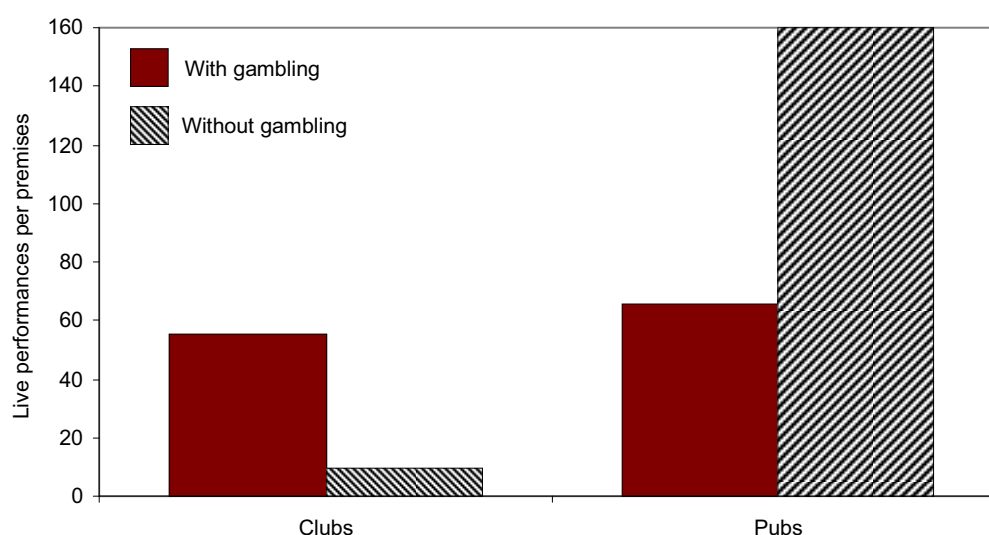
The allocation of surpluses in these ways may provide members with benefits, but:

- it is notable that a 2009 survey by the ACT Planning and Land Authority found that the main reason for patronage was eating, drinking and associated socialisation. Relatively few people (12 per cent) noted their provision of sporting, recreation or other form of community facility and only 8 per cent noted 'support for local sports teams' as important (Beer 2009, p. 11). On the face of it, subsidies for operating subsidies may not always be directed at functions highly valued by members
- they also raise issues of competitive neutrality, since cross-subsidised facilities compete with private sector facilities and may distort investment decisions
- the surpluses from gaming provide a buffer against losses on investments that a commercial entity with a focus on returns to shareholder may not have undertaken. As noted by IPART (2008, p. 39), clubs provide assets that would be uneconomic in a commercial setting (such as the provision of bowling greens on high value land).

Nevertheless, surpluses are also frequently used to invest in club premises and such investments may be highly valued by members. One manager of a large club in a lower socio-economic area pointed out that few people in the area would otherwise have had access to what amounted to a five star hotel in its appearance and quality of facilities.

Regardless of the exact allocation of gaming surpluses in clubs, other indicators suggest that clubs with gambling are more entertainment-oriented than clubs without gaming. In part, this is definitional, since gaming machines themselves are a form of entertainment. But clubs with gambling extend such entertainment to other areas, underpinned by the revenue of gaming machines and the capacity for gaming machines to attract patrons into the premises. For instance, on average, there was more than one live performance per week in clubs with gambling and only around one a month in venues without gambling (figure 6.2). (Notably, in pubs the reverse held, with pubs with gambling providing significantly fewer live performances). So, gambling has broadened and altered the roles of clubs from their historical functions and, given patronage numbers, consumers have revealed that they value this transformation.

Figure 6.2 Clubs with gambling are more likely to offer live entertainment, 2004-05^a



^a Club data relates to hospitality clubs only.

Data source: ABS 2006, *Clubs, Pubs, Taverns and Bars, 2004-05*, Cat. No. 8687.0

The IPART review is seen as the most influential empirical study

The IPART (2008) review of the registered clubs industry in NSW has been widely cited as the most authoritative empirical study of the social benefits of clubs. They took a narrower interpretation of community contributions than that used in the Community Benefit Statements above. (Indeed, beyond the IPART study, little systematic analysis of the social contributions of clubs has been conducted, which is why much of the discussion below relates to clubs in NSW.) The review estimated

that clubs in that state provided social infrastructure and services to the value of around \$811 million in 2007. This estimate included:

- the value of *direct, cash* contributions made by clubs to charities, community and sporting-related activities
- an estimated value of *direct, in-kind* provision and maintenance of community and sporting facilities and infrastructure, calculated using a market value approach
- an estimated value of *club volunteer labour* not already included in the estimate of direct, in-kind contributions (table 6.2 and box 6.5).

Table 6.2 IPART’s estimates of the value of NSW clubs direct social contributions

	<i>\$ million</i>
Direct cash contributions to the community	91
Direct in-kind contributions ^a	
Market value of services from facilities	1244
Less revenue received by clubs for their facilities	568
The value of volunteer hours	44
Total value of social contribution	811

^a Data from the Allen Consulting Group’s survey of clubs suggests that around \$20 million of this were in-kind contributions to the community (around half to sport and the rest to various community services, such as health and education). The remaining value of in-kind contributions relates to benefits for members.

Source: IPART (2008) and Allen Consulting Group (2008b).

The above exercise, however, is a valuation exercise, rather than a cost-benefit analysis of clubs’ social contribution (IPART’s terms of reference only asked it to identify the value of the clubs industry’s provision).

From a policy perspective, a better way of considering the contribution of clubs is by determining their gross value compared with the gross value that would have been realised under counterfactuals where:

- clubs had no, or reduced, gaming revenue and/or
- clubs did not receive sizeable concessions, such as lower gaming taxes.

These are the relevant counterfactuals in the present context because clubs cited IPART’s estimates of social benefits as an important reason not to change gaming machine regulations or existing tax arrangements benefiting clubs.

The next three sections explore the three sources of benefits identified by IPART and their connections to gambling.

Box 6.5 IPART's methodology for valuing the clubs' social contribution

IPART's terms of reference required it to review the existing contribution of the registered club to the provision of social infrastructure and services (not to undertake a cost-benefit analysis of clubs' social contribution). IPART calculated the value of total direct social contribution as the sum of:

1. Direct cash contributions made to charities, community and sporting activities
2. Direct in-kind contributions through provision and maintenance of community and sporting facilities and infrastructure
3. Contributions from club volunteers for activities not accounted for in direct in-kind contributions.

Indirect contributions were acknowledged qualitatively.

IPART used a market value based approach to determine the value of direct in-kind contributions — the opportunity cost in revenue a club foregoes through its provision of these contributions (based on the difference between commercial value of the product less the price charged by clubs). The methodology involved five key steps:

- developing representative club types (RCTs) — 40 RCTs were used to represent the variations of four club types (bowling, golf, RSL and others), five size categories (gaming machine revenue (GMR) as a measure of club size) and either a country or metropolitan location, e.g. RCTs were developed for country-based clubs that generate between \$200 000 and \$1 million GMR and metropolitan-based RSL clubs that generate between \$5 and \$10 million GMR
- calculating the value of direct social contribution by each RCT
- calculating the value of direct in-kind social contribution by each RCT
- summing the value of direct and direct in-kind contributions for each RCT to obtain an estimate of the total value of clubs' contributions for each RCT
- scaling up the results of the total social contribution for each RCT based on appropriate weightings to obtain a value for the total industry social contribution.

IPART used data from a survey conducted by the Allen Consulting Group on behalf of ClubsNSW.

Source: IPART (2008).

6.4 Volunteering

While it is a relatively small component of the total contribution of clubs (5.4 per cent), volunteering is crucial to a well-functioning society and to the creation and sustenance of social capital. But by how much would volunteering fall

if clubs did not have as much gaming revenue or if they lost concessions on machine numbers and gambling taxes?

The answer appears to be ‘not that much’.

One strand of evidence is that there are around six times more volunteers per employee in small venues with no or low gaming profits than in ‘super’ clubs (table 6.3). This is not surprising. The large surpluses from gaming in large clubs means that they can afford to pay for staff, and probably are expected to do so. That has its own advantages, but it appears to displace volunteering.

Table 6.3 The greater the gaming machine revenue, the less the role played by volunteers

NSW clubs 2007

<i>Clubs size by gaming machine revenue</i>	<i>Volunteers per employee</i>	<i>Volunteers per FTE employee</i>
\$0-200,000	2.9	5.4
>\$200,000-\$1 million	1.3	2.7
>\$1-\$5 million	1.3	0.9
>\$5-\$10 million	0.5	0.9
>\$10 million	0.5	0.9
Total	1.0	1.3

^a FTE is full-time equivalent employment, taking account of the variations in hours worked by employees.

Source: IPART (2008, p. 51).

The other sources of evidence are the relationships between gambling and volunteering at the jurisdictional level. Prima facie, finding any kind of relationship would be surprising given the small scale of volunteering through hospitality clubs compared with volunteering generally (6.3 million hours from clubs in NSW compared with 235.2 million hours for all volunteers in that state — or 2.7 per cent of the total).² That said, jurisdictions with club cultures may stimulate greater social capital in their local communities, having indirect, ‘ripple’ benefits on volunteering — there is a difference between where volunteering takes place, and mobilising volunteering in the community.

However, none of the indicators shown below support a positive link between the existence of gambling and volunteering.³ The results (figure 6.3) showed there was

² Based on IPART (2008, p. 50) and ABS 2007, *Voluntary Work, Australia 2006*, Cat. No. 4441.0.

³ None of the results were statistically reliable, in that the relationships observed could have arisen from chance. In no case did statistical significance approach 5 per cent.

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- a negative relationship between a jurisdiction's level of gambling (per capita) and volunteering participation rates
 - a negative relationship between a jurisdiction's level of EGM gambling (per capita) and volunteering participation rates. This was the least unreliable of the regressions, but it could still easily arise with chance
 - a negative relationship between the extent of club dependence on gambling and volunteering participation rates
 - a positive relationship between the share of gambling accounted for by clubs versus hotels.

The last result suggests the possibility that, for any given level of gambling per capita in a jurisdiction, volunteering rates might be higher than otherwise if the gambling is concentrated in clubs rather than hotels. Further analysis that took into account both EGM spending per capita *and* the extent of concentration in gambling in clubs versus hotels suggested a more robust relationship than that shown in figure 6.3.⁴ That analysis suggested that, all other things being equal:

- for every additional \$100 of EGM spending per capita in community venues, volunteering rates were 0.9 percentage points lower
- for every 10 percentage points increase in the share of gambling accounted for by clubs versus hotels, volunteering rates were 0.7 percentage points higher.

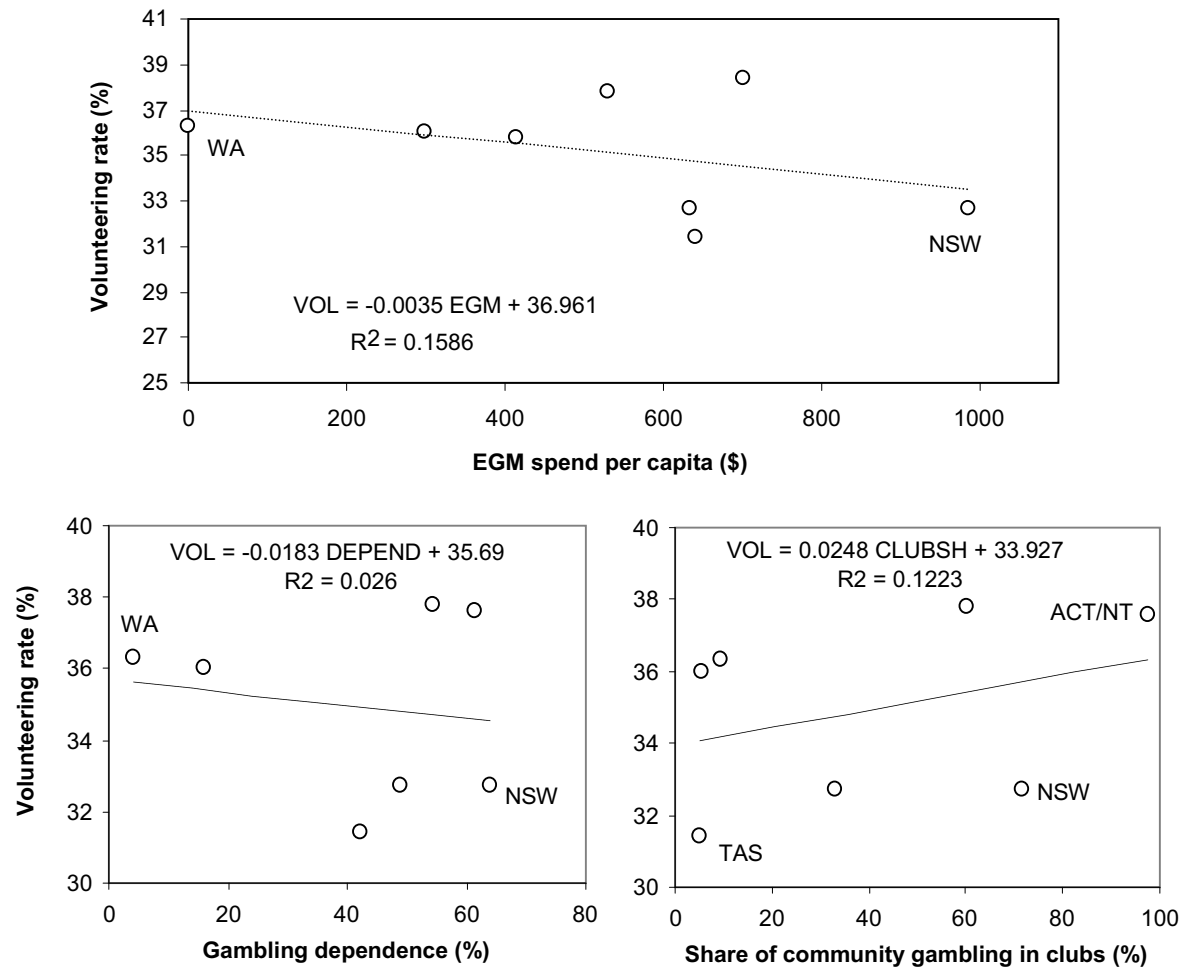
This suggests that community gambling may lead to broader cultural changes that undermine volunteering, and that this effect is even greater if gambling is concentrated in hotels rather than clubs. But given sample sizes and concerns about causality, the relationship should not in itself be used as a basis for shifting EGMs from hotels to clubs. On the same grounds, it would also not be a sufficient basis for reducing gambling revenues in clubs. Regardless, the results do not support a positive impact of club-based gambling on volunteering.

Some might argue that this finding *cannot* be right. They point to the host of dedicated volunteers in their club (or indeed, those that can be mobilised by hotels or casinos), and argue that if the club were to close or reduce in size, these volunteers would be lost to society. However, this ignores the fact that there is an almost inexhaustible demand for volunteering — community services, local

⁴ The regression found that Volunteer participation rate = 36.8 – 0.0087 per capita EGM spend + 0.066 Club share of community gambling. The two latter results were significant at close to the 1 per cent significance level respectively. The relationship explained 84 per cent of the variation in volunteering rates. While significance rates take account of small samples, the result should be seen as fairly weak evidence.

sporting activities, the environment and political activities — and that individuals' capacity for volunteering is neither limited nor restricted to just one outlet.

Figure 6.3 Volunteering and gambling, by jurisdiction^a



^a Club dependence on gambling is estimated as the share of club revenue in any given jurisdiction accounted for by gambling revenue. The club share of community gambling is the share of gambling in any jurisdiction accounted for by clubs compared with hotels, pubs and taverns.

Data source: ABS 2007, *Voluntary Work, Australia 2006*, Cat. No. 4441.0; ABS 2006, *Clubs, Pubs, Taverns and Bars, 2004-05*, Cat. No. 8687.0; and Office of Economic and Statistical Research 2008.

6.5 In-kind contributions

The margin identified by IPART between the market value of goods and services provided to members and the revenue sourced from these (a net \$676 million) comprise a large share of the total social contributions of clubs (83 per cent). An example is the provision of a sporting oval for a nominal fee (\$100), when the normal commercial charge for its use was \$2500. In that case, the apparent value to

the community would be \$2400, and this would have been entered as one element of IPART's social contribution balance sheet shown in table 6.2.

Prima facie, clubs indeed make significant social contributions in this way. However, there are several factors that offset the *net* value of these contributions.

Distorted prices

People make choices based on the prices of competing activities. If one activity is subsidised and another not, then people will tend to increase their demand for the subsidised activity. So if playing football is subsidised, then, at the margin, it would become more attractive than some other pursuits (running, bushwalking, going to the beach, playing chess). The people whose decision is changed by the subsidy do not value the subsidised activity as much as people who would have participated anyway. The method for calculating the social contribution does not reflect this.

The funding for social contributions crowds out alternative uses

The more fundamental issue is the funding source for these kinds of social contributions and the implications this has for measuring the benefits. As emphasised by clubs, and shown in the analysis above, the capacity for cross-subsidies is underpinned by surpluses on gaming machines. That then poses the question, why are there such large surpluses on gaming machines for clubs? Four factors are influential:

- 1) clubs are concessionally taxed on their gaming revenue (PC 2010, pp. 220ff). Gaming revenue tax rates for registered clubs are around half those that apply for NSW hotels (IPART 2008). IPART estimated that the value of the lower rates of gaming machine revenue tax rates for registered clubs in NSW in 2007-08 equated to approximately \$484 million. And, in NSW, the Community Development and Support Expenditure (CDSE) Scheme provides clubs with gaming machine revenue over \$1 million with a tax rebate of up to 1.5 per cent of their gaming machine profits for providing financial support to community support and development activities (box 6.6)
- 2) mutual income, which includes gaming machine revenue, is exempt from income tax. As registered clubs are not-for-profit mutual entities (formed for the mutual benefit of members rather than as profit-making commercial enterprises), member contributions and income from transactions with club members are not treated as taxable income
- 3) in some jurisdictions, clubs get concessions on the caps on machines compared with hotels, which gives them greater access to a lucrative source of revenue

4) competition does not appear to affect the price of playing gaming machines to any great extent. (In competitive markets, large surpluses on individual products are bid away through price reductions.) This probably reflects the reality that consumers do not always understand or know the price of playing a gaming machine; gambling venues cannot advertise their prices to attract customers away from competitors (an ad proclaiming the ‘cheapest pokies in town’ would not be legal — chapter 8) and some rigidities in setting prices arising from gaming machine technologies. While machines can come with a variety of pricing options, these are part of the gaming software and only a limited menu of prices are available. In comparison, most prices on goods and services can be quickly and inexpensively changed, and marketing can make consumers aware of this.

Factors (1) and (2) represent transfers from government — the community as a whole — to those people who benefit from the surpluses of clubs. These might be people in a football club, members who enjoy the quality of a club’s premises, or someone accessing a club sports facility at a lower price, with the decision about who will benefit based on the governance arrangements of the clubs themselves.

Factor (3) also represents a transfer from governments to clubs, but in a less obvious way. An entitlement to gaming machines has a value (as is apparent when trading of gaming machines is permitted). In Victoria, under the (now completed) duopoly arrangements, the Victorian Government sold the right to own gaming machines through a bidding process, realising significant government revenue.⁵ In effect, such a bidding arrangement entails businesses paying for the capacity to secure ‘excess profits’ from consumers at a later time. If the market for bidding were perfectly competitive, then all the excess profits would be bid away. However, in general, governments have not attempted to extract all future excess profits by selling rights to machines at market prices — and so this again represents a transfer.

Factor (4) is akin to the excess profits earned by a firm with market power. In commercial environments, the profits are returned to shareholders, who can use them however they wish. In clubs, the rents are distributed to members or to projects chosen by the club management. In public policy terms, neither would be desirable outcomes. Public policy would usually attempt to address the market power to achieve lower prices for consumers. So (4) should be seen as a transfer from heavy users of gaming machines to those members of clubs or the community who benefit from the club contributions. If for some reason, it was not appropriate

⁵ The new arrangements for allocating gaming machines in Victoria provide clubs with entitlements based on their existing number of machines at a price equal to a percentage of retained revenue per machine for each venue, rather than a market price. In contrast, hotels will bid in a competitive market for their quota of machines.

to lower prices, then government could levy an excess profit tax. In that case (4) would be yet another instance of forgone tax revenue.

Box 6.6 Community Development and Support Expenditure Scheme (CDSE)

The Community Development Support Expenditure Scheme (CDSE) provides registered clubs in NSW with tax rebates (up to 1.5 per cent of their gaming machine profits over \$1 million) when they spend an equivalent amount on community development and support. The scheme was established in 1998.

The *Gaming Machine Tax Act 2001* outlines the legislative arrangements for the granting of a rebate of gaming machine tax levied on registered clubs. In the Act, a distinction is made between two classes of expenditure:

- *Category 1* — expenditure on specific community welfare and social services, community development, community health services and employment assistance activities.
- *Category 2* — expenditure on other community development and support services.

To qualify for the gaming tax rebate of 1.5 per cent, clubs must contribute at least 50 per cent of those funds to Category 1 purposes, with the remainder allocated to Category 2 purposes. Category 1 expenditure in excess of 50 per cent may be used to cover shortfall in Category 2, but the reverse does not apply.

Under the scheme, NSW clubs allocated \$62.2 million in 2008. This was \$26.6 million more than required under the scheme.

Source: http://www.olgr.nsw.gov.au/reg_clubs_sect_cdse.asp.

Essentially, the excess profits that clubs use to finance their social contributions represent transfers from government. So the quid pro quo for community contributions for clubs is a reduced capacity for government to lower taxes, reduce public debt or provide more services to the community (infrastructure, health and education).

The policy relevant question then is not the *gross* value of clubs' community contributions — as large as they may be — but the extent to which they are larger than those government could obtain were it to have the funds instead.

Some participants argued that direct funding of services and infrastructure by government would result in inferior outcomes. The Community Clubs Association of Victoria (CCAV), for example, said:

CCAV doubts the general community would trust governments to deliver services at the same level and may be wary that over time, such tax revenue might be re-directed

to other areas. This argument also takes the power and decisions away from local communities to create their own recreational facilities. (sub. DR366, p. 3)

Clubs Australia also argued that, as local community organisations, clubs are able to fulfil roles that governments are unable to fill:

Clubs in some way fulfil roles and needs that are unmet by Government. A typical comment in focus groups conducted by Ucomm in July this year was:

- Government... does not know we exist out there. We know that our local hospital needs support for the bus which takes people from the retirement home around. We know what they want, because they're asking us, they're telling us. If they were to ask the government, because they are such a little organisation, they would miss out completely and that's my greatest concern in country areas in particular that they would be the ones that miss out. And we could provide that for them. (p. 156)

However, even if it were accepted that clubs might have superior local knowledge about where to spend money for sport and recreation, the conventional government outsourcing model when hundreds of millions of dollars were at stake would involve appropriate budgetary controls, public scrutiny and transparency, including:

- capped amounts (determined by the priority given by government for sports and recreation or whatever other local community activities were seen as appropriate)
- appropriate governance arrangements
- proper process, such as clear understandings about who was to make the allocation decision, criteria for doing so, full documentation of spending and the reasons for decisions.

Some participants made the broader point that there were other more pressing community needs beyond sport and recreation. The Council of Social Service of NSW (NCOSS) in a submission to the IPART review also said:

... it is important to ensure the that nature of support (direct or in kind) and its targeting (members vs general community) is appropriate to local needs. The CDSE scheme provides some scope for the necessary needs analysis to be undertaken, however, other forms of support are discretionary and determined solely by the club. This may lead to some skewing based on the internal preferences of the club's board members, historic patterns of support or other factors that may not deliver best outcomes.

Local community groups, particularly those working with emerging communities or unpopular causes such as drug and alcohol, teenage mums, or ex-prisoners may not always be an easy fit for a club's traditional priorities (NCOSS 2007, p. 7)

Professor Jan McMillen made a broader point about the tendency for community contributions to be 'highly selective' and 'skewed', based on club preferences and

history, and foregoing opportunities for spending in many other areas of critical need:

Voluntary community contributions tend to be highly selective, often directed to recipients that promote the venue with various forms of ‘badging’ (e.g. sponsorship of sports teams and equipment, courtesy buses to the venue, physical infrastructure). In many cases the recipient groups have become dependent on that funding. For example, when the Carr Government tried to increase EGM taxes to fund the state’s acute health and transport infrastructure needs, the ClubsNSW’s vigorous campaign against the proposal was supported by public rallies of sports associations and well organised community groups, including a targeted protest at the launch of the National Rugby League season (sub. 223, p. 13)

Governments are by no means perfect decision makers. They can also make mistaken spending allocation decisions — not enough for infrastructure or hospitals, too much for iconic projects. But they have a wide portfolio of spending options well beyond sports, recreation and subsidies to club members, and their decisions are publicly accountable through the political and budgetary process and a wider range of requirements for probity and disclosure. In that context, the \$676 million of in-kind benefits identified by IPART for NSW clubs is likely to have displaced an alternative set of social contributions worth more than this.

Even under the most optimistic (and unrealistic) scenario that the ‘social’ contributions made by clubs are better than government, it would be hard to argue that government would entirely waste the funds if they disbursed them. So, at best, the *net* social value of clubs’ in-kind contributions would be a fraction of the gross value.

6.6 Cash contributions

IPART identified an additional \$91 million of direct cash contributions by NSW clubs to the community. Direct cash benefits have the advantage that they are easy to value and fully identify the beneficiaries, which is not always true for in-kind contributions. But, they still raise many of the other problems discussed above. Moreover, they represent a small share of the value of the total implicit tax subsidies given to clubs. In NSW, the subsidy equivalent of tax concessions was equal to \$518 million in 2008-09 (and an additional \$206 million in other jurisdictions — PC 2010, p. E.9).

The situation appears to be considerably better in Queensland, with a survey by Dickson-Wohlsen Strategies estimating direct cash donations, grants and sponsorships of \$222.77 million across the state in 2008-09 (Clubs Queensland, sub. 257, pp. 6–7). In that state, tax concessions were \$121 million. However,

determining whether the residual \$100 million reflects a genuine net social benefit would need to consider that the ultimate source of the funding are people playing gaming machines at prices higher than would normally be found in a competitive market (as discussed above).

Contributions to sporting and physical activities

Sport and recreation forms a significant component of community contributions by clubs. Sporting contributions include funding provided to the National Rugby League and the Australian Football League. In NSW alone, professional sport accounted for \$25 million of the \$91 million of cash contributions to the community.⁶

But clubs are also a significant source of funding for non-professional sport. Including in-kind contributions of around \$8 million, overall contributions to non-professional sports amounted to around \$35 million (or just over \$5 for every person in NSW). In many cases, clubs provide sporting facilities for their members. Allen Consulting (2008, p. vi) found that sports facilities are offered by 96 per cent of the NSW clubs surveyed. Peter Turnbull of League Clubs Australia noted:

Our member clubs also provide substantial support for a wide range of other sporting activities: cricket, hockey, netball, swimming, athletics, cycling, tennis, ice skating and more. This financial support and the provision of facilities gives everyday Australians — whether they are senior citizens, adults or children — affordable and accessible sporting options, thereby contributing significantly to the overall fitness, wellbeing and good health of our nation. (trans. p. 480)

While there is little question that clubs actively support sport, it is less clear what role gambling plays in this and, in particular, its impact on encouraging greater sporting participation in the wider community or to the sporting facilities available to members. Data from the Allen Consulting Group's survey of clubs suggest that the clubs with the lowest revenue accounted for 31 per cent of the value of sports facilities across all clubs, but only around 9 per cent of total club employment and 2 per cent of total clubs' EGM assets (table 6.4). The smallest venues also weighted their own investments to sports — with around one quarter of their total assets in sports facilities. By contrast, sporting facilities accounted for around 3 per cent of the assets of the largest, and most gambling-dependent, venues. Moreover, there is a very strong negative relationship between EGM revenue dependence and sporting facilities per employee (figure 6.4).

⁶ Around \$40 million was provided to non-sporting activities, such as health and social services.

Table 6.4 The smallest, least gambling-oriented, clubs are more sports-focused

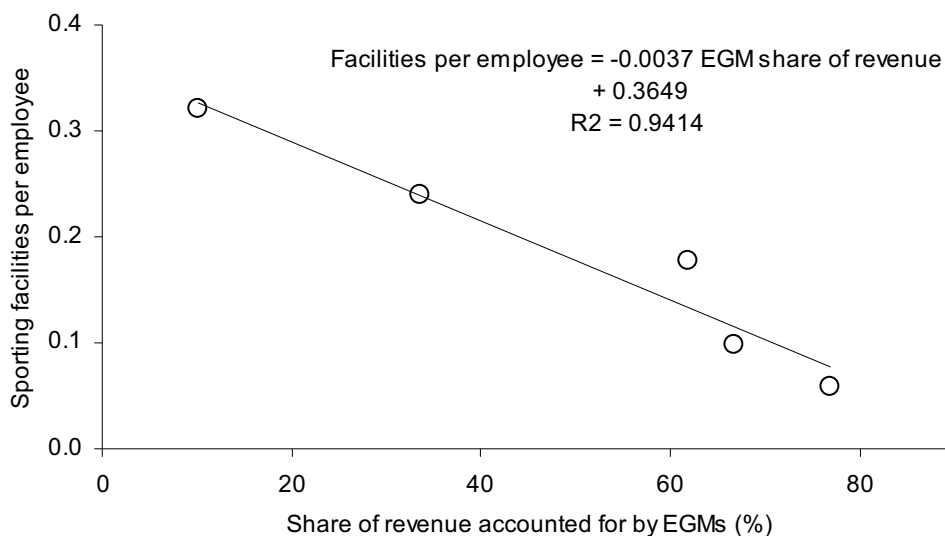
Asset values of facilities, NSW 2007

Club revenue category	Sports facilities as share of total club assets	Share of total all clubs' sports assets	Share of all clubs EGM assets	Sports to gaming machines assets	Employment share
	%	%	%	ratio	%
0 – 200K	24.3	31.4	2.0	11.72	8.6
>200K – 1M	11.0	18.7	12.4	1.11	13.6
>1M – 5M	5.3	21.8	32.1	0.50	27.3
>5M – 10M	3.4	7.3	15.4	0.35	15.6
>10M	3.3	20.8	38.2	0.40	35.1
All club sizes	6.4	100.0	100.0	0.74	100.0

Source: Allen Consulting Group 2008, Socio-Economic Impact Study of Clubs in NSW (2007), Final Report to ClubsNSW, p. 24; p. 34.

Figure 6.4 Sporting facilities per employee fall with gambling dependence

NSW 2007



Source: Allen Consulting Group 2008, Socio-Economic Impact Study of Clubs in NSW (2007), Final Report to ClubsNSW, p. 17; p. 45.

As noted above by Peter Turnbull of Leagues Clubs Australia, a major purpose for supporting sport is to encourage good health (and to foster social capital). However, there is no clear link between sporting participation by children and EGMs. The proportion of children aged 5 to 14 years who participated in organised sport outside of school hours in 2009 was higher in Western Australia (no community

gaming) than New South Wales (which has the highest spending on EGM per capita and where clubs are pre-eminent — table 6.5).

Table 6.5 Children participating in organised sport^a, April 2009

	<i>Males %</i>	<i>Females %</i>	<i>Persons %</i>
New South Wales	70.4	49.8	60.3
Victoria	72.5	64.3	68.5
Queensland	65.1	55.1	60.2
South Australia	69.4	63.2	66.3
Western Australia	71.2	54.4	63.1
Tasmania	60.1	54.8	57.5
Northern Territory ^b	68.4	47.9	58.6
Australian Capital Territory	71.5	71.1	71.3

^a Children aged 5 to 14 years who participated in organised sport outside of school hours in 2009. ^b Only 72 per cent of children in the Northern Territory were surveyed as children from remote areas were not included.

Source: ABS Cat 4901.0 Children's participation in Cultural and Leisure Activities, Australia

Participation in organised sport or physical activity by people aged 15 and over was also higher in Western Australia (43.1 per cent) than in New South Wales (40 per cent), Victoria (42.1 per cent) and Queensland (38.9 per cent) in 2008. The ACT recorded the highest participation rate in organised sport or physical activity (45.5 per cent). While participation in club-based physical activity in Western Australia was lower than that in New South Wales, Victoria, Northern Territory and ACT, participation in fitness, leisure or indoor sports centres and other organised activities was higher in Western Australia than all other jurisdictions, except the ACT, suggesting a substitution effect (table 6.6).

Table 6.6 Participation in organised activity by type of organisation and by jurisdiction^{ab}, 2008

	<i>Sports recreation club or association</i>	<i>Fitness, leisure or indoor sports centre</i>	<i>School</i>	<i>Work</i>	<i>Other</i>	<i>Total</i>
NSW	25.9	14.1	4.3	1.3	8.0	40.0
Victoria	25.8	16.4	3.8	1.1	8.2	42.1
Queensland	22.8	15.7	3.8	1.4	6.8	38.9
South Australia	25.0	16.1	4.3	1.3	7.8	40.4
Western Australia	25.7	17.8	4.5	1.9	9.1	43.1
Tasmania	26.7	12.4	4.5	0.8	8.0	40.4
Northern Territory	27.9	14.0	2.8	2.6	6.8	41.4
ACT	28.1	20.3	3.9	2.3	7.2	45.5
Australia	25.3	15.6	4.1	1.3	7.9	40.8

^a 'Organised physical activity' is physical activity for exercise, recreation or sport undertaken through, or organised by, an organisation. ^b Relates to persons aged 15 and over participating at least once annually in organised physical activity.

Source: Standing Committee on Recreation and Sport, *Participation in Exercise, Recreation and Sport*, 2008.

6.7 Clubs with greater dependence on gambling serve different market segments

The different orientation to sports (and volunteering) by clubs with different levels of gambling reflects the heterogeneity of the club movement — it is not appropriate to generalise. Clubs come in many forms, from small bowling clubs with a few gaming machines to large clubs with hundreds of machines. Such clubs have different goals from each other and occupy different market segments. So, small clubs with relatively weak dependence on gambling tend to centre on social and sporting activities for their members. In contrast, while the 'super' clubs are often affiliated with the AFL or NRL, for their members they are large, high quality, entertainment complexes. In that context, IPART considered that clubs' growing emphasis on gaming activity may be changing clubs their traditional role:

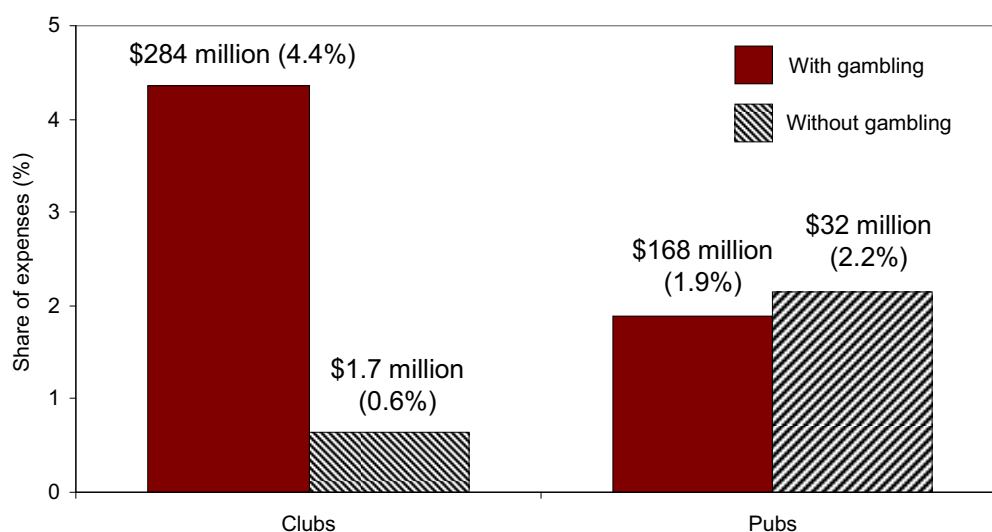
Clubs have traditionally played an important role in providing a place for people to meet and socialise, but the growing emphasis on gaming activities may be changing this. (IPART 2008, p. 45).

It is also notable that clubs with gambling operate in a more commercial manner, akin to private enterprise — in keeping with their different function. For instance, hospitality clubs without gambling spend a tiny fraction of their resources on advertising, marketing and promotion, whereas this is a major cost centre for clubs with gambling (figure 6.5) — indeed, more than for hotels (with or without

gambling). Indeed, were the cost share of marketing identified for (gambling) clubs throughout Australia to apply across New South Wales, it would amount to expenses of \$183 million in advertising, marketing and promotion, around double the direct cash community contributions made by clubs in that state.

Figure 6.5 Advertising, marketing and promotion increase with gambling

Clubs and pubs, Australia, 2004-05



Data source: ABS 2006, Clubs, Pubs, Taverns and Bars, 2004-05, Cat. No. 8687.0.

6.8 Employment and business benefits

As shown in chapter 2, there are many people employed in the gambling industry. There is also a clear relationship between employment size of enterprises (in at least clubs) and the extent of their gambling dependence (figure 6.6).

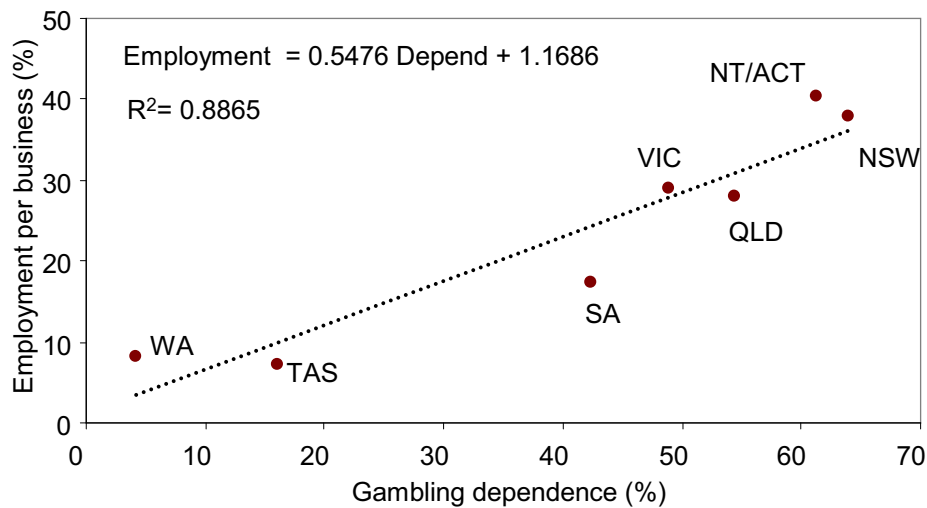
However, the presence of jobs *in* an industry does not mean that those jobs are additional in a net sense, since most if not all the people concerned would have been employed in other industries were the gambling industries smaller. It is often not well understood that unemployment and labour force participation — and therefore jobs — are not determined by the industry structure or technology of a country, but by more aggregate factors, such as the wage determination process and the business cycle. This is evidenced by the fact that different countries can have quite different industry structures without any differences in their employment rates. Similarly, industry structures have changed radically in Australia over the last century, without any lasting effect on unemployment rates.

At the heart of this is the question: would the bar and gaming staff, accountants, entertainers and cooks employed in the gambling industry be unable to find a job in the absence of the gambling industry? Were they unemployed before the growth of the gambling industry? Are such people currently unemployed in Western Australia?

As the industry often points out, their staff are a key to their business — they are hired because they are competent and good communicators, but these skills are in high demand in many industries, including in other parts of the service sector.

Figure 6.6 Enterprises are bigger in jurisdictions where clubs get more gambling revenue

2004-05



^a Businesses may have more than one premises. The data relate only to ‘hospitality’ clubs, those that generated income predominantly from sales of alcohol, gambling, meals and other hospitality services. Clubs whose main activity was the provision of sporting services were not included within the scope of this industry.

Data source: ABS 2006, *Clubs, Pubs, Taverns and Bars, 2004-05*, Cat. No. 8687.0.

There can be exceptions to this degree of labour flexibility. People might have highly specific skills or be trapped in depressed regions with large barriers to mobility. And people with lower skills in labour markets with inflexible wages can get trapped in unemployment and lose job confidence and skills (‘hysteresis’). Some of the persistent unemployment in ‘rust belts’ in the United Kingdom and the United States falls into this category, and in some regional areas in Australia. However, the people employed in the gambling industries mostly live in major urban areas and have highly portable skills that are sought after across the service sector generally.

Indeed, there are looming skills shortages in the hospitality sector. Service Skills Australia (SSA), a not-for-profit, independent organisation considered:

National and international data indicates that there is a continuing shortage of suitably qualified and skilled workers for the tourism and hospitality industry. The tourism and hospitality industry is forecast to experience continued strong growth in the years to come. To support the industry's success, and facilitate this projected growth, industry must work together to ensure we have access to suitable skilled labour. (ServiceSkills Australia 2009, *Tourism and Hospitality Workforce Development Strategy*, p. 1)

Clubs Australia, the Australian Hotels Association, the Australasian Casino Association, other peak bodies in the hospitality industry, and the SSA developed the Tourism and Hospitality Workforce Development Strategy to address these impending shortages. The excess demand for hospitality employees suggests that contractions in the gambling industry would reverse the process that occurred when there was phenomenal growth in the gambling industry after liberalisation, shifting employees to other industries that value their skills.

The distinction between the gross and net employment impacts of the gambling industry is a common feature of analyses that take account of the economy-wide feedbacks. The 2008 report by Allen Consulting for Clubs ACT on the social and economic impacts of clubs⁷ noted the important distinction between the net employment effects associated with the expansion of an industry, and the effects of such an expansion on the industries and occupations where people are employed.

... it is important to consider that the approach [input output analysis] lacks broader credibility ... For example, input-output analysis can provide an estimate of the total employment 'created' from an increase in expenditure in the club industry. This is quite different from estimating the net effect on the economy/employment as the increased activity in the club industry may displace workers from the 'food and beverage supply' industry. (p. 31)

Another analysis of clubs noted that:

... empirically, while many clubs in Australian cities do provide certain services that are unlikely to be provided by for-profit firms, they nonetheless also have a very clear place in many geographic markets in providing goods and services that would almost certainly be otherwise provided by for-profit firms (Beer 2009 p. 5)

The modelling undertaken by the CIE on behalf of the gaming industry for this inquiry incorporated this well-known feature of labour markets. Their model showed no long-run effect on national employment from even full prohibition of the gambling industries (Centre for International Economics 2009). A similar study undertaken by PricewaterhouseCoopers (2009, pp. 58ff) on behalf of the Australian Hotels Association found similar results.

⁷ Allen Consulting Group 2008, *Socio-Economic Impact Study of Clubs in The Australian Capital Territory*, March, Final Report To ClubsACT, p. 31.

Of course, abrupt changes in industry structures associated with regulatory changes can cause unemployment over the shorter run. The principal way of addressing this concern is through the gradual implementation of reforms, which would mean that:

- reductions in employment would be more readily met by labour turnover and the retirement of older employees
- there would be no sudden outflow of people into the local labour market, which would make it quicker for them to find new jobs
- employees would be able to pre-search for other job opportunities and to develop their skills, if needed, to make them more marketable in those jobs.

The Commission has recommended a more gradual implementation of harm minimisation than proposed in the draft report. (And phasing of reduced tax concessions would equally be needed.) It has also recommended temporary exemptions for smaller venues — many of which will be in regional labour markets. The proposed, more gradual, changes to policy changes will reduce what are already likely to be small community and economy-wide employment effects of a contraction in some parts of the gambling industry.

Other impacts?

There can be benefits from gambling if, at the margin, employees in the gambling industries get higher wages than they would have had were they employed in other businesses. The statistical evidence suggests that employees in gambling venues earn more than those in venues without gambling, with an average premium of around 25 per cent.⁸ However, it is uncertain how much that reflects the higher productivity of gambling venues, or the fact that venues with gambling require higher level social and other skills than those without gambling.

Similarly, business owners may make greater profits and taxpayers may get higher tax receipts from foreigners. In particular, there are likely to be some national income benefits for specific gambling ventures, such as casino complexes that form major entertainment and accommodation hubs, and that attract overseas tourism.

Nevertheless, the overall (incremental) supply-side gains are small fractions of the observed wages, profits and taxes associated with the industry, because the resources used by the gambling industry have productive uses elsewhere in the economy. That said, it should be acknowledged that there are likely to be some

⁸ Based on analysis of labour costs per estimated full-time equivalent employee.

benefits of this kind, and poorly targeted policy intervention could adversely affect these.

6.9 The bottom line on the benefits of gambling

Like many other businesses, clubs, casinos and hotels play important roles in their local communities beyond those that are purely commercially motivated. However, the real size of genuine community benefits are a fraction of those recorded — most particularly for clubs. This mainly reflects the fact that ordinary business expenses are sometimes deemed to be community benefits and that the alternative social uses of the large implicit tax subsidies to clubs are disregarded in the analysis.

As the Commission pointed out in its parallel inquiry into the not-for-profit sector (PC 2010, p. 224) there are also strong grounds to significantly lower tax subsidies for clubs on competitive neutrality grounds. The Commission said:

... the fact that clubs provide donations and other support to the community in general is not a prima facie argument for providing clubs with substantial tax concessions in relation to gaming income, especially given the cost of the concessions is considerably greater than the size of the donations. For competitive neutrality purposes the issue is not whether public benefits may be generated but rather whether the way in which government support is delivered creates distortions. The Commission concludes that present tax concessions on gaming income provided to clubs by governments breach competitive neutrality principles. However any change in the taxation of club gaming revenue would need to be phased in over some years to allow time for adequate adjustments.

Accordingly, there are strong grounds for governments to significantly reduce gaming tax concessions. This would address the inequity and inefficiency of current arrangements. The changes would provide governments with a revenue source that they could distribute through accountable budgetary processes to the community at large. To the extent that any subsidies remain, they should be commensurate to the benefits, and there should be improved disclosure of, and accountability for, community contributions.

Given the magnitude of these subsidies, their immediate removal would necessitate significant adjustments for clubs, particularly large ones that are highly dependent on gaming revenue. A phased adjustment would allow such clubs to diversify their activities and to plan their transition.

There is little question that members of clubs with the greatest EGM dependency would face higher prices for their services were government subsidies removed, but the quid pro quo is likely to be improved funding of high priority community

projects in health, infrastructure and education, among others. Adverse impacts on community sporting participation and volunteering are unlikely, illustrated by the fact that jurisdictions without much of a club presence or EGM gambling have at least as high a rate of participation in these activities.

In this inquiry, clubs have raised their ‘social’ and employment contributions as a major consideration in determining policies for harm minimisation. In essence, the claim is that stronger harm minimisation measures would undermine the capacity to deliver these contributions. However, as the analysis above shows, the *net* social and supply-side benefits are much smaller than the gross ones. Indeed, they are sometimes negative when the existing policy distortions and flawed social accounting methodologies are taken into account. That particularly holds for ‘super’ clubs. The evidence shows that these place a relatively low weight on volunteering and members’ sporting facilities compared with smaller, less gambling-dependent traditional clubs. There are, therefore, not many genuine net social and supply-side contributions at risk from improving the efficacy of harm minimisation measures.

In any case, pursuing the goal of maximising the wellbeing of the community at large — the Productivity Commission’s charter — often involves adverse effects on particular industries. This was true for the reform processes that reduced barriers to trade, created competition in infrastructure services and de-regulated certain professions. From a community-wide perspective, it is sometimes appropriate for an industry to experience revenue and employment losses if there is a sufficient public good. Were the policy criterion to maintain or stimulate business revenue, then there should be no liquor laws or bans on smoking in premises. Industrial history is replete with instances in which certain economic interests — tobacco, coal mining and asbestos — have suffered from regulated increases in safety standards.

The more justified concern is not the adverse impacts of harm minimisation (or reformed tax arrangements) on the industry *per se*, but whether the policies are sufficiently well-designed and effective to target the problems, without collateral damage to the most valuable aspect of the industry — the recreational value to its consumers. The design of targeted measures has been a major consideration by the Commission in making its recommendations.

FINDING 6.1

The gambling industry makes various contributions of value to local communities, including through the provision of secure, accessible venues.

The large tax concessions on gaming revenue enjoyed by clubs in some jurisdictions (notably New South Wales) cannot be justified on the basis of realised community benefits. There are strong grounds for these concessions to be significantly reduced, though this would require phased implementation to facilitate adjustment by clubs.

6.10 The size of the ‘prize’ from more effective harm minimisation

Understanding the magnitude of the benefits and costs of the gambling industry provides an indication of the size of the benefits from effective harm minimisation policies and the risks from poorly targeted measures.

As discussed above, the main benefits from gambling are gains to recreational gamblers, while the main costs relate to the harms experienced by gamblers (putting aside the distortions associated with large implicit subsidies to the industry).

Gambling problems impose many costs, including burdens for family members from the financial and social impacts of problem gambling behaviours, and costs for society generally from increased fraud, provision of help and welfare services and other impacts. Some of these costs are discussed in chapters 4 and 5. Delfabbro (2009) recently summarised their nature and qualitative importance, and they were partly quantified in the Commission’s 1999 report.

The framework

To assess the likely contemporary aggregate costs and benefits of gambling, the Commission used the same conceptual framework developed in its 1999 report, but updated the values to reflect:

- changes in demand. In nominal terms, gambling expenditure (player losses) has nearly doubled.
- the likely reduction in the adult prevalence rate of problem gambling
- changes in the adult population. The adult population has grown from around 14 million to nearly 17 million over this period

-
- increased real household income per capita. The value of avoiding adverse social and health outcomes rises with real income,⁹ suggesting that the social costs of gambling would have risen in proportion with that income.
 - inflation, which, with real household income changes, will have increased the costs faced by problem gamblers. The Commission's cost and benefit estimates are in 2008-09 prices.

Consumption by recreational gamblers

Recreational gamblers are assumed to derive large consumer surpluses from their gambling. The extent of these benefits depend on the assumptions about elasticities spelt out by the Commission in its 1999 report (appendix C).

Dollery and Storer (2008) point out that the Commission's 1999 approach has been the dominant method for appraising benefits and costs associated with gambling, but dispute the methods for calculating the benefits. In particular, they contest whether the consumer surplus would be as large as shown in table 6.7 below. They cite two concerns, of which the most important is that the consumer surplus of recreational gamblers is not clearly defined when many consumers make poorly informed decisions.¹⁰

The Commission accepts that to the extent that people have faulty cognitions about the prospects of winning (as discussed in detail in chapter 4), there is potential for 'excess' spending. Theoretically this is a cost that should be taken into account in calculating consumer surplus, though doing so in practice would involve significant difficulties.

Taxes

Gambling is heavily taxed. These taxes represent a transfer from consumers to government (and ultimately to the community as a whole). The consumption benefits above exclude this transfer, so it must be separately accounted for in cost-benefit analysis. As shown in chapter 2, around \$5 billion of taxes were collected by state and territory governments in 2008-09. However, those taxes exclude some tax revenue (box 6.7), most importantly the GST on gambling. Using the method

⁹ For example, see Bellavance et al. (2007) and Costa and Kahn (2003).

¹⁰ The other related to whether one minus the rate of return represents the 'price' of gambling. The Commission still considers this the best measure of price. It is proportional to the expected amount of money someone would spend for a given period of time and playing style. This is consistent with prices for many other entertainment services.

described in box 6.7, the Commission has estimated overall tax revenue of around \$6.3 billion for 2008-09.

The costs for problem gamblers

Many products involve the potential for costs. It is often assumed that people rationally factor those costs into the decision to purchase the product — in effect, these are simply part of the price. In those instances, it would be inappropriate to count those costs again when estimating the overall value of the product. However, problem gambling is characterised by lack of control and faulty cognitions (chapter 4). The assumption that problem gamblers take into account all the problems associated with their gambling when making spending decisions is not consistent with what they say, their attempts to constrain themselves through self-exclusion, or their efforts to seek help. As in the Commission's 1999 report, this inquiry includes harms like depression, suicides and relationship breakdown as genuine social costs, though they mostly fall onto the person making the decision to gamble.

Using the results from its 1999 study, the Commission estimates that the value of the costs per problem gambler would approximately lie between \$10 000 and \$30 000 (in current price terms). (These costs do not include the financial costs of gambling, which are discussed below.) This estimate reflects the combined effects of changes in real household disposable income per capita and inflation. The Productivity Commission (1999, appendix J and chapter 9) spell out the nature and value of the harms that underlie these estimates.

It should be emphasised that the Commission recognises that some of the problems that gamblers attribute to gambling may reflect co-morbidities. In addition, there is a risk that some costs are clearly linked, and should not be valued separately. For example, the emotional costs associated with suicide attempts and depression are associated. In some instances, perceived costs include some transfers (as in theft of money). The cost estimates have been adjusted to address the impacts of co-morbidities, double counting and transfers. (The Commission used the adjustment approaches described in the 1999 report.) Some costs are not included in the above estimates, such as suicide.

There is an important complication arising from the use in the present inquiry of recalibrated costs from the Commission's 1999 study. In that study, the average costs per problem gambler were estimated by:

- measuring the number of problem gamblers experiencing particular kinds of harm

-
- multiplying these numbers by the costs of the relevant harms
 - summing the costs over all problem gamblers and dividing by the number of problem gamblers.

However, the South Oaks Gambling Screen (SOGS) was used to define problem gambling, whereas the CPGI has been used in recent surveys. As discussed in chapter 5, the SOGS categorises more people as problem gamblers than the CPGI. The extent of harm experienced by those people who would meet the SOGS, but not CPGI, criteria for problem gambling, would be less than the harms experienced by those people who would meet the CPGI criteria alone. This has the implication that the cost per ‘problem gambler’ using the SOGS criteria would be lower than the one that would apply for someone identified as a problem gambler using the CPGI. As a result, the multiple of the PC 1999 costs per problem gambler and the CPGI estimate of problem gambling would underestimate aggregate costs significantly.

Accordingly, to place the studies on a comparable basis, the Commission needed to identify the number of people in 2009 that would be categorised as problem gamblers using the SOGS instrument. (The alternative would be to apply an ‘uplift’ factor for the smaller population identified by the CPGI, but the information needed to do that is not available). The Commission has used the approach described in chapter 5 to estimate the relevant number of problem gamblers based on SOGS.

To be conservative, the Commission has used the lower of the estimates of problem gambling (0.48 per cent for CPGI 8+ and 1.36 per cent for CPGI 3–7) in undertaking the above calculation.

‘Consumption’ by problem gamblers

The usual assumption that spending confers benefits on consumers is not warranted for problem gamblers, given the presence for that group of widespread harms and control problems. Nevertheless, as in the Commission’s 1999 report, the Commission has assumed that problem gamblers still receive a consumer surplus associated with part of their spending (the level of spending characteristic of recreational play), but the residual or additional amount of spending is treated as a cost.

The size of this cost depends on the share of spending accounted for by problem gamblers. In the 1999 study, the problem gambling spending share for all gambling was 33 per cent and 42 per cent for EGM gambling. The evidence suggests that the latter proportion has not fallen (appendix B). However, in order to err on the side of conservative (low) estimates of the costs of problem gambling, in its base case estimates, the Commission has used an expenditure share of 25 per cent for EGMS

and 20 per cent for all gambling. The value of using conservative measures is that they demonstrate that there are still very large dividends from policies that address the harms from gambling.

Costs for others

The Commission has not included any social costs experienced by recreational gamblers — who include all those classified as experiencing no or low risk, and a significant share of those categorised as experiencing moderate risks. In fact, non-problem gamblers can experience harms, such as those arising from adverse employment and health outcomes relating to their gambling (chapter 4).

Calculating the costs described above would be complicated, though they may be appreciable given the findings in chapter 4. Their exclusion further accentuates the point that the cost estimates in this chapter are highly conservative (under-estimates).

Some see distributional issues and community impacts as paramount in assessing costs and benefits, and in framing regulations. In responding to a set of questions posed by SACES (2009) concerning the Productivity Commission's 1999 cost-benefit methodology, the New Zealand Department of Internal Affairs (DIA) indicated that they did not look at gambling policy in terms of benefits to consumers or as a source of tax revenue. Instead, they were primarily concerned about impacts on different communities and the inequalities that could arise. As a result, local government has significant powers in relation to many aspects of gambling and all profits of non-casino gaming machines are allocated to community purposes. To some extent, the distinctions between the Commission's and the DIA's perspectives are semantic (given that the Commission acknowledges the relevance of harms and benefits to communities). Nevertheless, the approaches reflect different paradigms and, implicitly, the DIA's model would suggest less net benefits from the Australian form of gambling provision than the Commission's modelling results.

The net cost-benefit picture

Reflecting the uncertainty over the costs per problem gambler and the elasticities of demand for gambling, the cost-benefit range presented here is necessarily wide (table 6.7). The results for 2008-09 suggest:

- large tax and consumer benefits from gambling, lying in the range between \$12.1 and \$15.8 billion
- large social costs associated with gambling, lying in the range of \$4.7 to \$8.4 billion

-
- indicating overall large net social benefits from gambling of \$3.7 to \$11.1 billion.

Unlike the Commission's 1999 study, the range of net costs and benefits do not include the possibility of a net loss. This is a result of the conservative approach used on this occasion to estimate the costs.

If 'average' estimates for prevalence rates and spending shares (as shown in chapter 5) are used, the results suggest the possibilities of net social costs (table 6.8). This is entirely a reflection of the harms associated with EGMs, where the prospects of a net loss in that scenario are greater. That said, the estimates suggest that those prospects are considerably lower than was the case in 1999.

The figures in tables 6.7 and 6.8 are for one year only. In practice, the benefits of gambling and its associated costs will stretch into the future. Moreover, the population is growing, and so is household income. These influences will increase the numbers of problem gamblers (though not the prevalence rate), raise gambling expenditure and produce greater social costs per problem gambler and bigger benefits. Given that people care less about costs (and benefits) tomorrow than costs (and benefits) today, these long-run future numbers have to be discounted to their 'present value'. Taking all these factors together, the 'present value' of the costs and benefits of gambling in constant 2008–09 prices would be many multiples of those shown in tables 6.7 and 6.8.

'Incremental' analysis

There is an important distinction between assessing the benefits and costs associated with a particular proposed policy change and assessing the benefits and costs of a whole industry, as represented by the figures shown in the tables above. The latter 'aggregate' analysis would be useful if the only option before government were to allow or prohibit the existence of an industry. That would be rare. The former 'incremental' approach is the usual focus of cost-benefit analysis, because it helps inform practical decisions as to whether and how much change should occur.

Box 6.7 Gambling taxation

Gambling is subject to a range of direct taxes, such as those levied by state and territory governments on gaming machine revenue. There are several implicit taxes:

- license fees. In some cases, license fees represent a one-off payment for exclusive access. For instance, Star City casino paid \$100 million for an exclusivity agreement for the 12 years from November 2007. Annual taxation data excludes such arrangements, though there are arguments to calculate the annuity they represent over the exclusivity period and to include this annuity in estimates of the tax take
- mandatory community contributions (such as the requirement for the casino to make contributions through a responsible gaming levy in NSW).

The Australian Government also charges GST on domestic gambling expenditure, but returns it to state and territory governments. (The GST rate is 1/11 not 10 per cent on gambling.)

There is no single source that collates such taxes. Various sources give differing estimates, reflecting their coverage of taxes and levies. In 2004-05:

- the Australian Gambling Statistics recorded government revenue of \$4.5 billion levied on total gambling revenue of 16.9 billion, which is equivalent to an implicit tax rate of 26.3 per cent. This excludes any GST component and some levies
- an ABS gambling publication recorded tax and levy income for governments of \$5.6 billion on net takings (revenue) of \$15.5 billion, which is equivalent to an implicit tax rate of 36.4 per cent (ABS 2006, *Gambling Services, Australia 2004-05*, Cat. No. 8684.0). This includes the GST component of taxation and accounts for levies
- an ABS tax publication recorded gambling tax revenue of \$4.3 billion (ABS 2009, *Taxation Revenue, Australia, 2007-08*, Cat. No. 5506.0). This excludes the GST. This number is used by the Grants Commission.

In the absence of a single source, the Commission has used the following approximation. The ABS estimate for tax revenue inclusive of the GST and levies in 2004-05 (\$5.6 billion) is 26.5 per cent greater than the revenue estimate given in the Australian Gambling Statistics (\$ 4.5 billion). That uplift factor is used to gross up the state and territory budget figures for gambling revenue. That gives a total tax take of \$6.3 billion. This is used in the Commission's cost-benefit estimates. A similar method is used to estimate the tax revenue associated with EGMs in clubs, pubs and casinos.

Table 6.7 Gambling benefits and costs: the conservative estimates^a
(\$ million, 1997-98 and 2008-09)

	1997-98		2008-09	
	High elasticity	Low elasticity	High elasticity	Low elasticity
<i>All gambling</i>				
Tax and recreational consumer benefits	8 772	7 057	15 770	12 146
Problem gambling cost				
High	8 282	8 278	8 427	8 422
Low	4 496	4 492	4 669	4 665
Net social benefits				
High	4 276	2 565	11 101	7 481
Low	490	-1 221	7 344	3 724
<i>EGM gambling</i>				
Tax and recreational consumer benefits	4 652	3 773	9 186	7 073
EGM gambling - problem gambling cost				
High	6 405	6 402	6 308	6 305
Low	3 524	3 521	3 627	3 624
Net social benefit				
High	1 128	252	5 558	3 449
Low	-1 753	-2 629	2 878	768

^a The results are presented in a different way from the 1999 report (PC 1999, p. C.25, p. J.37). In particular, in this presentation of the data, the tax and consumption benefits for recreational gamblers are shown separately from the consumption losses of problem gamblers. The latter losses are included in the overall social costs. This presentation of the data makes no difference to the net social costs, but is relevant to understanding the impacts of policy. It should be noted that the results are based on a low estimate of a spending share by problem gamblers, the lowest range of problem gambling, and exclusion of all costs that might affect recreational gamblers.

Source: Productivity Commission calculations.

The fact that the gambling industry has net social benefits, therefore, is neither surprising nor necessarily policy relevant. The key issue is whether policy changes could achieve better outcomes. This could involve improved harm minimisation measures that target the harm (the main thrust of this report), but also changes to competition arrangements to increase the consumption benefits of gambling.

Table 6.8 Gambling benefits and costs: the ‘average’ results^a
(\$ million, 1997-98 and 2008-09)

	1997-98		2008-09	
	High elasticity	Low elasticity	High elasticity	Low elasticity
	\$m	\$m	\$m	\$m
<i>All gambling</i>				
Tax and recreational consumer benefits	8 772	7 057	14 672	11 470
Problem gambling cost				
High	8 282	8 278	9 771	9 765
Low	4 496	4 492	6 013	6 007
Net social benefits				
High	4 276	2 565	8 659	5 463
Low	490	-1 221	4 901	1 705
<i>EGM gambling</i>				
Tax and recreational consumer benefits	4 652	3 773	8 087	6 397
EGM gambling - problem gambling cost				
High	6 405	6 402	7 720	7 715
Low	3 524	3 521	5 040	5 034
Net social benefit				
High	1 128	252	3 047	1 363
Low	-1 753	-2 629	367	-1 318

^a The results are presented in a different way from the 1999 report (PC 1999, p. C.25, p. J.37). In particular, in this presentation of the data, the tax and consumption benefits for recreational gamblers are shown separately from the consumption losses of problem gamblers. The latter losses are included in the overall social costs. This presentation of the data makes no difference to the net social costs, but is relevant to understanding the impacts of policy. It should be noted that the results are based on a low estimate of a spending share by problem gamblers, the lowest range of problem gambling, and exclusion of all costs that might affect recreational gamblers.

Source: Productivity Commission calculations.

The estimates above show that even using the most conservative estimates, there are likely to be large gains from even modestly effective policy. Taking the lowest estimate of the social costs associated with gambling for 2008-09 across tables 6.7 and 6.8, suggests that a 10 per cent reduction in harm would produce an annual gain of around \$470 million (\$360 million relating to gaming machines only). There would be some offsetting losses of benefits:

- some tax revenue would be lost. However, spending diverted from gambling would still be taxed, so the actual loss in revenue would not be equivalent to the apparent loss in revenue. In addition, to the extent that policy measures effectively target revenue from problem gamblers, the value of any accompanying revenue losses must be less than the harm posed by excessive gambling by this group.
- some recreational gamblers may be affected by new regulations, though the Commission has proposed highly targeted measures, usually with a gradual

transition, which will allow both businesses and recreational gamblers to adapt to them (as they seem to have done with the smoking bans).

On the latter score, the subsidiary goal of limiting any negative impacts on recreational gamblers does not mean there will be no such impacts, and indeed, in some cases a policy that had a larger impact on the industry and the benefits enjoyed by recreational gamblers may still be preferred to the one that does less, so long as there are commensurately greater gains from effective harm minimisation. Gambling experts have also highlighted this tradeoff:

... [harm minimisation strategies] should have a minimal impact on the satisfaction of recreational gamblers. However, this should not be the predominant variable that determines the acceptability or utility of any harm minimisation intervention. The predominant factor would be the potential for the protection against, and reduction of harm associated with, problem gambling (Blaszczynski et al. 2001, p. 19)

This is illustrated by the hypotheticals in table 6.9. Policy 1 is poor because, while it produces some reduction in harms, that reduction is not worth the collateral damage to consumers and other parties. (Indeed, policy 1 would not pass a cost-benefit test). Policy 2 is far superior because it has the same level of adverse effects for consumers and others as policy 1, but with a more than offsetting dividend from a reduction in harms. Policy 3 has no adverse effects, on recreational consumers or others, but produces only small reductions in harm. Policy 4 is superior to all other policy positions, even though it has worse outcomes for recreational consumers and others than policies 1, 2, 3 or the status quo.

In practice, with careful targeting and appraisal, there are good prospects of avoiding ‘collateral damage’ on recreational gamblers from harm minimisation measures. It should also be emphasised that some harm minimisation measures are likely to improve outcomes for recreational gamblers, and may indeed enhance their enjoyment.¹¹

¹¹ For example, McDonnell-Philips (2006, p. 321) found that some non-problem gamblers thought that various harm minimisation measures would *increase* their enjoyment.

Table 6.9 Ranking policies

	<i>Recreational consumer gains</i>	<i>Tax and business gains</i>	<i>Harm</i>	<i>Net benefits</i>	<i>Ranking</i>
	A	B	C	A+B-C	
Status quo	100	20	70	50	4
Policy 1	95	18	66	47	5
Policy 2	95	18	60	53	2
Policy 3	100	20	68	52	3
Policy 4	90	15	45	60	1

FINDING 6.3

While it is not possible to be definitive about the costs and benefits of gambling, the Commission estimates that in 2008-09:

- the benefits from tax revenue and enjoyment of gambling for recreational gamblers ranged between \$12.1 and \$15.8 billion*
- the costs to problem gamblers ranged between \$4.7 and \$8.4 billion*
- the overall net benefits ranged between \$3.7 and \$11.1 billion.*

The net benefits could be much larger if governments reduced the costs through effective prevention and harm minimisation policies.

FINDING 6.4

Even under conservative assumptions, a sustained 10 per cent reduction in the costs associated with problem gambling is estimated to generate benefits to society of around \$450 million a year in 2008-09 prices, and longer-term benefits amounting to several billion dollars. This implies that even harm minimisation measures with modest efficacy may produce worthwhile net benefits so long as they do not also involve disproportionate costs.