
1 Introduction

Gambling remains a contentious issue on a number of fronts. It is a product that many Australians enjoy and yet it arouses widespread ambivalence and opposition, given the social problems associated with it. One participant commented that gambling spans the line between pleasure and pain. This neatly summarises the difficulties for governments — how can policy preserve the enjoyment that many people experience from gambling, while attempting to address the considerable harms it poses? That question, which is fundamentally about the nature and impacts of gambling policies, is the main focus of this report.

Whatever the particular aspect of gambling, the Commission's goal in this report is to make policy recommendations that improve the wellbeing of the community as a whole. In some cases, that implies increased regulation of gambling, particularly to reduce potential harms; in others, it implies less regulation, to enable better products and lower prices for consumers.

1.1 What has the Commission been asked to do?

In November 2008, following agreement at the Council of Australian Governments (COAG), the Australian Government requested the Productivity Commission to undertake a public inquiry into Australia's gambling industries. The initial completion date was 24 November 2009, but the Government subsequently extended this to 26 February 2010, to enable more time for participants' submissions and the Commission's data gathering.

This is a different report to the one that resulted from the Commission's review of a decade ago (PC 1999). At that time, there was little independent information and analysis about gambling, and a major role for the Commission was to help fill that gap. The report addressed the considerable deficits in the available data and provided the first systematic national review of the impacts of gambling on the Australian economy and society. However, while the report had many findings of direct relevance to public policy, the terms of reference did not permit the Commission to make formal recommendations.

In contrast, in the current inquiry it is intended that the Commission make recommendations about Australian gambling policy. One prominent participant in the inquiry nevertheless questioned whether it was appropriate for the Productivity Commission, an Australian Government body, to make recommendations relating to the states and territories (Souris, sub. DR379, p. 2). However, as noted, the current inquiry stems from a COAG decision on 3 July 2008 (COAG 2008), and its purpose was expressly to provide information and recommendations for consideration by *all* Australian jurisdictions. (The Commission is grateful for the assistance provided to it by all state and territory governments, including submissions, and the provision of prevalence survey and other data — see below.)

The Commission's previous inquiry also took place in an environment very different from today, following a period of significant liberalisation and expansion of gambling. During the 1990s, jurisdictions had, for the first time, introduced casinos and most allowed electronic gaming machines (EGMs) into hotels and clubs throughout the community. While many people enjoyed the newly accessible options for gambling, its sudden liberalisation and rapid growth led to significant social impacts and community disquiet.

Gaming industries, and particularly the EGM market, have now matured. And, while community concerns about gambling have remained, participation in gambling has decreased and expenditure growth has stagnated. Moreover, new mediums for gambling are bringing new challenges for policy and new risks for consumers. Online gaming and wagering, as well as sports betting, have grown rapidly in prominence over the past decade (although they still constitute a small share of gambling expenditure).

During the 1990s there was less awareness of the regulatory complexities associated with tax, competition policy and regulation generally than exists today. Most jurisdictions put greater emphasis on revenue raising and industry development, and many only had fledgling policies to address the harms associated with problem gambling. Since the Commission's last inquiry, jurisdictions have generally given much greater emphasis to harm minimisation and less to revenue imperatives. This was revealed by their willingness to impose smoking bans in gaming venues, despite the resulting erosion of gaming revenue. Nevertheless, some of the most promising options for harm minimisation remain largely unexploited.

Under its terms of reference, the Commission was given discretion to examine any of the issues covered in its 1999 report, including the definition of gambling; the social and economic impacts of gambling; regulatory and tax issues; and the implications of new technologies. Some peak groups strongly criticised the

Commission for failing to discuss in detail the benefits of gambling in the draft report, arguing that it had failed to meet the terms of reference:

... the Australasian Gaming Council (AGC) submits that the Productivity Commission (PC) did not respond fully to the Council of Australian Governments (COAG) Terms of Reference ... Chiefly: the economic impacts of the gambling industries (including industry size, growth, employment, organisations, inter-relationships with other industries and the benefits these provide to the economy as a whole) are discussed only briefly — as is the contribution of gambling revenue to community development activity. (Australasian Gaming Council sub. DR377, p. 1)

However, this may in part reflect a misapprehension about the terms of reference — notwithstanding a clear statement in the Issues Paper at the commencement of this inquiry. These gave the Commission a menu of options for potential, but not prescribed, consideration:

The Productivity Commission *could* provide an update of the 1999 Productivity Commission report ([ToR items] 1–8) and provide some additional research into the impacts of harm minimisation measures (9–10).

The Commission accordingly chose to concentrate on policies that could achieve *greater* net benefits from gambling for Australians, not simply to reconstruct a static balance sheet of benefits and costs.

On the cost side, the Commission’s focus is on any policy measures that would reduce social costs without commensurate cuts in benefits. This is relevant to policy measures that may reduce any harms to gamblers, particularly ‘problem’ gambling. (The COAG communiqué explicitly referred to problem gambling as a focus.) Accordingly, much of this report assesses the effectiveness of existing public health arrangements in gambling, including prevention, community awareness, harm minimisation and treatment policies. The goal of lowering costs is also relevant to measures, such as national standards for gaming machines, that might reduce compliance costs for suppliers.

On the benefit side, the focus is on any measures that would *increase* the benefits associated with gambling without commensurate increases in costs. This is relevant to reforms to wagering and online gambling that would improve the pricing and variety of products for consumers and provide new opportunities for innovative businesses.

Nevertheless, given the interest of many parties in the benefits of gambling, and widespread misunderstandings about the nature and policy relevance of those benefits, this final report considers the (static) benefits of gambling in more detail than the draft.

What is ‘gambling’?

The Commission has adopted the orthodox definition for this threshold question: gambling is an entertainment based on staking money on uncertain events driven by chance, with the potential to win more than staked, but with the ultimate certainty that gamblers as a group will lose over time. The fact that gamblers inevitably lose overall and that gambling is intended to be a recreational activity, distinguishes these outlays from investment activities, where chance also plays a prominent role.¹

Like most other recreational activities (such as going to the movies or taking holidays), gambling involves spending the income remaining after having met non-discretionary expenditures (such as buying food or paying rent). However, this may not be the case for some gamblers. Gambling may become problematic when it interferes with non-discretionary expenditures, when gambling behaviours do not emulate the enjoyment of a recreational activity or when people’s expenditure decisions are only weakly informed. While clearly harmful, these behaviours may affect people who would not necessarily be classified as problem gamblers.

Gambling takes many specific forms, from bingo to mah-jong. However, lotteries and scratch cards (‘scratchies’), remain the most popular gambling activities, while wagering on horses or dogs, playing EGMs (the ‘pokies’), and table games like roulette or blackjack, account for the bulk of expenditure.

A focus on gaming machines

In this inquiry, the Commission placed particular emphasis on electronic gaming machines or EGMs, since:

- these account for around three quarters of instances of severe problem gambling
- most gamblers, even the average recreational gambler, have faulty beliefs about how they work
- they have certain specific characteristics that can cause difficulties for some gamblers — such as the ability to play multiple games rapidly in succession and to ramp up stakes from the tiny (1 cent per bet) to the large (\$10 bets every few seconds in some jurisdictions)

¹ Most prevalence studies have used a definition of gambling consistent with this. However, the most recent prevalence survey for Victoria included speculative stock investments, such as day trading without a long term strategy, as gambling (Hare 2009). These may indeed be highly risky activities, but unlike gambling, such investments would typically have a positive expected return and, as such, do not meet the normal criteria.

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- they are accessible throughout the community in all states and territories, except in Western Australia, and to an extent greater than in most other countries where gambling has been legalised.

There have historically always been concerns about the ‘safety’ of EGMs, and this is reflected in restrictions on their accessibility; rules about machine design, and thorough testing of machines.

However, concerns about the ‘safety’ of the machines have sometimes been conflated with moral judgments about what people should do with their time. This tension is apparent in the Royal Commission into gambling:

We do not feel that we should recommend the legalisation of poker machines in Western Australia. From our observations, we formed the opinion that poker machine playing is a mindless, repetitive and insidious form of gambling which has many undesirable features. It requires no thought, no skill or social contact. The odds are never about winning. Watching people playing the machines over long periods of time, the impressionistic evidence at least is that they are addictive to many people. Historically poker machines have been banned from Western Australia and we consider that, in the public interest, they should stay banned. (Report of the Royal Commission into Gambling 1974, p. 72)

It is appropriate that social norms inform policy. However, that perspective should be kept distinct from impartial assessments of the harmful and beneficial effects of gambling.

Technological trends require a longer view

Gambling is a largely technologically-based entertainment industry, with the prospects of substantial future changes in the type of, and delivery mechanisms for, gambling services. Those prospects have already been partly realised in the emergence of betting exchanges and other forms of online wagering. And, in time, EGMs may evolve from standalone devices to ‘dumb’ terminals linked to networks that will deliver many more, and more novel, games, while at the same time lowering costs to venues. Most importantly, from a policy perspective, these and other technological changes raise the potential for improved harm minimisation options — and thus for a ‘win-win’ outcome for the industry and its customers.

In addition to making recommendations for policy changes over the next few years, this report also considers the appropriate longer-run policy settings made possible by emerging technologies and the transition to these.

1.2 Inquiry processes

The Commission had extensive consultations with governments, the community sector and the gambling industries throughout Australian jurisdictions (appendix A). This included:

- three initial roundtables with industry, community sector and academic experts, respectively
- around 50 additional meetings and visits with key stakeholders.

The inquiry attracted significant public interest, with 421 submissions received (264 pre-draft and 157 post-draft). Around 45 per cent were from individual clubs, community groups or people supporting the club movement and a further 20 per cent came from other industry stakeholders. Welfare and community agencies concerned about gambling comprised around 15 per cent, while governments (including local government and the states and territories) accounted for about 5 per cent of submissions. The remaining submissions were largely from people or agencies with a research focus, and from some individuals with personal experiences of problem gambling.

Unlike in 1999, the Commission did not conduct a national survey in this inquiry. As discussed in chapter 5, the principal instrument for measuring problem gambling has changed since the Commission's last inquiry, making it hard to make clear cut comparisons with the past. Moreover, unlike in 1999, there is now extensive survey-based information about gambling behaviours and impacts, including estimates of the prevalence of 'problem' gambling based on the now widely used Canadian Problem Gambling Index. All jurisdictions (bar Western Australia) have undertaken prevalence studies and other surveys. Most have undertaken more than one.

Given its evidence-based approach to policy, the Commission sought access to the unit records of these datasets and has been able to undertake systematic investigation of people's gambling experiences (noting that they also cover a range of policy-relevant issues other than problem gambling prevalence rates). The prevalence and other estimates from these studies have limitations for national assessment purposes, given that they have been undertaken at different times using different questionnaires and involve inevitable statistical imprecision. However, carefully interpreted, they provide a detailed picture of gambling behaviours among Australians, and of the extent and sources of harm experienced by them. They also provided extensive evidence relevant to the need for, and likely impacts of, policy initiatives.

The Commission also sought other information from state and territory governments, including information on current gambling expenditure and help services.

The Commission supplemented this information with a survey of problem gamblers currently receiving counselling, to help inform it about what policy measures might be effective.

The Commission also made use of the Australian Youth Forum — an online Australian Government initiative for communicating with younger people — to seek their views about gambling and potential ways to reduced its impact on individuals and society.

Given its intensive round of visits and roundtables, the Commission did not hold an initial set of public hearings. However, the Commission held extensive hearings following the release of the draft report, accepted a large number of additional submissions and had a range of additional consultations, particularly in regard to the technical aspects of gaming machines and their monitoring systems (appendix A).

1.3 How is this report organised?

Figure 1.1 sets out the structure of this report. The first two chapters provide relevant background to the inquiry, particularly assessing trends and developments since the Commission’s 1999 inquiry.

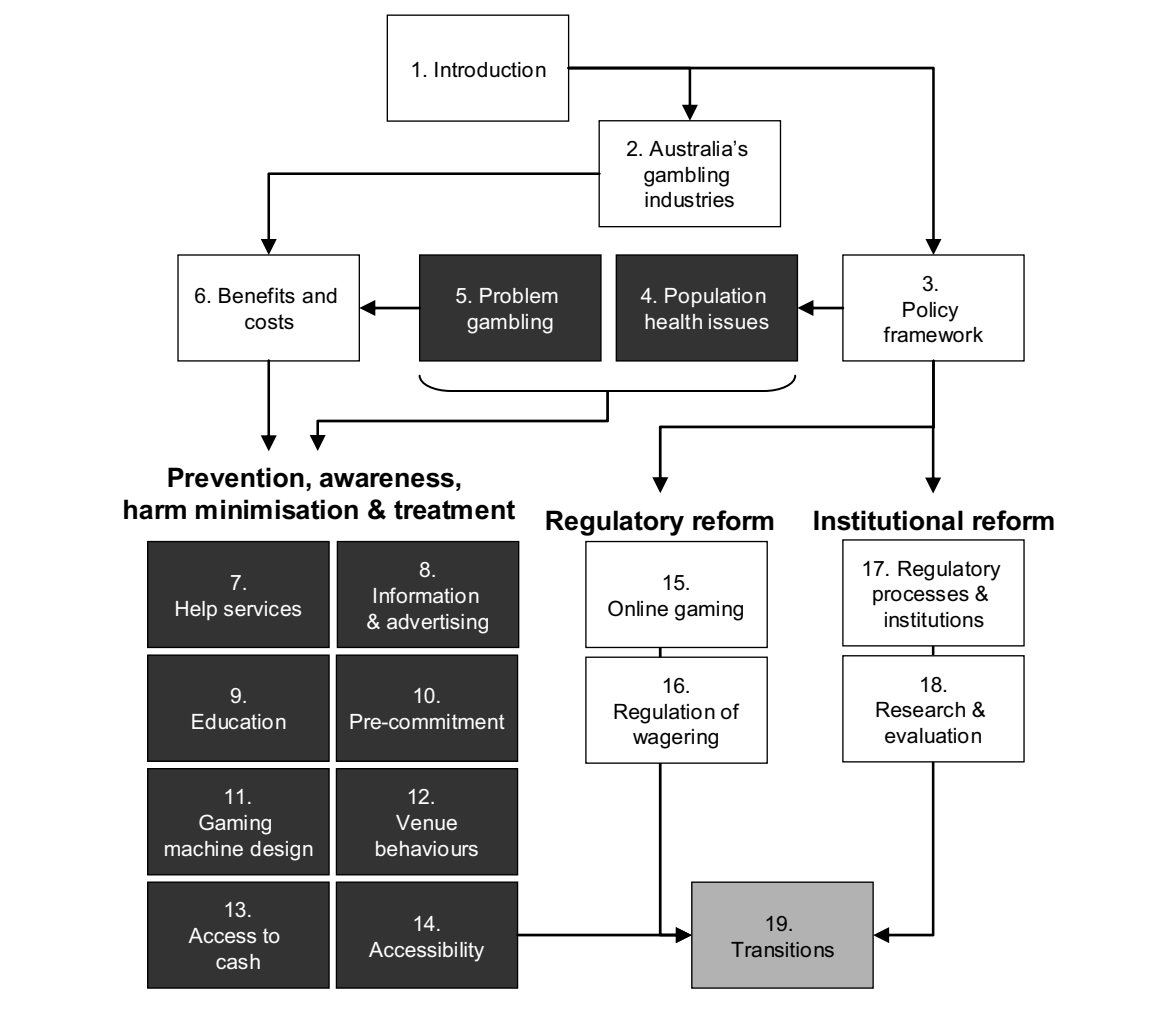
Chapter 3 provides the organising framework for the report. It considers the rationales for government involvement, the appropriate criteria for developing policies, and the most suitable frameworks for understanding the complex impacts of gambling on consumers and the community. Those frameworks, in turn, shape the kinds of policies that governments should consider.

The chapter also discusses the appropriate trade-offs when policy makers do not have all the relevant evidence and where the costs of inaction are high. As with other social policy, policymakers face considerable ex ante uncertainty about the effectiveness of their policies. Too high a standard of evidence as a prerequisite for action could lead to policy inertia, while too low a standard of evidence could mean costly and ineffectual policy measures.

Increasingly, government policymakers and experts locate gambling policy within a broader public health or consumer policy framework. Just as policies in relation to the social problems associated with alcohol extend beyond alcoholism, this framework includes the effects of gambling on all gamblers (and the community as

a whole), extending beyond problem gambling. Chapter 4 examines evidence about the effects of gambling on gamblers — considering how those effects vary by gambling type, venue and the extent of exposure.

Figure 1.1 The structure of this report



While gambling can involve adverse effects for many gamblers, harms are much more concentrated for those termed ‘problem’ gamblers, and harm minimisation policies have generally targeted this group. The Commission discusses the nature, severity and extent of such problems in chapter 5. Some of the difficulties in estimating prevalence rates accurately and the misleading depictions of such rates are also addressed.

Gambling — and the venues in which it takes place — provides many people with enjoyment. It can also serve other social benefits, such as providing accessible and secure places for people to go. Many also consider that there are large employment, community and tax benefits associated with the Australian gambling industries.

Chapter 6 assesses these benefits and their relative magnitude compared with the costs posed by gambling.

The core part of the report relates to policies that can reduce harm from gambling, with the emphasis on gaming machines (chapters 7 to 14). No single measure can effectively deal with the detriments associated with gambling, which is why the Commission considers a package of harm minimisation strategies, spanning:

- effective help and treatment services for people with severe problems (chapter 7)
- the role of information and education — including warnings — in promoting genuinely informed gambling and a greater awareness of the risks (chapters 8 and 9)
- the capacity for gamblers with potential control problems to pre-commit to limits on spending or time, among a range of other options (chapter 10)
- changes to the design of gaming machines — mainly relating to the intensity of play (chapter 11)
- changes to the nature of gambling venues and their incentives, to reduce the risks posed by gambling (chapter 12)
- the link between access to finance and problem gambling, and the scope for regulation to effectively limit harm by changing that link (chapter 13)
- the scope to reduce problems by changing the accessibility of gambling (chapter 14).

While gambling raises many tax and regulatory issues, the Commission concentrated on two contemporary areas of controversy where government action is called for.

- One is internet gaming. Currently, consumers are legally able to access gaming websites. However, the supply of internet gaming (though not wagering) is prohibited under the Interactive Gambling Act. Since the Australian Government has a limited capacity for enforcing the ban on overseas providers, Australians are increasingly gambling on overseas-based sites that may have questionable probity, and typically offer no, or rudimentary harm minimisation features. Chapter 15 considers how online gaming policy should be structured given global trends and emerging risks.
- The other policy area is the changing nature of supply of wagering in Australia through online suppliers, such as Betfair in Tasmania and corporate bookmakers in the Northern Territory. These suppliers have lowered the costs of wagering for consumers, but there are concerns that they will erode the tax revenue collected by other governments and the transfers to the racing industry. The key issue is whether there are ways of maintaining the better outcomes for

consumers associated with online competition, while sustaining the industry on which they place their bets (chapter 16).

Future gambling policies are more likely to promote the interests of the Australian community if the institutional arrangements and the information base for decision-making are appropriately designed. Chapters 17 and 18 set out arrangements that the Commission believes could lead to better policies in future.

Governments would not be able to implement in one go everything the Commission has proposed in this report, even if they agreed with them all. In particular, the costs of rapid implementation would be multiples of the costs associated with more staged policy change. Moreover, some recommendations are interdependent. Accordingly, chapter 19 addresses the appropriate policy transitions and sequences, and the key interdependencies that should be factored into the implementation process.