



Gaming machines ----- truly the "crack cocaine" of gambling.

GAMBLING

PRODUCTIVITY COMMISSION INQUIRY

Submission to the Inquiry;

Neil E. RYAN [D. Phil]

Initial Comments.

In July 1999, just on 10 years ago, the 1st Report from the Productivity Commission inquiry into Gambling in Australia, attracted News Paper headlines.....

82 percent of Australians Gambled \$11 billion Last Year.

Australians –The Fiercest Punters in the World.

Gambling in Australia has 'matured' faster than that in America, providing valuable lessons on addiction. Mark Dickerson, University of Sydney

\$11 billion Lost Savings.

Where would we be now if this \$11 billion had been wisely invested? Instead, Casino and Poker Machine 'robbing hoods' have been richly rewarded. Meanwhile, low income earners and select ethnic groups are still hoping to get rich quick.

No nation can ever hope to survive for long on wishful thinking and illusion.

Gambling inevitably depletes a nation of its human enterprise.

The 1999 Productivity Commission Report noted that 70% of the community believed that gambling did more harm than good. An even greater majority 92% regarded that any expansion in gaming machines would be disastrous .

This was just on 10 years ago and the gambling industry now extracts \$15 billion from the Australian Community as the number of venues and gaming machines have increased.

Governments have virtually ignored the 1999 Commission's comments and recommendations and have done almost nothing at all to curb the gambling lust. Instead State Governments Victoria, NSW and Queensland have progressively become more and more dependent upon revenue derived from the gambling industry to sustain their budgets.

It is interesting to note that since 1999 other Countries, States and Provinces around the world have produced reports and recommendations not dissimilar to those agreed upon by Australia's Productivity Commission. All recording the deleterious effects of gambling on the economic strength, social fibre of the community: all commonly calling for constraint. Not-with-standing, the "robbing hood" industries have continued unabated with the predicted social and personal , depletion and degradation.

See EG. www.ncalg.org

All this, in the face of the Commission's recommendations to curb social costs and community penalties; through harm minimization and other preventative measures.

Now, ten years on, there is a new Productivity Commission Inquiry into Gambling in Australia. The lack of any substantial response to the initial study does not inspire confidence that any new criticisms or recommendations are likely to be heeded and addressed.

Gambling---The Social Cost.

It is outside my realm of experience of familiarity to address the wide range of issues which the Commission has been charged with. However, the social cost is perhaps one which concerns me more.

We already know and the Commission concurs that of the order 2% of the Australian community can be regarded as problem (addicted) gamblers, surrendering (on average) some \$15,000 each per annum; many far exceeding this sum. These problem gamblers moreover, disproportionately, contribute to the total amount of money lost to the gambling industry in any one year. This complement of people number in the order 300,000. Many face marriage and family breakdown, lose their homes, turn to embezzlement or other crimes, and not a few turn to suicide.

One salient reminder :-- this population of people exceed by around three time the number of people dying of cancer in our country. In addressing this disease the community through its Doctors and hospitals and medical research spend \$ millions in efforts to curb or find a cure for this dreaded disease.

Gambling, as an addiction, has all the properties of a psychoactive substance, and again, capable of changing the neurochemistry of the brain. It too is akin to a serious disease. Yet efforts to stem the tide of this disease have been barely minimal.

What is so often overlooked is that for every one problem gambler there are of the order 5 other people disadvantageously effected. This now becomes a huge number 1,500,000 of hurting people across the nation. If this were an infectious disease, mammoth efforts would be launched to halt its spread.

The social costs involve family neglect, marital breakdown often leading to divorce, employment risks, theft, embezzlement and even involvement with organised crime.

Corresponding with the 1999 Gambling Inquiry the AMA identified problem gambling as a public health issue. This led to recommendations coming from the Australian Health Ministers Advisory Council to devise a National Strategy to combat the 'gambling disease'. Objectives were to....

Identify the cause/s of problem gambling;

Further examine health effects;

Identify high risk groups;

Introduce educational programs to combat gambling addiction;

Evaluate the effectiveness of a national strategy.

To the best of my knowledge there has been little or any, evidence of this strategy being implemented over the last decade.

AND further, this same Health Ministers Council recommended that State Governments reduce their dependence on gambling revenue. Clearly this has been ignored. Nor have any of the State Governments introduce the recommended independent authority/ies to research and monitor gambling activity and its damage to persons and the community as a whole. Neither has there been great attention to the rules to introduce clocks, allow more natural light advertise and inform gamblers of payout odds and risks of winning/losing.

At least smoke free environments have been introduced (but not in response to the Health Ministers Gambling Strategies) AND EFTPOS and ATM's have, seemingly, been removed from actual gaming rooms.

From this historic perspective one cannot but express a lack of confidence in this second Gambling Inquiry ever creating a climate for change and having State Government rein in their own addiction to gambling revenue to promote some kind of halt to the gambling fever.

Gambling –Economic Cost

One major topic the 1999 Commission failed to address concerned the economic cost of gambling. The excuse offered was that quantifying the costs V benefits of gambling industries for the community as a

whole was too hazardous to assess. Yet others have addressed this issue. Such reviews confidently suggest that the cost to the community is of the order 3 times the money provided to the gambling industry. Gambling has never been able to pass the cost/benefit test. All taxpayers lose!!!

Perhaps the most well known contributor to this kind of evaluation has been:--- Prof. Earl L. Grinols; Dept. Economics; University of Illinois.

A summary of his comments presented to the US Senate Finance Committee on 30 April 2003 is outlined in the attached Appendix 1.

Gambling always costs more than raising taxes, even for those who NEVER gamble!

Neil E. RYAN [D. Phil]
Unit 185/101 Whalley Drive;
Wheelers Hill; 3150

APPENDIX.

The Economics of Gambling: Summary Points

Professor Earl L. Grinols, Dept. of Economics, University of Illinois

Senate Finance Committee (30 April 2003, 9:00 am, Room 8E-B, East Wing, Main Capitol)

House Finance Committee (30 April 2003, 1:30 p.m., Room 205, Ryan Office Building)

• Studying economics of gambling since 1990.

Independent research.

Not funded by gambling or anti-gambling organizations.

• Gambling attracts clientele disproportionately

30% don't gamble at all; most gamble rarely, minority 10% account for 66-80% of wagers.

30-50 % of revenues derive from problem and pathological gamblers (e.g. 48.2% of gaming machine revenue, Aus. Inst. for Gambling Research, 2001; 37 % Montana keno machines; 1/3 Australia National Productivity Commission study, 1999.)

Convenience casinos, racinos, draw from nearby (over 70% from less than 35 miles)

Bulk of casino revenues are from slot machines.

• Gambling creates economic costs for society and taxpayers, including non-users.

Crime: E.g. Aggravated assault, rape, robbery, larceny, burglary, auto theft, embezzlement, fraud.

Business and Employment Costs: Lost productivity, lost work time, unemployment-related employer costs.

Bankruptcy

Suicide

Illness: E.g. Stress-related, cardiovascular, anxiety, depression, cognitive disorders.

Social Service Costs: Treatment, unemployment & other social services.

Direct Regulatory Costs

Family Costs: E.g. Divorce, separation, child abuse, child neglect, domestic violence.

Abused dollars

(NB Electronic Gambling Devices typically represent 60-80 % of typical Class III (casino style) revenues.)

• Gambling fails a cost-benefit test.

Even using conservative cost & benefit estimates, costs to benefits are greater than \$3:\$1.

Social costs (mid-range) from gambling are approximately \$214 per adult annually (of which crime = \$63). Costs of introducing gambling depend on starting base, but typically exceed \$130 per adult.

Social benefits (preferred number) are less than \$42 per adult.

On a per pathological gambler basis, studies in different parts of the nation conducted since 1994 conservatively estimate costs to be \$10,100 per year.

• Economic Development; Failure of Impact Studies

IMPACT STUDIES ARE NOT COST-BENEFIT STUDIES. More people working next door to you may

have nothing to do with the well being of citizens in your area. Well being may actually decline.

The value of an additional job has been estimated to be worth as little as zero to the community, or between \$0-\$1,500. In a typical county of 100,000 adults the introduction of casinos would create additional social costs of \$12.7 m annually and direct social benefits of \$4.2 m. Using \$750 as the average value to the rest of the county of a job means that casinos would have to increase the total number of jobs in the county by more than 11,333 to improve well being of residents, an unlikely outcome.

Gambling promoters argue gambling creates regional jobs. This is sometimes possible, as in the case of an Atlantic City or Las Vegas where the area has effectively converted itself into one large casino and entertainment center that serves primarily tourists. In general, however, gambling:

— Loses area jobs when local gambler dollars are removed from the area (when they otherwise would

not have been) in the form of taxes or are spent by the casino owners or employees outside the area.

— Creates area jobs when outside gambler dollars are spent locally by the casino and,

— Loses net jobs when the first flow is larger than the second.

— A full accounting of dollar flows, therefore, is needed to determine if gambling will create more jobs than it loses.

- **Crime: U. Illinois-U. Georgia, Grinols-Mustard Study**

7.9% of total crime (FBI Index I) due to gambling in counties with Class III gambling.

7.7% of property crime

10.3% of violent crime

E.g. For an average county with 100,000 population this implies 772 more larcenies, 357 more burglaries,

331 more auto thefts, 12 more rapes, 68 more robberies, and 112 more aggravated assaults.

- **How can we conclude that casinos increase crime?**

Casinos have largely been built since 1991, a period when crime has decreased substantially. Because crime is caused by many factors other than casinos, we want to take those into consideration when we estimate the effect of casinos on crime.

A better comparison is to look at the drop in crime rates for counties that have casinos and for those that

don't. Crime rates drop much more in noncasino-counties than casino-counties. The divergence between the two sets of counties is greatest since 1992 after casino expansions.

In many areas such as Florida, casino-county crime rates as a fraction of noncasino-county rates have increased from 2-25% less in 1977 to much higher in 1996. FBI Index I Crimes (-6% to 11%), Violent Crimes (-17% to -2%), Aggravated assault (-8% to 9%), Rape (-9% to 13%), Robbery (-25% to -14%), Murder (-23% to 0%), Property Crimes (-4% to 13%), Larceny (-4% to 13%), Larceny (-2% to 12%), Burglary (-5% to 2%), Auto Theft (-20% to 14%). All individual crimes switched from negative to positive, except robbery, which still moved in the direction consistent with the rest.

Indian reservations: compact-counties had higher crime rates than noncompact-counties, but the difference was stable until the early 1990s, when the crime rates in compact-counties increased by even more. By 1996 compact-counties have significantly higher crime rates than non-compact counties.

- **Gambling Taxes are Worse than a Conventional Tax Collecting Identical Revenue**

A conventional tax implies social costs per extra dollar collected of \$1.25-\$1.45.

Taxes on gambling revenues cost \$2.53 per dollar of tax collected if the tax rate is 50 percent, a number that rises above \$4.82 per dollar if the gambling tax rate is 20 percent.

- **Gambling is a Slippery Slope**

What is easy for one state to do, others can do.

Generates a race to the bottom.

End result: States not gain at others' expense; all reap social costs.

- **National Gambling Impact Study Commission**

~3 m problem and pathological gamblers, 15 million more at risk (8.5 m potential according to other studies)

~\$5 b costs now, (vs. \$20 b - \$85 b potential based on other studies: My research implies ~ \$30-\$53 b.)

Gambling is like losing the lost output of another 1990-91 recession very decade.

- **For many, gambling merely transfers dollars from one pocket to another without creating a tangible product.**

Some gamble for recreation (such gamblers are presumably provided recreation value for their lost dollars), but many gamble to acquire money. Instead of creating a product or offering a service to earn money, this second group of gamblers doesn't accomplish anything and yet expects to acquire money.

The more people there are who gamble to acquire money, the poorer society is.

If everyone gambled to acquire his money, we would all starve.

; Rappaport, Jordan and Chad Wilkerson, 2001, What are the Benefits of Hosting a Major League Sports Franchise?,

Economic Review, Federal Reserve Bank of Kansas City, 86, 1, 55-86.