

Sydney, NSW

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The Commissioners
Gambling Inquiry
Productivity Commission
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Dear Sirs,

I am – among other things – a consultant to the liquor industry in NSW. I have been involved with the preparation of social impact assessments (*SIA*) required, initially under the Liquor Act 1982 and then under the Gaming Machines Act 2001, and am still involved with matters under the latter Act (as now amended) and the Liquor Act 2007.

My involvement with gaming machines in hotels began when the Liquor Act 1982 was amended to require social impact assessments to be prepared before gaming machines could be installed in hotels because of my having prepared reports for, and appeared in hearings before, the Licensing Court of NSW since the late 1906s dealing with, initially, “*requirements*” and “*needs*” arguments under the Liquor Act 1919 and the Liquor Act 1982. More recently, I have prepared SIAs for various types of licensed premises required under the Liquor Act 1982, SIAs required under the Gaming Machines Act, community impact statements (*CIS*) under the Liquor Act 2007 and, currently, local impact assessments (*LIA*) under the Gaming Machines Act 2001.

I am familiar with the Commission’s 1999 report and have read fairly widely on the subjects of gambling and problem gambling, particularly, due to electronic gaming machines (EGM). Due to the nature of SIAs required in NSW under the Gaming Machines Act, I have been particularly interested in so-called “*prevalence studies*”, trying to understand trends – both in Australia and overseas – in problem gambling and the factors which are believed to influence them. I append a list of prevalence studies which I have perused and which are not among the studies listed in the Issues Paper. In addition, I have compiled – from information supplied by NSW government sources – time series showing such things as expenditure per capita on EGMs in hotels and clubs in constant dollars for NSW and for various local government areas (*LGA*) in NSW.

In dealing with SIAs for EGMs over the past 10 years, I have endeavoured to remain as objective as possible in my assessment.

I believe my experiences and observations may be of assistance to you in your Inquiry.

1. Some General Observations

a. The need to put gambling in a broad context

I note the terms of reference for the Inquiry. If the Commission follows the approach it adopted in 1999, it will – undoubtedly – provide much useful information. However, I believe that it should question some of the fundamental assumptions that seem to underlie the 1999 report. There is no doubt that gambling (and, particularly, problem gambling) has adverse impacts on some in the community. However, almost everything we do in life is a gamble and the impacts of many activities can be much the same as those created by problem gambling – emotional distress, family strain and financial hardship often leading to bankruptcy and even death. Where do gambling and problem gambling rank in this myriad of risk-taking/gambling experiences that everyone in the population undertakes every day? For example, marriage or changing jobs may cause more emotional distress and family strain than gambling. More people die from pedestrian accidents on roads than from problem gambling and “gambling” on the stock market has probably caused more financial problems than gambling on EGMs. The Inquiry would do Australia a great service by putting gambling and problem gambling in its correct place in the spectrum of experiences of the population at large.

b. Problem gambling and the media

The 1999 inquiry was – in part – stimulated by what can best be termed “*media hype*” generated by certain interests which believed that increases in EGM numbers would adversely affect the financial performances of allied interests. That hype continues. As an example, *The Sunday Telegraph* (22 March 2009) carried an article headed “*Nation of gamblers*” which referred to a paper by Wood and Williams¹ which, it was claimed, had been “*obtained exclusively by The Sunday Telegraph*”. The article’s opening sentence reads:-

“Australia and New Zealand gamblers are the worst in the world, betting more online than those of any other country, a new study has found.”

First, the paper is available on the internet and has been since January. Second, based on a telephone sample of about 60 Australians, the authors concluded that:-

- i. about one-in-three Australian gamblers gambled on the internet, a proportion well below places such as the UK, Europe and the Carribean, South America or Africa; and
- ii. the average net monthly expenditure by Australian gamblers on the internet was by far the lowest of the ten areas for which data was provided.

Its authors concluded that “*the prevalence of Internet gambling appears to vary significantly between countries, with higher rates occurring in European countries and the Carribean, and lower rates occurring in North America, Asia, and Australia and New Zealand.*”

c. One consequence of the 1999 Inquiry

The 1999 Inquiry resulted in more resources being directed at problem gambling in research, counselling and increasing public awareness. The last may be one reason why prevalence studies (where repeated over time) have shown consistently declining trends in the incidence of problem gambling although that trend is not confined to Australia as, for example, Abbott² and Collins and Barr³ report. However, despite those increased resources, no-one has yet provided a clear estimate of the number of people afflicted by excessive gambling, who are problem gamblers and so-on, particularly, for small areas, eg, LGAs.

d. Confusion about reliable identification

Identifying problem gamblers is difficult as there is no entirely satisfactory screening mechanism for their identification. Researchers disagree about the virtues of the various approaches. For instance, McMillen and Wenzel⁴ opine that the CPGI demonstrated “*the best measurement properties*” while Svetieva and Walker⁵ point to the shortcomings of that approach. Distortions due to co-morbidity and the difficulties of assigning symptoms to each cause lurk behind all methods of measurement.

e. The problem gambling industry

One result of the 1999 report has been the spawning of a new industry based on problem gambling. (Insofar as I have prepared SIAs, I participate in that industry.) Much of the industry’s resources appear to be devoted to mitigating the impacts of problem gambling through counselling. However, it seems to be accepted that counselling services only reach a small proportion of all those who are, allegedly, afflicted. In addition, it is unclear how effective counselling may be.

It is difficult to assess just how many people use these services. Faunce^{6 & 7} analysed the use of services funded by the Casino Community Benefit Fund in NSW in 2003 and 2004. His analysis suggests that, generally, the numbers counselled are small but the reliability of the data he analysed might be questioned. For example, for reasons not explained, residents of Wagga Wagga appear to utilise its CCBF-funded service far more than those of any other place in NSW yet Wagga Wagga is not – anecdotally, at least – identified as an area where problem gambling is a serious issue.

I question many of the Commission’s 1999 findings about problem gamblers given the small sample size they represented although I appreciate that the Commission warned against using its national estimates to draw inferences about regional conditions. Nevertheless, some apply them to LGAs and even smaller areas. I am similarly wary of the findings of the 2006 NSW prevalence study⁸ which is diminished in value because its results cannot be compared to the Commission’s earlier findings. That survey’s findings seem to be somewhat at odds with those revealed by repeated surveys undertaken in Queensland⁹, Tasmania¹⁰ and the Northern Territory¹¹, each of which was based on much larger samples.

While there are sustained pleas from gambling counselling services for more resources, it is difficult to assess objectively whether or not the resources presently devoted to those services represent a fair share of all resources available for welfare

and medical and like services, particularly, when there seems to be little information available about the efficacy of counselling.

2. Some observations on Social Impact Assessments formerly required under the Gaming Machines Act 2001

In preparing SIAs under the Gaming Machines Act, one was required to forecast various items such as the level of expenditure per person (aged 18 years or over) on EGMs in the local community or LGA over a period of time as well as the likely social and economic benefits to the local community and so-on. There were, of course, no prescribed or established methods of making such forecasts. My endeavours in that field were often soundly criticised by members of the so-called “*panel of reviewers*” appointed by the Liquor Administration Board (*the Board*) to review SIAs. Invariably, they decried my assessments of the likely numbers of problem gamblers which the installation of EGMs in venues would create, always claiming my estimates were too low. Needless to say, the reviewer and I each claimed to be basing our assessments on the findings of the Commission’s 1999 report. (The Board usually concluded that the “*correct estimate*” lay somewhere between the reviewer’s and my estimates.)

As a result of that experience, which involved preparing over 20 SIAs (probably more than anyone else in NSW), I am of the opinion that the decisions of whether or not to grant venues EGMs (or more EGMs) were not based on objective assessments. While the SIAs – in most cases – provided the Board members with a deal of statistical and other data about the communities in which the applications sought to increase the number of EGMs, they provided minimal guidance to the Board on whether to determine the SIA favourably or not. The final decision – in every case – was made intuitively by the Board member dealing with the SIA.

Some of the Board’s decisions were difficult to reconcile. For example, a SIA for a hotel seeking to increase the number of EGMs it could keep by three (to 30) was refused but, scarcely a year later, a SIA - for a new hotel proposed close by – seeking approval to keep 30 EGMs was approved. The difference was that, in the later SIA, an offer was made to donate a percentage of EGM takings to the community, eg, to provide funds for problem gambling counselling and the like.

Class 2 SIAs, ie, those which sought, initially, more than four EGM entitlements and, subsequently, more than 10, were expensive to prepare. Responding to the reviews provided by panel members greatly increased that cost (often doubling it). Preparation of Class 2 SIAs took months and the time between lodging the assessment with the Board and receiving a decision averaged about 18 months. The system was cumbersome, costly and slow.

The argument that SIAs were a device to limit the spread of EGMs was without foundation. That was particularly so after the threshold above which preparation of a Class 2 SIA was required, was increased from four to ten. [Class 1 SIAs required for increases below the threshold required little input, cost little and were virtually “*rubber stamped*” by a delegate of the Board.] The increase from 4 to 10 in the threshold was made following an IPART inquiry¹² which advanced the suggestion in order to expedite processing and to reduce administrative costs. Social concern did not feature in its origins.

One result of that increase was that, in many areas, where a new venue sought, say, 30 EGMs, its Class 2 SIA was refused but other venues had Class 1 SIAs approved so that, overall, the number of EGMs in the LGA was increased by far more than the number sought in the Class 2 SIA. Whether or not it was intended – the SIA system protected existing hotels with EGMs from serious competition from new hotels but permitted those existing venues to move to (or towards) having the maximum number of EGMs permitted in hotels (30).

While a new venue could also obtain up to 10 EGMs by lodging a Class 1 SIA, the takings from that number of EGMs, in many instances, would not provide the wherewithal to justify the high investment required to establish a hotel. Thus the existing hotel interests were protected from competition not only in gaming but also in food, beverages and entertainment.

That system of assessment has now been abandoned. The new system of “*local impact assessments*” (LIA) has only been operative for a few weeks and it is too soon to make an appraisal of how it will operate. However, with 79 LGAs classified in Band 1¹³ (where up to an increase of 20 in the number of EGMs in a venue can be obtained simply by submitting an application form), it is questionable whether or not any goal of reducing the spread of EGMs (or the harm EGMs may cause) will be achieved. For example, the hotel referred to above which was denied the additional three EGMs has now only to complete a simple form to apply for them. Of course, whether or not its application will be approved is another matter.

3. The State-wide Cap

The introduction of a cap on the total number of EGMs in NSW (excluding the Star City Casino) and the reduction in that cap which accompanied the recent amendment to the Act were more symbolic gestures than practical measures to reduce EGM numbers since the caps were set significantly above the total numbers of EGMs in the State. The cap, however, might have prevented a further excessive increase in EGM numbers akin to that which occurred in the late 1990s if circumstances had encouraged many venues to seek machines. Those circumstances did not arise. The whole system permits the gradual geographic redistribution of EGMs across the State with the trend being for increases in areas where takings are high, ie, in parts of the Sydney metropolitan area. The Act contains measures to limit the rate of migration of entitlements from the country (where takings are low) to the metropolitan area but it continues although, under the amended Act, not to 37 LGAs where gaming expenditure and other characteristics suggest EGMs may be causing serious problems..

The requirement to forfeit one entitlement in each block (of two or three EGM entitlements) when it is transferred from one venue to another had some effect in reducing EGM numbers. As it remains in the Act, it will continue to do so. However, in the present and likely near-future economic climates, there may be few such transfers because:-

- many existing venues cannot justify installing more EGMs because they are finding total takings do not increase with more EGMs, rather, average takings per EGM tend to decline;
- there will be fewer new venues built; and

- many existing venues (hotels) have been acquired in recent years at wildly-inflated prices, based on their assumed ability to capture ever-increasing EGM takings, but the introduction of legislation to prohibit smoking in enclosed spaces and the general economic malaise have depressed those takings. Whether or not takings will recover remains to be seen but rapid growth seems improbable.

4. Trends in EGM takings

There is ample evidence that the introduction of smoke-free environment legislation diminished the takings of EGMs. That appears to be a consequence of, reportedly, the majority of dedicated EGM players being smokers.

Some venues have found ways to avoid the smoke-free environment legislation and, in time, it is reasonable expect others to do so. Nevertheless, many small clubs, in particular, are facing severe financial difficulties and are reporting continuing declines in EGM takings even after the marked initial fall due to the introduction of the smoke-free environment legislation. Overall, the outlook for the establishment of new gaming venues – hotels or clubs – appears poor.

It is difficult to identify why this situation has emerged but it appears, in part, to be due to the appeal of EGMs “*maturing*”, ie, many players appear to be becoming “*bored*” with EGMs. Another is that – for young people particularly – the rapid advances in other electronic devices, such as the internet and mobile phones and the phenomenon of social networking, etc, may be providing more attractive alternatives for “*entertainment / relaxation / escape from boredom*” than EGMs do.

I believe there were three major influences which contributed to the rapid growth in EGM takings in the latter part of the 1990s in NSW. One was that placing EGMs in hotels exposed sectors of the population (eg, younger adults and migrants) which had traditionally not patronised, or become members of, registered clubs to the novelty of EGMs for the first time. [That is not likely to recur in future.] A second was technological changes in EGMs, eg, the introduction of note acceptors and the conversion from mechanical to electronic operation, which enabled players to gamble faster for larger sums. [Similar advances may occur in future.] A third was the response of registered clubs to the appearance of EGMs in hotels. That response was to increase the numbers of EGMs they operated and to increase their promotions of EGMs. [Economic circumstances and legislative controls may inhibit any similar trend in future but the recent amendments to the Gaming Machines Act favour the establishment of new clubs with many EGMs.]

There may also have been another factor – accessibility – as Marshall’s work¹⁴ revealed. The 1990s saw a substantial increase in the number of venues with EGMs. That brought many more people into closer proximity to them. That convenience led to greater utilisation. There are now few urban places in NSW which do not have EGMs installed in one or more venues. There are few places where new EGM venues would increase the accessibility to EGMs for significant populations. Consequently, any effect that factor may have had may now have run its course.

Some argue that the simple proliferation of venues and EGMs will lead to increased expenditure and thus to increased problem gambling (since they rely on the

Commission's 1999 estimate of 42.5% of takings being derived from problem gamblers). That assumes the amount of expenditure available for gambling in the community is unlimited. I doubt that it is. As Marsden Jacob & Associates¹⁵ posited in its study on alcohol retailing, it may well be that – above a certain level – the opening of further outlets (venues) may have less effect than the opening of the initial venue. There is evidence from the data on gaming expenditure in some LGAs in NSW which have had large numbers of EGMs and venues for many years that increasing the number of EGMs in them did not increase total EGM takings. That is because there is increased competition between venues for the available EGM expenditure. Probably the best evidence of this was the opposition which existing EGM venues mounted (and continue to mount) against new EGM venues.

5. Boredom as a factor in EGM playing

In their work in the Northern Territory, researchers at Charles Darwin University¹⁶ noted that the community which reported the highest incidence of problem gambling was not the community with the highest participation in gambling. They concluded that that high participation rate was largely due to the boredom confronting people living in communities in which alternative forms of entertainment were severely limited. Boredom is often mentioned by other researchers in studies of why people play EGMs.¹⁷

There is some support for this concept at a much broader scale in NSW where – across the State and in many LGAs – EGM takings experienced a fall during 2000 when the Olympic Games provided a counter attraction.

Therein may be one of the keys to reducing the overall problem of gambling, ie, the provision of attractive alternate forms of distraction from boredom. The younger generation has grown up with television and it has been said that they require rapid visual stimulus (*circa* 12 images/second) to retain their attention. Modern EGMs provide that level of stimulation and therefore young people may play them to avoid boredom. However, other electronic devices now provide a much wider array of rapid stimuli (including switching to internet gambling), probably, at less cost and, in some cases, at less risk. By contrast, older people may find the flashing lights and noise and glitz associated with modern gaming rooms something of a deterrent. That may account, in part, for the fall-off in the rate of occurrence of problem gambling with age.

We have just been through a decade during which many young people have enjoyed higher incomes (and have had higher proportions of disposable income) than earlier generations. They have had more leisure time. They are also marrying and accepting adult responsibilities later in life. As Salt¹⁸ put it, “*adolescence now extends from about 10 or 12 to about 30 years of age*”. I believe these may have been factors contributing to the high level of expenditure on EGMs. Whether or not those conditions will continue, given the current global financial situation, remains to be seen. Both incomes and leisure times may shrink in the future and that could influence spending on EGMs.

6. Co-morbidities

It is well-established that there is a significant degree of co-morbidity exhibited by problem gamblers with excessive consumption of alcohol and illegal drugs as well as smoking being common characteristics of those so affected.^{19 & 20} For whatever reasons, there appears to have been upsurges in binge drinking and illicit drug consumption around the globe. There seems little doubt that the effects of these drugs on players contributes to their propensity to gamble and to develop gambling problems, simply, because of the erosion of emotional control they induce.²¹ However, which is the chicken and which is the egg is open to debate. Stricter adherence to the principles of responsible service of liquor in gaming venues may assist in reducing the influence of some of these co-morbidities.

Similarly, there is growing international consensus that there is a small proportion of the population (*circa* 1%) who are prone to gamble to excess because of their inherent psychological and sociological characteristics.^{22 & 23} That is to say, such people would be prone to excessive gambling irrespective of the presence of EGMs. History is littered with instances of people who exhibited the vice of gambling until they were financially ruined.²⁴ Dr C Alcock – one of the leaders in problem gambling research in Australia – informed me that he commenced his work in the field in the 1980s because of what he perceived to be the situation among members of the horse-racing fraternity, not by the impact of EGMs.

Thus when the Commission's 1998 survey and subsequent State-based prevalence surveys revealed percentages of the adult population who had serious gambling problems, a considerable proportion of those people may "*have the predilection in their genes*". If that be the case, it is possible that there is little that can be done to reduce that percentage.

Nevertheless, there are some people who play EGMs, in particular, to excess and to their own detriment and who do not suffer that inherent disadvantage. It is recognised that some turn to playing EGMs to escape from emotional or psychological stress caused by work, death of a partner, financial difficulties or the like. Presumably, the initial attraction of the EGM is as a distraction from such problems. These are the players where counselling and like measures may be productive. The difficulty is to identify them and persuade them to seek assistance before they become seriously addicted.²⁵

The provision of alternative means of distraction may provide an answer but what form would that need to take? I have encountered hoteliers who tell of people with gambling problems who take advantage of the self-exclusion mechanism available in NSW hotels but who – when denied access to the hotel's EGMs – spend as much money at the hotel's TAB. While the TAB may be a less-attractive source of distraction for some (because it does not provide the instantaneous responses which EGMs do) the urge to gamble seems to prevail over any dissatisfaction with the form of gambling.

7. The black economy

LGAs in some parts of the Sydney metropolitan area exhibit high levels of expenditure on EGMs per adult. The conventional wisdom is that these are also areas

with high levels of problem gambling. However, in the absence of any studies to determine the relative levels of problem gambling in small areas, that is little more than surmise. Significantly those LGAs are also areas where crime rates are elevated and the “*black economy*” (cash in hand) is rife. It would be interesting to know the proportion of EGM takings generated by money laundering activities in those LGAs. I suspect it is quite high.

I trust these comments may be of value. If anyone wishes to discuss any aspect of them or my views on EGMs, in particular, please contact me on 02 9262 3200.

Yours faithfully

G W Smith

Footnotes

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