TRANSCRIPT

OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO AUSTRALIA'S GAMBLING INDUSTRIES
(PUBLIC HEARING ON THE DRAFT REPORT)

MR G.R. BANKS, Chairman
MR R. FITZGERALD, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT CANBERRA ON FRIDAY, 20 AUGUST 1999, AT 9.08 AM

Continued from 30/3/99 in Melbourne

MR BANKS: Welcome, ladies and gentlemen, to this first day of the public hearings, following the release of the Productivity Commission's draft report on Australia's gambling industries. My name is Gary Banks. I'm the presiding commissioner on the inquiry and on my right is Robert Fitzgerald who is associate commissioner for the inquiry.

The purpose of the hearings is to facilitate public scrutiny of the commission's work and in particular, to get comment and feedback on the draft report. The hearings themselves provide an opportunity to discuss submissions, but many people, many participants will continue to make submissions without seeking to discuss them in a public hearing. I believe that we are not having a huge roll-up for this first hearing in Canberra. That's not unusual. It's a large report and many people would want to use the extra time to appear at subsequent hearings. Also, on the experience of the first round, we had a lot more activity in some of the other state capitals. The schedule of hearings is on the first page of our report. We go to Melbourne next week, Hobart the week after that, then Adelaide, Sydney, Perth and finally Brisbane at the end of September.

While there has been a lot of attention and comment on this report in the press, and both positive and negative reactions have been reported, the most useful feedback for us comes from the written submissions and the more detailed discussion that we can have in hearings and that's their purpose. There may also be an opportunity, depending on the kind of feedback we get, to have round tables of experts in particular areas where more focused treatment seems warranted, as we did in the lead-up to the draft report. Following this public discussion and listening phase, we will take that and other continuing research input on board in preparing our final report which is due at the end of November.

The hearings are conducted as informally as possible, although a transcript is made to provide a record of discussions. There is no formal oath taking required but the Productivity Commission Act does require participants to be truthful in their remarks. Transcripts of the hearings and the submissions themselves are public documents and can be purchased or accessed through the Productivity Commission's Web site and the details of that are in circulars or by phoning the commission.

I should say also that the participants are welcome to comment on the remarks of other participants in the hearing or in submissions and the processes are designed to give people the time to do that, as occurred again in the lead-up to the draft report. With those formalities out of the way, I would now like to welcome the Honourable Nick Xenophon, Prof Richard Blandy and Dr Anne Hawke, who are our first participants today. I might just get you to restate your names and tell us the capacity in which you are here today.

MR XENOPHON: Nick Xenophon, as a member of the SA parliament, elected on an anti-gambling platform.

DR HAWKE: Anne Hawke, senior research fellow at the University of South

Australia.

PROF BLANDY: Prof Richard Blandy, emeritus professor at Flinders University.

MR BANKS: Good, thank you. I understand that in a sense Prof Blandy and Dr Hawke are here, supportive of Nick Xenophon in preparing the submission and the more detailed analysis that's in it.

PROF BLANDY: That's correct.

MR BANKS: Right, okay. I will leave it to you then to make whatever opening remarks you would like and we can take it from there.

MR XENOPHON: My remarks will be very brief. Essentially I propose to put in a more substantive submission as to your report generally in due course, but I thought it was important today at the very first hearing that there ought to be a detailed analysis and discussion of the economic benefits and costs of Australia's gambling industry. That clearly is an area of contention. It is something that Prof Blandy and Dr Hawke have done a lot of work on and can I say that they are also doing this work on behalf of the Victorian Inter-Church Gambling Task Force and the Rev Tim Costello has indicated that he is supportive of their work and they are also being retained by the Inter-Church Gambling Task Force in Victoria.

So essentially their submission today will be looking very closely at the costs and benefits of Australia's gambling industries and I might make one or two concluding remarks after the presentation.

MR BANKS: Good, okay, thank you. I should say that we are grateful to have eminent economists giving us feedback on what is pretty tricky analysis I think and analysis that a lot of participants are probably not in a position to provide comment on. So that will be useful to get yours and other feedback on that. But why don't I let you go ahead and present the points you want to make.

PROF BLANDY: Right, thank you very much, Mr Chairman and Commissioner Fitzgerald. We are very pleased that you have invited us to come along and open the batting in your hearings.

In our view, the commission is to be congratulated on the high quality of this report. The analysis is clear and at times innovative. The report is informative and takes significantly forward our knowledge of these industries. In its key findings on page (xii), the commission noted:

> Quantification of the costs and benefits of the gambling industries is hazardous. The commission's rough estimates of the quantifiable benefits and costs yielded a range of net benefits from as low as $150 million to as high as $5.2 billion annually.

We believe that the commission should estimate and emphasise the words "hazardous" and "rough". What we would ask the commission to do as a result of our evidence today is to review the strictly positive range of the outcomes that have been estimated. Our submissions today go directly to the reasons for asking the commission to review this finding. We would note at the outset that the commission itself on page 515 of its draft report, indicates some degree of concern about the nature of the results that it has unearthed, where it says:

> The commission considers that on balance its estimate of the lack of value for money on the high level of spending by problem gamblers is conservative.

In other words, the estimate of value of money that problem gamblers get might be too high.

Problem gamblers are spending -

losing, that is -

$3.8 billion annually on gambling in Australia, an estimated average of $11,800 each.

Problem gamblers are each presumed, in the commission's analysis, to be getting an average benefit in the form of entertainment or enjoyment, of some $6000 to $8000 each year out of this $11,800 that they spend. This of course is an extraordinary amount more than what the average gambler loses on gambling. You conclude:

> There are many who would consider this -

that is, the $6000 to $8000 -

> to be quite high, given the circumstances of most problem gamblers.

What we want to do today is address why we believe you have come up with this high estimate out of your consumer surplus analysis, and why we think that a slight change in the assumptions that you have made would give rather more plausible estimates of the allocation of value for problem gamblers. So if I may, Mr Chairman, I will turn to issues in appendix C, by the way, which is where the analysis is contained. In fact, these are diagrams taken from page C11 and we go on to look at tables which are contained on page C13, and ultimately we also look at appendix J.

Here we have the diagram, it's at the top of page C11, which illustrates the consumer surplus analysis. First let's go - and this is classic consumer surplus analysis, if I may say so. We start wither other gamblers and here is a demand curve for gambling by other gamblers - D nought, nought for "other" - and they spend an amount which is Q nought multiplied by P. That's the expenditure of the gamblers.

They earn a benefit above that - this is an amount that they would have been willing to pay more for than P - which is the area labelled C. It's this triangle here.

That's this consumer surplus and it's the surplus benefit in a sense that the other gamblers earnt from this activity. That's all very straightforward. This is just an ordinary product like any soap powder or anything else you care to mention for other gamblers. That's non-problem gamblers. Now turn to problem gamblers, these people who spend that very large amount of money that we mentioned each. This is their demand curve which is the same as this demand curve, but you will notice that it's a steeper slope which means that its elasticity is less.

So non-problem gamblers have a much higher elasticity of demand as depicted. That is, if the price of gambling were to rise, they would consume less of it. Let's conceive of it like this. If you have $10 to spend on pokies and the odds are fairly favourable, it might take you 10 minutes to get rid of your $10. If the odds get worse it might take you five minutes to get rid of your $10 and a lot of non-problem gamblers would argue, "Well, that's not a lot of fun. It's halved the amount of time that I've had entertainment for. I think I will spend $10 on going to the movies," or something instead.

In other words, there might be a great deal of sensitivity on the part of normal gamblers to changes in the price of gambling. But problem gamblers are not like that. Problem gamblers are addicted and they don't respond to those sorts of price signals. They just keep ploughing in there because that's what they like doing. It's a bit like smoking or something like that. So in the normal course of events they spend this large amount of money and the consumer surplus they have, because the elasticity of demand is less elastic and obviously less responsive to changes in price, is this rather large area up here.

That doesn't seem very sensible because we know that these people are addictive, compulsive and so on. Now, this is their current expenditure - P multiplied by QP - P for "problem", problem gamblers - and it's a large amount. What the commission has done - and this I think was extremely innovative and valuable - was to say, "Let's suppose that problem gamblers spent the same amount each as non-problem gamblers. In other words, to that degree we will get rid of the idea of them being a problem." In fact, they said, "We will let them spend double what non-problem gamblers spend, but not the huge multiple that they currently spend."

When you do that, you come down with a quantity of gambling which is now QPA, where A is "adjusted", "alternative" - it's an adjusted amount of gambling - which means that the expenditure that the problem gamblers would spend if they were to behave like non-problem gamblers, would be PQA. It's this area in here. You can see it's much less than they actually spend.

So the area between QPA and QP, multiplied by P - this box here - is what the commission has called the "excess spend". That is the excessive amount of spending

relative to what they would have spent if they were non-problem, which is this little bit here. The question is, how do you allocate that excess spend between a negative consumer surplus area, which here is labelled D, and another area which isn't negative surplus, which isn't disbenefit, and represents value - doesn't represent consumer surplus - it just represents value. So the area under that line represents value. By the way, there is a small amount of consumer surplus for the problem gamblers up here which is labelled H. It's equivalent to this C over here on the alternative demand curve.

Clearly, the proportion of this excess spend that is classed as negative consumer benefit, that is D, depends on the slope of this line. That is, if the DPA line were steeper, then the area that D covers becomes greater. That means that the disbenefit that problem gamblers get from their excess spend becomes larger and the value that they get, gets less. You remember the commission was worried about the amount of value that these gamblers got - that is, $6000 to $8000 out of their $11,800 that they spent. What we are saying is that the share of value and disbenefit that they get depends precisely on the elasticity of that line; that is, the slope of that line.

Now, why is that line drawn as it is? The reason is that the assumption the commission has made is that not only do these gamblers, when you go to a problem adjusted demand - not only does the quantity that they spend reduce, but they take on the characteristics of the non-problem gamblers in terms of their responsiveness to changes in the odds. In other words, they suddenly take on the characteristic that if the odds of playing poker machines worsen and instead of getting 10 minutes, you get five minutes, you will stop playing. But, you see, that is not how problem gamblers behave.

It's our submission that the reason why the commission has got the results it has in terms of net benefits from gambling hinge on how you treat the nature of problem gamblers under the reduced gambling scenario. Just to help clarify this, we have now put in a new line which represents the same slope - intended to represent the same elasticity - as the original demand curve for the problem gamblers, which as far as this analysis is concerned, captures their characteristics in terms of their attitude to gambling. That's all this line does. They don't respond well to changes in the odds, whereas the non-problem gamblers do.

So if we say that when we reduce their spending level on gambling to what they would have spent if they were non-problem gamblers, but we still won't let them behave in all other respects like problem gamblers, you get this dashed line here. You see what happens - this is the original line as drawn by the commission - that an additional amount which is red is added to the disbenefit that the problem gamblers get. It's also true that an additional amount shaded green is added to the consumer surplus that they get. But you will notice that this area is very much larger than this area because of the nature of the problem. You also lose in area E here - you lose an amount of value that the problem gamblers get from their excess spend, which of course is the red area which has been added over to the amount of disbenefit.

Mr Chairman, this makes an extraordinary difference in the calculations and we have made some estimates of what these differences are. Perhaps I might just go to those. First of all we might go to the commission's estimates. These are on page C13 of the volume of appendices and I hope people can see that but probably they can't. So that might be worthwhile looking at page C13. One of the things that is interesting is here the commission has two sets of assumptions - high elasticity and low elasticity - and this high elasticity for non-problem gamblers is minus 1.3, and the elasticity in the lower elasticity side for non-problem gamblers is minus 0.8. By recollection, this is minus 0.5 for the problem gamblers and I think this is minus 1 for the problem gamblers in this column. So both problem and non-problem gamblers' elasticities move up and down in concert.

Let's go to the low elasticity column here. The numbers that matter are the second row here, because these are the numbers that add up to the bottom number at the foot here. They're the second row, which is the non-problem gamblers' consumer surplus; the tax revenue, which is 3833 which you'll notice is the same, irrespective of what happens in these examples, which is a benefit that's transferred to the rest of the community through the tax system; and the net loss for problem gamblers which is 1867 here and 1149 over here, although it may be useful, instead of concentrating on that number, to concentrate on this number above it, which is the loss on excess spent by problem gamblers which is that area that I was talking about earlier. It's the area that was increased when the elasticity got less.

Now, the sum total, the adjusted consumer surplus, in the first case of low elasticity is $6304 million. It's made up of the sum of 4338, 3833, minus 1867. Notice that when we switch to a high elasticity that the overall number gets less. In other words, the adjusted consumer surplus has fallen. Now, why has it fallen? The elasticities have got bigger, in other words there's more responsiveness to changes in the odds of gambling. What you find first of all is that the non-problem gamblers' consumer surplus has fallen from 4338 to 2669. That's because this demand curve has got less. It has become more elastic. It's more responsive. That means that the area C, as you can see, is going to be less than the original area. So the consumer surplus for non-problem gamblers has fallen as you increase these elasticities.

The second thing to notice is that the disbenefit that problem gamblers get as a result of the elasticity going down has actually fallen; that this area here labelled D, because the curve has got flatter, has become less. The reason for that is that the commission has said after the adjustment takes places that the problem gamblers are going to behave like the non-problem gamblers. Their elasticity of demand, their responsiveness, is going to be the same as the non-problem gamblers. Since the non-problem gamblers have become more responsive, the problem gamblers have become more responsive. So the disbenefit - that area - has actually fallen from 2118 to 1303.

An extraordinary result therefore emerges from this analysis: that this fall in adjusted consumed surplus as a result of this increase in elasticity is entirely due to the effects on non-problem gamblers. In fact it's superabundantly due to that. If the

non-problem gamblers hadn't had their consumer surplus reduced, the consumer surplus would have increased because the negative impact result for problem gamblers gets reduced.

We would like to suggest, Mr Chairman, that there's something rather odd about this sort of result. We believe the reason why you get that result is because of the assumption that the problem gamblers take on the characteristics of the non-problem gamblers after you do this adjustment. We don't think that's a sound assumption.

We will now go to our first own piece of analysis. Here we have retained the assumption that the commission has had, which is that after the adjustment for normal spend and the isolation of excess spend, that the problem gamblers adopt the marked characteristics of the non-problem. You will notice that this is the same number in fact that we had previously for the non-problem gamblers' consumer surplus thing. But what we have done here is we have increased the elasticity of demand for non-problem gamblers to minus 1.7 in this example. Why did we choose 1.7? Because this was the average of elasticities that the commission described coming out of its review of research findings. It's also the high level of elasticity - - -

MR BANKS: That the CIE I think found, wasn't it, coming out of its - - -

DR HAWKE: That's right, as the CIE submission suggests.

PROF BLANDY: That's right, the CIE submission said it was the average of these studies. Eyeballing your table, it looked sort of pretty close. So let's suppose that that was the elasticity. By the way, because it's an average for non-problem gamblers it's probably even higher than minus 1.7, if that was the average, because we know that the problem gamblers have got lower elasticity and average is a combination of the two elasticities. For the problem gamblers we assumed that the elasticity was minus 0.3, which is lower than the commission's estimate.

So the bounds on the commission's estimates were minus 1.3 at the top end, which is for non-problem gamblers, and minus 0.5 at the bottom end, which was for problem gamblers. We have expanded those bounds by putting in minus 1.7 for non-problem gamblers, making them more elastic, and minus 0.3 for problem gamblers, making their demand less elastic.

DR HAWKE: Again this is consistent with the CIE's submission and what they thought the elasticities were for these groups.

MR BANKS: Yes, although interestingly they went for an elasticity of 1 when they had to actually do their calculation. So whether that says something about what they thought was more plausible or not, we can discuss in a minute.

PROF BLANDY: Right. I think they said that for illustrative purposes. Probably the numbers came out easily. I would expect so with 1, to be honest. But they put in

this range, as you will recall, in their work. They said that minus 0.3 could be expected for something that was a demand where you paid a lot of taxes and in our view, because if you take things like cigarettes for example, these are cases of addiction, compulsive behaviour and so on. So this all seemed rather plausible.

When you do that, when you apply those assumptions and the commission's methodology of assigning the non-problem gamblers' elasticities to the problem gamblers' demand curves after the adjustment, you get this result as the total, which is 4995 as the adjusted consumer surplus. The interesting thing about that - and this is using the CIE aristocrat's range of assumptions, which don't seem to be entirely implausible, and the commission's methodology - is that you come up with a result where if you have the highest level of additional costs of gambling, which are contained in table J6, page J29, of 5210 million - the additional costs - that you come up with a negative result at the high end of that additional cost of 215 million. In other words, you get to a cost of gambling for the Australian community of 215 million. We think that's an important result, because it goes outside the range which is contained in the draft report of all positive outcomes as the benefit, the net benefit of gambling. So by a small change in the elasticities, using the commission's methodology, you can get to a negative outcome.

The next thing we did was, maintaining the same assumptions - minus 1.3 and minus 0.3 respectively for non-problem and problem gamblers elasticities - but breaking the assumption that the problem gamblers take on the characteristics of non-problem after the adjustment and maintaining their elasticity at minus 0.3 throughout, we get to an extraordinary difference in the outcome. Notice that the non-problem gamblers consume a surplus, as remains of course the same - 2041. The tax bill is the same. All of the action takes place on what happens to the problem gamblers' consumer surplus. That increases massively, in terms of the disbenefit that they get, to minus 5.6 billion out of this area.

When you adjust - interestingly enough, as we indicated, there's a small increase in consumer surplus, which is that little blue or green triangle we mentioned. You take that off this and you get to a net 494.98 billion. When you add all these up, you get to an adjusted consumer surplus which is plus 849 million out of this. It's 2041 plus 3833, minus 4980, gives you plus 849. When you do what we did before, by taking off the estimate of the total prior to the social costs of problem gambling contained in table J6, which range from a million or so up to five-odd billion, irrespective of whether you go for low or high costs on the community from problem gambling, that range that the commission has estimated, it is uniquely negative. The outcome for Australia from the gambling industries in terms of benefit is a cost ranging from 245 million to 4.36 billion.

Now, it's clear that the precise numbers that come out of this sort of exercise depend on the elasticities of demand in particular and the assumption that has been made about the appropriate nature of the adjustment to the problem gamblers' demand curve after the adjusted demand curve is figured out. But what we would ask the commission to do, in the face of this analysis which we think has got a degree

of plausibility about it, is to be not quite so confident in its final report that the final range of benefit arising from the gambling industries is necessarily positive. In our view, on very plausible assumptions, there's a high likelihood that it is in fact negative.

Now, why does this happen? I mean, where is the action coming from? Well, notice that the non-problem gamblers are still getting a consumer surplus, so they're still getting a benefit out of these industries. It's clear that people like a bit of a flutter and that sort of thing and they get enjoyment of out it, but they're sensible and if the odds get mad, they quit. All of the impact here, and indeed in table J6, arises out of the problem gamblers - all of the negative results.

So this suggests I think very clearly that the appropriate policy stance is to - as the commission says in its findings - is to go for harm minimisation and prevention related to problem gambling. I mean, a very good analogy, we think, is thinking about the car - regulations that are associated with the automobile. We know that the consumer surplus in general from people having automotive transport is very high but we also know that there can be gruesome outcomes in particular instances as a result of accidents, noise, pollution or whatever. So enormous effort has been put in place by the society to regulate road behaviour, with extraordinary interventions in the freedom of people to do what they like, including having to wear seat belts and cars having to be designed with roll bars and intrusion bars and with air bags and God knows what. Police, breathalysers - I mean, the range of interventions is really remarkable, and it's clearly designed to impact on these sorts of disbenefits - harm minimisation and so on.

We think - that is Dr Hawke and I think - that this provides a useful sort of framework, a model, in which to think about policy which could be applied by analogy to reducing the disbenefits that emerge out of this industry. Facetiously, if I may say so, one measure that had occurred to me was that if anybody gets three losses in a row on a machine it's required to shout "loser", and you'd hear this cry of "loser" all around the venue which would sort of take some of the edge of excitement off playing the machines, which is the jag which may indeed be why they play.

So Mr Commissioner, I think that pretty well sums up the nature of the analysis that we wanted to put forward. I may have left some things out and Dr Hawke may want to add something, but thank you very much for listening.

MR BANKS: All right, good, thank you. We might have some points to make in clarification but would you like to - - -

DR HAWKE: I just want to make one further point and that is that it's important for the commission to understand that the work that we have done in these submissions is just the beginning of our work, rather than the conclusion of that work, and therefore we seek leave to submit a supplementary submission when the commission visits Adelaide, which we hope by then to provide even more detailed estimates of our line of argument.

MR BANKS: Good, thank you. As I said at the outset, it is very valuable to have professional economists looking at the economic framework that we have used and questioning the assumptions that we have made. I mean, there's no certainty in this area, as we indicated ourselves. You said that we should emphasise the words "hazardous" and "rough". They're already emphatic words I think and were chosen for that reason. Indeed, you know, the way we have depicted the results suggests that we're looking in a sense at ballpark. So you're saying that ballpark is a bit bigger or more to one side than we have found and that's quite helpful, and no doubt others will find reasons why they might move the goal posts or move the ballpark in a different direction.

I think it's fair to say in a sense that - I mean, you've made your case by stretching the envelope in terms of the elasticities in both directions. You say that's plausible, based on what the CIE had proposed. Again we didn't - I mean, we consciously didn't use the CIE range. The CIE itself in the end didn't use that. It may have been for pragmatic reasons. Partly for reasons documented in one of the appendices - I think it's appendix D - on the sensitivity of demand for gambling price changes, I would be quite grateful if you would have a look at that and respond to our own logic in why we didn't think minus 1.7 was a sensible elasticity to use.

Two general points - there's a bit more detailed reasoning there - but one is that it has become apparent to us in the inquiry that the price of gambling is not something that's readily apparent to many consumers. So the extent to which changes in the odds or changes in the price can be conveyed immediately to consumers and get the kind of reaction that a change in the price of cabbages might produce I think is questionable. Another is just the observation from the data and other studies that there doesn't appear to be a great deal of substitution of one gambling form for another by consumers, or even that you will have a maintenance of different prices, say, between pubs and clubs co-existing in terms of the payout ratios that apply and so on.

So that made us think that overall the sensitivity was likely to be quite a bit less than that. So at the end of the day it's a judgment call about what the extremes should be and you're saying your judgment would be that it would be further out. But in a further submission that you made we would be quite grateful to have just further reflection from you on why that would be justifiable, why it would be a plausible bound, warranting us extending the bounds that we have applied. Do you want to comment on that?

PROF BLANDY: Can I comment on the change in price of gambling not being obvious to consumers. You see, that little example that I gave was an attempt to demonstrate about how long it takes for your money to run out, where the method is in fact a method of demonstrating quite forcefully to the consumers that the prices have changed. I think this in fact reflects how people view gambling - certainly a normal gambler. A problem gambler doesn't see it like that. But if it is entertainment and it's like buying a picture theatre ticket, presumably the quality and value of the

entertainment is how long your money lasts, because it's fun while the wheels are going around.

MR BANKS: So you're talking about gaming machine - - -

PROF BLANDY: Yes, gaming machine. I'm sure that there are analogies with other forms of gambling. You know, if you never strike a winner at Tattslotto or something - you know, you've played for three years and you never struck one, or you used to strike them every so often and now you never strike them - I mean, I think that, while you would never understand the odds and you'd talk to friends and they're not getting them either, you say, "Well, this doesn't seem like a very good game." So I think the odds are reflected to people in ways that are - you know, they're not put up as prices, 36 cents a throw or something. But they encounter, in the way that the game is played and the enjoyment that they get from it - the duration it lasts and so on - so I think that's why these elasticities are quite high, not because the prices are observable, but the outcomes of changes in the prices are observable to people and they react accordingly.

MR BANKS: See, even on that - I mean, depending on what sort of gaming machine people use, the outcomes can be quite volatile. To get a sense of how long you would normally play with a certain amount of money and so on can be obscured by that. So I take the point, there's a sort of a revealed price in terms of how long your money lasts, but there can be quite a lot of variation even with a fixed payout ratio, in how much that time - - -

PROF BLANDY: Sure.

MR BANKS: Indeed, that's one of the points that the industry would make against providing information like, you know, average duration of gambling at a particular rate, because they say that there's so much variation around the average that it may not be meaningful.

MR XENOPHON: But further degrees of consumer could in turn affect the level of elasticity.

MR BANKS: That's right, and indeed it's one of the points I guess that we're making; that informing those judgments would help.

PROF BLANDY: We're very happy to look at your appendix D and also to do further simulations with different ranges of elasticities, like the ones that you have chosen. My judgment off the top, having looked at some of these, is that you will come up with further negatives, not perhaps the entire range but with the prospect of negatives. I think all we're asking really is - because it does make a big difference to the quality of the debate - is to countenance at least the possibility that there could be a negative outcome. At present you're not doing that.

MR BANKS: Well, we're not in the sense that you are, but I think in our report it follows from the way we talk about these numbers, as being rough and so on, and also partial that - you know, you could have the net benefit being lower. In fact we talk about it more in terms of certain costs that we haven't tried to quantify, the implication being if you could quantify those - and that might be something you'd like to think about yourself, whether you could hazard some estimates of the things we haven't quantified and what that would do to the lower bound.

The other point we make of course - which is one you might want to think about a bit more too - is that this is looking at gambling expenditure as a whole, not increments. So it's quite conceivable to get a plus, looking at the expenditure as a whole, but have negative increments occurring in the most recent extensions of it. So we allude to those things but they're very difficult - you know, that gets you into even more difficult territory in terms of trying to get a sense of what the bounds might be.

PROF BLANDY: We acknowledge that. I think you have been very proper in hedging your conclusions with these additional comments. May I say, though, that the thing that gets the headlines and gets politicians who read one line of your report going, is that they simply see that you found a simply positive outcome. This I think colours the environment in which this debate takes place, in a way which is slightly unfortunate given the overall tenor of the thrust of your report.

MR BANKS: I suppose all I can say is, as we said earlier, we discussed these matters long and hard and Robert and I applied what judgment we could as to what was reasonable, and we will do that again in the light of what people are telling us in response to the draft report.

PROF BLANDY: Thank you.

MR BANKS: At the end of the day it's a judgment call about what are the plausible limits to the parameters to give something that's meaningful. I guess we were conscious that we already had quite a wide range. I suppose there's another rule in politics and media and that is if you're going to have a number, just have one. It's much better to have a simple number. But in this area, you know, we found that particularly because of the range of costs, that it wasn't possible to have a single number.

MR FITZGERALD: Obviously the difference between your new figure of minus 4.3 billion and our potential of plus 5 billion - and the industry undoubtedly will come back and have different views about those numbers again - obviously is an extraordinarily use range. One of the things I just wanted to come back to is this. I mean, we struggled - particularly I struggled, enormously - with how do you attribute value to the playing of a game by a problem gambler. In some countries overseas they attribute no value at all. All gambling expenditure by a problem gambler is seen as having no benefit at all.

MR BANKS: Yes, in some of the overseas studies.

MR FITZGERALD: The overseas studies, yes. That seemed to me to be completely unrealistic; that there had to be a value attributable to the playing of the game. Where we came to - and this is where we differ I suppose - is you're saying that the elasticity should be that specifically for the problem gambler. In other words, the pattern is for the problem gambler. What we thought was a fairer way to look at it was to actually say, "No, if we treated the problem gambler as if he or she was a normal gambler, then that would be a fairer way than to treat it as a gambler that received absolutely no benefit, or as a special category of gambler," because one of the issues about problem gamblers, as you know, is that we have identified that there is no specific characteristics that makes a person a problem gambler. There's a slight preference towards younger people and a slight preference in certain games towards females and so on. But at the end of the day, along that continuum that leads to problem gambling, they could be regarded as just an ordinary gambler, an ordinary person.

You're taking a closer line to actually saying a problem gambler has and should be treated differently, in terms of the way they respond, than a regular gambler or an ordinary gambler. But as I go back to it, our point was to - I suppose a fairer representation would be to treat that as just an ordinary gambler. I would just like to explore why you think that is not a valid way to proceed, because the person if they had not become addicted, I would have thought it's a fair assumption to have said they would have acted in the way of a normal gambler, not a cured person. A person who has been through therapy probably wouldn't gamble at all. But if they had never become addicted, which is the aim of harm minimisation, they would have acted in the way of a normal, ordinary gambler.

MR BANKS: Actually, if I could just elaborate on that point, I think that might be a source of the difference in that when you make the adjustment - what happens to the problem gambler's price responsiveness - whereas I guess what Robert is highlighting is we had sort of thought of it in a different context and that is making allowance for these people not having become problem gamblers and therefore retaining the characteristics and the demand characteristics of other recreational gamblers. Then you could say, "Well, would they be just normal recreational gamblers or would they be regular gamblers," and that was another point at issue - you know, just how much spend you would allocate to them.

So there's a sort of a difference there between making the adjustment and thinking about whether somebody doesn't become a problem gambler or, as Robert says, somebody is cured from becoming a problem gambler to a recreational gambler, and we took the former approach.

PROF BLANDY: Certainly we will address that in our next submission but can I just have one minute to try and - - -

MR BANKS: Yes, please.

MR FITZGERALD: Sure.

PROF BLANDY: We have retained all assumptions of the commission except for the slope of this line for the elasticity. See, the problem with the commission's approach is that non-problem gamblers do get benefit, and so do problem gamblers. They're still getting benefit from their problem gambling. The only question is, how much. What you have done, by switching them over to non-problem gamblers, is to say that they're going to get the sort of benefit, which is along this line, that non-problem gamblers get. But they're not non-problem gamblers. They are problem gamblers.

You see, you started off with them being problem gamblers with this elasticity of demand here, and the allocation of that excess spent between the two areas is entirely due to the assumption that you have made about them taking on the characteristics which are different from the ones that give you that area in the first place. There's something illogical about that, because if you were to say that they were highly elastic then all of this would be benefit here, but we know that they're not. We know that these people are in terrible trouble.

But I would say is that I think this is the right question. What is the proper characterisation of these problem gamblers in the circumstance of this adjustment that you have made? I mean, clearly this is what really matters and you're quite right. But we I think would argue that there is something artificial about altering the assumptions in a way which, in terms of allocating these expenditure matters, gives rise to the result that you see, which is a bit worrying.

MR BANKS: Yes. This is a fertile area I think for you to think about in the light of what we've just said and come back to us. But I suppose my first reaction to your submission - and I only got it fairly recently - was that in a sense you were trying to have it both ways. You were trying to say that if problem gamblers weren't problem gamblers they would spend like non-problem gamblers, but they had behaviour like problem gamblers. Now, if they behaved like problem gamblers, they wouldn't spend like non-problem gamblers. So I saw a kind of a possible inconsistency there, in the way you were trying to characterise them.

One other issue I suppose is that they're not a homogeneous group either. Therefore you're talking about an average. But it's ranging from people who show some problematic behaviour but still have a measure of control, through to people who simply have none and are at the far end and were behaving in a way which is quite extreme. So that's why - I mean, there are so many areas for judgment and where you have to make sort of rough estimates.

Part of what the commission had in mind was simply - well, for the first time, having a serious go at trying to look at the cost side as well. I think it's implicit in what you're saying that you have endorsed the notion that the costs are quite significant. The points you made about the policy implications of that I think are right, and hopefully we can put them forward in the report. I like the motor car

analogy and indeed I thought we had thought of it. We do have somewhere in there that point and I think it is quite a good analogy to make, in terms of a way of targeting an issue like this that generates both benefits and costs. Robert, did you have any - - -

MR FITZGERALD: No, it's really just about that issue.

MR BANKS: I'll just have a quick look here to see whether there's something else I want to raise with you. No, we've used up our time and I think they were the main points. So we found that quite valuable, for you to go through that, and we would look forward to what further work you can do between now and the hearings in Adelaide. I thought, Mr Xenophon, you indicated you were going to provide a further submission. Would that be separate from this more - - -

MR XENOPHON: Well, if I can just, by way of a one-minute conclusion - I will be providing a further submission and I want to go back to a primary issue for me and that is the social cost of gambling that has been outlined in the commission's report and 330,000 problem gamblers. I say that's unacceptable and many others say it's unacceptable in the community and that there ought to be significant changes to public policy, with the social cost being very much a driver of those changes in public policy in terms of access, in terms of design of products, advertising, community consultation. So they're very much threshold issues for me. But in the context of the submission of Prof Blandy and Dr Hawke, I think it demonstrates that on a reasonable hypothesis there could be very significant economic costs.

I share with Prof Blandy the concern that notwithstanding the qualifications of the commission that it is hazardous and rough in terms of the estimates, it does in some way skew the public policy debate. If at the end of the day the commission is of the view that there is such a wide range of potential costs and benefits to the industry arising from gambling industries, then the safe course for the commission to take is not to make any conclusion at all, in the sense that if it is such a huge ballpark then putting a range becomes effectively meaningless. That is perhaps an alternative path to go by.

The final aspect I would like to touch on just in terms of costs - and it's just an aside - the commission talks of an impact of 1.5 to 12.8 million dollars in relation to bankruptcy costs, and I'll refer to this in my written submission. But the Bankruptcy Act actually says that if you go bankrupt as a result of gambling then that is a criminal offence. Gambling counsel after gambling counsel that I speak to actually tell their clients, "For goodness' sakes, don't say that you became bankrupt as a result of your gambling losses," when in fact many of them do. So that is something that has been skewed because of I think something quite anomalous and punitive in the Bankruptcy Act. I think that would affect the level of costs with respect to that.

MR BANKS: Yes, I think that's probably right, although we got our information from our own survey. Now, it could still be that people, in responding to that

question, had the illegality in mind and therefore didn't disclose. But thank you for that.

MR FITZGERALD: Could I just ask one question. I know we'll have an opportunity in Adelaide to talk more fully. But even if it were found that there was a net benefit overall in whatever those figures are, in terms of public policy the social costs which we have identified, which are the largest social costs that have ever been identified in this industry in Australia to date, would nevertheless clearly indicate that public policy would need to take into account the consumer protection and the harm minimisation strategies that we're talking about. Notwithstanding that there may or may not be a benefit, depending on which way you look at that, the public policy nevertheless would still be strongly focused on trying to reduce what are identifiable social costs of a very large magnitude, between 1 and 4 billion dollars, give or take.

MR XENOPHON: I would like to think so, although in state parliament recently I think the treasurer - and I don't want to misquote him - I think he said that the commission's report in terms of net benefit drove a dagger through the heart of my argument, that there's a problem with respect to gambling or words to that effect. So that's the sort of thing that I suppose is part of the debate. It sort of muddies the waters sufficiently, whereas I think that the primary aim should be to have fewer people that fall by the wayside because of problem gambling.

MR BANKS: Yes. Okay, are there any other comments? Thank you very much for that. It has been a very useful start to this process to have such a good scrutiny of our analysis, so we look forward to further discussion perhaps in Adelaide, thank you. We'll just pause now, before our next participants, thank you.

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AT 10.07 AM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 25 AUGUST 1999

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