4 Impacts of gambling: a framework for assessment

Following widespread liberalisation, the gambling industries — in particular, gaming machines and casinos — have experienced rapid growth in Australia over the last two decades. For many consumers, this liberalisation has widened entertainment and recreational opportunities. For them, gambling has been largely a positive experience. Notwithstanding this, popular perceptions of the impact of the liberalisation of gambling have been ambivalent. The fast pace of the change, combined with the increased accessibility of continuous forms of gambling, the strong promotion of gambling and an increased awareness of problem gambling, has led to concerns about the negative impacts.

Part C of this report contains a detailed examination of many of the competing positive and adverse impacts of gambling. In doing this, the Commission has two main goals:

- to identify and provide a general understanding of as many of these impacts as possible; and
- to highlight and more deeply explore those impacts which are most relevant for the formulation of government policy.

To this end, the Commission has used a broad framework that allows the analysis and comparison of tangible and intangible impacts and provides scope to incorporate the insights and findings of other academic disciplines, such as psychology, psychiatry and sociology. In other words, contrary to many popular conceptions, this broad economic approach is not simply about 'money, markets and materialism'.

The first steps in the approach involve:

- identifying the impacts associated with the industry or activity in question;
- differentiating between those impacts which are 'private' in nature, and those which are 'social' — see box 4.1;
- categorising the effects of the impacts as either 'benefits' or 'costs'; and
- as far as practicable, assessing the magnitude of the benefits and costs, particularly the social benefits and costs, either qualitatively or quantitatively.

Box 4.1 Private impacts versus social impacts

Private benefits and costs are those impacts of an activity which:

- are borne by those who were party to a decision to undertake the activity (called 'internal' impacts); and
- were rationally considered when they decided to undertake the activity.

S*ocial benefits and costs* are:

- the proportion of the 'internal' benefits and costs which an individual did not rationally take into account when deciding to undertake the activity; plus
- all 'externalities', which are those effects of an activity which are imposed involuntarily on others in society.

Different definitions of private and social costs (and benefits) are found in the economics literature. Often, private costs are used to refer to those incurred by the individual decision-maker, while social costs are defined to include those costs plus external costs – in other words, all costs. The definitions used in this report are based on those in Markandya and Pearce (1989).

Ultimately, what matters is not the particular definitions chosen, but rather that the definitions are used in the right way for the matter at hand. In the present context, this means ensuring that the right sub-set of benefits and costs is identified as being 'policy relevant'. As discussed in box 4.2, 'social costs and benefits' as defined in this report are the benefits and costs that are relevant as a basis for possible government intervention in private decisions.

This distinction between 'private' impacts and 'social' impacts is important because the private benefits and costs associated with an industry or activity generally do not justify government action to modify the private decisions of individuals and the businesses that supply goods and services to them (see box 4.2).

Where social costs or benefits exist, however, there is a potential rationale for government to act to improve on market outcomes. This is because most people will not properly 'account for' social costs and benefits in their daily life decisions. Of course, it is still important to weigh up the pros and cons of government action against the size of the imperfections identified in the private market. But the identification and assessment of social costs or benefits is a key step in this process.

Box 4.2 Private impacts and public policy

Why are private benefits and costs often of little relevance for determining whether government action to encourage or regulate an industry or activity may be needed?

Not because they are unimportant — in fact, often they are far more significant than the social benefits and costs of an activity.

Rather, they generally do not justify government action on the basis that:

- individual actions based on adequately informed and rational decision-making will generally accord with the best interests of the individual concerned;
- if there are no impacts on other people resulting from those actions which are not accounted for*, then what is in the individual's best interests will also be best for society; and
- if this is the case, there is no way that governments could intervene in individuals' decisions that would improve the welfare of either the individuals concerned or society more broadly.

While private benefits and costs do not normally provide a justification for government policy, an exception is that governments may want to take into account the distribution of private benefits and costs among members of society for equity or fairness reasons. Governments have several broad measures to address equity, such as the progressive taxation and social security system. However, in some cases, the fairness of a particular potential policy change on the distribution of private benefits and costs may be relevant. Indeed, it is one matter that the Commission has considered in its assessment of taxes applying to gambling (see chapter 19).

Further, when considering an action to address the social benefits and/or costs of an activity, it is also important for governments to consider any impacts such actions might have on private benefits and costs.

* Of course, many actions — from saying 'hello' to an acquaintance to driving a car — involve at least some impact on other people, but often these impacts are effectively 'internalised' through implicit or explicit agreements (or contracts) between the people involved. Where such agreements exist and have been voluntarily entered into, the costs and benefits entailed will again be of a 'private' nature. They would only be 'social' costs in these cases if one or other of the people concerned had insufficient information or for some reason made an irrational choice to enter the agreement.

Subsequent steps in the Commission's approach — relating to the development, assessment and, where appropriate, implementation of policy options for dealing with social impacts — are set out in chapter 12 of Part D.

In this chapter, the Commission provides a framework for understanding the assessments of the impacts that follow. It:

- lists the various impacts;
- identifies which impacts, or sources of impacts, are most likely to generate social costs;

- examines the nature of the benefits that flow from the liberalisation of gambling and whether there are likely to be any ‘social’ benefits; and
- outlines its approach to assessing and quantifying the impacts.

4.1 The impacts of gambling: a listing

Like most industries or activities, gambling has an array of impacts. Some apply directly to people who work in the industry, some apply indirectly to people in other industries, some affect those who consume gambling products and the people with whom they interact, and some of the impacts operate at the community-wide level.

Within the industry itself, land, labour and capital resources are used in providing gambling services.

- The industry is thus a source of income and job satisfaction for its workers, rent for the owners of gambling venues, and profits (or sometimes losses) for it investors, as well as taxes for governments.
- At the same time though, these resources all come at a cost to the economy, in that their use in the gambling industry means that they are unavailable for use elsewhere.

Another set of impacts within the gambling industry itself is that the growth of some forms of gambling, such as (legal) casinos and gaming machine venues, may come at the expense of other parts of the industry, such as horse racing and illegal gaming. These impacts will in turn affect people who work or invest in these different industry segments.

The growth of the gambling industry also affects the economic performance of other industries.

- It boosts jobs and profits in related industries which either supply the gambling industry’s needs (like gaming machine manufacturers or the horse racing industry), or which receive their own flow-on boost because they complement gambling. Taxis and restaurants, for example, may gain custom from the growth of gambling.
- On the other hand, the gambling industry competes against other suppliers of goods and services for the consumers’ dollar, so growth in gambling inevitably has an impact on the jobs and investments in these other industries, and the taxes the government earns from them. Retailers are one group that would be expected to lose from the growth of gambling.

Gambling naturally also affects the people who do it — gamblers.

- It requires time, money and some concentration to gamble, and gambling also provides an array of feelings, from great joy for some people to great despair for others.
- It may also affect the day-to-day mood of people who, for example, rather than remaining at home as they once may have, now get 'out of the house' to attend gambling venues.

Where gamblers exhibit 'problem gambling' behaviours, they will have impacts on others.

- Problem gambling may bring grief not just to gamblers but also to their families, friends, people they work with, and their employers who may get less productive effort for the wage they pay.
- Problem gambling also necessitates expenditures by governments or welfare agencies, and sometimes the court or prison system, on measures to deal with and ameliorate the impacts of problem gambling.

More broadly, the growth of gambling can affect aspects of the nature and 'feel' of community life, such as:

- the array of services provided by community clubs funded with revenue from pokies;
- the nature and provision of entertainment venues and recreational activities, and the type of interaction people in the community experience;
- people's day-to-day feelings about the community they live in; and even
- people's behavioural norms and social ethics, and through them, the way people act in their relationships with others in all aspects of life. This can show up in matters such as the level of volunteerism and community-mindedness in society, and the level of basic trust between people.

Gambling can also have different local and regional impacts, depending on its prevalence in different areas and the nature of the areas themselves.

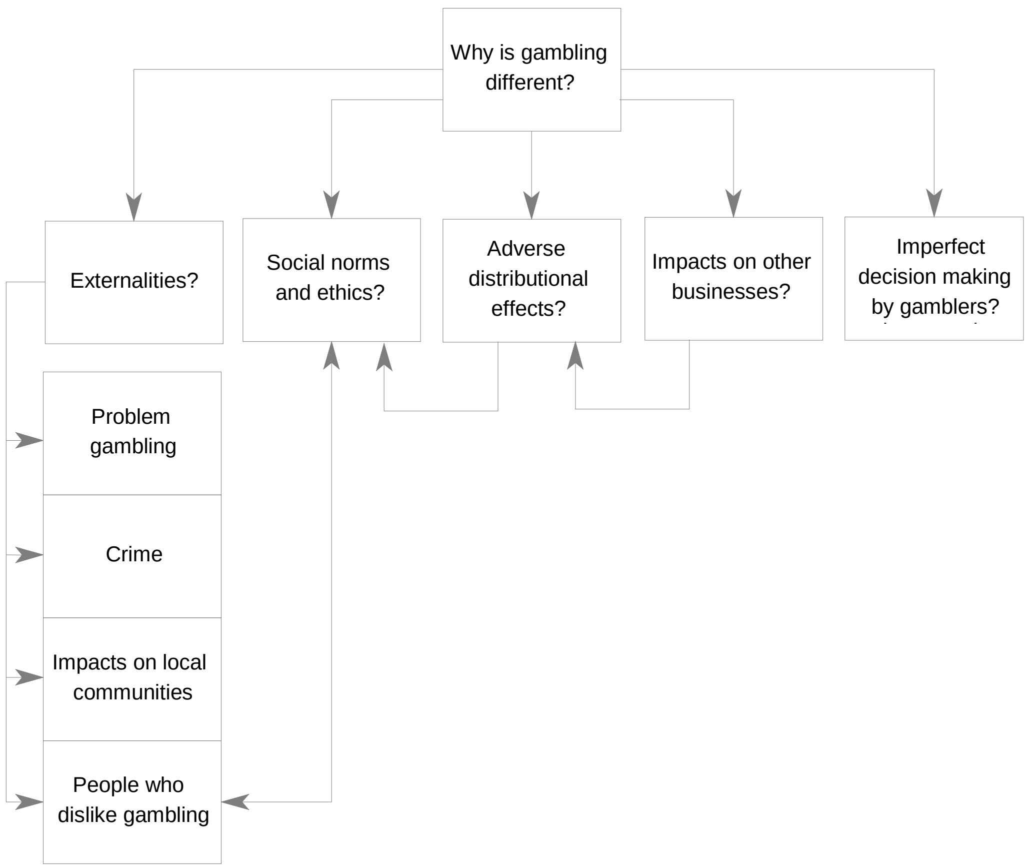
Finally, the growth of gambling provides a new source of interest for people and the media, and of activity for consultants, lobby groups, governmental bodies and policy advisers, and, ultimately, Ministers and Parliaments.

4.2 The sources of gambling-related social costs

Which of these impacts are of a private nature and which are social? Some submissions have sought to identify a range of social benefits accruing from gambling. These are discussed in section 4.4. However, most submissions have focussed on the wide range of social costs that it is claimed that gambling brings.

The possible sources of these social costs, or of other negative impacts that participants have suggested are relevant for government policy, are summarised in figure 4.1 and discussed in turn below.

Figure 4.1 **Why might gambling be different?**



Decisions made by gamblers

A key issue for this inquiry is the extent to which the gamblers' decisions to gamble can be considered appropriately informed and rational[1] and, thus, that the personal costs and benefits flowing from their decisions to gamble are 'private' matters.

Rationality?

Normally, what people undertake voluntarily is regarded as a reasonable revelation of their preferences, and any anticipated costs from their actions are not considered, therefore, to constitute social costs.

This seems to be a reasonable depiction of the vast majority of gamblers who are able to control their expenditure and engage in gambling as a form of entertainment or of passing time. This is not to say that the majority of gamblers base their decision to gamble on accurate information or perceptions about gambling, nor that their preferences are not influenced by external factors such as advertising (which are matters addressed further below). Rather, it is to say that, *given their perceptions*, there is no obvious indicator that their decisions to spend time and money gambling derive from anything other than the rational fulfilment of their preferences.

However, some gamblers encounter severe difficulties controlling at least some forms of gambling. Such people say that they often feel guilty or depressed about their gambling, and sometimes engage in 'problematic' behaviour, such as chasing losses, stealing and lying. At the extreme, their gambling problems can lead to poverty, relationship breakdown, depression and suicide. Many of these people say that they wish they could stop gambling, but cannot do so.

These people exhibit psychological traits and behaviours that do not appear to accord with conventional notions of rational decision-making. To the extent that there decisions are irrational, it would be appropriate to classify the costs these gamblers suffer from as 'social' rather than 'private' costs, and thus matters about which governments ought to concern themselves.

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[1] There is no such thing as a perfectly informed and fully rational person. All human beings may suffer from 'bounded rationality' or 'cognitive limitations' to some degree and rarely have 'perfect information' about the matter they are considering. However, as government decision-makers are also hampered by these same problems and have highly imperfect knowledge of the preferences of different individuals, economists classify costs as private costs unless there is a *significant* divergence from the criteria of rationality and full information (and no externalities – a matter discussed later in this section).

Against this view, the submission prepared for key members of the gambling industry by ACIL (sub. 155, pp. 71-105) argues that problem gamblers can in fact be seen as 'rational' agents whose decisions are, on average, intended to make them as happy as possible. Under this theory of 'rational addiction', problem gamblers would carefully calculate the tradeoffs between, on the one hand, the personal satisfaction they get from gambling (and the anticipated difficulties of giving up gambling) and, on the other hand, its costs (such as the money they pay out, the arguments with their family, and the risk of job loss or criminal prosecution). The fact that some gamblers end up in dire straits would not, under this approach, necessarily indicate that they had acted irrationally — just that they had taken a calculated gamble, and lost.

If problem gambling were a truly rational phenomenon in this sense, any problems faced by problem gamblers would not involve net costs either to themselves or the economy. If they did, the gambler would stop gambling.

As part of its assessment of the nature and costs associated with problem gambling in chapters 6-9, the Commission critically examines the theory of rational addiction and its application to gambling to determine to what extent problem gambling entails social rather than private costs.

In short, while the rational addiction model can provide useful insights, the Commission does not consider the rational addiction model an appropriate framework for the analysis of problem gambling. The Commission has thus concluded that most of the costs incurred by problem gamblers are social costs, and has sought to quantify these costs accordingly.

Information problems and misperceptions?

Quite apart from problem gambling, there are a number of other potential consumer problems posed by the gambling environment. These mainly relate to poor information, misperceptions by consumers and persuasive and misleading advertising.

These aspects of the gambling environment have the potential to cause consumers to overestimate the benefits they are likely to gain from gambling and may lead to an excessive level of consumption of gambling or, at least, of certain gambling forms. Such over-consumption would entail a social cost. Viewed alternatively, it would mean that the benefits that consumers gain from gambling are less than implied by their willingness to pay for it (chapter 5).

That said, there are of course many goods and services with attributes as complex as gambling, and strong promotion is not isolated to the gambling industries. The question then arises as to whether a case exists that the consumer issues and impacts arising from gambling are distinctive enough to warrant special regulatory and legislative approaches, or whether they should be dealt with via the generic mechanisms developed by government (such as through the Trade Practices Act).

Nevertheless, these areas remain relevant for policy analysis as potential sources of social costs and, by implication, potential areas where policy changes could reduce the social costs of gambling.

Externalities

'External' costs and benefits (called externalities) are one form of social costs and benefits. An externality is said to occur when the consumption or production of a good by one person affects the welfare of another. Pollution is a common example, but there are many others.

Several sources of possible externalities arise in the gambling context.

Costs to problem gamblers' families?

Problem gambling affects not only the gamblers themselves but also those with whom their lives are entwined, particularly their families. These costs can include impoverishment, psychological problems including stress, loss of trust and depression, relationship breakdown and violence in the home.

These costs are significant and the Commission explores them in chapters 7 and 9.

Without suggesting that these impacts are not costs to the people involved, in its initial submission ACIL argued that many of these costs are not genuine externalities:

> Another externality candidate which is not altogether convincing is when gambling causes budget problems within the gambler's household and disadvantages some family members relative to some prior position or norm. The difficulty here is that, viewed strictly from an economic standpoint, the spillovers between members of a household are usually covered by a web of 'implicit contracts' (sub. 155, p. 92).

It elaborated on this in its submission on the draft report as:

> Our reasoning is that the spillover costs of problem gamblers' activities are predominantly confined within their families or household. In these domains one would expect any such impacts to be covered by implicit contracts with the gambler which

would internalise them. Indeed, it is very difficult to imagine a family or household where the spillovers were not substantial or where there were not mutual agreement on the sharing of the costs and benefits between those involved follows (sub. D233, p. 28).

The Commission agrees that family relationships necessarily involve a range of social norms and implicit rules or agreements governing the behaviour of family members and that, for many circumstances, ACIL's argument has merit.

However, relationships governed by informal arrangements only work well if those involved abide by the informal agreements. By their very nature, informal agreements are difficult to enforce in extreme situations.

Problem gambling is a clear case of where such behavioural norms and informal agreements break down. It is difficult to see how informal family 'contracts' can be enforced in the face of persistent deception, the disproportionate use of the family's resources and often theft, among other things, that characterise the behaviour of a problem gambler.

Indeed, the Commission received a number of submissions highlighting the inability of individuals to make family members with gambling problems comply with previously accepted behavioural norms and understandings. As the Sunshine Coast Community Services Council (transcript p. 1528) commented:

> I think the social reality that we live in today is that when people have an alcohol problem or they have a drug problem or a gambling problem, the family often is unable, or not resourced enough, or perhaps unskilled enough to respond effectively to that problem. To isolate gambling out as a problem that can be dealt with in the family ignores several symptoms and several aspects of gambling, which is its often a very hidden problem and by the time the problem has emerged the family may well have lost their house… When people are under considerable financial strain, whether that's from unemployment, underemployment or a gambling problem, the family will be under enormous pressure and can possibly disintegrate. So with the best will in the world I don't believe that families can be expected to deal with a gambling problem on their own.

Overall, the Commission considers that the costs to family members flowing from problem gambling are genuine social costs.

Costs to others from problem gambling?

As well as affecting their families, people's problem gambling can also affect their friends, employers and the wider community.

Costs incurred by governments in providing welfare or counselling services are clearly externalities.

Reduced productivity in the workplace is less so.

Employers enter explicit agreements with employees, and the potential of declining performance due to any one of a variety of reasons, of which problem gambling is only one, is one of the risks that employers accept when hiring workers. There are also some penalties in place to deter poor performance, or to terminate employment arrangements where performance falls substantially. Hence, to some extent the costs of lost productivity are 'internalised' between the employer and employee.

That said, employers do not have perfect employee performance monitoring mechanisms, and there may be lags between the time that performance starts declining until when this is discovered. This reduces the extent to which the costs to the employer are efficiently 'internalised'.

In any case, since these costs of poor workplace performance derive originally from problem gambling then, irrespective of how they are shared between employer and employee, they remain social costs.

Crime?

Worldwide, there is a strong perception of a link between crime, particularly organised crime, and gambling. For example, Margolis and Grey (1997, p. 4) commenting on the US situation said:

> The legend of 1920's gangster Bugsy Siegal and the subsequent rise of Las Vegas as the premier gambling location in the world is almost American folklore today. This story established an image of the gambling industry in the minds of many Americans and it was not unusual or unwarranted at the time.

The popular perception of the link is based on three separate concerns:

- organised crime may control gambling because of its apparent inherent profitability, use legal gambling to launder money, or act as loan sharks for people desperate for gambling funds;
- gambling venues and their precincts may become 'honey-pots' for other criminal acts, such as theft and assault; and
- problem gamblers may commit crimes to finance their gambling.

While some such crime may bring genuine externalities, it is important to separate transfers (such as stolen money) from the real economic costs (such as the costs of disruption, fear, or of heightened security). It is also important, as in the case of problem gambling, to consider the counterfactual. If governments had not legalised gambling, what would the extent of crime be? Prohibition often leads to the illegal and secretive supply of the prohibited goods by organised crime, with none of the safeguards for the consumer provided under a legal regime. It may be that criminal impacts under prohibition would be greater than under a legal regime. While that might, by itself, point to a legalised regime, it would still leave open the question of what sort of legalised regime minimised the costs of gambling-related crime.

The Commission examines evidence of criminal activity associated with problem gambling in chapter 7, and the other aspects of crime sometimes associated with the gambling industry in chapter 10 and appendix O.

Psychological costs of living in a society that 'condones' gambling?

When economists talk of goods, they don't just mean what people buy. They are really talking about anything that an individual feels they value in some way. So a sunny day, freedom of expression, and a nice view are all 'goods' (at least to some people) with the same legitimacy as more tangible products like toothpaste and cars.

Once it is recognised that goods (and bads) are so broadly defined, it is easy to see that externalities are very common. One person's pretty garden also provides pleasure for the neighbours, even though they have made no payment for it. Similarly, if a person has a phobia about the colour red, then someone else's red dress inadvertently causes distress. Indeed, other potential sources of externalities nominated by one participant include "traffic, conspicuous consumption, television programs we don't like, the buildings on Circular Quay, SOCOG, Pauline Hanson, and the dentist" (sub. D217, p. 6).

So too with gambling. Whatever the origin of their preferences, some people do not like aspects of the gambling environment (whether it be glitzy venues, gambling advertising, or what they may see as pandering to greed or evidence of a degenerating society). Economists generally do not judge the validity of preferences. A preference which is strongly averse to gambling is as valid as one which is strongly in its favour.

The pragmatic problem with trying to assess this sort of externality is quantification. Externalities based on intangibles are all around us, but most are not considered relevant to policy because too few people are affected, they are hard to identify, they are often of minor impact and the costs of correcting them are too high. Any restrictions on red dresses would be misplaced unless the bulk of the population have this aversion. But in some cases, the grounds for action to limit the externalities arising from the consumption choices of individuals are more clearcut — for example, as in the case of passive smoking.

There is evidence that many people do feel significant disquiet about Australia's gambling industries, stemming not so much from its existence as from its emerging pervasiveness.

Of course, any attempt to restrict gambling on this basis not only affects those who enjoy gambling, but may in turn produce negative externalities for those with more libertarian ideals.

Even so, the concept of a negative externality stemming from the widespread visibility of gambling has some validity. The Commission examines the issue in chapter 10.

Adverse community impacts?

The liberalisation and widened accessibility of gambling may have had a number of adverse impacts on local communities, which might be viewed by some as externalities. The nature of local facilities may change in ways that some people regret. Hotels may no longer employ bands, small community facilities may close as patronage falls below some critical mass, volunteering may decline and the 'character' of the community may change.

Some of these effects are not in fact externalities, and those that are remain hard to measure or to ascribe to any particular causes, among which gambling may only be one. For example, declines in volunteering may be due to other pressures, such as the growing participation rates of Australians in the labour market and increased average working hours.

As well, there may be unforseen *positive* outcomes, with people using gambling venues as safe and accessible de-facto community facilities.

Possible beneficial and adverse community effects are discussed in chapter 10.

Adverse impacts on other businesses?

The expansion in gambling must come at the expense of current or future reductions in spending on other goods. People who increase their expenditure on gambling appear likely to spend less than otherwise on cafes and restaurants, theatres and general retailing. Accordingly, some non-gambling businesses will not grow as fast as they would have done and some may contract or close, shedding labour and capital. A number of submissions to the inquiry have naturally seen these as adverse impacts, implicitly requiring governments to moderate the process of gambling liberalisation:

> Spending on gambling continues to impact negatively on traditional areas of retailing expenditure and continues to place great strain on the viability of once profitable businesses (sub. 93, p. 7).

Gambling industry proponents put a different perspective on these apparent adverse effects:

> Structural change due to changing tastes and new technologies or changes in regulation is a fundamental part of Australian economic life. There are many examples of this: the decline in the carriage and blacksmith industries due to the motor car, the shutting down of petrol stations due to the new independent retailers like Woolworths entering the market, the decline of drive-ins as a result of the video revolution (VHS not Beta!) and so on. Resources will flow to those activities which consumers prefer (sub. 124, p. 12).

From this viewpoint, business closure and employment shifts are part of the process by which resources are reallocated to higher value uses — the essence of a well operating economy, not of market failure.

There are a few qualifications to this argument, but they are relatively minor and tend to disappear over time. Not all resources are allocated to higher value uses instantaneously — for example, people lose jobs and don't get new ones immediately, and capital may lay idle. And some businesses and employees clearly lose income relative to what they had before, raising possible equity and distributional issues.

To the extent that there are potential social costs[2] arising from such structural change, they are:

- realised only if the rate of unemployment and business closure is higher because of the growth of the gambling industries than it would have been — a much harder test; and
- largely temporary, as resources are matched to new uses.

Moreover, in recognition that such impacts are the general consequences of change throughout the economy, governments tax all activities and income to fund measures to address such frictions (eg re-training and labour market search institutions). It would be hard to mount a case that the growth of the gambling

[2] These costs are not the income lost by the businesses nor the wages forgone by the worker. However, they may include the cost of idle resources, the personal costs of unemployment and business closure, the costs of matching the unemployed with a new job, additional congestion in search markets for jobs, and the reduced scope for a bankrupt entrepreneur to own another business (under the bankruptcy provisions). Other possible 'costs' arise if directly unaffected people feel bad about any social impacts of unemployment or business closure, although these costs are extremely difficult to measure.

industries required measures *beyond* those applying to change generally. Any argument, therefore, that governments should restrict or slow the liberalisation of gambling on the grounds that it has some negative effects on other businesses, appears to have a weak foundation.

However, it is still important to look more closely at evidence on the effects of gambling liberalisation on other businesses:

- to test the hypothesis that the impacts are small relative to the scale of background change facing all businesses; and
- to provide independent assessment of effects which may be underestimated by some interest groups and overestimated by others.

This issue forms a part of chapter 10.

Adverse distributional effects?

Survey evidence suggests that people on lower incomes spend a proportionately greater amount on gambling than people on higher incomes gamble.

Some commentators see this pattern as inherently problematic, since they see poor people getting poorer as a result of gambling expenditure. Some lower income people may be problem gamblers or suffer from systematic misperceptions about gambling (issues dealt with above). For them, one aspect of their problem with gambling would be its impact on their income.

But for the majority of lower income gamblers, it is plausible to see them making rational choices amongst competing expenditures. The implicit view of those who see these expenditures as wasteful for this group is a value judgement about gambling itself, rather than an objective analysis about the welfare of lower income people.

There is a second strand of concern about distributional effects of gambling which does not rely on value judgements about the worth of gambling. Gambling is subject to high tax rates. This implies that poorer people pay higher levels of gambling tax as a share of their income than richer people do. This issue of tax regressivity is an important impact of the *combination* of growing liberalisation of gambling and the taxation regime. But because it stems from the policy environment, rather than inherently from gambling, the Commission defers discussion of this potentially significant impact to part D and chapter 19 of the report.

Social and ethical norms: a 'questionable pleasure'?

All societies have ethical and social norms, some strongly enshrined in legislation, which go beyond the individual preferences of some of its citizens. For example, we deem it wrong to appear naked in public, or to be cruel to animals. These norms affect and reflect what the community at large thinks is right, and are still enforced even if they run counter to personal preferences.[3]

Gambling is sometimes represented as a recreational and entertainment pursuit like others — such as going to a film or a fun park. This implies that the regulatory and taxation environments should be 'normalised' to be like those for other industries (sub. 155, p. 157).

On the other hand, other people feel that community norms are eroded by having 'too much' gambling. This includes concerns that the close connections between government and gambling, fuelled partly by revenue needs, undermines the confidence that people have in the institution of government altogether.

As the Commission observed in the draft report, gambling tends to be perceived by the public as a 'questionable' pleasure, an expression offered by a senior industry figure. The Australian ambivalence to gambling persists in a number of ways.

- Children are not able to gamble for money like adults, and no one is advocating that they should. Why is this so? If gambling were like ice creams or board games, then children would be able to gamble. The fact that there is no gradation in the legal availability of minors' gambling in Australia (as is the case for films and computer games) suggests that many Australians are uncomfortable about making gambling legally accessible to children in any form, which in turn implies a judgment about gambling.
- Gambling, while highly accessible in many jurisdictions, is still far less accessible than many 'normalised' goods. If a person wants to sell an ice-cream, he or she can do so almost anywhere. They can (with a licence) sell ice-creams in the park, from a vehicle, from a newsagent, a supermarket and a hundred other places. No one, including the gambling industry, has suggested that it should be as accessible as ice-cream. But if gambling is a perfectly normal good, like ice cream, why aren't people and businesses advocating that it be sold on an equivalent basis?

[3] There is an economic literature about the interaction of norms and consumption. Where people are compelled to consume goods 'for their own good' (such as elementary education and safety belts), these are referred to as merit goods. The flip side of the coin are merit 'bads' where governments introduce restrictions for the apparent welfare of the individual consumers or to uphold social norms (sub. 155, p. 91).

- In jurisdictions where gambling is not highly accessible, such as Western Australia, the only lobbying for an expansion in the accessibility of gambling appears to come from gambling providers, not the potential customers. This again would be consistent with people having norms that accept some degree of control over access to gambling in their communities.

In response to the draft report, Star City stated:

> Australians do want to gamble. Nor for the most part do they feel that there is any stigma at all attached to this activity. We do not think it is a questionable pleasure. They are aware that excessive gambling can be a problem and there may be a stigma attached to that just as there is to any form of personal excess. We believe that we have matured sufficiently as a society not to have any religious or ethical hang-ups about gambling (sub. D217, p. 2).

While there is some validity in this view and while Australians *are* among the world's greatest gamblers, surveys of community attitudes suggest that they do not regard gambling as just like any other good. The surveys (including the Commission's *National Gambling Survey*) reveal an unease about 'too much' accessibility to gambling. The process of gambling liberalisation may, therefore, have adverse effects if people see that process as contrary to their norms.

Of course, it is hard to define 'too much', and norms can change over time. Generally adverse community attitudes to casinos prior to their legalisation seem to have declined after their legalisation. Measuring norms is also difficult, with people having dual attitudes about personal freedom and the sort of society they would like to live in. Nevertheless, given that social attitudes to gambling clearly distinguish it from many other goods and services, it is legitimate to gauge the social acceptability of differing regulatory approaches to gambling — an issue taken up in chapter 10.

4.3 The benefits of gambling

While the costs of gambling often attract the greatest attention, the fact is that most Australians gamble in some form, and clearly derive benefits from this activity.

Consumer benefits

The notion that the activity of gambling yields consumer benefits irrespective of any winnings — and abstracting from problem gambling — has not gone uncontested. Paul Samuelson (1970), a Nobel prize winning economist, wrote that gambling added nothing to the economy because winners were matched by losers:

> There is a substantial economic case to be made against gambling. It involves simply sterile transfers of money or goods between individuals, creating no new money or goods. Although it creates no output, gambling does nevertheless absorb time and resources.

This is the 'materialist' illusion — it is not the weight or tangibility of a good which produces value, but the extent to which individuals like or dislike what they consume or do. Gambling engages people for a host of reasons (VCGA 1997, pp. 64-5). They enjoy the (usually safe) environment of risk, the venue, the dream or actual thrill of winning, the social activity or the event being gambled on:

> A day (or night) at the races presents a magnificent spectacle. There is colour, movement, the vitality of the racing animals, the pre-race parade, the expectation, the thrill of "they're racing", the changes in running, the arrival at the winning post, the salute to the winner, and the satisfaction of collecting a payout. In short, racing is a total entertainment (Windross 1996, p. 9).

Similarly, the Australian Hotels Association (NSW) commented:

> A great many people obviously enjoy gambling and do regard it as an enjoyable pastime. For example, the history of racing extends over thousands of years and a day at the races is obviously viewed and remembered by many people as an enjoyable day. Many retired people enjoy a club or hotel outing, including investment in the 'pokies' as their major social activity (sub. D208, p. 13).

In this sense, it is not true to say that the gambling industries 'do not produce anything'. Nor is it true to say that because gamblers lose money on gambling over time, the industry does not contribute to the well-being of gamblers. Gambling, like other entertainment industries, such as cinemas and theatres, provide their consumer benefits as experiences rather than as tangible goods.

The Commission assesses these consumer benefits in chapter 5. Economists refer to these as 'consumer surplus': the difference between what *is* paid and what people would be *willing* to pay for their gambling experiences (chapter 5).

Production-related benefits

Perhaps reflecting the popular misunderstandings about intangible goods such as gambling, advocates for the gambling industries often largely ignore the consumer gains when quantifying the economic benefits of their industries. Instead, they point to other benefits from gambling, such as the value-added, new jobs, multiplier effects on other activities and trade.

> Employment and small business enjoy both direct and indirect advantages as a consequence of racing and betting activity. As regards employment, independent

> studies have concluded that some 50,000 full-time equivalent positions exist as a consequence of racing in NSW (Windross 1996, p. 3).

> Golden Casket's revenue also makes a direct contribution to the economy through an estimated Gross Industry Product in Queensland of $225.5 million (1995-96). Golden Casket directly employs over 200 people with a further 1,600 jobs indirectly dependent on lotteries in newsagencies and other small businesses. Agents, printers, advertising agencies, transport and distribution workers all benefit from the operation of golden Casket and pass money back to the economy (sub. 145, p. 5).

However, these other 'benefits' to the economy from liberalisation and additional gambling activity are unlikely to be significant.

At the individual business level, a new TAB agency, gaming venue or casino clearly employs people, orders inputs, such as food and paper, and may sell to tourists. It seems quite natural to suppose that the economic benefits of these activities are the activity, jobs, downstream effects and trade they provide.

But this intuitively attractive idea suffers a number of limitations.

First, the value-added, trade and job creation arguments need to be considered in the context of the economy as a whole. Resources in an economy are not stamped 'to be used only for the gambling industry' — they have alternative uses. If liberalisation of gambling had not occurred, then people would have spent their money elsewhere, and jobs and investment would have flowed to these activities rather than gambling. And since gambling is still relatively small compared with the economy at large, the next best uses of these resources would create nearly the same levels of value-added as gambling itself.

Second, apparent increases in trade as a result of gambling (casinos for high rollers, tourist use of gambling in hotels, sportsbetting on the internet by foreigners) can similarly be overstated. Income from trade uses real resources, which could have been employed to generate benefits elsewhere. However, there may be gains from shifting resources to an area where Australia has a competitive advantage, and this may apply to parts of the gambling industries.

These arguments do not mean that jobs, trade and activity are unimportant in an economy. To the contrary, they are critical to people's well-being. However, any *particular* industry's contribution to these benefits is much smaller than might at first be thought, because substitute industries could produce similar, though not equal, gains.

The idea of multiplier effects — whereby a new project multiplies its benefits by increasing demand in associated industries — is similarly flawed. ACIL, in its submission on behalf of six gambling service providers, questions the relevance of such multipliers for the gambling industries:

> The main problem with equating multiplier or flow-on effects with true economic benefits is that no regard is paid to the costs involved in generating them. The cost side often goes unnoticed because perceptions of benefits created are sharper than perceptions of benefits sacrificed. The issue was explained recently as the “broken window fallacy”. The story goes that a hoodlum tosses a brick through a baker’s window. The baker is furious at having to pay the glazier $250 for repairs, but observers console themselves that the glazier will then have to $250 to spend on the wares of other merchants, who in turn will have money to buy things they would not otherwise have demanded. Through this kind of thinking the hoodlum can be seen not as a public menace, but a public benefactor. This is because it is easier to notice the benefits of the new window and its flow-ons, than to recognise that the unfortunate baker has been deprived of $250 to spend on other things (such as a new suit), which also would have produced benefits for third parties (sub. 155, pp. 64-5).

Only if the growth of an industry stimulates otherwise idle resources are such multiplier gains real. It is possible that a gambling venue may employ someone who had been formerly unemployed (or employ a formerly part time worker for longer hours). But it would also need to be shown that some other business would not have employed that person if the gambling venue had not been there. Employees in new firms tend to be displaced from other employment options. Thus, while there may be instances where new jobs are generated in some depressed areas, multiplier effects are mainly like shuffling the economy’s cards.

These arguments were the source of some apparent misunderstanding among industry participants following release of the draft report.

The Commission emphasises that this reasoning does not imply that the gambling industries as they have developed have made no contribution to the economy, or that the jobs involved are ‘worthless’ (as some have interpreted it). In fact, the industries generate considerable benefits, as documented in chapter 5. Nor should the Commission’s conclusions be taken to imply that reimposing prohibitions or cutbacks on these industries now would not lead to significant losses and transitional unemployment.

Rather, as discussed further in chapter 5, the important message is that measures of an industry’s size (denoted by such things as investment, turnover, employment etc) are not measures of the net contribution of an industry to the economy, but a measure of the amount of the community’s resources that are used in the industries, in response to the spending of consumers. There are alternatives available for consumer spending and, thus, alternative uses for the resources used in the gambling industry. These alternatives would also ‘contribute’ to the economy in terms of the use of labour and capital, and the benefits people derive from consumption. It is the *extra* benefits consumers gain from their consumption of gambling products, rather than less preferred alternatives, that hold the key to the benefits that the industry provides (chapter 5).

4.4 Measuring the impacts

For a variety of methodological and data reasons, rather than conceptual ones, impacts which are seen as 'social' are often described in qualitative terms, but not valued quantitatively, while benefits which are seen as 'economic' are expressed in quantitative terms, but not given a qualitative dimension.

Economics is concerned with the value of things for people, and this extends beyond things which have observed market prices. A night of hot passion is not necessarily of any less value to an economist than a roll of bank notes. Likewise, such things as crime, relationship breakdown and weakened communities are social impacts which are amenable to economic analysis — it's just that they do not have price tags that are revealed by markets. There is a range of techniques to investigate these 'invisible' prices so that at least some social impacts can be measured (chapter 9).

The approach taken in part C of this report does not draw an artificial distinction between the 'social' and 'economic' effects of gambling, nor does it subordinate the former to the latter because they are harder to quantify.

Chapter 5 and parts of chapter 10 assess the qualitative and quantitative benefits of gambling. In looking at the *net* consumer benefits, chapter 5 takes into account the price people pay to gamble.

The costs of gambling are covered in chapters 6 to 10. Chapters 6 to 8 look closely at some key adverse social impacts of problem gambling, with chapter 9 providing quantification to the extent practicable. Chapter 10 examines some of the broader community costs (and benefits) flowing from the growth of gambling.

While the Commission thus devotes more chapters to the costs than the benefits, this should not be taken to imply that the benefits are less important, simply that in some respects they are conceptually less complex than the costs. Moreover, as discussed above, many of the costs have a particular policy importance. It is important to know a lot about the nature and magnitude of the social costs because, as alluded to above, without those costs the gambling industry would be just like most other recreation and entertainment industries, and would seemingly require no different a set of policy, regulatory or taxation measures — matters discussed in Part D.

Beyond seeking to legitimise some important impacts which might otherwise be deemed unimportant, the Commission has gone through the (hazardous) process of attempting to estimate the costs and benefits of current gambling activity to illuminate certain policy issues. For example:

- the fact that consumers gain substantial benefits from gambling suggests that any government actions to simply curtail gambling activity would come at a considerable cost; and
- the fact that there are such significant 'social costs' associated with problem gambling appears to justify at least an examination by governments of means of addressing problem gambling and its effects.

In chapter 11, the Commission also brings together its estimates of the consumer benefits of gambling with the less tangible and harder-to-measure costs, to try to assess the overall impact of gambling liberalisation in Australia. The Commission's focus is on the net benefit of the gambling industries. It is equivalent to seeking to answer the question: what have been the benefits of making gambling legally available?

Importantly however, this exercise needs to be treated with caution. Information gaps and quantification quandaries mean that any estimates can at best be considered 'ball park' figures — indeed, the Commission has chosen to provide a range of estimates, rather than just one figure. Further, the use of an aggregate net impact figure (or range) for the entire gambling industry can obscure differences in the distribution of benefits and costs between different parts of the industry and between different regions. Finally, while net benefit or net cost figures can help raise community awareness of both the costs and the benefits of gambling, from a policy viewpoint the more relevant issue is whether there are means of increasing the net benefits or reducing the net costs, *whatever they may be at present*.

For these reasons, the Commission also explains in chapter 11 how its net impact figures should *and should not* be interpreted. In particular, it gives greater attention to the net impacts of the different gambling modes, which helps focus attention on those areas of gambling which may be of greater concern to policy.

4.5 Important aspects of the impacts

So far, the focus has been on which possible impacts of the expansion of gambling have policy significance, and which have a dubious or mythical basis. That forms a useful preliminary to the detailed analysis of the impacts which follow in the remaining chapters in part C, and explains why the Commission concentrates on particular impacts.

There is, however, another set of important issues that is relevant to the analysis of the impacts of gambling — the range of questions that need to be addressed when looking at any given impact. These include:

- What research methodologies and data are appropriate for analysing the impacts?
- Who is affected? What are the types of people (income, socioeconomic status, family status, age, gender) of people who are adversely or beneficially affected by gambling?
- What factors need to be present for gambling to have an impact? Could an apparent causal link be illusory, with other 'hidden' factors really explaining the impact?
- How do the impacts vary by the type of gambling and by the type of venue offering the gambling?
- What are impacts of small changes in gambling compared to the impact of big changes in gambling?
- How uncertain are the impacts?
- What are the duration of any impacts?

Where information is available, the Commission has applied these sorts of questions in the analyses which follow.