



Australia's Gambling Industries

Final Report

Summary

Report No. 10

26 November 1999

© Commonwealth of Australia 1999

ISBN 1 74037 126 7

This work is subject to copyright. Apart from any use as permitted under the *Copyright Act 1968*, the work may be reproduced in whole or in part for study or training purposes, subject to the inclusion of an acknowledgment of the source. Reproduction for commercial use or sale requires prior written permission from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to the Manager, Legislative Services, AusInfo, GPO Box 1920, Canberra, ACT, 2601.

This publication is available in hard copy or PDF format from the Productivity Commission website at www.pc.gov.au. If you require part or all of this publication in a different format, please contact Media and Publications (see below).

Inquiries:

Media and Publications
Productivity Commission
Locked Bag 2 Collins Street East
Melbourne VIC 8003

Tel: (03) 9653 2244
Fax: (03) 9653 2303
Email: maps@pc.gov.au

General Inquiries:

Tel: (03) 9653 2100 or (02) 6240 3200

An appropriate citation for this paper is:

Productivity Commission 1999, *Australia's Gambling Industries*, Summary, Report No. 10, AusInfo, Canberra.

The Productivity Commission

The Productivity Commission, an independent Commonwealth agency, is the Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by consideration for the wellbeing of the community as a whole.

Information on the Productivity Commission, its publications and its current work program can be found on the World Wide Web at www.pc.gov.au or by contacting Media and Publications on (03) 9653 2244.

Preface

This document comprises the Key Finding and the Summary from the Commission's report on *Australia's Gambling Industries*. The terms of reference for the inquiry are reproduced on page 1.

Copies of the full three-volume report may be purchased from the Commonwealth Government Infoshops (tel. 132447), or read or download from the Commission's website (www.pc.gov.au). Copies of all public submissions made to the inquiry may also be read at this site.

Commissioners

For the purposes of this inquiry and report, in accordance with section 40 of the *Productivity Commission Act 1998*, the powers of the Productivity Commission were exercised by:

Gary Banks
Chairman

Robert Fitzgerald AM
Associate Commissioner

Terms of reference

I, Peter Costello, Treasurer, under Parts 2 and 3 of the Productivity Commission Act 1998, hereby refer Australia's gambling industries for inquiry and the provision of an information report within twelve months of receiving this reference. The Commission is to hold hearings for the purpose of the inquiry.

Background

2. There is a need for a better understanding of the performance of the gambling industries and their economic and social impacts across Australia, including their impact on the retail, tourism and entertainment industries and on Commonwealth and State/Territory Budgets. Little is known about the social impacts of the rapid growth in gambling.

Scope of Inquiry

3. In particular, the Commission should examine and report on:
- (a) the nature and definition of gambling and the range of activities incorporated within this definition;
 - (b) the participation profile of gambling;
 - (c) the economic impacts of the gambling industries, including industry size, growth, employment, organisation and interrelationships with other industries such as tourism, leisure, other entertainment and retailing;
 - (d) the social impacts of the gambling industries, the incidence of gambling abuse, the cost and nature of welfare support services of government and non-government organisations necessary to address it, the redistributive effects of gambling and the effects of gambling on community development and the provision of other services;
 - (e) the effects of the regulatory structures – including licensing arrangements, entry and advertising restrictions, application of the mutuality principle and differing taxation arrangements – governing the gambling industries, including the implications of differing approaches for industry development and consumers;
 - (f) the implications of new technologies (such as the internet), including the effect on traditional government controls on the gambling industries;
 - (g) the impact of gambling on Commonwealth, State and Territory Budgets; and
 - (h) the adequacy of ABS statistics involving gambling.
4. The Commission should take account of any recent relevant studies undertaken or under way and have regard to the economic, social, and regional development objectives of governments.

PETER COSTELLO

[Reference received on 26 August 1998]

The Commission's key findings

- Gambling provides enjoyment to most Australians, over 80 per cent of whom gambled in the last year — spending about \$11 billion — with 40 per cent gambling regularly.
- Gambling is a big and rapidly growing business in Australia, with the industries currently accounting for an estimated 1.5 per cent of GDP, and employing over 100 000 people in more than 7000 businesses throughout the country.
- The main source of national benefit from the liberalisation of gambling has been the consumer gains from access to a service that gives people enjoyment.
 - Net gains in jobs and economic activity are small when account is taken of the impact on other industries of the diversion of consumer spending to gambling.
- The principal rationales for regulating the gambling industries any differently than other industries relate to:
 - promoting consumer protection;
 - minimising the potential for criminal and unethical activity; and
 - reducing the risks and costs of problem gambling.
- Around 130 000 Australians (about 1 per cent of the adult population) are estimated to have *severe* problems with their gambling. A further 160 000 adults are estimated to have *moderate* problems, which may not require 'treatment' but warrant policy concern.
 - Taken together, 'problem gamblers' represent just over 290 000 people, or 2.1 per cent of Australian adults.
- Problem gamblers comprise 15 per cent of regular (non-lottery) gamblers and account for about \$3.5 billion in expenditure annually — about one-third of the gambling industries' market.
 - They lose on average around \$12 000 each per year, compared with just under \$650 for other gamblers.
- The prevalence of problem gambling is related to the degree of accessibility of gambling, particularly gaming machines.
- The costs include financial and emotional impacts on the gamblers and on others, with on average at least five other people affected to varying degrees. For example:
 - one in ten said they have contemplated suicide due to gambling; and
 - nearly half those in counselling reported losing time from work or study in the past year due to gambling.

The Commission's key findings (cont.)

- The adverse impacts on individuals and the community, help explain the ambivalence of most Australians about the gambling industries, despite their widespread involvement:
 - around 70 per cent of people surveyed believed that gambling did more harm than good; and
 - 92 per cent did not want to see further expansion of gaming machines.
- Quantification of the costs and benefits of the gambling industries is hazardous. Uncertainty about key parameters constrained the Commission to providing low and high estimates. For the gambling industries as a whole, estimates of their *net* contribution to society, ranged from a net loss of \$1.2 billion to a net benefit of \$4.3 billion.
 - This masks divergent results for different gambling modes, with lotteries revealing clear net benefits, whereas gaming machines and wagering include the possibility of net losses.
- Policy approaches for the gambling industries need to be directed at reducing the costs of problem gambling — through harm minimisation and prevention measures — while retaining as much of the benefit to recreational gamblers as possible.
- The current regulatory environment is deficient. Regulations are complex, fragmented and often inconsistent. This has arisen because of inadequate policy-making processes and strong incentives for governments to derive revenue from the gambling industries.
- Restrictions on competition have not reduced the accessibility of gambling other than for casino games. With the possible exception of casinos, current restrictions on competition have little justification.
- Venue caps on gaming machines are preferable to state-wide caps in helping to moderate the accessibility drivers of problem gambling. However, more targeted consumer protection measures — if implemented — have the potential to be much more effective, with less inconvenience to recreational gamblers.
- Existing arrangements are inadequate to ensure the informed consent of consumers, or to ameliorate the risks of problem gambling. Particular deficiencies relate to:
 - information about the 'price' and nature of gambling products (especially gaming machines);
 - information about the risks of problem gambling;
 - controls on advertising (which can be inherently misleading);
 - availability of ATMs and credit; and
 - pre-commitment options, including self-exclusion arrangements.

The Commission's key findings (cont.)

- In such areas, self-regulatory approaches are unlikely to be as effective as explicit regulatory requirements. In most cases, regulation can be designed to enhance, rather than restrict consumer choice, by allowing better information and control.
- Counselling services for problem gamblers serve an essential role, but there is a lack of monitoring and evaluation of different approaches, and funding arrangements in some jurisdictions are too short term.
- Services, awareness promotion and research activities related to problem gambling are likely to be most effectively funded from earmarked levies on all segments of the gambling industry, with the allocation of funds independently administered.
- Internet gambling offers the potential for consumer benefits, as well as new risks for problem gambling. Managed liberalisation — with licensing of sites for probity, consumer protection and taxation — could meet most concerns, although its effectiveness would require the assistance of the Commonwealth Government.
- On the basis of available information, there is not a strong or unambiguous case for significantly reducing gambling taxes, with the possible exception of lotteries. Any changes would need to be incremental and carefully monitored.
- The mutuality principle, combined with lack of constraints on gaming machine numbers, appears to be distorting the investment and pricing decisions of some clubs, with impacts on competitors. Of the options for dealing with it, only tax action at the state level appears feasible.
- Policy decisions on key gambling issues have in many cases lacked access to objective information and independent advice — including about the likely social and economic impacts — and community consultation has been deficient.
- An ideal regulatory model would separate clearly the policy-making, control and enforcement functions.
- The key regulatory control body in each state or territory should have statutory independence and a central role in providing information and policy advice, as well as in administering gambling legislation. It should cover all gambling forms and its principal operating criteria should be consumer protection and the public interest.

Summary of the report

Gambling has been a feature of Australian society and its economy since the arrival of the First Fleet. But even by Australian standards, the recent proliferation of gambling opportunities and the growth in the gambling industries have been remarkable. Liberalisation of access to innovative poker machines and casinos has led this expansion, fuelled in part by the revenue needs of state and territory governments.

With the rapid liberalisation and expansion of gambling, concerns have grown about the ‘downsides’ for society, and in particular the impacts on so-called ‘problem gamblers’ and those closest to them. Over the past few years, the debate about these issues has become increasingly polarised:

- On one side are those who support the expansion of gambling, as a source of economic benefits to the states or regions concerned and of entertainment value to consumers — who, it is argued, should be just as free to exercise choice in this area of their lives as any other.
- On the other side, are those who either deny that gambling yields any benefits to the economy or community, or who consider that the social costs and impacts on social values of the ‘new gambling’ outweigh any such benefits.

The polarity of views has been reinforced by a lack of consistent information and detailed analysis about the economic and social impacts of the expansion of gambling. The dearth of relevant information has also been an obstacle to good public policy, in an area with many complexities and uncertainties for decision-makers. This has resulted in a regulatory environment containing major inconsistencies and tensions, which have contributed to community concerns.

Against this backdrop, the Productivity Commission was asked to conduct Australia’s first independent national inquiry into:

- the economic and social impacts of the gambling industries, and
- the effects of the different regulatory structures that surround those industries.

The Commission was asked to provide an information report which can serve to enhance public understanding of the issues and assist government decision-making. While the report contains no policy recommendations requiring a formal

government response, it does provide a range of policy-relevant findings and assessments that should be of assistance to all governments. (The full terms of reference are reproduced on page 1.)

The inquiry's national scope has enabled an overarching perspective on the experiences of different jurisdictions, as well as providing an opportunity to obtain nationally consistent data. The Commission undertook three national surveys of its own, drawing on the expertise of leading Australian researchers, in addition to exploiting available information sources. That major undertaking has yielded much new and useful information.

This final report has benefited greatly from the feedback and further input of participants, including expert advisers, following the release of a draft report in July. The Commission is grateful to everyone who has taken part in the inquiry (appendix A).

1 The gambling industries

What are they?

Gambling has been formally defined as 'staking money on uncertain events driven by chance'. As some participants observed, this can encompass many activities, including the more speculative areas of commodity and financial markets. Nevertheless, gambling retains the distinguishing feature that, as a group, gamblers inevitably lose money over time — it is more like consumption expenditure than investment.

The Commission has focused predominantly on what are generally accepted to be the principal gambling forms — gaming, wagering and lottery products (see box 1). The gambling 'industries' accordingly encompass those organisations that provide these services — including casinos, clubs, hotels, TABs, sports betting enterprises and lottery organisations.

- 'Minor' gambling activities (art unions, raffles) have been taken into account only where most relevant, as have informal and illegal gambling.
- However, internet gambling, which is still in its infancy, is examined in some detail.
- The inquiry has also recognised, but not looked at in any detail, activities related to gambling such as the manufacture of poker machines or other equipment, horse breeding and racing, or other sports that are the subject of wagering activities.

Box 1 **Some key gambling terms**

Gaming comprises all legal forms of gambling other than wagering — including lotteries, gaming machines, casino table games and keno.

Minor gaming is the collective name given to art unions, raffles, lucky envelopes and the like.

Wagering is another name for betting — to stake something (usually money) on the outcome of a contest or any uncertain event or matter. The principal forms are racing and sports betting.

Lotteries come in various forms, including lotto, pools and instant lotteries (or ‘scratchies’). Lotto is played by choosing numbers in anticipation that those numbers will be amongst the winning numbers selected randomly through various means.

Gaming machines (electronic gaming machines or ‘poker’ machines) come in two main types: machines where the player generally can make no strategic decisions after starting the game; and machines where the player may make strategic decisions. An example of the latter is a drawcard machine, where after the game has started the player must decide whether to hold or receive cards.

Keno is a game where a player wagers that chosen numbers will match any of the 20 numbers randomly selected from a group of 80 numbers via a computer system or a ball drawing device. It is an electronic form of bingo, and is typically played in clubs, casinos and hotels.

Turnover is the amount of money staked or wagered.

Expenditure is the net amount lost, or the amount wagered less the amount won.

Odds are the average chances of winning. In racing, the odds are also an indication of the return to a gambler.

Payout ratios are the average returns to a player from a given turnover.

Evolution of gambling

Australia has a long association with gambling and has been at the forefront of many developments in the industry. The ‘totalisator’ used in racing around the world was invented here. Australia also has a longer history of legal gaming machines than most countries and leads the world in their technology. More recently, the first government regulated internet casino site in the OECD was established in the Northern Territory.

Until the last 10 to 15 years, however, legal gambling was confined to lotteries and racing in most states, with gaming machines being long established only in New South Wales clubs. The rapid transformation since then has been the result of legalisation (or liberalisation) and technological developments.

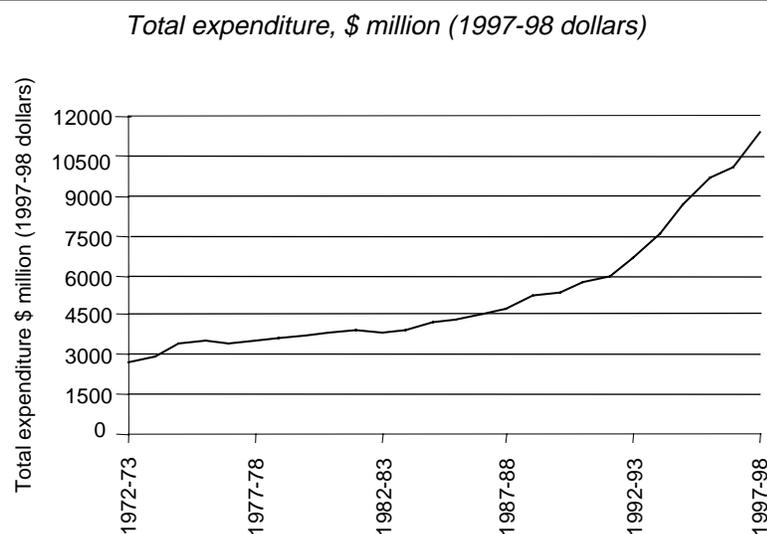
Some key features of this recent expansion of the gambling industries are:

- a proliferation of gambling forms, which commenced with the spread of casinos and then of electronic poker machines, with lottery products also becoming more diverse and sports betting expanding (including through the internet);
- increasing accessibility and ‘convenience’ of gambling, which in most jurisdictions is now part of the suburban scene;
- a more rapid ‘tempo’ of gambling, through electronic machines with much higher spending rates than the old ‘one arm bandits’, as well as more frequent race meetings and lottery draws;
- privatisation of the traditional government-run gambling forms — TABs and lotteries — with involvement of large corporations, and increasing concentration of ownership in some areas; and
- more pervasive advertising and promotion of gambling (including the use of gambling as a marketing tool for other products).

Growth industries

The Commission estimates that the gambling industries account for about 1½ per cent of Australia’s GDP. Total expenditure (losses) on gambling amounted to over \$11 billion in 1997-98, of which \$3.5 billion is paid in taxation from a turnover (money staked) of some \$95 billion (box 2). Expenditure is more than double what it was a decade ago in real terms — at least for legal gambling — and treble that of 15 years ago (figure 1).

Figure 1 **Rapid growth in gambling expenditure**



Data source: Tasmanian Gaming Commission 1999.

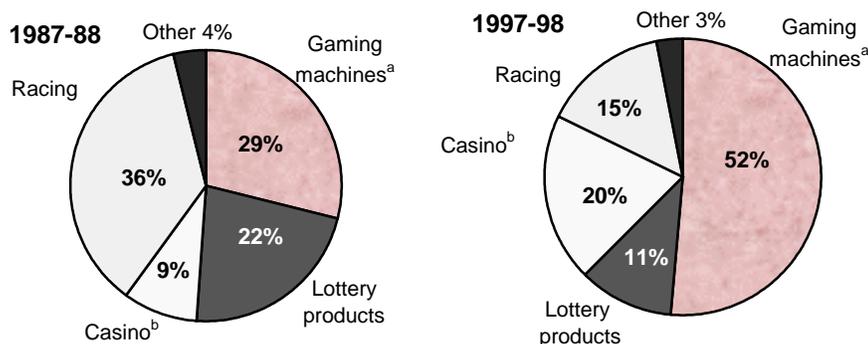
Box 2 Some facts about the gambling industries

- In 1997-98, net expenditure (or the amount lost) on gambling in Australia was around \$11.3 billion. Of this, \$10.8 billion was lost by Australians, the remainder being lost by overseas visitors. Turnover (or the amount wagered) was around \$95 billion.
- Around 7000 businesses provide gambling services throughout Australia, of which 2888 are pubs, 2408 are clubs, 13 are casinos, and the remainder are lotteries and other businesses.
- Over 37 000 people were employed in businesses where the predominant activity was gambling — around 20 000 were employed in casinos and more than 15 000 in totalisator betting, lottery and other gambling businesses. In addition, over 120 000 people were employed in clubs, pubs, taverns and bars where gambling is a secondary activity.
- Gambling taxation revenue has nearly doubled over the last ten years and accounted for just under 12 per cent of state and territory governments' own-tax revenue in 1997-98.
- Gambling is characterised by a mix of public and private ownership. For example, the Adelaide casino and most lotteries are publicly owned, whereas most gaming machine venues are commercially owned and operated or are in the not-for-profit sector.

- Much of this growth has come from gaming machines, which accounted for 52 per cent of expenditure in 1997-98 (outside casinos), compared with 29 per cent in 1987-88 (figure 2). About one-third of gaming machines are now in hotels and 6 per cent are in casinos, whereas 15 years ago licensed clubs accounted for almost all machines.
- While gaming machines' share of total gambling expenditure has risen, its growth appears not to have displaced other gambling modes — which have largely maintained their previous growth trends — but rather has been at the expense of other consumption items or saving (future consumption).
- It follows that gambling expenditure has grown most rapidly in those states which have legalised or liberalised access to gaming machines. For example, gambling expenditure in Victoria was under \$1 billion in 1987-88, 40 per cent of that in New South Wales; 10 years later, expenditure in Victoria was \$3 billion, over 70 per cent of that in New South Wales (see figure 3).

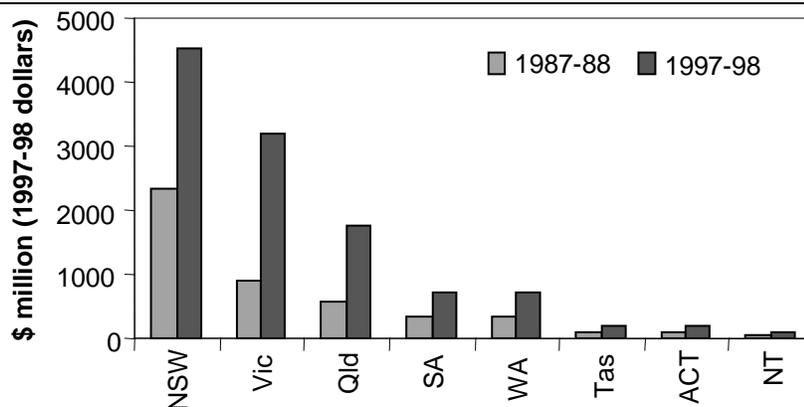
Employment in these industries has grown commensurately. In 1997-98 there were over 37 000 people employed in gambling businesses (17 per cent of total 'cultural and recreational' employment) with at least another 70 000 obtaining employment in clubs and pubs as a result of gambling activities there. The industries have above average rates of part-time and female employment.

Figure 2 Expenditure by type of gambling activity



^a Outside casinos ^b includes gaming machines which accounted for 6 percentage points in 1997-98.
 Data source: Tasmanian Gaming Commission.

Figure 3 Gambling expenditure by state and territory



Data source: Tasmanian Gaming Commission 1999.

Table 1 Participation and frequency of gambling by adult Australians

Form of gambling	Total Participation (per cent)	of which:			
		Less than once a month	1-3 times a month	1-3 times a week	>3 times a week
Lotto or other lottery games	60	25	24	45	6
Instant scratch tickets	46	52	33	14	1
Poker or gaming machines	39	62	25	11	2
Racing	24	71	14	13	2
Keno	16	72	20	7	1
Casino table games	10	82	15	2	0
Sports betting	6	52	25	23	0
Bingo	5	49	23	27	2
Private gambling	5	68	23	7	2
Played an internet casino game	0.4	60	15	21	4
Any gambling activity	82	26	24	37	13

Source: PC National Gambling Survey.

Box 3 **Australia's innovative 'pokies'**

Reflecting the long history and widespread availability of gaming machines in this country, Australia's manufacturers have become world leaders in innovation and design. They are also ahead of many other Australian enterprises in this respect, exemplified by Aristocrat Leisure Industries' number one ranking in the Melbourne Institute's Innovation Index (Melbourne Institute 1998). AGMMA declared that:

Australian-style video gaming machines are the most exciting and popular 'state-of-the-art' gaming machines in the world ... (sub. D257, p. 22).

This view is widely shared. An industry commentator, writing in *Casino International* magazine, observed:

The Australian market is based on 'pokie' machines, the famed multi-line multipliers that have come to be known all over the world as Australian machines. They are as sophisticated as slot machines get. They have to be: almost all of them are to be found in clubs where repeat play is measured in visits per week, rather than visits per year as in resort destinations (Sorrill 1999, p. 20).

Australia has about 185 000 gaming machines, over half of which are in New South Wales. Data provided to the Commission since the draft report, together with other information, suggest that this amounts to about 20 per cent of the number of broadly *comparable* machines in the world (appendix N). These machines generally allow much more intensive play, posing potentially higher risks for problem gambling. On a per capita basis, Australia has roughly five times as many gaming machines as the United States, where their availability is more restricted.

But as the industry emphasised, Australia's share of the world market can be estimated at as low as 2.4 per cent, if a range of other devices, such as 'amusements with prizes' and Japanese pachinko (pinball-style) and pachislo machines, are included (AGMMA sub. D257, annexure 1). It would be lower still if illegal machines, or internet gaming on personal computers, were counted.

Of course, what matters for policy, is not the proportion of machines that are in Australia, but rather their potential to promote or exacerbate problem gambling, and how this might be countered. Clubs Victoria argued at the public hearings:

We believe it's quite irrelevant how many of the world's EGMs are in Australia. What is relevant is how many of the world's problem gamblers are in Australia, and we could end up with half the world's EGMs to no detriment if the product was delivered responsibly and so as to minimise harm (transcript, p. 1304).

2 Who gambles and how much?

According to the Commission's survey data, about 82 per cent of adult Australians engaged in gambling in 1997-98 (apart from raffles and sweeps), with 60 per cent participating in lotteries and 39 per cent playing gaming machines (table 1).

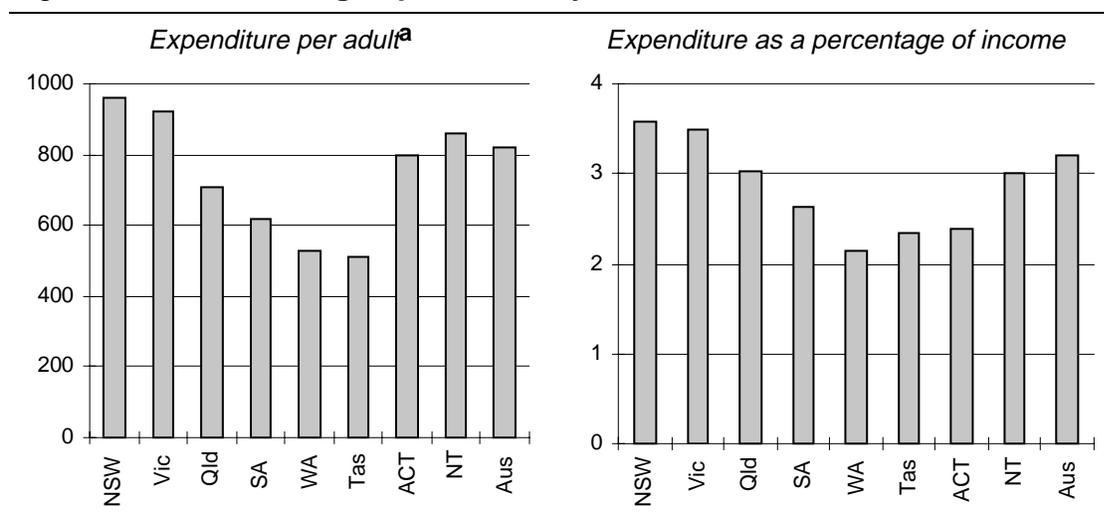
- Some 40 per cent of adults could be described as 'regular' gamblers (at least once a week), but
- only 20 per cent are regular *non-lottery* gamblers.

The skewed participation in gambling is reflected in spending patterns. On average, adult Australians currently spend (lose) about \$760 each year on gambling. That makes us among the heaviest gamblers in the world, spending at least twice as much on average on legalised gambling as people in North America and Europe.

- But just 10 per cent of gamblers accounted for around 70 per cent of total gambling expenditure in 1997-98.

Of the \$760 average 'spend' on gambling in 1997-98, about \$420 was lost on gaming machines. This helps explain the considerable gap in per capita spending between some jurisdictions — New South Wales, Victoria, the ACT and Northern Territory — where gaming machines are more established, and the others (see figure 4).

Figure 4 **Gambling expenditure by state, 1997-98**



^a in dollars; includes some spending by foreign tourists.

Data source: Tasmanian Gaming Commission.

-
- The states where people have spent least on gambling — both in dollars and relative to household incomes — are Western Australia and Tasmania, which have also had the lowest access to gaming machines. (In Western Australia they remain banned outside the casino.)

A profile of Australian gamblers

With around 82 per cent of the adult population participating in gambling, it is to be expected that the socio-demographic profile of gamblers would resemble that of the population as a whole. However, there is some variation by mode of gambling:

- The profile of casino gamblers is biased towards males, people aged 18 to 24 and Asian communities.
- Unlike wagering, in which men predominate, the profile of gaming machine players has no gender bias (being relatively popular with women) but slightly favours younger people and middle income earners.
- Lottery players, with the highest participation rate, most closely resemble the general population (many of whom do not consider it to be real gambling).

Socio-demographic profiles are also more distinct for *regular* gamblers, where there is a greater participation of males, people aged 18 to 24 and those with lower levels of education.

3 Just another industry?

The gambling industries clearly play a significant role in our economy and in the lives of many Australians, whether as employees or consumers. We don't seek to assess the costs and benefits of most other industries, so why do so for these industries? What makes them special?

Some people representing the industries have argued that there is little that *is* special about them: they are just like other entertainment businesses competing for the consumer's dollar — and they are excessively burdened by government regulation and taxation. But this was not the predominant view. Even within the gambling industries themselves, many of those with whom the Commission met accepted that their industry was indeed 'special'; in the words of one senior executive, gambling was seen as a 'questionable pleasure'.

The perceived 'questionable' nature of the gambling industries reflects their ability simultaneously to provide entertainment that is harmless to many people, while being a source of great distress — and even of financial and personal ruin — to a

significant minority. The imbalance between the consequences for each group can be very marked, a feature not found in other entertainment industries. (Alcohol consumption provides a closer analogy.)

Furthermore, the benefits which many derive from gambling — to the extent that they include occasional winnings — are derived in part from the financial losses of others. This helps explain long-standing ethical or moral objections within the community to activities seen as involving the pursuit of ‘easy money’.

The Commission’s national survey, consistent with earlier state-based surveys, found widespread community concern about the expansion of gambling, despite the equally widespread community involvement in the activity. Indeed, around 70 per cent of Australians (including a majority of regular gamblers) consider that gambling does more harm than good (see box 4). This again is not typical of the pattern of consumer response to most leisure activities.

Box 4 Community attitudes to gambling

Despite the widespread participation in gambling in Australia, surveys have consistently found a high disapproval rating within the community. The Commission’s *National Gambling Survey* found the following:

	<i>Gambling does more good than harm</i>	<i>Gambling has provided more opportunities for recreational enjoyment</i>	<i>Should numbers of gaming machines be increased, decreased or stay the same?</i>	
	%	%		%
Strongly agree	3.8	7.0	A large increase	0.6
Slightly agree	11.2	25.5	A small increase	1.1
Neither agree nor disagree	11.9	11.0	Stay the same	41.1
Slightly disagree	23.9	20.9	A small decrease	17.1
Strongly disagree	47.4	33.7	A large decrease	33.5
Don't know/ can't say	1.8	1.9	Don't know/can't say	6.6

Thus governments through the ages have generally placed restrictions or outright bans on gambling activity. The gambling industries, more than many others, are creatures of government regulation. But social mores and community attitudes change over time, and gambling regulation can be expected to evolve as well. In addition to these broader influences, what should guide government policy?

The task for government policy towards these industries, as for any others, is to regulate them in ways which, by taking account of their special characteristics, will

help to bring the greatest net benefits to society. This does not mean eliminating their costs, but striking a balance such as to maximise the net benefits. In the Commission’s view, such a balance has not always been sought or achieved in gambling policy, and the information required for that task has been lacking.

4 What are the benefits?

While the gambling industries have some important defining characteristics, they are also like other industries in seeking both to satisfy consumer demand and to expand that demand.

Many consumers enjoy gambling

The misconception that gambling generates no worthwhile benefits is based on the ‘materialist illusion’ that only tangible goods or services yield economic gain. This ignores the pleasure that people derive from some activities regardless of any tangible output. Thus many people gamble because of the enjoyment they get from the venue, the social interaction, the risk, the thrill of anticipation, or some combination of all of these (see table 2). Gambling venues such as casinos and clubs can also provide an accessible, comfortable and safe social environment, which many people — particularly women, elderly people and ethnic communities — have found appealing.

Table 2 Why do people gamble?

<i>Motivation</i>	<i>All gamblers % of respondents</i>	<i>Regular gaming machine/casino gamblers % of respondents</i>
Dream of winning	59	66
Social reasons	38	65
For charity	27	26
Beating the odds	9	14
Favourite activity	10	19
Atmosphere/excitement	13	19
Belief in luck	12	16
Boredom/pass the time	9	13

Source: Roy Morgan 1999.

The industry has rightly emphasised that many people who gamble are simply ‘buying time’ or seeking distraction, as with other forms of entertainment. A distinguishing feature of gambling, however, is that they are also buying hope of a win — in some circumstances, perhaps a life-transforming one. For recreational

gamblers, that anticipation is part of the enjoyment (which is an economic benefit); but for problem gamblers, it is a big part of their problem.

Thus an important task in evaluating the benefits of these industries is to estimate the extent to which consumers are better off, recognising their different characteristics.

‘Production-side’ gains from liberalisation are limited

Perhaps reflecting the popular misconceptions about intangible goods, even advocates for the gambling industries often underplay the gains to consumers from increased access to a valued or desired activity. Instead, they typically point to benefits in terms of the expenditure, incomes, jobs and trade associated with the expansion of their industry, both directly and indirectly.

These ‘production-side’ benefits from liberalising gambling have often been greatly exaggerated. In fact, they are modest compared with the economic benefits derived by consumers. This was the subject of apparent misunderstanding by some participants.

If these industries had not been permitted to expand, the money spent on gambling would have been spent elsewhere. And most of the resources that went into the gambling industries would have been employed in other uses, creating similar levels of income and jobs to gambling itself. For example, the skills required of personnel in gambling venues are very similar to those required in most entertainment and hospitality industries.

Thus while there may be instances where additional jobs or income may have been generated — say in depressed regions — most of the resources in the gambling industries will have been diverted from other industries. The vocal opposition of retail traders to the expansion of gambling outlets is a visible sign of this underlying economic reality. By the same logic, however, that diversion should not in itself be of concern to policy-makers, unless it *reduces* the efficient use of economic resources, rather than simply reshuffling them.

That is *not* to say, however, that the gambling industries as they have developed, make no contribution to the economy — or that the jobs involved are ‘worthless’ (as some have interpreted it). As already documented, the gambling industries currently generate substantial income and employ many people. And, reimposing prohibitions or cutbacks on these industries now could result in significant losses and transitional unemployment. Even in this case, it is likely that most of the people involved would find alternative employment. As the Australian Hotels Association submission

acknowledged, ‘in the long-term, industry policy affects the industry pattern of employment, not the total level’ (sub. D231, p. 22).

An economy-wide assessment of the contribution of the gambling industries can really only be gained with the aid of quantitative economic models, notwithstanding their particular limitations in dealing with the social costs of gambling. Such economy-wide modelling was conducted by the industry, as well as by consultants commissioned by the inquiry. The Commission’s analysis of these various studies, taking into consideration their different methodologies and assumptions, supports the qualitative reasoning about the industries’ likely net contribution to the economy. In short, the modelling indicates that changes in the size of the industry would have little impact on Australia’s GDP, consumption levels or labour market outcomes over the long term.

The real net contribution of the gambling industries thus depends on the extent to which consumers are better off through any enjoyment they obtain from gambling. But to gauge that requires some understanding of problem gambling.

5. The costs of problem gambling

Because the social and economic costs of these industries stem largely from those who are now generally referred to as ‘problem gamblers’, the Commission has devoted considerable effort to understanding the nature and extent of this phenomenon. In addition to conducting three surveys to supplement existing data sources, it has conferred with a range of specialists in this field (researchers and practitioners) as well as meeting with problem gamblers themselves.

What is ‘problem gambling’?

There are a variety of definitions of problem gambling (box 5), but most emphasise:

- a lack of control by the gambler over his or her gambling behaviour; and/or
- adverse personal, economic and social impacts which result from a gambler’s actions — particularly the financial losses (relative to the gambler’s means).

There is no clear point, however, at which a ‘recreational gambler’ becomes a ‘problem gambler’ and, for problem gamblers, there is a continuum of behaviour and impacts of escalating severity (see figure 5).

Box 5 Some definitions of ‘problem gambling’

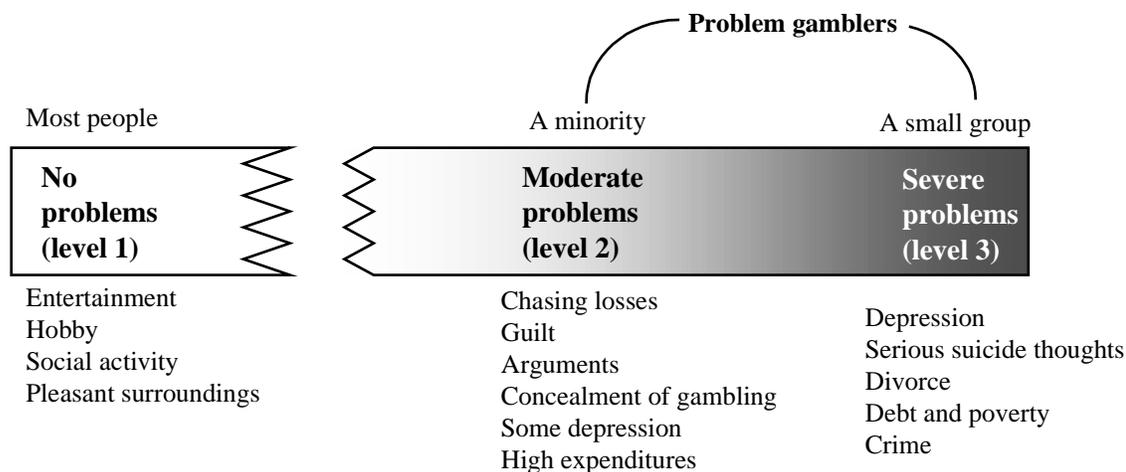
- The situation when a person’s gambling activity gives rise to harm to the individual player and/or to his or her family, and may extend to the community (Market Solutions and Dickerson 1997, p. 2).
- Problem gambling encompasses all of the patterns of gambling behaviour that compromise, disrupt or damage personal, family or vocational pursuits (National Council on Problem Gambling (US) 1997).
- Problem gambling may be characterised by a loss of control over gambling, especially over the scope and frequency of gambling, the level of wagering and the amount of leisure time devoted to gambling, and the negative consequences deriving from this loss of control (Select Committee on Gambling, ACT, 1999, p. 12, based on Hraba and Lee 1996).
- Problem gambling is any pattern of gambling behaviour that negatively affects other important areas of an individual’s life, such as relationships, finances or vocation. The mental disorder of “pathological” gambling lies at one end of a broad continuum of problem gambling behaviour (Volberg et al. 1998, p. 350).
- ... we will use ‘pathological’ and ‘compulsive’ gambling in an equivalent sense to describe gamblers who display clear signs of loss of control. ‘Problem’ gambling is used to refer to the wider group of people who show some but not all signs of developing that condition (Blaszczynski 1998, p. 13).

These can be categorised under the following headings (not all of which need be present):

- *personal and psychological characteristics*, such as difficulties in controlling expenditure; thinking about gambling for much of the time; anxiety, depression or guilt over gambling and thoughts of suicide or attempted suicide;
- *gambling behaviours*, such as spending more time or money on gambling than intended, chasing losses and making repeated but failed attempts to stop gambling;
- *interpersonal problems*, such as gambling-related arguments with family members, friends and work colleagues; relationship breakdown and other family stresses;
- *job and study problems*, such as poor work performance, lost time at work or studying, and resignation or sacking due to gambling;
- *financial effects*, such as large debts, unpaid borrowings, and financial hardship for the individual or family members; and
- *legal problems*, such as misappropriation of money, passing bad cheques, and criminal behaviour due to gambling, which in severe cases may result in court appearances and prison sentences.

The main trigger for the problems of most problem gamblers is the financial loss — which then has a range of social and personal repercussions for the gambler, his or her family and contacts. Problem gambling is generally not regarded as a mental illness for the bulk of people affected, though some will need clinical assistance to resolve their problems.

Figure 5 **The gambling continuum**



Identifying the problem gamblers

The lack of precision in the definition of problem gambling poses difficulties for the identification of those affected. In particular, no single existing test instrument is perfect for measuring the extent ('prevalence') of problem gambling in the population. The dominant tool used to date has been the South Oaks Gambling Screen (or SOGS as it is commonly known), first devised in a clinical setting in the United States. The SOGS has some deficiencies which have prompted attempts to replace it. Having consulted experts in the field, the Commission nevertheless saw value in using the SOGS in its surveys, buttressed by self-assessment questions and other indicators of harm (see box 6). This three-way approach provides a more robust basis for assessing the prevalence of problem gambling. On the basis of this research:

- The Commission estimates that about 1 per cent of Australia's adult population (130 000 people) have severe problems with their gambling, with another 1.1 per cent (163 000) experiencing moderate problems (table 3).
 - Among a range of public health concerns, this prevalence rate is lower than the rates for excessive smoking or alcohol consumption, but greater than that for use of illicit injection drugs (chapter 6).

Box 6 The SOGS and other screening instruments for measuring problem gambling

Several measurement instruments or tests are used by researchers to try to determine whether a person is a problem gambler.

- One of the most common tests is the South Oaks Gambling Screen (SOGS). This test poses questions about a gambler's behaviour, such as whether they chase losses, have problems controlling their gambling, gamble more than intended, feel guilty about gambling and believe that they have a problem.
- Another test is the Diagnostic and Statistical Manual of Mental Disorders of the American Psychiatric Association, fourth edition (DSM-IV). This shares many features of the SOGS, but has a greater emphasis on psychological aspects of problems, such as preoccupation, development of tolerance, irritability, and gambling as an escape.

The SOGS has been the most widely used and validated test around the world and has been applied in all past Australian prevalence studies. It has also been used in contemporary studies in New Zealand and Sweden to examine the prevalence of problem gambling.

Nevertheless, like all screening instruments, the SOGS has a number of limitations, including:

- Identifying some people as having severe problems when they do not, but missing out on others who do have severe problems; and
- perhaps not working well for all cultural groups in the population.

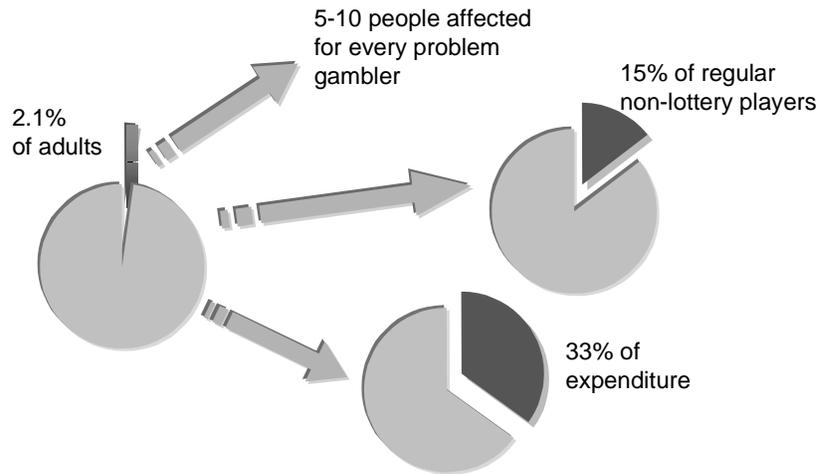
US, Canadian and Australian researchers are developing replacements for the SOGS that try to deal with some of these limitations — a move the Commission believes will be useful for the future measurement of the prevalence of problem gambling, and obtaining a better understanding of its wider impacts, beyond the more narrow concerns of existing tests.

However, having consulted experts in the field, the Commission employed the SOGS in its surveys, which enabled comparisons to be made with other Australian and overseas prevalence estimates using the same methodology. It should also be noted that the Commission:

- asked respondents many other questions about any harms associated with gambling (as well as detailed spending questions) to see whether people were likely to be problem gamblers; and
- has interpreted the SOGS as suggesting that problem gamblers lie on a continuum, with some having severe problems, but the bulk having moderate problems, and has been careful to distinguish these differing levels of harm in its results.

The Commission has used a threshold of 5 or more on the SOGS to indicate a problem gambler and has applied Dickerson's method (chapter 6) to estimate the number of severe problem gamblers.

Figure 6 The share of problem gamblers



Data source: PC National Gambling Survey.

Table 3 Prevalence of problem gamblers and harm incidence in the adult population

	SOGS 5+	Severe problems ^a	HARM incidence ^b
	%	%	%
NSW	2.55	1.25	1.96
VIC	2.14	0.82	2.05
QLD	1.88	0.76	1.79
WA	0.70	0.17	1.50
SA	^c	^c	1.44
TAS	0.44	0.09	0.12
ACT	2.06	0.73	1.32
NT	1.89	0.77	1.24
Australia	2.07	0.92	1.80

^a As measured by the Dickerson method (chapter 6). ^b A self assessed indicator of significant adverse impacts on the life of the gambler. ^c The numbers derived for SA are 2.45 per cent for SOGS 5+ and 1.38 per cent for severe problems. These results appear to be unrealistically high and are likely to reflect sampling error.

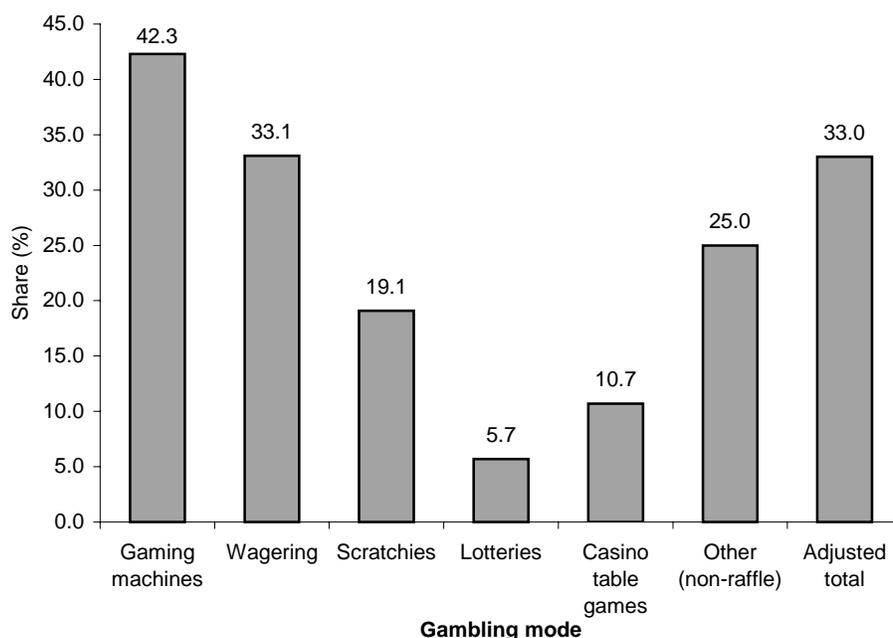
Source: PC National Gambling Survey.

- Problem gamblers are estimated to account for around one-third of total expenditure on gambling in Australia — about \$3.6 billion. Their annual losses average \$12 200, compared with just under \$650 for other gamblers (figure 7 shows this expenditure by mode).
- About 250 000 adults are estimated to have experienced significant harmful effects from gambling in the last 12 months.
- About 0.8 per cent of those surveyed (equating to 111 000 adults Australia-wide) indicated that they wanted help for gambling-related problems.

- The incidence of problem gambling varies by mode. It is highest for gaming machines and racing, and lowest for lotteries. The popularity and widespread availability of gaming machines has meant that they are associated with 65 to 80 per cent of those problem gamblers who are receiving counselling.
- The extent of problem gambling varies across the states and territories, with New South Wales having the highest rates and Western Australia the lowest — probably reflecting the relative availability of gaming machines.

The Commission’s review of the evidence also suggests that problem gambling is significantly greater in Australia than in North America.

Figure 7 Expenditure shares of problem gamblers



^a The adjusted total takes account of the fact that the *National Gambling Survey* underestimates total spending in some gambling modes, while overestimating others. Problem gamblers are defined as SOGS 5+ (see box 6).

Data source: PC *National Gambling Survey* and appendix P.

Some participants disputed these findings on the basis of perceived flaws in the screening instruments or other aspects of the survey. The Commission considers that its estimates are more likely to *understate* than overstate the number of people in Australia with severe gambling problems. (For one thing, many people are understandably reluctant to give honest answers to an interviewer about their gambling problems — see table 4.) A brief explanation of the survey methodology is contained in box 7.

Table 4 Do problem gamblers admit their problems?

The Commission asked 401 problem gamblers in counselling whether they would have participated in a survey prior to seeking help, and whether they would have revealed the true nature of their problems.

<i>Answer</i>	<i>%</i>
Would have:	
Answered honestly	28.9
Refused to answer the survey	23.7
Somewhat concealed any problems	13.7
Mostly concealed any problems	9.7
Completely concealed any problems	9.2
Exaggerated any problems	0.2
Told them you did not know	1.7
Don't know what they would have said then	12.7
Total	100

Source: PC Survey of Clients of Counselling Agencies.

Who are the problem gamblers?

There appear to be few socio-demographic factors that significantly affect the likelihood of someone being a problem gambler: neither gender, ethnicity, education nor income appear to be significant guides. The main exception is age, with younger people being significantly more highly represented (although less so among those in counselling).

What are the impacts?

The main cost impacts stem from the characteristics of problem gambling as classified above. They are depicted in figure 8. Importantly, many of these impacts are not confined to problem gamblers themselves, but involve the imposition of costs on family members, employers and other unrelated people (for example, through larceny and theft). The evidence suggests that 5 to 10 other people can be directly affected to varying degrees by the behaviour of a problem gambler. In addition, there are demands on the resources of community and public services.

Box 7 **The Commission's National Gambling Survey**

The Commission's *National Gambling Survey* was the first fully national survey on gambling patterns and behaviour to be carried out in Australia. It was implemented as a telephone survey, and covered the general adult population (18 years or older). The survey was conducted for the Commission by Roy Morgan Research — one of Australia's most experienced market research companies.

To ensure the representativeness of the sample, it was stratified by:

- area — all states and territories were included, with metropolitan and country areas separately identified (except in the ACT), resulting in 15 geographic areas;
- age — 4 age categories (18-24 years, 25-34 years, 35-49 years, and 50 years or older); and
- gender.

In determining the sample size and design necessary to achieve reliable estimates of gambling behaviour, the Commission was guided by the approach used by the Australian Bureau of Statistics in its *Household Expenditure Survey* (HES).

While the HES uses a sample of around 8,500 households, the Commission chose to use an even larger sample size for the *National Gambling Survey* — more than 10,600 participants completed screener interviews.

The distribution of the sample by area was also very similar to that used in the HES — roughly in proportion to population, with coverage in the smaller states/territories boosted to increase statistical precision.

The Commission's gambling survey is the largest ever conducted in Australia and one of the largest carried out anywhere in the world. There is a strong basis therefore for regarding its results as more reliable than earlier Australian studies.

The questionnaire was vetted by leading Australian researchers in the gambling field, and the use of the South Oaks Gambling Screen as the problem gambling measurement instrument was endorsed by the same panel of experts.

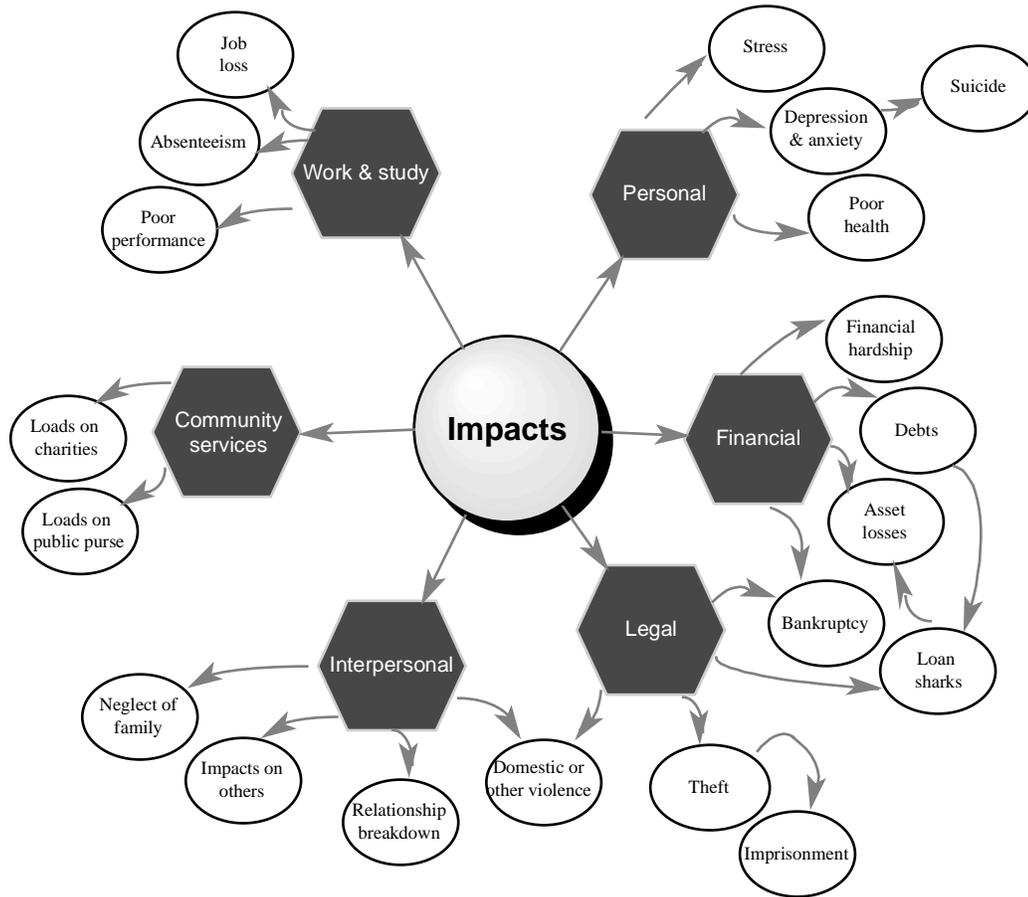
The resulting estimates of problem gambler prevalence derived by the Commission follow standard statistical practice. The sample data were post-weighted on the basis of area, age, gender, and household size, with an adjustment also for the random selection of 1 in 4 non-regular gamblers and 1 in 2 non gamblers.

The response rate achieved was equal to or better than previous Australian surveys and very similar to the recent survey undertaken in the United States for the National Gambling Impact Study Commission.

A reputable survey will inevitably find some outliers. The Commission has flagged instances where they arise (for example, in relation to prevalence of bankruptcy and divorce among problem gamblers) and in these cases supplemented the survey findings with other sources and information.

(For a detailed explanation of the survey methodology, see appendix F.)

Figure 8 **Impacts of problem gambling**



Among the Commission’s survey findings:

- one-tenth of those with significant gambling problems — and 60 per cent of those in counselling — admitted seriously contemplating suicide as a result of their gambling;
- nearly one-half of those gamblers in counselling reported losing time from work or study due to gambling;
- gambling losses averaged around 20 per cent of *household* income for problem gamblers (compared with a little over 1 per cent for recreational gamblers), and
- one in five problem gamblers admitted ‘borrowing money without paying it back’, with one in two going into debt to finance their gambling.

Table 5 **Estimated number of gamblers experiencing adverse impacts^a**

<i>Adverse impact</i>	<i>Number of people affected</i>
Went bankrupt	300
Adversely affected job performance (sometimes to always)	49 200
Changed jobs due to gambling	5 600
Crime (excluding fraudulently written cheques)	9 700
Trouble with the police	6 300
Appeared in court	700
Prison sentence	300
Breakup of a relationship	39 200
Divorce or separation	3 200
Violence	700
Suffered from depression (often to always)	70 500
Seriously considered suicide	12 900
Attempted suicide	2 900
Completed suicides	35-60

^a The estimates mainly relate to questions asked in the *National Gambling Survey* about impacts ‘in the last 12 months’; or where they relate to a lifetime impact, they have been annualised.

Source: chapter 7, appendix J and appendix R.

Just ‘people with problems’?

One industry leader asked himself at the Commission’s public hearings:

Do problem gamblers exist? I am yet to be convinced of this; however I fully acknowledge that there are people with problems who gamble (sub. 161, p. 3).

ACIL’s submission on behalf of a number of members of the industry also suggested that ‘the alleged causal link may be quite spurious’ (sub. 155). This is clearly a threshold consideration in assessing the impacts of problem gambling and the policy implications. If gambling does not cause or contribute substantially to the observed problems, then a major source of cost vanishes.

The literature on problem gambling shows that, while prior problems *can* precipitate problem gambling for some people, there are many pathways which go the other way (see figure 9). In some cases, the problems stem from behaviour conditioned by the nature of the rewards offered by gambling. In others, problems stem from misperceptions about the chances of winning or recouping losses. In yet others, the problems occur because of boredom, social isolation, depression or cultural factors.

Box 8 Experiences of problem gamblers

... I had a wonderful life and was on top of the world. ... I don't know what drove me to seek diversion in poker machines. I just can't remember. ... So pretty soon I was going to play the pokies quite often and yes I was enjoying myself and sometimes even won a few dollars ... I lost interest in music, in my car ... dining out, friends, my girlfriend; everything ... except those reels spinning before my eyes, in my head, in my dreams. I was totally consumed and, in what seemed such a short time. Anyway the whole story is long and covers the last seven years and though I have tried to be unemotional I must say now that I have been through hell ... I have contemplated suicide many times, and many times, I've actually felt as if I was already dead (Comments from a gambler to the Productivity Commission's inquiry).

I know I was addicted and out of control, but I felt powerless to stop. I had tried many, many times to just stop, but the urges that had a grip on me always won. ...I ended up just as bad, and hating myself even...thinking that I deserved this pain because I was so stupid and knew what the outcome would be, but went anyway. ... So of course, my health suffered, my finances were in ruin, and yet I didn't have the so-called willpower to stop (Comments from a gambler to the Productivity Commission's inquiry).

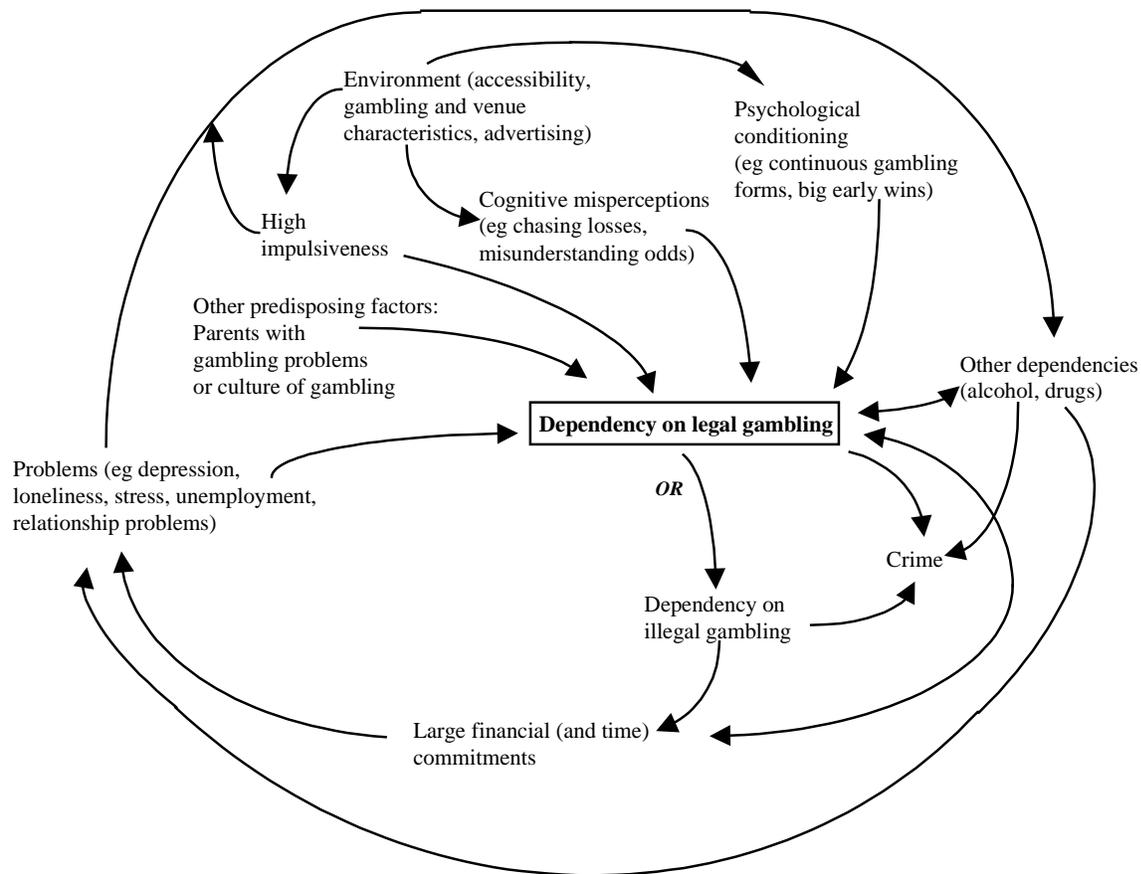
I have had gambling problems for the last nine years betting on horses. My gambling has caused me to appear before the courts on no less than four occasions. I have been homeless many times and my life has become unmanageable. When I am gambling, I do not think of the consequences, I don't care about anything else. I have readily blown my rent and food money to have one more chance to win. It doesn't worry me. My second wife has left with the two children, both under three years of age. Even so, all I can dream of is the big win which will turn my life around for the better (quoted in Blaszczynski 1998, p. 18).

Elaine is 48 years old ... and is from a wealthy Asian background. Elaine had never previously set foot in a club before. ... Elaine decided to go inside the club. ... While there she was fascinated by the flashing lights and sounds emanating from the poker machines. She cashed \$10 and began to play. She recalls she was instantly hooked. Some 3 years later and \$600 000 in liquid assets ... she eventually had to declare bankruptcy and ... faced the inevitable marriage breakdown ... she attempted to chase her losses, and embezzled a further \$30 000 from a family member. She was eventually charged and sentenced to 6 months jail (*BetSafeNews* April 1999, p. 3).

What seems clear, is that for those for whom prior problems or disorders are contributory factors, gambling appears to *exacerbate* their problems in ways that would be hard to achieve though alternative outlets (alcohol and drug abuse being the exceptions).

Having considered the evidence and analysis, the Commission's assessment is that while problem gambling may in some cases be precipitated by prior conditions or problems, many of the harms experienced by problem gamblers can be traced to gambling itself. (Nevertheless, the Commission has adjusted its estimates of the social costs of problem gambling to account for partial causality.)

Figure 9 Causal pathways and problem gambling



But are they 'relevant' costs?

The industry has also drawn on aspects of economic theory to argue that the adversities suffered by some gamblers and their families have arisen from informed choices and therefore do not warrant special policy measures, apart from the usual social safety nets.

The Commission has not found this theory of 'rational addiction' compelling, at least as it has been applied to problem gamblers.

- For one thing, it fails a basic reality check. It does not accord with the way problem gamblers describe their problems and it is not consistent with the way they attempt to stop gambling — such as having themselves excluded from gambling venues.

-
- There are also features of the activity which can lead to poorly informed decisions by many consumers, including the opacity of the odds and ignorance or misunderstandings about what determines gaming machine payouts.

Problem gambling is sometimes also trivialised as a public policy issue by referring to its low prevalence in the population. Apart from the point that even 2.1 per cent of the adult population equates to a significant number of people, the proportions loom larger with respect to regular gamblers and total gambling expenditure (figure 6 above).

6 Broader community costs?

There are other potential social costs from the gambling industries to consider, separate from those stemming directly from problem gambling.

More or less crime?

The gambling industry, particularly casinos, has always been associated in the public's mind with crime, dating from the time when gambling itself was largely an illegal and unsupervised activity. Drawing on limited research for Australia and information from participants (including at a special Roundtable on Crime and Gambling) the Commission has concluded that crime associated with the industry itself is no longer a significant issue — indeed the legalisation of gambling and associated probity and other controls may have *reduced* associated criminality.

- *Street crime in the vicinity* of gambling venues does not appear to be any greater and, if anything, is of less concern than in other public places.
- *Petty crime* does arise within gambling venues, but this is true of any forum with concentrations of people carrying money and valuables.
- *Loan sharking* is a serious issue and may be a more prominent feature, but whether this represents a cost of the gambling industries depends on what its incidence and effects would have been with illegal gambling.
- The potential for *money laundering*, a major issue for some participants, appears to have been greatly reduced by AUSTRAC processes; although it is inevitable that proceeds of crime will be spent in gambling venues — to the extent that criminals choose that form of recreation over others. (This would also serve to bring more of that illicit spending into the tax net.)
- *Organised crime* has little opportunity to get a foothold in Australia's casinos — given their strict probity controls — or in other public corporations involved in

gambling. The potential is greater in parts of the hotel gaming sector, but the Commission was provided no evidence of it happening.

Preying on disadvantaged regions?

Several submissions raised concerns about apparent targeting of low income and socially disadvantaged communities by gaming machine providers.

- Analysis of the data suggests that in Victoria, New South Wales and South Australia, gaming machines are more densely located in lower income areas, whereas there is no correlation in Queensland.
- One explanation for the difference may be in the distribution of hotels, although the analysis does not bear this out for Melbourne. In Victoria — where there are caps on machine numbers and duopoly control — there may be greater incentives to allocate machines to areas where they will be used most intensively. Indeed, the most likely explanation is that the potential returns are highest in lower income areas, reflecting consumers’ preferences.
- Nevertheless, where it happens this can serve to concentrate the social costs in communities that are less able to bear them. It can be compounded by the withdrawal of income from such communities through the relatively high taxes on gaming machine expenditure.

Changing our society?

While most participants focused on the ‘tangible’ (though difficult to measure) social costs of gambling, some raised concerns about the undermining influence of those industries on more abstract dimensions of community life and the ‘social fabric’.

- One manifestation of the expression of gambling has been the displacement of other entertainments (such as live music in long established venues). While this clearly has adverse impacts on some people, it reflects the preferences of others, and thus is hard to see as involving a net social cost.
- Similarly, some people will be affronted by the sights and sounds of gambling activities, just as others are attracted to them. While in principle such psychic ‘externalities’ can be regarded as a cost of the industries’ existence, they are pervasive in society and generally only warrant government intervention where they are large and able to be reduced without incurring greater costs.
- On a wider canvas, are concerns about changes in behavioural norms and social ethics. Some also see government promotion or facilitation of gambling as

compromising its role, undermining the community's trust in public institutions. As noted previously, such considerations contributed to the much tighter controls on gambling in the past. If liberalised gambling has had wider impacts on the 'social fabric', this would involve costs that governments should take into account. However, their existence and valuation are not readily ascertained.

7 Judging the *net* impacts

As discussed, the benefits of liberalisation of the gambling industries largely comprise the increased satisfaction that consumers gain from having access to legalised gambling, whereas the costs relate mainly to problem gambling and its social repercussions.

Quantifying all these benefits and costs is a hazardous task, given the lack of information about key aspects. Attempting to estimate the costs of the gambling industries is especially problematic, as many of them involve impacts on individuals which are inherently difficult to measure. Nevertheless, in responding to its terms of reference, and because certain estimates by participants and others are being used in public debate, the Commission has attempted to quantify as many of the benefits and costs as possible, to help inform judgments about what the net impacts could be.

The psychic or emotional impacts on problem gamblers and their families are costs for which a value should be assigned, in the same way that the pleasure or entertainment from gambling has a value. The difference is that only the latter value is expressed through actual market prices — proxy values have to be found for the former (appendix J). That said, the range of estimated values for both the benefits and the costs is necessarily wide, given the uncertainties involved.

The net outcome, deducting estimated costs of problem gambling from net consumer benefits (including tax transfers), ranges in aggregate from a net loss of \$1.2 billion to a net benefit of \$4.3 billion for 1997-98. Box 9 explains how this was done.

These estimates differ somewhat from those in the draft report, as the Commission has refined its estimates of the individual components of costs and benefits. The estimates still leave out some potentially significant sources of cost which the Commission has not been able to quantify, including gambling-related suicides and potential community impacts unrelated to problem gambling.

Box 9 'Ballpark' estimates of the benefits and costs of gambling

There are two dimensions to the calculations: the first involves estimating net benefits to consumers; the second involves estimating the costs of problem gambling.

The consumer benefits

Consumer benefits are measured by economists as the extra value that consumers derive from a product — in this case, gambling — above what it costs. This is known as 'consumer surplus'. Estimates were based on current consumption levels, with the most critical assumptions being about:

- the sensitivity of gamblers to changes in the 'price' — information is very poor, so that a range of plausible estimates were used; and
- the value that problem gamblers place on their (excessive) consumption of gambling; where it was assumed that they would spend on average an amount equal to that of a regular recreational gambler and get similar satisfaction levels (a generous assumption compared to US studies).

On this basis, the estimates of net benefits from consumption (including tax revenue) ranged from \$4.4 billion to \$6.1 billion per annum for 1997-98.

The costs of problem gambling

The surveys asked respondents about a range of impacts from their gambling. Using this and other information about impacts, and drawing on various sources in valuing them, the Commission came up with the following cost ranges:

<i>Impact</i>	<i>low (\$m)</i>	<i>high (\$m)</i>
Bankruptcy	1.3	1.3
Productivity loss	28	200
Job change	59	59
Police, court and jail	14	14
Distress of family and parents	756	2 933
Breakup, divorce and separation	417	1 120
Violence	2.8	8.3
Depression and suicide	502	1 230
Gambling counselling services	20	20

In total, these costs range from \$1.8 billion to \$5.6 billion. The wide range reflects the difficulty of putting dollar values on the intangible but important emotional impacts. (The methodology used, and differences from the estimates in the draft report, are explained in appendix J).

The net outcome

Deducting the estimated costs of gambling from the net consumer benefit numbers, yields a range from a net social cost of \$1.2 billion to a net benefit of \$4.3 billion for 1997-98. There are significant differences by gambling mode, however, with lotteries showing a clear net benefit, whereas gaming machines and wagering include the possibility of a net loss.

In addition, there are some distributional implications to consider. The benefits from gambling, for the majority of ‘normal’ gamblers, are individually very small relative to the costs borne by the minority of problem gamblers. Economists have tended to ignore such skewed distributional effects from policy changes, on the basis that if the gains in aggregate exceeded the costs, the ‘losers’ could in principle be compensated. This has not always occurred, raising questions in some cases about whether the community was better off in practice. But the notion of cash compensation *for a problem gambler* seems misplaced, even in principle.

But even putting these considerations aside, it should be emphasised that the highly aggregated numbers are of limited usefulness for policy.

- For one thing, they mask significant variation among different gambling modes. Using estimates of the incidence of problem gambling to assign social costs reveals, for example, that lotteries yield a clear net gain, whereas the range of numbers for gaming machines and wagering includes the possibility of a net loss.
- Similarly, there are likely to be considerable differences in net outcomes among the states and territories and, in particular, at the regional or local government levels, especially when tax flows are taken into account.
- Thirdly, as many participants observed, the disparity between the low and high estimates of net benefits limits their usefulness for policy purposes, especially given lack of knowledge about the probability of different outcomes across the range (the low and high points are unlikely to be equally probable).
- But even a single aggregate number would not necessarily give adequate guidance for a policy decision involving incremental change in the industry.

Nevertheless, what can be concluded from this quantification exercise, with all its limitations, is that the social costs as well as the benefits of the gambling industries are likely to be substantial. This demonstrates the importance of care in regulating the conditions of access to gambling and, in particular, the need to focus on policy measures — such as harm minimisation and prevention — which can effectively limit costs from problem gambling, without significantly reducing the benefits for recreational gamblers.

8 An incoherent regulatory environment

The current regulatory environment falls short of that regulatory ideal. Policies for the gambling industries lack coherence: they are complex, fragmented and often inconsistent.

For example:

- Governments are participants in and promoters of gambling activity, while also attempting to reduce the social harms from gambling.
- Governments monitor the probity of gambling to protect consumers, but neglect other important aspects of consumer protection, such as informed consent.
- Probity requirements are inconsistently applied across gambling modes and venues — being particularly stringent for casinos.
- While clubs differ in some respects from hotels, the basis for the widely differing treatment in their access to machines and in taxation is unclear, and has varied greatly over time and across jurisdictions.

These and other apparent anomalies have arisen in part because of poorly defined policy rationales and because of the uncoordinated way in which policies have been developed for the different gambling modes, compounded by the multiple jurisdictions and institutions involved.

They also reflect tensions between different policy objectives of government. The most fundamental of these has been the incentive to exploit gambling as a source of taxation revenue, in the context of the states' increasing dependence on Commonwealth revenue and a perceived lack of alternative state taxes.

Which policy rationales?

Revenue raising has not only influenced approaches to taxation, but also how access to gambling services has been regulated, or de-regulated. But the key underlying rationales that should guide government regulation for these industries relate to:

- amelioration of the social costs of gambling;
- the need to ensure that consumers are adequately informed, and
- probity controls — both to protect consumers and to reduce potential criminal activity.

Other apparent government objectives in this area, such as the promotion of tourism or assisting particular groups or activities, appear not to have a strong basis.

The main features of the regulatory environments in the different states and territories include licensing criteria for operators, probity controls, technical standards, restrictions on under-age access, and taxation and community levy arrangements. But two central aspects in all jurisdictions are restrictions on competition and the regulation of access to gambling. It is important to assess what these are achieving.

Are constraints on competition justified?

In contrast to most other industries, the gambling industries are typically protected from competition. For example:

- Lotteries have monopolies in nearly all jurisdictions.
- TABs also have monopolies, and they can accept phone bets from interstate, but not ‘solicit’ them.
- Casinos have acquired exclusive licences for lengthy periods within specified market boundaries. The extensiveness of licences in some states has constrained governments’ options in relation to gaming machines and internet provision.
- Several jurisdictions have allocated the rights to own, distribute and /or monitor gaming machines to a limited number of operators.

This anticompetitive regulation is subject to scrutiny under the current legislative review program of the National Competition Policy. Some reviews have already taken place in particular jurisdictions, and more are in prospect. The Commission has attempted to contribute a broad perspective on the key public benefit issues under consideration. A key point, with problem gambling in mind, is that restraints on competition are generally not necessary to restrict the accessibility of gambling.

- *Revenue raising?* Notwithstanding the states’ imperatives, this is not in itself a sound rationale for restricting ownership. Governments have generally rescinded the practice of selling monopoly privileges to most goods and services, because of the costs imposed on consumers through higher prices and restricted choice. Such effects also arise in the gambling industries. The likely overall outcomes are clouded, however, by regulatory controls on prices and availability, and the presence among consumers of problem gamblers.
- *Reduce social costs?* In practice, ownership restrictions have not served to reduce the accessibility of gambling, other than for casino table games. And monopoly rights are unlikely to facilitate harm minimisation strategies for problem gamblers.
- *Facilitate probity checks?* Economies are likely to be gained with fewer operators to monitor. But the costs of probity regulation should in any case be borne by venues and this would partly determine their appropriate size.
- *Some efficiency benefits?* Scale is important to lotteries, but with the ability to pool across lotteries, does not necessitate exclusivity. There is a case for government intervention to address potential market failures for wagering on horse racing, but monopoly TABs do not appear necessary for this.

Competition is also constrained through restrictions on the venues permitted to provide gambling services. For example, the preferential access to gaming machines afforded to clubs over hotels is hard to justify on either harm minimisation or economic grounds. However, any regulatory change now to allow hotels equal access would have a significant impact on the availability of gaming in some jurisdictions.

In sum, with the possible exception of casinos, current restrictions on competition within the gambling industries have little justification.

Regulating access to gambling

In addition to constraints on competition, there are direct restrictions on the ‘quantity’ or availability of gambling. Apart from casinos, these are most evident in relation to gaming machines.

There are caps on the number of machines — at a venue level or jurisdictional level or both — in all states and territories. For example, Victoria currently has a state-wide cap of 27 500 machines (excluding Crown Casino), with hotels and clubs limited to 105 machines each. In New South Wales, where legalised gambling has a much longer history, caps apply only to hotels and the casino (table 6).

Table 6 **Gaming machine access varies across jurisdictions^a**

	<i>Total machines</i>	<i>Global cap?</i>	<i>Casino cap?</i>	<i>Global cap on clubs and hotels?</i>	<i>Cap on individual clubs?</i>	<i>Cap on individual hotels?</i>
New South Wales	99 672	-	1 500	-	unlimited	30
Victoria	29 611	30 000	2 500	27 500	105	105
Queensland	32 394	-		-	280	35
Western Australia	1 180	-		no gaming machines permitted		
South Australia		-		-	40	40
Australia	12 912					
Tasmania	2 492	-	-	-	25	15
ACT	5 013	5 200	no gaming machines permitted	5 200	unlimited	13
Northern Territory	1 252	-	-	target of 680 (indicative maximum)	45	6

^a For more details and qualifications to the figures, see table 13.4.

Both the concept of caps and the levels at which they are set are contentious issues. In the Commission's view, supply restrictions can only be justified to the extent that they can reduce social costs sufficiently to warrant any adverse impacts on recreational consumers.

Is there a causal link between access and problem gambling?

There are a number of dimensions to accessibility. They include not only the number and distribution of gambling opportunities among the population, but also opening hours and conditions of entry to venues, ease of use of a gambling form and the degree of social acceptance. Among the major gambling forms, gaming machines and lottery products are the most accessible, followed by TABs and lastly, casinos.

While a link between the extent of problem gambling and the accessibility of gambling might seem self-evident, it is possible that most problem gambling could emerge with only limited opportunities to gamble (including 'informal' or illegal gambling) and not rise much further with increased access. Nevertheless, the evidence from Australian surveys and other sources does confirm a significant connection, other than for lotteries.

- Problem gambling rates are higher in those states where per capita expenditure on (non-lottery) gambling is higher, such as New South Wales and Victoria, and lowest where such expenditure is lowest — namely, Tasmania and Western Australia (figure 10).
- Patterns of help-seeking by problem gamblers are also strongly associated with accessibility.
- There has been a sharp rise in the involvement of women in gambling, which is correlated with the increased access to poker machines.
- And survey data indicate that problem gambling rises more than proportionately with the number of regular gamblers.

Impacts of state-wide (or regional) caps

Assessing the impact of caps is complex, as it depends not only on how tightly they are 'binding' (demand exceeding supply), but also on other aspects of the regulatory environment (such as price controls and governance) and on the way consumers and venues respond to constraints.

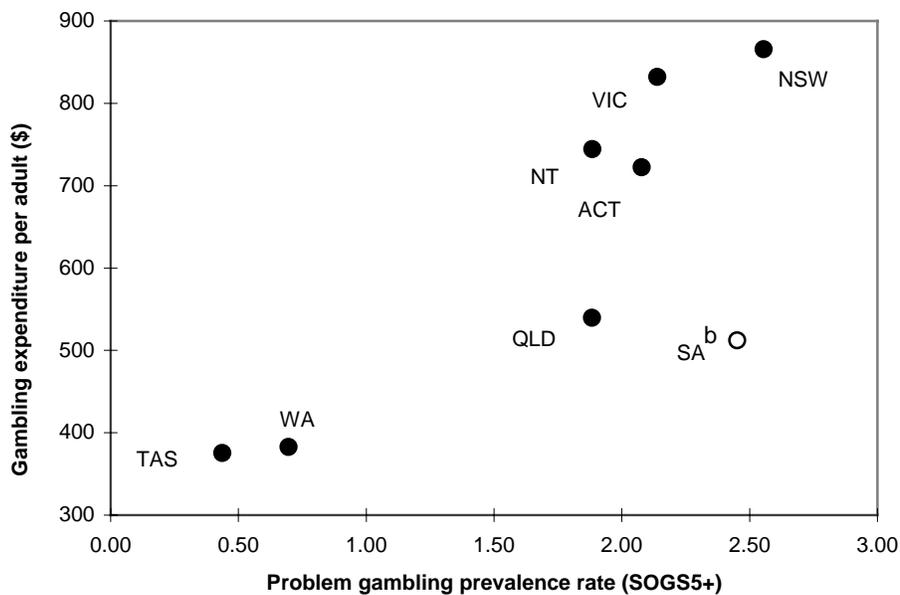
- For one thing, once demand pressures mount there will be incentives on operators and gamblers for the more intensive use of machines, which could

exacerbate problem gambling. (Machine intensity is much greater in Victoria, where there are caps, than in New South Wales.)

- To the extent that venues can raise ‘prices’ (reduce the odds or payout ratios) in response to demand pressure on scarce machines, this is also likely to increase the spending of existing problem gamblers (although possibly deterring some new ‘recruits’).
- However, to the extent that venues cannot raise prices, sheer congestion and queuing could be expected eventually to constrain the scope for problem gambling.
- But all this would come at a significant cost to the majority group of recreational gamblers.

Figure 10 Problem gambling prevalence also varies across states

Results from the Commission’s National Gambling Survey^a



^a The spending is per capita gambling expenditure for 1997-98 where gambling includes racing, EGMs and casino gambling, but not lotteries or minor forms of gambling. ^b The South Australian prevalence rate is outside expected bounds and is likely to reflect random sampling error.

Data source: The spending data is from the 1997-98 Tasmanian Gaming Commission dataset, while the prevalence data are from the Commission’s *National Gambling Survey*.

Venue caps?

Similar considerations apply in assessing the likely effects of venue-based caps. Caps with controls on payout ratios are likely to be preferable — taking account of

effects on problem gambling — than without them. However, venue caps have potential advantages over global caps with respect to problem gambling.

- There would be less scope to reduce payouts where venues face nearby competition.
- Smaller concentrations of machines confine them to a role of being just one element among a mix of social activities within a venue.
- Problem gamblers may be inhibited by their greater conspicuousness in a smaller, and more mixed social environment.

By the same token, larger venues may be better placed to implement effective harm minimisation strategies, to the extent that there are significant fixed costs involved.

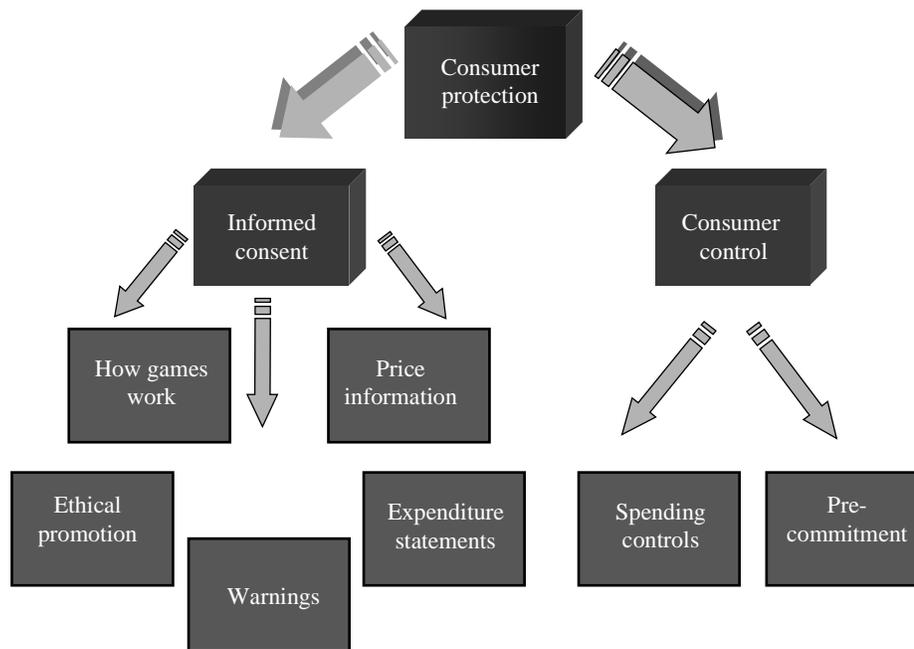
More generally, venue capping can enable a more controlled expansion of gambling, while impacts are monitored. However the introduction of venue caps ‘after the event’ would face the practical difficulties of higher machine numbers than may be desirable in some venues and adjustment costs of imposing a lower limit.

On balance, venue caps can play a role in moderating the accessibility drivers of problem gambling from gaming machines — and are preferable to global caps for this purpose. But more targeted mechanisms for harm minimisation would involve less collateral disadvantage to recreational gamblers and would be more effective in reducing social costs.

9 A key role for consumer protection

The principle of informed consent should apply with particular force to the gambling industries, given the potential for consumer losses. But the Commission found a lack of basic information about the price and nature of some gambling products, let alone the potential dangers from ‘excessive consumption’. Effective consumer protection measures are needed in a number of areas (figure 11). Individually they may not have a major impact, but collectively they could make a significant contribution in ameliorating social costs. That said, most would first require pilot testing or experimentation to determine their cost effectiveness and most appropriate design.

Figure 11 **Consumer protection measures**



Meaningful ‘price’ information

The industry has emphasised that consumers are buying ‘time’ or entertainment when they gamble. However, unlike many other consumption items, there is little basis for consumers to know the expected ‘price’ of their purchase. Many people have little understanding of the expected return on a lotto ticket, for example. And minimum payout ratios for gaming machines convey little information about likely spending rates.

- While there are complexities involved, the Commission sees considerable scope for providing more meaningful information about the effective ‘price’ of playing poker machines and lotteries, including the likelihood of receiving high paying winning combinations. For example, how many poker machine players would appreciate that the chances of getting say ‘five rhinos’ would be only one in ten million — even less than winning the lottery (box 10).
- Apart from other considerations, the absence of adequate price information in this area provides some justification for the statutory minimum payout ratios.

The prime objective of better information is simply to empower consumers, not to deal with problem gambling. However, better information about the odds and average costs of gambling might help reduce the false perceptions that sometimes underlie problem gambling.

Box 10 **Communicating the price of gambling**

Displaying the mathematical odds of different outcomes on a gaming machine may be informative for many people, but may do little for those consumers who find odds hard to interpret. But there are more evocative ways of representing the odds that may be more understandable. For example, in the case of Black Rhinos (a popular gaming machine), consumers could be told that (as confirmed by the manufacturer), if they bet one line per button push, in order to have just a *50 per cent chance* of getting 5 rhinos:

- it would take them 6.7 million button presses; or
- at ordinary rates of playing, it would take them 188 years of playing or 392 days of absolutely continuous play (24 hours a day); or
- it would cost them nearly \$330 000.

(Of course, this is an extreme example of a general point. Clearly, this machine also pays out many smaller prizes with much higher probabilities.)

The best measure of the effective price of playing poker machines is the expected loss (one minus the return rate). Together with information on the odds of different payouts, this could be shown in real time on the poker machine screen. Machines already have versatile displays which provide graphics and information to players. They are effectively computers with an in-built colour monitor. Incorporating such further information would involve no radical re-design of the machines (and therefore should not pose high compliance burdens).

Indeed, AGMMA (sub. D257, p. 7) suggested a display card format that could be usefully employed — reproduced in chapter 16 (box 16.4).

However, the Commission considers that trials with consumers would need to be conducted to assess:

- the exact form in which information should be provided;
- the usefulness of complementary information pamphlets to consumers that help explain how poker machines work, including information on how to interpret any posted 'prices'; and
- the extent to which consumer behaviour changes as a result of this information.

How games work

Erroneous beliefs about what determines 'success' in gambling are legion. Apart from leading to poor decision-making by the average consumer, psychologists see these false perceptions as major contributors to problem gambling (table 7).

Table 7 Beliefs about gambling
per cent

<i>Belief</i>	<i>Agreeing</i>
The chances of winning a substantial amount of money at the casino are quite high	15.5
I think I'll win a good prize in Tattslotto (over \$10 000) one day	16.6
One day I'm going to strike it lucky at gambling	13.7
Sometimes I think I might have the power to 'will' my numbers to come up in gambling games	8.4
To win at gambling you have to think positively	19.0
If I concentrated hard enough I might be able to influence whether I win when I play the pokies	6.9
I'm more likely to win at lotto/gambling if I use my 'lucky numbers'	10.0
You can win at the pokies if you adopt the right system	10.1
You can 'beat the system' at the casino if you know how	11.1

^a Based on a survey of gambling attitudes among 1017 Victorian young people.

Source: Moore and Ohtsuka (1998).

One of the most widespread misconceptions (evident in problem gamblers' frustrated 'chasing of losses') is the notion that gaming machine payouts depend on previous outcomes from a machine (box 11).

Box 11 Some facts about pokies

- The payout tables on poker machines indicate the winnings that are associated with certain combinations. They do not tell the player the probability of the combination occurring.
- In most jurisdictions, operators must return at least 85 per cent of turnover to players as winnings. It will usually take hundreds of thousands of games for a machine to come close to this average 'set' return.
- Each game played on a machine is independent of results from past games —machines which have not paid out for some time have no higher chance of paying out now or in the near future (and vice versa).
- Actual outcomes on machines are extremely volatile, with player returns and the amount of time that it takes to lose a set amount of money varying between sessions.
- If a gambler 'reinvests' the winnings, he or she will eventually lose the lot.

Information in this area is essential to inform consumer choice and could help prevent the development of gambling habits and attitudes that lead to problem gambling. Such information could be made readily available through pamphlets and signs (in a range of languages) — as is done now in casinos to introduce people to the rules of table games.

Statements of expenditure

Many gamblers appear to have poor awareness (or biased recollections) of their losses relative to their wins. This has been borne out by surveys. (For example, the *ABS Household Expenditure Survey* indicates gambling expenditure in 1993-94 was about one-quarter of the actual level.) As a result, a potential early-warning signal about problem gambling is muted.

One advantage of the internet as a gambling medium is that it provides a gambler with ready access to comprehensive information about his or her spending pattern and levels. There is scope to provide more such information within other gambling forms. This has been facilitated by the advanced information technology in gaming machines. Accounts could already be made regularly available to existing holders of 'loyalty cards' in casinos and clubs, and to TAB account holders. If information is collected by the industry on consumer spending patterns, it is only reasonable that it be divulged to consumers themselves.

'Health (or wealth) warnings'

As noted, a variety of people within society can become problem gamblers. The continuum of impacts and the costs which each problem gambler can impose on others, define it as a public health issue. That in turn implies the need for better and more readily available information for consumers about:

- the risks and consequences of excessive gambling;
- the signs of an emerging problem; and
- sources of assistance and advice.

Such information needs to be disseminated within the general community, as well as at gambling venues — where it needs to be much more accessible than is currently the case in many venues. For example, the effectiveness of many warning signs currently provided by venues is doubtful. As box 12 illustrates, they are rarely as explicit as in other areas of public health.

Advertising and promotion

As with other products, gambling advertising generally accentuates the positives and ignores the negatives, so as to simulate consumer demand. In this case, that can be hazardous. As one former industry leader commented at the public hearings, 'all advertising for gaming is misleading because it only shows people winning. That is not the experience of most people in gaming' (transcript, p. 25). The message is that

everyone can be a winner. This can help foster the sorts of erroneous beliefs about gambling that lead to problems. As noted, unlike most other products, it is difficult for many consumers to learn the truth for themselves.

This provides grounds for going beyond existing trade practices restraints. The voluntary codes examined by the Commission are useful, but none requires the ‘warnings’ that apply to other public health issues, or targets the misconceptions.

Box 12 Gambling ‘health warnings’ compared

Used in other areas of public health

‘Speed Kills’

‘Hot water burns like fire’ (Queensland scalds prevention campaign)

The Australian National Tobacco TV ad campaign shows pictures of blackened lungs and a smoke-damaged aorta oozing yellow fluids (www.quitnow.info.au).

A Road Safety Campaign TV ad shows a weeping man who has run over a child while drunk.

Used in gambling venues

‘Have fun, but play it safe’ (Tattersall’s)

‘Bet with your head, not above it’ (Star City Casino)

‘Gambling can be addictive’ (Canberra Club)

A Victorian responsible gambling TV ad pictured a group of quirky people having fun with gambling, ending with the slogan ‘If it’s no longer fun, walk away’

‘If you play with real dollars, play with real sense’ (awarded best slogan, American Gaming Association, www.americangaming.org)

Not used in gambling venues but suggested to the Commission

‘If you think you can win, you’re a loser!’

Access to cash and credit

It is generally illegal for venues to provide credit to gamblers and many do not cash cheques. That the underlying principle is widely supported within the industries further illustrates their special nature. By similar logic, casinos have taken a lead by situating their ATMs away from the gambling floor. The Commission’s *National Gambling Survey* found that problem gamblers were more likely than non-problem players to withdraw money from an ATM at a venue whilst playing the pokies (table 8). Among other evidence, problem gamblers surveyed by the Commission ranked ATM location as one of the most important issues for effective harm minimisation.

Table 8 How often do you withdraw money from an ATM at a venue when you play the poker machines?

	<i>Never or rarely</i>	<i>Often or always</i>
	%	%
Recreational players	90.0	4.6
Problem gamblers (SOG 5+)	47.0	37.8
Problem players (SOGS 10+)	25.2	58.7

Source: PC National Gambling Survey.

Outright bans on ATMs in venues with gambling may inconvenience recreational gamblers and other patrons. But more targeted and potentially cost-effective options include restrictions on the location of ATMs and lower withdrawal limits in gambling venues.

Exclusion and self-exclusion

The ability of establishments to exclude problem gamblers and for problem gamblers to exclude themselves, can play a useful role in reducing social costs. Such arrangements appear to have operated most effectively in casinos, where there are statutory provisions protecting the venue from liability and enabling relatively simple contractual arrangements. There is a case for extending statutory cover to all venues, while making it mandatory to advertise the facility and for venue management to act on all requests for self-exclusion.

Modifying game features and design

Evidence from surveys and counselling services suggests that gaming machines are a major source of problem gambling. In addition to their wider availability, sources of risk include their continuous nature, the ability to increase the size of successive bets and the structure of payouts. An important question is whether changes could be made to the machines which would temper the ‘hazards’, without significantly diminishing recreational gamblers’ entertainment.

The Commission has canvassed a variety of options. Many of these could be programmed into the machines to allow interaction with the gambler. They include:

- precommitment strategies and mechanisms, whereby a gambler could in advance place self-imposed limits on gambling duration or expenditure;
- curtailing or eliminating the use of ‘bill acceptors’ on machines;
- limitations on spending rates;

-
- enforced breaks in play at convenient intervals (such as after a significant win); and
 - big payouts being made only by cheque (as currently occurs on leaving a casino).

While such measures appear likely to have a beneficial effect for problem gamblers, their impacts on recreational gamblers are unclear and would need to be assessed. The Commission considers that mechanisms which allow gamblers to pre-commit to certain spending limits offer the most promise, and are potentially applicable to most gambling modes. Their effectiveness would be enhanced by being widely available among venues. They should be an essential feature of any move to smart card technology in gambling. Some other measures proposed by participants, such as altering the lighting and sound effects for machines, are unlikely to be effective.

A listing of the options and a summarised indication of their effects on different groups is included in table 9, along with measures applicable to other gambling forms.

What level of enforcement?

Reflecting different motivations, many gambling providers have already developed codes of practice covering such areas as advertising, signs about risks and counselling services, the training of staff and responsible serving of alcohol to gambling patrons. Most of these are recent (or yet to be implemented) and their efficacy is largely untested. In some cases compliance is clearly inadequate.

The question arises as to whether introducing a legislative duty of care involving broad standards, leaving the detailed approach to patron care as part of a self-regulatory model would be more effective. In a gambling context, however, enforcement of such a broad duty of care could prove more difficult than in other situations — because of the scope to shift the ‘blame’. The incentive to comply is also likely to be compromised by the substantial proportion of takings derived from problem gamblers.

On these grounds, the Commission considers that there is a strong case for mandatory regulations, rather than simply relying on voluntary codes of practice. Since the Commission completed its draft report, regulatory initiatives have been signalled in a number of jurisdictions, including the New South Wales *Gambling Legislation Amendment (Responsible Gambling) Act 1999*.

Table 9 Options for harm minimisation and prevention^a

	<i>Relevant modes^b</i>	<i>Aids consumer consent?</i>	<i>Impacts on recreational gamblers</i>	<i>Possible benefits for problem gambling</i>	<i>Overall rating</i>
A ban on gambling	A	x	x	✓	x
Information on odds of losing	G,L	✓	✓	✓	✓
Odds on payout tables on gaming machines	G	✓	✓	✓	✓
Information on the nature of games	A	✓	✓	✓	✓
Regulation of payout ratios	A	?	✓	✓	✓
A record of transactions	G,R	✓	✓	✓	✓
Awareness of the risks of problems	A	✓	✓	✓	✓
Restrictions on advertising	A	?	✓	✓	✓
Risk warnings on advertising	A	✓	✓	✓	✓
Opening hour restrictions	A	x	x	?	x
Quantity restrictions	A	x	x	?	?
Limiting social accessibility	A	x	x	?	x
Increasing the initial outlay	A	x	x	?	x
More stringent entry conditions	A	x	x	?	x
Limiting access to ATMs and credit	A	?	x	✓	✓
Simple system of self-exclusion	A	✓	✓	✓	✓
Player controls (eg card systems)	G, R, C	✓	✓	✓	✓
No bill acceptors	G	?	x	✓	✓
Limits on the rate of loss	G,R,C	x	x	✓	?
No linked jackpots	G	x	x	✓	?
Enforced breaks	G	✓	x	?	?
Cheque payouts for wins > \$250	G,C	x	x	✓	?
Longer times between button pushes	G	x	x	?	x
Less lights and sounds	G	x	x	?	x

^a A tick denotes a likely positive or at least benign effects, a cross an adverse effect and a ? an uncertain or mixed effect. The overall rating provides an initial judgement about the priority for assessment of regulatory options, with ticked items having the highest priority for policy evaluation. Options for harm minimisation of internet gambling are separately considered in chapter 18. ^b A denotes all gambling forms, G denotes gaming, R denotes racing, L denotes lotteries and C denotes casino table games.

Probity regulation

This is an area where existing regulation is highly prescriptive, although the strictness of the regulations varies considerably among the states and between modes. It is applied most stringently to casinos in all jurisdictions. The imbalance in probity regulation between casinos on the one hand and clubs and hotels on the other is difficult to justify, especially given the significant overlap in their gambling activities. While risk management is important to cost-effective probity regulation, there is a good case for consistency of treatment according to the gambling mode as well as the venue.

10 Problem gambling counselling services

All jurisdictions have problem gambling strategies in place. Some are more comprehensive than others, but most involve the provision of funding for problem gambling counselling and support agencies, as well as a community education strategy and research into the impacts of gambling. This funding is generally a small proportion of government taxes or levies on the industry.

- In most states, the government funded counselling agencies are organised as a geographically-based network called Break Even.
- 24-hour telephone crisis counselling services operate in all states, and are an important first point of contact for problem gamblers seeking help. Typically between 20 and 40 per cent of clients seeking help at counselling agencies have been referred by these services.

A rapidly growing clientele

The number of people presenting for help with gambling problems appears to have been increasing rapidly. The Commission's *Survey of Counselling Services* reveals a 33 per cent increase in caseloads over the past twelve months. Overall, 79 respondent agencies reported counselling or helping around 11 600 problem gambler clients and other clients affected by someone else's problem gambling during the past year.

- But this excludes the significant numbers participating in Gamblers Anonymous and other group support sessions, as well as those who may obtain help from generic community service, financial or relationship counselling agencies.
- Moreover, there is evidence that only a small proportion of those with gambling problems seek help, and less than half of those in the Commission's *National Gambling Survey* who admitted that they wanted help had actually sought it. Those gamblers who *do* seek help have generally reached a crisis, which may involve legal proceedings, job loss, family break-up, or attempted suicide.

The majority (65 to 80 per cent) of those receiving assistance have problems related to their involvement with gaming machines, with horse racing and casino gaming accounting for most of the rest. This is a consistent finding across most agencies and jurisdictions.

- The exception is Western Australia, which has relatively few people seeking help and much more limited access to gaming machines.

Effective treatment?

Treatment methods appear to vary considerably, from self-help at one end to ‘cognitive’ therapy (designed to correct misperceptions) and ‘medical’ treatment at the other. However, there is little reliable information on which approaches work best.

Given the importance of ensuring effective treatment — and the outlays already involved — some additional expenditure on monitoring and evaluation would be a good investment.

- This should include follow-ups conducted 6 to 12 months after the cessation of treatment (there are indications that earlier follow-ups may greatly understate the extent of relapses) and clinical research on best practice treatments.

There is also a need for some minimum, nationally consistent data set on the numbers and key characteristics of those being treated, as well as treatment methods and durations. The data that are available tend to be fragmented. And data that have been collected should be made widely available.

- Lack of evaluative information is also an impediment to the development of appropriate training and accreditation schemes (which desirably should be national) and, potentially, to future funding.

Funding arrangements for counselling

There are a variety of funding sources and mechanisms for gambling counselling across jurisdictions. Some have a statutory basis, derived from gambling taxes or special levies, and some are voluntary industry-based arrangements.

- Given the potential for conflicting incentives, there would seem to be an advantage in the former over the latter, with decisions about allocation of funds being made independently of industry interests.

The contributors to problem gambling funding within the gambling industries also vary by jurisdiction. For example, in South Australia the clubs and hotels make voluntary contributions, whereas in Victoria the hotels pay a prescribed amount. Funding should be derived from all gambling activities. While gaming machine revenue should be the predominant source, contributions should be derived from all gaming machine venues.

In most jurisdictions funding occurs on an annual basis. Agencies have raised concerns about the difficulties which this poses for planning and retention of skilled counselling personnel. There would be advantages in rolling triennial funding

arrangements, but these should be accompanied by a requirement for, and additional funding of, information on the performance of counselling agencies.

Funding levels are always hard to assess. There is evidence of excess capacity in some jurisdictions and waiting lists in others. Overall, the number of people in counselling is only a small proportion of those who wanted help, as indicated by the Commission's survey. Advertising, information collection and assessment activities appear under-funded in most jurisdictions.

11 Implications of the internet

Technological changes are having a rapid and marked impact on the delivery and nature of gambling services. The internet and interactive television allow the delivery of a wide range of gambling opportunities into everyone's home — the ultimate in 'convenience gambling'. These new technologies offer potential gains to many businesses and consumers, but also pose fresh challenges for regulation, harm minimisation and taxation.

State and territory governments have broadly agreed to a code for implementing interactive internet gambling, involving a range of probity and consumer protection requirements and specifying that taxation revenue will be repatriated to the jurisdiction of the gambler. A number of jurisdictions now have legislation in place, not all of which is consistent with this code.

In addition to the sports and racing betting that have been available over the internet (as an alternative to the telephone) for some time, Lasseters Casino, located in the Northern Territory, was the first online site offering interactive casino-style gambling. Others are poised to follow, including one on Norfolk Island.

Online gambling and interactive TV potentially represent a quantum leap in accessibility to gambling, and will also involve new groups of people. They will thus pose new risks and uncertainties for problem gambling. However, there are also some moderating features, such as the greater potential for proximity of family members, and scope for more effective consumer protection mechanisms and controls.

- Risks to minors, a major concern for many, are probably not significant for licensed sites — given screening requirements, ease of monitoring of accounts and the inability to gain access to any winnings.
- Supplier integrity can be monitored domestically, if not internationally, and could become largely self-enforcing to the extent that gamblers have access to

and are informed about preferred reputable sites where payment of any winnings is assured.

Approaches to regulation

Regardless of what regulatory approach is taken, there are strong grounds for governments to pursue ‘palliative’ measures, such as provision of information about suitable sites, gambling help services, and software for exercising greater control over online gambling.

There are also good grounds for the regulation of internet gambling along lines appropriate for other gambling forms. The Commission considers that there are ways of sufficiently inhibiting access to (foreign-sourced) unlicensed sites to make such regulation effective. It would also be considered fair and be complied with by most consumers — whereas complete prohibition may not. Moreover, prohibition would eliminate some potential benefits from the technology (including potential competitive advantages in trade).

‘Managed liberalisation’ — with regulation of licensed sites to ensure probity and consumer protection — has the potential to meet most concerns, provided a national approach to regulation and taxation is taken. A Commonwealth role, in cooperation with the states, could be of significant benefit to all jurisdictions by (among other things):

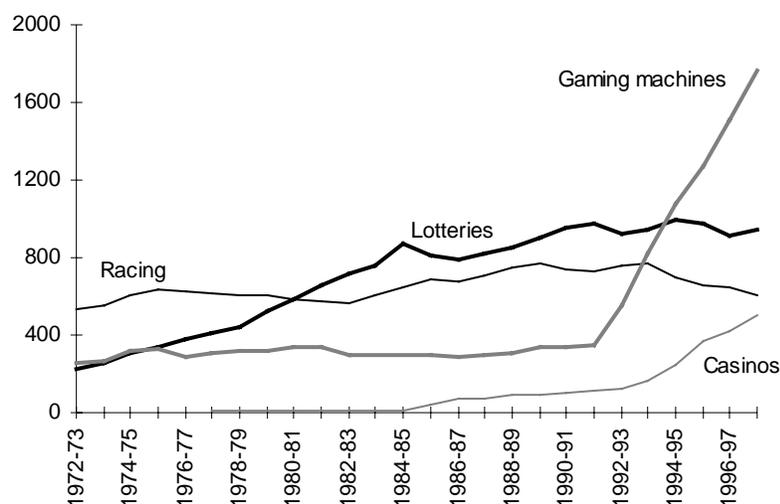
- allowing a single control system for blocking access to unlicensed sites;
- providing one national site for information and problem gambling referrals;
- providing a single voice when negotiating international agreements relating to consumer protection and taxation issues; and
- enabling one effective system for tax collection, revenue distribution and rate setting that would preserve the tax base.

12 Taxing gambling

As noted, taxation has played a major role in the recent evolution of gambling policies. It is a sizeable proportion of the revenues of all states and territories and has grown significantly over the past decade, particularly following the introduction of gaming machines in Victoria, South Australia and Queensland. Tax rates are high in all jurisdictions, and vary considerably among gambling forms and venues (figure 12 and table 10).

Figure 12 New forms of gambling provide revenue growth

Total state and territory revenue from different forms of gambling: 1972-73 to 1997-98 (1997-98 dollars million)



Source: ABS Taxation Revenue, Cat. no. 5506.0, various issues and Commission estimates.

Table 10 Gambling taxes are a significant share of state tax revenue

Gambling tax revenue as a percentage of total own-tax revenue^a

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Average</i>
1975-76	12.8	9.4	6.7	6.4	5.1	6.0	na	na	9.8
⋮									
1985-86	11.6	9.1	10.1	5.8	7.6	9.6	na	na	7.9
⋮									
1995-96	11.0	12.6	13.1	7.4	11.5	8.8	10.1	8.4	11.4
1996-97	10.2	13.0	12.8	6.4	13.0	9.8	8.6	9.4	11.2
1997-98 ^b	10.4	15.2	12.5	5.7	13.8	10.3	8.3	9.6	11.7

^a Tax includes licence fees and charges. ^b Figures for 1997-98 are preliminary.

Source: chapter 19.

The states' distorted incentives to use gambling as a revenue raiser — because of their lack of broad-based taxes and dependence on Commonwealth transfers — have been compounded by the distribution methodology of the Commonwealth Grants Commission, which penalises below average tax raising efforts.

Gambling taxes, like other taxes, need to be evaluated on efficiency, equity and social grounds.

Are the higher taxes justified?

High gambling taxes can be partly justified as appropriating for the community what otherwise would be excess profit from licensing or access restrictions. (There is some evidence of excessive returns even after tax — illustrated by the premium paid for additional poker machine licences under last year's auction in New South Wales.) This justification depends in turn on the (questionable) rationale for exclusivity and other restrictive ownership arrangements.

Effects on 'efficiency'?

Taxes generally change the behaviour of those who bear them. In general, the greater this distortion in behaviour, the less efficient the tax. So relatively high taxes can be efficient in this sense if demand is unresponsive to a resulting price increase.

Unfortunately there is very little reliable empirical information on the price responsiveness of 'recreational' gamblers. (Conclusions about efficiency cannot be based on the behaviour of problem gamblers.) If anything, the weight of evidence and other more qualitative considerations support the presumption of relatively insensitive demand.

In these circumstances, there would not necessarily be a payoff to efficiency from significantly reducing gambling tax rates. Lottery taxes may be an exception, however, being so high as to possibly outweigh the effects of inelastic demand.

Effects on problem gambling?

Normally there are grounds for taxing more heavily those activities with undesirable side effects, to reduce their production or consumption. But in this case, the adverse side effects stem from excessive *spending*. And it seems clear that, irrespective of any doubts about recreational gamblers, most problem gamblers are unlikely to be sensitive to price changes. So higher taxes generally make for greater financial burdens on existing problem gamblers.

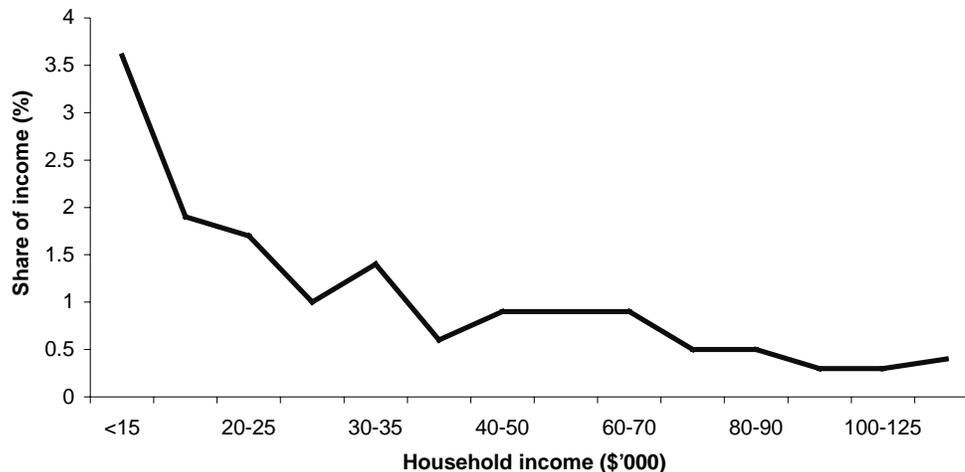
However, not enough is known about the behaviour of problem gamblers to predict the outcome for them from lower taxes. Also, lower taxes could serve to encourage increased gambling activity by people who are at risk of becoming problem gamblers. This and other complications have led the Commission to conclude that taxation is too blunt an instrument for reducing the social costs of gambling.

An inequitable tax?

It is well established that gambling taxation is regressive, with lower income groups generally spending proportionately more on gambling — and thus shouldering more of the burden (figure 13).

Figure 13 Gambling taxes are regressive

Tax as a percentage of gamblers' household income, by income groups.



Data source: PC National Gambling Survey.

The Commission's analysis suggests that taxes on lotteries and gaming machines are the main sources of this regressivity. The equity issues are heightened by the unevenness of the tax burden among the poorest households, with some paying much higher proportions of their income in gambling taxes than others.

However, equity outcomes from reducing gambling taxes would also depend on what alternative taxes were available to states and territories to replace lost revenue, and their degree of regressivity.

In sum, there are both efficiency and equity grounds for experimenting with lower lottery taxes. While the levels of other gambling taxes are unlikely to be optimal, on the basis of available information there is not a strong, or unambiguous, case for general reductions.

Preferential treatment of clubs?

Community clubs pay much lower taxes on their gambling revenue than other industry members. State taxes are generally lower than for hotels or casinos, and no Commonwealth income tax is paid on 'mutual' income, which can include proceeds

from gambling (table 11). This has been a major source of contention, with hotels and retailers arguing that the lack of competitive neutrality is hurting them and leading to excessive growth of clubs.

Table 11 Clubs' preferential gambling tax treatment, New South Wales
Electronic gaming machines

	<i>Clubs</i>	<i>Hotels</i>	<i>Casinos</i>
State tax			
Gaming machine tax:	Tax levied on annual profits from gaming machines: <ul style="list-style-type: none"> • up to \$100 000 (0%); • \$100 001 to \$200 000 (1%); • \$200 001 to \$1m (20%); • over \$1 000 001 (26.25%). 	Tax levied on annual profits from gaming machines: <ul style="list-style-type: none"> • up to \$25 000 (15%); • 25 001 to \$400 000 (25%); • \$400 001 to \$1m (35%); • over \$1m (40%). 	22.5% tax levied on gross revenue from slot machines.
Community contributions	Clubs will be permitted a tax rebate for expenditure on approved community programs, effectively reducing the top tax rate to 24.75%.		Community benefit levy of 2 per cent of gross gaming revenue.
Income tax:	None	Corporate or personal tax rate	Corporate tax rate

Source: NSW Treasury 1999, p. 29.

At the state level, preferential tax treatment has been based largely on the presumption of community benefits from clubs' operations which do not hold for hotels. Clubs not only provide benefits to their members, they also make contributions in kind and in cash to a range of community organisations and activities. However, it is not clear that these external contributions are of sufficient magnitude to warrant major differences in state taxes.

The 'mutuality principle'

At the Commonwealth level, the 'mutuality principle' has exempted club income from taxation. The principle holds that one cannot make a profit from selling to oneself, and an amount received from oneself is not income — and therefore not subject to tax. The concept has been extended to defined groups of people who contribute to a common fund, controlled by the group for common (not individual) benefit.

This longstanding principle has only raised concerns with the rapid expansion in gaming machine revenue and consequent changes in the nature and economic significance of clubs, the largest of which resemble casinos. Matters are complicated by the fact that in Victoria and Tasmania, where clubs do not 'own'

their machines, the income derived from them *is* taxable. The same applies to income from Club Keno and TAB outlets in all clubs.

How distorting?

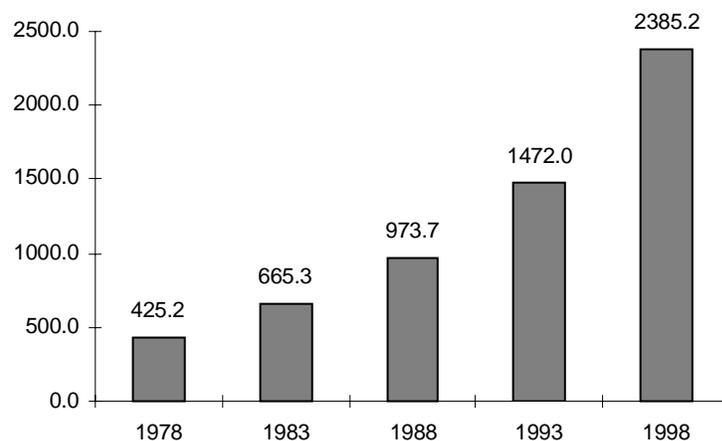
Club revenue from gaming machines has grown rapidly, as have clubs in those jurisdictions — such as New South Wales and the ACT — where the revenue is treated as mutual income and where there are no caps on machine numbers (figure 14).

Gaming machine revenue for some of the large New South Wales clubs ranges from 65 per cent to 88 per cent of their total revenue. These ‘super clubs’ have many of the characteristics of major commercial enterprises. While their income is derived largely from ‘members’, membership is generally readily granted at minimal expense.

A major distinction with other commercial enterprises is the inability of clubs to distribute any surpluses to ‘shareholders’. Together with the tax advantages, that has led to:

- cross-subsidisation of restaurant, hotel and other services, and
- major programs of capital expansion and upgrading of facilities.

Figure 14 New South Wales clubs – gaming machine revenue
\$million, current prices



Data source: NSW Department of Gaming and Racing.

These have clearly also been a source of benefit to those who use the tax sheltered facilities and services. But the potential for distortion in consumption and investment is significant where poker machine numbers are unrestricted. That said,

it is unclear how to deal with it, from the income tax side, in a way that would be effective and would not introduce new distortions or inequities.

Options for reform

A number of the proposed options have been examined in the report. They include:

- applying income tax to the surpluses derived from poker machines alone;
- increasing existing state taxes on clubs' gaming machine revenue;
- limiting maximum poker machine numbers in clubs (as already occurs in some jurisdictions); and
- demutualisation (changing clubs' corporate form).

While each has advantages and disadvantages, the Commission considers that the state tax option is likely to be the only effective one. (Any such move would need to involve phasing to minimise transitional losses on existing investments).

'Earmarking'

The hypothecation of government revenue from gambling for 'good works' or civic projects has a long history in Australia and overseas. About one-third of gambling revenue is currently 'earmarked', involving one or more of three mechanisms in most jurisdictions:

- *Hospital funds* are the largest category. They generally receive a fixed percentage of revenue from particular gambling activities, which is then reappropriated through budget processes to the hospital sector.
- *Community benefit funds* are a second form, with grants being made from the fund consistent with its objectives. They typically fund problem gambling services, but also many other activities.
- The third mechanism is the provision of *direct grants* from gambling organisations, such as the WA Lotteries Commission's program for funding community groups.

Earmarking of gambling revenue for problem related gambling services, gambling research and community awareness campaigns is appropriate, since gambling creates the need for such services. This tangible expression of the link may also have a public education role. And, without such pre-commitment, sufficient funding may not be forthcoming.

Earmarking for other purposes does not appear to have created major allocative distortions. However:

- direct grants generally escape budget scrutiny and prioritisation,
- there is evidence that fluctuations in gambling revenue have affected funding of health services, and
- accountability and transparency of funding decisions have not always met budgetary standards.

Such problems, together with the questionable basis for using the funding of ‘good works’ as a promotional and compensating vehicle for an activity generating significant social costs, are grounds for not earmarking gambling revenues beyond activities related to problem gambling (such as research, and harm minimisation). Instead, those other activities would be best funded through the budget process from the expanded consolidated revenue.

13 Improving regulatory and informational processes

Many of the deficiencies in current regulations are the legacy of the way policies have been made. While some jurisdictions have done better than others, the approaches of most have at times been characterised by:

- poorly specified and sometimes conflicting objectives and rationales for regulatory decisions;
- often ad hoc decisions that have not taken into account the industry-wide implications;
- lack of rigour in assessment of the costs and benefits of alternative options;
- lack of community consultation about attitudes to and the possible social and other consequences of regulatory decisions, and
- little systematic monitoring and evaluation of the consequences of such decisions, once implemented.

Good policy-making and regulatory processes require that decision-makers have the appropriate degree of independence and control; that their objectives are clear and their decisions well-informed, and that the basis for their decisions is transparent and publicly accessible. Such features are especially important in a policy area such as gambling, which is characterised by conflicting pressures and incentives for government — and the potential for major winners and losers, within business and the community, from different regulatory outcomes.

There are several distinct functions that need to be performed in any proper regulatory environment for the gambling industries, of which three key ones are policy development, ‘control’, and enforcement.

Policy development

Some policy decisions are properly the preserve of Parliaments, with Ministerial responsibility for their development. In the Commission’s view, these include threshold decisions bearing on the extent and accessibility of different gambling forms — including caps, allocation rules and ownership decisions. Some important ingredients of good process at this level include:

- a requirement for regulation impact statements and the procedural steps that underpin them (see box 13) with independent public reviews to identify costs and benefits of different options, and
- public consultation about any options under consideration.

Independent ‘Control Commissions’ in each jurisdiction

The resulting legislative standards within each jurisdiction need to be well administered. This involves such important decisions as who gets licences to offer different gambling activities, who may work in different venues, appropriate technical standards and when penalties apply for breaches of licence conditions and regulations (including any consumer protection and harm minimisation requirements).

Box 13 Regulation impact statements

These are used widely by Commonwealth, state and territory governments and by member nations of the OECD. A RIS sets out:

- the problem or issues which give rise to the need for action;
- the desired objective(s);
- the options (regulatory and/or non-regulatory) that may constitute viable means for achieving the desired objective(s);
- an assessment of the impacts (costs and benefits) on consumers, business, government and the community of each option;
- a consultation option; and
- a strategy to implement and review the preferred option.

Source: ORR 1998, p. xv.

Good process at this level demands substantive independence of the regulator, who must exercise any discretion in an impartial manner, without undue influence or

interference by industry, community or the government of the day. The control body, therefore, should itself be a statutory organisation, with authority vested in tenured commissioners who have no connection to the industry and report to Parliament through the relevant Minister(s) in each jurisdiction.

Other features should include:

- jurisdiction over the gambling industries as a whole (to allow more coherent decision-making in relation to the different modes);
- an advisory role to the Minister and Parliament on major public interest matters, including those requiring legislative change.

Regulatory enforcement

The enforcement function is about ensuring that venue operators comply with licensing conditions and other regulatory requirements. Under regulatory provisions for harm minimisation, compliance with these requirements would be part of this function.

This ‘policeman’ role is generally regarded as needing to be undertaken separately from the control function (the ‘judge’) — a principle embodied in the so-called New Jersey model of gambling regulation. IPART endorsed the principle in its recent review in New South Wales. The Commission can also see benefits in this separation, including from public confidence in the implied checks and balances.

What role for local government?

To the extent that decisions about gambling accessibility have their predominant impacts at the level of local communities, this would suggest the need for a collective say at that level. Local communities have generally had little such opportunity. Local government’s main influence has been confined to its planning approval powers for new establishments or extensions to existing ones. However, even these mechanisms have been overridden by state gambling legislation in some jurisdictions.

The principle of local communities being consulted has force. The control authority should at least be required to consult with local communities in making decisions about licence applications. This could include surveys or, on major issues, referenda.

What role for the Commonwealth?

While many issues are most appropriately dealt with at state level, there are a number of aspects with ramifications at the national level. For example:

- internet gambling can really only be effectively regulated and taxed with the assistance of the Commonwealth Government;
- to the extent that problem gambling leads to calls on Commonwealth welfare services, some cost shifting is involved; and
- there may also be economies in having a more national focus on key issues, such as the coordination and assessment of counselling services.

Commonwealth involvement could facilitate inter-governmental cooperation on issues of mutual importance, perhaps initially at Ministerial Council level.

There is also a need for a national research facility to provide a central focus for data collection and research, including achieving greater national consistency in information. While this could be a Commonwealth body, it would clearly require the cooperation of the states and territories and may need to be jointly funded.

Information needs

The Commission has sought to make this report as information rich as possible, to provide a better basis for public discussion and government policy on gambling. But the report also identifies many information gaps which could not be filled in this single national inquiry. These necessitate an ongoing commitment by all jurisdictions and a strategic, coordinated approach to research and data collection, which has been largely absent. The processes and allocation of responsibilities outlined in the report are integral to the longer term effectiveness of this important government role.