

**Submission to:**

**Productivity Commission Inquiry:**

***Australia's Gambling Industries***

Written **4 November 1998** by:

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# Gambling: A 'good' or a 'bad'?

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John Rotenstein, 4-Nov-98

## **Summary**

Gambling is illegal because it is a public 'bad'. Clubs are 'good' because they help the community. Therefore, allowing clubs to have poker machines enables them to finance the 'good'. But, we have financed the 'good' by allowing the 'bad'. So, Is there really a benefit?

## **Submission**

### **Gambling is a 'bad'**

Gambling is illegal, except where permitted. Why is this?

It is because gambling is considered to be a detriment to the community. Rather than being a public 'good', which helps community, it is considered to be a public 'bad'.

As with most things that are harmful to the community, it has been ruled generally illegal.

### **Clubs are 'good'**

Registered Clubs are considered to be 'good' for the community. They provide services that help the community, which would not otherwise be provided. As stated by the Registered Clubs Association:

*“A healthy community-owned club movement is vital and unique to NSW and worthy of the greatest protection available because its overall structures and methods of operation in providing facilities and community support, underpinned by its gaming income, is not and will not be provided by private operators of gaming who operate for private profit. The provision of community facilities by clubs also represents a huge saving to Government via the opportunity cost of these facilities*

*— Submission to the inquiry in the effect of Poker Machines in a casino on the operation and viability of Registered Clubs, Registered Clubs Association, 1992.*

### **Gambling should be permitted for Clubs**

In the absence of sufficient government funding to finance ‘good’ public facilities, it was decided to allow Clubs to raise money via gambling services. This provides the public with ‘goods’ without any direct cost to the government.

Thus, we have financed the ‘good’ by permitting a ‘bad’.

### **Is there a net benefit?**

Therefore, the basic question is whether the ‘good’ outweighs the ‘bad’.

For Clubs that provide a community service, there can be lively debate on this topic. But what about other gambling activities that provide no direct services, such as government lotteries and casinos?

McMillan concluded that net social welfare from casinos only increases if more gamblers and tourists are attracted to the area:

*“While all Australian governments like to claim that the casinos are productive, unless total receipts from outside the region are increased by the casinos, all that is happening is that casino expenditure is being substituted for other forms of spending and there is no net economic benefit to the city—just a public cost. Only if more gamblers and tourists are induced to visit the region by introducing casinos, will economic benefits follow by way of new injection of funds into the city. If casinos are not the deciding factor in tourist visitation casinos could even have a negative impact, in that the increased gambling by residents may mean lower expenditure on other locally produced goods and the need for increased government services to deal with gaming-related social problems.”*

— McMillan J (1991) “The Impact of Casinos in Australian Cities”, in W. Eadington, and J. Cornelius (eds) *Gambling and Public Policy: International Perspectives*, Nevada Institute for the Study of Gambling and Commercial Gaming.

An article in the *Sydney Morning Herald* (1994), “Dicing with Destruction, says expert”, 3 November 1994, puts it nicely:

*The best casinos were those which kept the money but exported the social problems.*

This technique nicely deals with the conflict between a ‘good’ and a ‘bad’. By providing gambling services to non-residents, the local community (or country) retains the ‘good’ while exporting the ‘bad’. This gives credence to government decisions to encourage ‘high roller’ spending on foreign gamblers.

Locally, however, people are being indirectly taxed by financing the ‘good’ with a ‘bad’. Indeed, gambling is a form of voluntary taxation, mostly regressive in nature. Would these people be just as willing to pay higher taxes to obtain their community benefits? It is highly unlikely.

Would they accept a *regressive* tax equivalent to revenue from gambling? Definitely not. There would be public outrage at such excessive taxation on low-income earners.

Yet gambling is permitted. How a government can justify such actions is very strange indeed.