

STAR CITY EXECUTIVE



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Mr Gary Banks
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Dear Mr Banks

Draft Report on Australia's gambling industries

The Commission invited comment on the Draft Report it has produced on Australia's gambling industries.

Attached to this letter are some detailed comments on specific sections of the Draft Report. It has not been possible for us to comment in as great a detail as we might have wished given the size and complexity of the Draft Report. Nevertheless, the comments are intended to be helpful in production of the final Report. We have naturally focused on those sections of the Draft Report which we find deficient, rather than recounting areas where we are in agreement.

We would like to make some general points about the Draft Report.

The Draft Report focuses heavily on one element of the Terms of Reference. Much of the research undertaken by the Commission, and the Draft Report itself, is taken up by problem gambling, in discussion of the phenomenon itself, treatment of the phenomenon, its relationship to new technologies or actual and possible regulatory structures to deal with problem gambling. As a result the media debate on the Draft Report has also focussed, not on the industry, but on problem gambling. The Key Findings of the Draft Report encouraged this outcome.

This was unfortunate. It pre-empted a broader and more rational debate on the industry as a whole, and led to a range of sometimes hysterical reactions and misrepresentations and knee jerk policy responses. Gambling is already a heavily regulated activity with a high degree of very costly intervention both in the activities of businesses that provide such services and the protection of the customers involved. The scope for abuse by most providers is very small and the apparent abuse by users is also quite small in relation to the total number of people engaging in the activity or compared with other major social problems. We believe that it is not sensible to try to make a big problem out of a relatively small problem.

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This is also an area where the state of knowledge is, to be polite, incomplete. Experts in the field disagree violently over the causes, nature and treatment of the problem. This fact is strongly relevant to the assessment and discussion of externalities, which lie at the heart of the Productivity Commission's Draft Report, and what are, in effect, the policy recommendations contained within it. The Commission has made up its mind that problem gambling is a health problem but its conclusions do not affect or add to the state of knowledge in the matter, which is still subject to ongoing academic and other debate. The fact is that all of the estimates depend heavily on calculation of externalities which are notoriously difficult to measure. Much of the debate is subject to a high degree of subjectivity. It is difficult enough to measure economic impacts of a more direct kind such as the degree of industry protection. To measure externalities is much more difficult and should lead to great caution in recommending policy solutions directed towards correcting such external costs.

We would agree with one of the central conclusions of the Commission's Draft Report that gambling is a form of consumption. It is a form of consumption for which there is strong demand. We should, however, not exaggerate the level of this demand, which is quite a small proportion of household consumption expenditure, or changes in the level of this demand which are, of course, much smaller still. The shift towards gambling is part of a much larger shift in household expenditure towards leisure and entertainment and towards experiences rather than goods. It might be remarkable but it is not unusual.

In any case, Australians do want to gamble. Nor for the most part do they feel that there is any stigma at all attached to this activity. We do not think it is a questionable pleasure. They are aware that excessive gambling can be a problem and there may be stigma attached to that just as there is to any form of personal excess. We believe that we have matured sufficiently as a society not to have any religious or ethical hang-ups about gambling. The fact that gambling is consumption also alters the perception that it is all about winning. Both the game itself and the winning are part of gambling and any attempt to treat one or the other, as the whole story will miss the point. The old terminology of gambling equating to losing is inadequate to describe most of the production or consumption of this sector. The Draft Report's conclusion on page XV1 that gamblers inevitably lose over time is therefore outdated and shallow.

The gambling industry would be the first to concede that there are problem gamblers. There are thousands of pages of literature on the subject already. This literature has not brought agreement on the causes of problem gambling. Furthermore, what nobody has bothered to do, and what the Commission will only partly do and we think inadequately do, is to assess the size of the problem and to put it into proportion. It was for this reason we submitted the NORC data which places problem gambling alongside other major harms and demonstrates not that it is a trivial problem (a view the Commission and others who should know better, have tried to attribute to the industry) but that it is a problem of a certain magnitude – a magnitude much less than the social harms normally discussed in public discourse. We are concerned at the trend throughout the Draft Report to build as large a problem as the statistics will bear. The SOGS 5+ cut-off point appears to bring in a very large number of people without a significant problem.

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The characterisation of every gambler as a potential problem gambler, we believe, to be absurd. It is the equivalent of saying that everyone who handles money is a potential thief. It insults the intelligence and responsibility of the 98 per cent of gamblers who, even the Commission concedes, do not have a significant problem. Its only purpose can be to enlarge apparent scale of the problem. It ignores the only really solid evidence which is that 8,000 people obtained help from counselling, a tiny proportion of gamblers and an insignificant percentage of the population. It attributes a large proportion of divorces and potential suicides to problem gambling on the most tenuous of grounds. It appears to use every means to increase the percentage of problem gamblers and treats all internal costs as social costs.

The Draft Report suggests it may have only uncovered the tip of the iceberg. We suspect that the Draft Report has found the whole iceberg and a large proportion of the surrounding sea.

It also minimises the benefit side of the equation.

The policy conclusions flowing from this are distorted by the base upon which they sit. In the ruling elites of every society there is a strong proclivity to social engineering and even behaviour modification to a norm shared by some theoretical group of "normal" people characterised by the ruling elite. Social planning appears to be replacing the now discredited economic planning without any proof of its efficacy. It is particularly tempting to engage in this sort of engineering when the cost can be moved onto parties other than government, particularly onto Australian industry. The overall purpose and effect is to increase the total level of regulation in society. The additional costs to the large proportion of persons not affected by the problem are blithely dismissed as amenable to regulatory impact statements, which are routinely ignored by governments.

Will more regulation help? As we said above there is a massive list of costly existing regulations on this industry. The Commission makes no real attempt to estimate these – which has been its traditional role. The proposals of the Commission to add substantially to this list and to make them even more deeply interventionist are disturbing. Industry regulations are in many cases a new form of economic distortion. Such regulations will require large volumes of new information which will inevitably be found to be inadequate to the task – requiring yet more data. They will impose considerable capital costs on the industry and restrain normal market development. They will generate a new class of inspectorial busybodies.

More invidiously they are not the regulation of industry they are the regulation of people and in matters where the government appears not to want to undertake the task itself. In other words, it would invest industry with police obligations without prescribing proper medical/sociological training or provision of police powers and protections. The type of policing proposed would rightly be refused by any government or private welfare agency as impractical. And the restrictions applied will be applied to all consumers. We strongly doubt the propriety of prescribing what are, in effect, ethical norms, in our liberal democratic society. But in any case, the assumption of net benefits from this process is questionable to say the least.

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We, therefore, believe that this Draft Report fails to meet its Terms of Reference in a balanced way. There was an opportunity to demystify this industry. Instead the Draft Report is slanted heavily against gambling as an industry and activity – 80 per cent of the paper is devoted to just over 2 per cent of gamblers. Its conclusions, we believe, are weakly based. They involve the abandonment of well-tested policy principles and would impose a range of new economic distortions and burdens that will eventually be borne by the consumer.

Yours sincerely

J.A. Hoggett

J A Hoggett
General Manager
Corporate Affairs



Attachment

Comments on Draft Report of Productivity Commission into Australia's gambling Industries

Key Findings

The Key Findings railroad the public debate

We believe that the drafting of the Key Findings was designed to excite the media hysteria, which followed the release of the Draft Report. The benefits produced by the industry are minimised and treated dismissively. The problems, which are confined to a very small population of gamblers, comprise most of the Key Findings.

In this respect, the Findings summarise a highly distorted view of what was intended by the Commonwealth Government to be a broad report on Australia's gambling industries. This in turn has distorted the public and policy debate rather than illuminated it as the Commission's reports traditionally do.

The Draft Report and the Findings are disingenuous in that they purport not to make recommendations for policy, but, in effect, do so extensively.

Summary of the Draft Report

Gambling is not a questionable pleasure

Most of the comments applicable to the Summary are covered in the more detailed comments on the Draft Report below. It is worth pointing to one fundamental and ambivalent statement on Page XVI, which conditions the Draft Report, that "gamblers inevitably lose over time - it is more like consumption than investment". If gambling is consumption (which is probably correct for most gamblers) then gamblers cannot unambiguously be said to *lose* in the short or long term. In most cases they must gain.

Almost 98 per cent (on the Commission's estimates) are engaging, with no significant problems, in voluntary transactions for which they tender payment and receive greater value in return. Otherwise they would spend or invest their money elsewhere.



The overtones of gain and loss permeate this Draft Report. It leads to the inclusion of fatuous and subjective quotes along the lines that there is no "joy and pleasure in gambling" (Page 5.4) as if such third party quotes were evidence of disbenefit. Football fans do not expect their team to win every match. At the match they will be engrossed and generally not laughing. And they can look very unhappy when and after they lose. Yet, they go again the following week and no one suggests that even losing a game is a net disbenefit. Joggers and bush walkers are notoriously solemn. Concertgoers rarely laugh.

We believe that the Commission needs to make more clearly the point that gambling is a legitimate and controlled expression of preferences for the vast majority of consumers, giving rise to an industry that is no different from other providers of goods and services in our economy.

It is time we 'grew up' in our attitude to this industry, which is providing a product, which has been freely available since the dawn of civilisation. It is not a pastime of which most gamblers are ashamed. It is not a "questionable pleasure".

More regulation is a poor response

We also disagree strongly with the statement on Page XXIII that "the task for government policy towards these industries is to regulate them in ways whichwill help bring the greatest benefits to society". In a liberal democratic society such as ours, government is only justified to intervene in the lives of individuals and businesses where there is a clear and pressing need to do so. We think that the notion of an all-wise government, planning and directing industries or society generally has been completely discredited. We are disappointed to see an assertion of this kind in a report of the Productivity Commission whose proud tradition is to subject such proposals to fierce scrutiny. We are even more disappointed that virtually all the conclusions will lead to more government regulation of private activities.

Lower tax is justified

The conclusion in the second paragraph on Page LIX is highly misleading. The extent of the tax inequity may be unclear but it is clear that gaming taxes are high and highly inequitable in some areas.



THE DRAFT REPORT

1. Introduction and guide to the Draft Report

- Under scope of the inquiry (Page 1.3) we suspect that 'minor' and informal gambling may be quite substantial, particularly among regular card players, golfers etc. Card schools in offices and factories, bridge schools and other minor play, with or without wagers are very common. This is relevant in considering both the quantum of gambling and the extent to which the population at large is generally experienced in gambling and able to gamble in a controlled way.

2. An overview of Australia's gambling industries

We do not account for one fifth of the world's EGMs

- On Page 2.9 it now appears that the previously widely accepted "fact" that Australia accounts for one fifth of the world's gaming machines is a considerable exaggeration. Even on the Commission's narrow definition the percentage appears to be about 6 per cent. If we do treat gambling as a consumption then these gaming machines are not much different from many other forms of interactive electronic play, with their closest relations being found in Japanese pachinko parlours, which are very much like our pokie palaces, and extending out to other video and internet games for which payment is made. The percentage may be as low as 2 per cent. It will be important that the Commission correct this and the impression of rampant EGM play that it created.

The following table shows the correct figures:

<i>A summary of world gaming machine numbers</i>	
	Per cent
Asia Pacific	69
Europe/Middle East	21
North America	7.8
South America	0.7
Africa	1.0
Australia	2.5



Many Australians gamble – so what?

- In any case, what is the purpose of such a statistic? No doubt the UK has 50 per cent plus of the world's football pools and other countries consume disproportionate amounts of other products such as motor vehicles, wine, raw fish, internet and curry. Australians gamble proportionally more than others. In itself, this is not a cause for concern.

Convenience shopping is a worldwide trend

- On Page 2.18 it would provide perspective to note that the trend in "convenience gambling" is part of a world wide trend that covers, shopping, other entertainment (e.g. TV) takeaways, banking etc.

3. Consumption of gambling

Australians enjoy gambling

- The first key message should be that 80 per cent of Australians enjoy gambling - the reference to \$11 billion 'lost' on gambling sets an unnecessarily negative tone in this chapter.

The consumption shift to gambling may be remarkable but is not unique or unnatural

- The Draft Report notes that 3.6 per cent of household expenditure is devoted to gambling.

We believe that this section of the Draft Report could be much improved by the inclusion of broader data on consumption patterns and shifts to compare gambling with other elements of consumption and show shifts in patterns over time. The relative size of gambling consumption is not great and the shift towards gambling is no more than a 'normal' shift in consumption patterns. It is probably no greater than the shift towards new electronic goods such as VCRs, pay television and CDs. More recently, the shift towards the internet for information, video games and transactions has probably been, and will continue to be, quite dramatic.



These points are important to put into perspective the alarmist statements of anti-gambling commentators inferring a massive and irresistible tide of growth in gambling generally. The shift in the expenditure share from 1.6 per cent to 3 per cent is insignificant over 25 years. Many other components would have shown much bigger shifts. Can the Commission say whether growth in real spending on gambling been much faster than growth in the real economy over the 25 year period? Gambling has doubled its share in an economy that is probably twice as large.

Let's have some perspective in this part of the Draft Report.

Tax the people's pleasures

- We found it interesting that persons with tertiary qualifications (who are the government policy makers) have low participation in gambling (Page 3.17). This is perhaps one reason why some forms of entertainment are subsidised/protected e.g. opera, the ABC, books and National Parks and others disproportionately taxed and regulated such as gambling and beer.

4. Impacts of gambling - a framework for assessment

Gambling is just another industry/pastime

- Section 4.2 seems to us to strain rather heavily to make a basic case that gambling is different in order to justify government intervention. A few points:
 - ⇒ *An unlucky monetary speculation* is often a gamble (Page 4.4) - there is a continuum here. Consider the growth in day trading on the share market which led to some tragic consequences recently in the United States.
 - ⇒ The fact that the risk of problem gambling is higher among regular gamblers does not imply a bigger national problem (Page 4.5).
 - ⇒ We all have difficulties with calculating our financial advantage from our day-to-day transactions including gambling. Is that a 'problem' of a kind that invites special attention and government intervention? (Page 4.5).
 - ⇒ The gambling industry is not suggesting that problem gambling exists because of anti-gambling groups but it is making the perfectly reasonable point that if you make an activity such as social research cost free (through grants) you will tend to encourage it and to generate more of its product (criticism) which may well exaggerate the apparent importance of the problem. It is a pity to see the Commission giving credence to those who assert that the industry is 'in denial.'

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If any attempt to ensure perspective is treated as denial we will have a poor quality debate (Page 4.6).

You assert that there does not seem to be much scope for supplier induced demand. We hope you are right but the experience in the health sector (recalling that the Commission sees problem gambling as a health problem) does not give much cause for optimism.

- ⇒ We think that it is likely that there is no more crime associated with gambling than many other activities e.g. property development, pharmaceuticals, entrepreneurial activities and even, at times, the State police forces. This is especially the case if one regards the massive unregulated Australian 'black economy' as criminally tainted (Page 4.6).
- ⇒ It is really straining for effect to suggest that the visibility of gambling has relevant negative external effects. To many people, so does traffic, conspicuous consumption, television programs we don't like, the buildings on Circular Quay, SOCOG, Canberra, Pauline Hanson, the dentist etc. Let's keep a sense of proportion here either by excluding this vague stuff or at least stating that these 'externalities' need to be seen in proportion to the huge range and intensity of personal likes and dislikes that can have no practical policy relevance (Page 4.6).
- 'Adverse distributional effects' no doubt also arise from spending on motor vehicles, television and food. Are low-income people getting "poorer" because the level and pattern of their spending on food? Is obesity from this spending a further regressive aspect? (Page 4.11).
- Gambling is not 'far less accessible' than many 'normalised' goods (whatever that concept means). It is as near as the nearest newsagent, hotel, club, TAB, internet site or telephone (Page 4.12). The rapid recent growth in telephone wagering is a good example.

Economic benefits can exist without economic "gains"

- In assessing the benefits (Page 4.3) we think that the Commission is likely to mislead the general public and even the educated by fairly indiscriminate use of the words "benefits", "net benefits", "gains" and "consumer surplus". Apart from the possibility that this industry does deploy otherwise unused resources it is misleading simply to conclude that the gains in output or jobs are "mostly illusory" without adding that, in themselves, the output and employment have value. The Commonwealth Statistician values the industry's GDP contribution at about \$6 billion and people employed at 135,000. A reader might easily infer, from the wording used, that the Commission had concluded that this industry had no value and that its employees were engaged in worthless activities. Our 4000 employees would feel justifiably aggrieved at such an implication. We believe that the Commission should correct any such impression.



5. The benefits

- In seems strange that, with some \$11 billion (heavily taxed) spent voluntary on gambling, the Commission's two negative quotations are so weak (Page 5.4).

One also has to question the validity of a survey that finds 67 per cent of people engaged in a voluntary activity consider that it makes no difference to their life (Page 5.5). Incidentally, there are an awful lot of people sitting 'frozen' at the cinema, theatre, cricket matches, coach tours, river rafting etc.

The problem gambling statistics are rubbery

- The share of spending attributable to problem gamblers depends on the definition of 'problem gambler' and the national survey, which the Commission admits requires cautious interpretation (Page 5.10). This, the apparent anomalies in Table 5.2 (half of all wagering is problem gambling) and the estimate of the shortfall in problem gamblers' value for money, suggest that these statistics should not be used in the 'headlines' of the final report without heavy qualification.

A ban on gambling is unthinkable

- The argument in Box 5.7 favouring bans or severe supply restrictions does not give rise to "problematic" policy implications. The policy implications are quite clear and adverse and we think the Commission should take courage and say so. In an activity such as gambling, which 98 per cent of customers enjoy in without harm, there is absolutely no case for banning or heavily restricted access. This is not just because people ought, as a matter of principle, to be free to pursue their own (harmless) interests but because of the significant crime, evasion, and subsequent inequities that accompany bans or the sort of draconian restrictions that are implied here.

Disbenefits are exaggerated

- We strongly question the disbenefit estimate for problem gamblers, which the Commission admits to be arbitrary. Combined with the estimate of problem gambler numbers and the estimate of their share of spending we have several unreliable estimates compounded by each other, exaggerating the potential for error. The assumption that the (dubious) category of problem gamblers spend almost 20 times as much per capita as non-problem gamblers, but only get twice the satisfaction, certainly seems very conservative but not in the terms the Commission proposes. Why not estimate that they get 75 per cent or at least half their value for money? This estimate is a 'stab in the dark' (Page 5.14).



Some benefits are simply omitted

- Incidentally, there seems to be a huge gap in the Draft Report at this and later points. While the Draft Report goes on to enumerate various spin-off costs to the problem gambler and his/her family, friends, employer etc., there is no estimate of any spin-off benefits from the 98 per cent regular gamblers in terms of enhancement of mutual enjoyment, better relationships arising from recreation and relief from day-to-day cares, easing of stress etc. We think these benefits could probably be estimated using similar heroic assumptions. They would be relatively enormous given that non-problem gamblers outnumber problem gamblers by forty-two to one.
- The Draft Report appears to dismiss from its calculations the potential benefits arising from economy wide effects of shifts in consumption or taxes (Page 5.22). This is more than unfortunate as the potential benefits appear relatively large and the general equilibrium models produced by Murphy et al are no more simplifications of the real world than some of the other estimates used by the Commission.

6. Problem gambling

We do not know how the problem arises

- The Draft Report discusses, but does not resolve, the ongoing disagreements over what is a 'problem gambler'. Experts in the field disagree violently over this. Whether it is inherent, conditioned, learned or simply a constellation of effects is not clear from this or earlier literature. This has profound implications for the estimates of benefit/disbenefit and the policy recommendations made by the Commission. It should incline us to modesty in pronouncing conclusions, particularly where these affect the more than 11 million non-problem gamblers, and the 160,000 employed in gambling or part gambling industries.

SOGS gives an unreliable overestimate of the problem

- The Commission relies on the South Oaks Gambling Screen as its main tool. It is acknowledged that it is not too difficult to reach the 5+ threshold used by the Commission.



Question 2 captures all braggarts; 3 and 4 could easily capture many gamblers without there being more than a one-off incident; there are plenty of people around ready to give gamblers free advice under question 5 (or any other matters); question 6, "ever felt guilty", could equally apply to shoppers, politicians, stamp collectors, footy fans, workaholics etc; question 8 collects people who simply value their privacy; question 9b depends whether others like what you do and may be independent of problems; replies to question 11, "ever lost time" may indicate a single incident; questions 12 et seq may indicate very small or one-off accommodations in the budget of an individual.

We suggest that the Commission, instead of looking for signs that suggest their numbers are too low, honestly consider the value of, and possible overestimation in, these SOGS based estimates. We suspect that if a SOGS 5+ measure were applied to many human activities or passionately pursued hobbies we would find significant problems popping up everywhere.

The flaw is that, to define a problem, one has to assume some level of 'normal' behaviour. Australians are as eccentric as any other nation with their own distinctive eccentricities. This attempt to characterise a certain level of eccentricity as abnormal and, therefore, a "problem" should be seen for what it is, a standard set by one small group of people for the majority. It will also tend to submerge the real problem group in a larger cohort.

An overestimate of the problem will lead to an exaggerated reaction

- We believe it would be more honest to apply a higher threshold, especially given the distortive effects these estimates have on all the Commission's estimates of benefits and costs and the perceived "need" for yet more involvement in the day-to-day activities of those 98 per cent of gamblers who have no significant problems.

The Chart should illuminate not mislead

- Figure 6.1 is dishonest in two ways:
 - ⇒ It is called the 'problem gambling' continuum when it is the gambling continuum.
 - ⇒ It implies that most gamblers are problem gamblers and that the quantum of severe problems equals that of no problems (which is itself depicted as a bit grey). There is no point in having a visual representation (a chart) if it instantly conveys a false impression and one has to read the small print to correct that. This chart is consistent with the Commission's assertion that all gamblers are potential problem gamblers and that this should shape policy.



That is the same as saying all people are potentially extremist which is a statement which the short and long run statistics show to be untrue. It also insults that large majority of the population that is well able to and does control its personal budget. It's like saying all drinkers are potentially alcoholics or all people who handle money are potentially thieves.

Time for a reality check

- Another problem with the SOGS is that it does not stand up to the Commission's own 'reality' test:
 - ⇒ Australia apparently has 330,000 problem gamblers but only 58 per cent of the 140,000 severe problem gamblers scoring SOGS 10+ said they wanted help and only 8,000 have actually gone for help.
 - ⇒ One in ten problem gamblers (33,000 people) have apparently contemplated suicide (according to the Draft Report) compared with total actual suicides (from all causes) of 2,700 people and inferred gambling related suicides of 46 people (0.0001 per cent of the Commission's total of problem gamblers)
 - ⇒ A recent US study shows that the net costs of problem gambling paled in comparison with other harms; the harm from problem gambling was equivalent to 4.5 per cent of drug harms or 3 per cent of alcohol harms, or 7 per cent of tobacco or 7 per cent of car smash harms or 4 per cent of heart disease harms. Even allowing for the fact that these are US figures the harm from gambling comes out at a tiny fraction of the more serious problems facing our society.
 - ⇒ Only half of the 330,000 report a significant harmful impact using the Commission's HARM Indicator (Page 6.29)

The prevalence estimates are biased upwards

- We question the Commission's conclusions on whether surveys miss the most severe cases (Page 6.33). Each of the points made are no more than surmises yet they are described as "Findings" and are used to justify a doubling of the prevalence rate. We are, of course, working with very small percentages here but the conclusion seems little more than guesswork.



- In arriving at their final problem gambling prevalence estimates the Commission uses a mixture of two methods (Dickerson and SOGS) to arrive at the total and severe categories. It could well be argued that these figures be adjusted **down** on the basis of the HARM index, the number actually seeking counselling, the results of the self assessment, previous surveys and a more cautious interpretation of the SOGS figures. Overseas surveys seem to support this (Page 6.39).
- We find somewhat contradictory the assertions that:
 - ⇒ The availability of gambling in Australia leads to higher prevalence rates (Page 6.44).
 - ⇒ Youth, to whom gambling is less available, allegedly have problem gambling rates higher than adults (Page 6.47).

Young people take more risks

- It is perhaps unsurprising that age is the main risk factor. Young adults take more risks all round (Page 6.51).

7. The impacts of problem gambling

Gambling is not the cause of all ills

- The first Key Finding in Box 7.1 seems disingenuous and a little shallow. It is true that harms may be traced to gambling but the individual must gamble in the first place and there must be some cause for that. A conclusion of this kind (which is not supported by Figure 7.2.) could lead people to believe that banning solves most of problem gamblers' life problems.

The source of the problem remains undefined

- The statement in the first paragraph of 7.6 is only very weakly supported by Box 7.2, which merely says that the individual does not know what "drove" him/her to gamble. "A certain person" may not typify the problem gambler but it would be helpful to explore whether a person with a certain set of attributes or problems would be likely to develop gambling problems. The conclusion on Page 7.9 is very weak, focussing on effects rather than causes. This is important, as the Commission draws some fairly bold and interventionist policy conclusions on this shallow base.



The link to suicide is guesswork

- The key message relating to suicide should be severely qualified. The Commission concedes that causality in this area is almost totally unknown (Page 7.16). On the bases of its own figures it infers 46 gambling related suicides and then comes up with a wild (and irresponsible) guess that it could be as high as 400 (Page 7.17), although the 400 "is likely to be a significant overestimate". We think that this is too serious a matter to be treated in this cavalier way.

People get excited when gambling

- We note the health effects of heart pounding, butterflies in the stomach and sweaty hands, but these accompany to many pleasurable activities (Page 7.17).

Parents will not necessarily neglect their children

- It is facile to draw the conclusion in the second full paragraph (Page 7.2.3). The probability that parents will leave their children in "inappropriate care situations" may be low.

Each problem gambler will not necessarily affect 7.4 other people

- There seems no support for the conclusion in footnote 13 on Page 7.26. Might the calculations not lead to an exaggerated figure? Was the possibility of extensive overlap within gambling families or groups considered? Why would the parents and siblings of adults necessarily be adversely affected? These calculations are vital to the estimate of disbenefit and seem weakly based.

Let's celebrate the positive points

- The "moderate" effects of gambling on work performance could usefully be included in the Key Finding at the head of the Chapter and the Draft Report (Page 7.2.8). The effects of gambling on work performance may well be less than the effects of surfing, racing, shopping, movies etc.

Why would a debt free gambler commit a crime

- We are not sure how logistic regression gives a debt free problem gambler a one third chance of committing a crime. Intuitively, that seems very high (Page 7.42).



Problem gambling as a cause of bankruptcy is a very small negative

- The surveyed bankruptcy statistic (Page 7.44) seems rather casually dismissed. At the very least, it is suggestive of a very small figure.

Why do they do it?

- The "benefits" for problem gamblers from their gambling are treated in less than a page, (Page 7.56) mostly consisting of negatives!

8. Accessibility and problems

Poorer people are not more stupid than the rich

- We object to the suggestion that poorer people are more likely to be looking to gambling as a solution to financial problems (Page 8.7). It suggests that they have less common sense than the better off. It is just as likely that they will be more acutely aware of the penalties of excessive spending. It also seems inconsistent with the average spend of the problem gambler calculated by the Commission.

More production generally leads to more consumption – is this bad?

- Otherwise, the chapter is a statement of the obvious. More accessibility to product is perhaps likely to lead to more consumption although broader demand considerations will probably be more important. The real question is whether banning or restricting a product will reduce the total problems - a matter which is still hotly and inconclusively debated in many areas, such as, restaurant drinking, marijuana and prostitution. For example, it has been argued that the existence of "shooting galleries" for addicts in Sydney will not increase or reduce addiction but that, in any case, it will lead to consumption in a more controlled and, therefore, safer environment.

9. Broader community impacts

Better surveillance and security leads to more apprehension of offenders

- It is not surprising that Crown Casino generates the bulk of gambling offenders - their detection systems would be the best in Victoria (Page 9.3). The "large crowd" theory applies also to sporting and cultural events.



Gambling does not increase street crime

- The final para on street crime (Page 9.7) appears to be weak given the available evidence of the Draft Report itself - there appears to be very substantive evidence from the US and Australia that there are no major social costs. In Pymont the presence of Star City has led to better lighting, urban upgrade and security presence and surveillance. The local police report has almost no street crime. Certainly there is stronger evidence here than the Commission uses to support some of its other major conclusions.

Money laundering through gaming is a myth

- Austrac does not appear to spend much time now on money laundering in gaming so why the qualifier in the final paragraph on Page 9.9? This sort of weak conclusion helps perpetuate the protection from the public scrutiny and criticism that is afforded to the really significant money launderers through private businesses and the financial system.

Effects on norms, ethics and preferences are too vague

- The sections on psychological costs, norms, ethics and preferences are very vague and unlikely to provide a fruitful line of inquiry for determining social costs (Page 9.22). This could lead to extremely subjective measurements and large variations in costs depending on the personal sensitivity of those involved.

Effects on other sectors are normal shifts in consumption

- The decline in retailing is over a period of 20 years (Page 9.25) so that the shift in consumption patterns is a normal change. The Victorian data does not support a conclusion that the long run impacts on retailing may be much more severe (Box 9.4). In recession, people are equally or perhaps more likely to cut back on gambling expenditure.

Intervention to slow the rate of change is not what Australia needs

- We are disappointed to see the Commission use the data on consumption shifts to justify a case for government to intervene to deal with "the pace of change" to allow industry adjustment. Apart from the facts that the changes are not dramatic and that ability to change quickly seems likely to be a key to national success, such policies have long been used as cover to prevent change altogether (Page 9.29).



Regional distribution of EGMs may have several causes

- The regional distribution of gaming machines in lower income areas may be partly explained by the cross-subsidised facilities, goods and services whereby the gambler pays for more than just the play itself. In other words, this may be a response to social as well as gambling needs. It may be an effect rather than a cause. Other agencies (government, churches, social clubs) seem incapable of providing the same level of amenity in such regions despite their tax-free status and the high taxes on gambling. Restricting gambling opportunities will cause many to travel to more distant venues with the attendant costs and risks. The problem gambler will be more likely to travel but recreational gamblers will bear the bulk of additional costs. (Figure 9.5. and Box 9.6).

10. The costs and net impacts

Robert Goodman a doubtful authority

- We understand that much of Robert Goodman's work has been discredited (Box 10.2).

Measurement of gamblers private costs is speculative

- The inclusion of private costs as social costs and the failure to adjust for the effect of other conditions on the costs attributable to problem gambling, we believe, fundamentally undermines the Commission's net benefit estimates (Page 10.7 and 10.8). The measurement of gamblers' lack of knowledge and awareness of costs is speculative.

The estimates of social costs are not well founded

- Moreover, the attribution of major elements of costs to "emotional cost of divorce" and "depression" - especially the high end estimates - and the assertion that the high estimates are "conservative", rest upon weak foundations. These costs are largely intangible and appear to be little more than guesses. The result, at the extreme, is to imply that the benefits derived by the 11 million Australian gamblers from participation in this pastime are largely offset by the costs of divorce and depression by a fraction of the 1-2 per cent problem gamblers. On the face of it, this seems nonsense. The Commission's cost estimates rest heavily on these factors. Much more measurement is needed here (Page 10.10 and 10.12).



11. Overview of the policy environment

IPART's fundamental misconception

- The IPART - view that the only product that exchanges hands in gaming is money - is, of course, incorrect in a fundamental way. Gaming is consumption. Gaming is also a product (Page 11.12). The "money" argument certainly does not provide a greater case for licensing in gambling than in such industries as banking, insurance or welfare payments.

Motor vehicles are worse than gambling

- We doubt the motor vehicle analogy is a good one (Page 11.17). The cost of road smashes and deaths not to mention traffic stress (for drivers and pedestrians), road rage, breakdowns, vehicle theft and hail damage etc are almost certainly many times that of problem gambling. One might even argue that some people are addicted to dangerous driving though this is not essential to the point we are making. The reasons not to restrict car numbers or car travel are that such control would be inequitable, totally unworkable as a policy, unacceptable and might well not reduce harm - not that current standards are adequate, nor that car travel is relatively safe. There are simply limits on what governments should be trying to achieve among the enormous array of demands for action by interest groups.

12. Regulatory arrangements

Problem gamblers may know the odds better than most

- We think it an exaggeration to state that "many" players do not understand the odds (Page 12.26). The odds are widely publicised, especially in the media and are widely available to gamblers even though, as the Commission's inappropriate use of the Black Rhinos example shows, they cannot be simply explained (see below). We think this insults the intelligence of the majority of gamblers. Moreover, it also misinterprets the reasons for problem gambling and could lead to bad policy. It seems likely that many problem gamblers do know the odds very well but their behaviour is conditioned by other, stronger factors which cause them to hope that in their case the odds will, in some way, be suspended. In this case, it is unlikely that more detailed information will be used by them to modify their behaviour.



13. Constraints on competition

Exclusivity equals reduced access

- The Commission appears somewhat at odds with itself here (Page 13.18). Restrictions on accessibility must give rise to some form of exclusivity and vice versa. The recent announcement by the Victorian Government that there will be no more casinos and the cap will remain on EGMs is an example of this. Does the Commission consider the Victorian policy pointless?

User charges equals taxes

- We note a tendency in the Draft Report to advocate additional taxes on the industry under the guise of user charges (Page 13.19). This should be seen in the context of the existing high levels of taxation.

Is racing sacrosanct?

- Why is the Commission supporting the protection of this industry? It already receives substantial support from the wagering industry. If the racing industry looked like failing would not the wagering industry bail it out? And if it did not, would that matter in policy terms? Furthermore, while the Draft Report expresses concern about potential "underproduction" in this industry it is silent on the restrictions that tend to reinforce that underproduction. (Page 13.21)

14. Regulatory access

Are encounters with problem gamblers a problem?

- It is not clear from the text what is the relevance of the probability of "encountering" a problem gambler (Page 14.21).

A fall in demand for gambling in aggregate could have little effect on problem gambling

- The conclusion at the bottom of Page 14.28 would depend upon the composition of the fall in consumption - it could be argued that problem gamblers would be the last group to give up so that the major disbenefits might be the last to disappear.



15. Consumer protection

Gambling machine "prices" are not simply translated

- The communication of gaming machine "prices" to consumers is not a simple matter. EGMs have complex prize scales which are not easily amenable to description. This complexity derives largely from the demands of the sophisticated Australian EGM customer. There is tension here in that the EGM customer actually likes the variety of game that goes with the complexity.

Over-simplification will defeat the purpose of consumer protection in consequence of the high risk of misleading the consumer and very large potential for additional disputes with players (which are already substantial).

The range of styles of play is also very wide so that providing odds on certain styles will be of limited use. There are similar complications with assessing duration of play for a given style (Page 15.13). It is true that players' preferences may be affected by frequency of jackpots but their behaviour is also conditioned by other factors such as the novelty of the game, features of the game including the availability and configuration of progressive links, the pay tables on the machines, whether they can smoke at the machine, promotional prizes the proximity of the bar etc.

The return to player from EGMs is already prescribed by government and this percentage is one that players are aware of. There is only so much consumer protection that can be built into systems before it becomes meaningless.

The Black Rhino example is misleading

- The reference to Black Rhinos is misleading. It could take 6.7 million button presses and 188 years of playing and cost \$330,000 but it could be any quantum short of this (or longer than this), including one button press. The Commission appears not to understand the working of random number generators. Their (mis) use of this example exactly demonstrates the difficulty of informing customers accurately of the odds. Moreover, the Commission misconceives the cost of the "dream" which is one of the benefits of playing (as distinct from actually winning). The "dream", which is part of the consumption of gaming, may cost no more than one button press (Page 15.15).

STAR CITY EXECUTIVE

*People will not give up lucky rabbits' feet*

- We think it futile to expect gamblers (or others) to give up lucky charms or to attempt to explain their ineffectualness (Page 15.20). Even highly intelligent people read zodiac signs or use the I Ching for guidance. Such habits are quite distinct from misconceptions about the functioning of EGMs.
- It may be possible to give periodic records of spending provided players want this but there will be an additional cost (Page 15.23).

Are problem gamblers sick?

- It is possible to treat problem gambling as a public health issue and problem gamblers as sick people although there seems to be disagreement among experts about this. Problem gambling should be seen as different in nature and of a much lesser scale than the list of public health matters mentioned in the Draft Report - which does not include others of even greater severity such as substance abuse, cancer and heart disease etc (Page 15.25). For example, The NORC study shows problem gambling as 4 per cent of heart disease harms. Incidentally, the Adelaide Central Mission does not seem to dispose of the ACIL assertion (Page 15.24).

Most gamblers are in control

- We think it untrue that all gamblers are potentially vulnerable (Page 15.25). This is scaremongering. 98-99 per cent of gamblers are well able to control their gambling activities and do so over the course of their lifetimes.

Signage can help but it is not a panacea

- We do not object to signage. We would, however, point out that there is a visibility threshold. In Star City there are already signs relating to underage gambling (in 7 languages), problem gambling, (various signs at entry, in the Cages, back of toilet doors, ATMs, on the walls, on machines and host desks), presence of surveillance cameras, prohibition on gratuities, dress standards, proof of age documents, photography and electronic devices, unattended children, casino boundaries, non-smoking areas, non-gaming facilities, host assistance, bet limits, breathalysers, responsible alcohol service (age and intoxication) as well as an enormous range of brochures on these matters.

Further requirements for signage should pass a test of effectiveness.

STAR CITY EXECUTIVE

***Extra restrictions on advertising need to be well justified***

- The section of the Draft Report relating to advertising seems to have been written with an underlying hostility to this activity (Page 15.4). The points made could apply to most advertising. Advertising is, of course, intended to draw attention to products and is part of the marketing strategy of most of business. If it fails to inform it will be ineffective. If it misinforms then the competition law already applies. However, there are very great difficulties in regulating what can be described as "hype". One only has to reflect on the build up of promotional activities in the period before the Melbourne Cup designed (usually successfully) to add to the excitement including the excitement of betting.

There are some straw men here. Has the Commission seen advertisements directed at people in desperate financial straits - "Come and gamble if you have no money!" Has the Commission seen advertising that suggests that table games (other than blackjack) or poker machines can produce wins through skilful play? Does the Commission really believe that birthday cards - which are used by many businesses as recognition of customers, affect people's behaviour? We believe that advertising restrictions specific to an industry need to be well justified. Many products have harmful side effects if misused. Generalised bans on certain industries are likely to be inequitable.

Winning is part of the experience

- One fact is that the possibility of winning and actually winning is one of the reasons to play. It is part of the product. "Reinforcing false beliefs" is too vague a criterion to use. If the underlying intention of the Commission is to treat the possibility of winning (and advertising the possibility) as an unfair inducement to play then this should be made clear (Page 15.33). It would dispose of almost all current lottery advertising.

Legislative codes are law on the cheap

- As we have noted, legislative based codes can be simply a lazy way for government to effect, what is, in practice, formal regulation (Page 15.33).



Duty of care has limits

- On Duty of Care, many providers and, in particular, casinos have put in place programs of the kind mentioned (Page 15.41 and Box 15.9). These programs all rely on the discretion of the gamblers and do not involve gaming staff directly policing the activities of individuals (other than when a self exclusion order is in effect).

ATM controls will not work equitably

- Whilst we do not object to the separation of ATMs from gaming areas we think that restrictions on withdrawals at venues will not work (Page 15.49). 98 per cent of gamblers will be inconvenienced unnecessarily. Further, non-gamblers such as hotel guests, theatregoers, diners and the general public use the ATMs. Problem gamblers will be likely to resort to carrying money in the form of cash, possibly in large amounts, a practice which we have discouraged for obvious reasons.

Policing of problem gamblers is a public responsibility

- The proposal that providers "withdraw gambling" from suspected problem gamblers is naive and dangerous. To suggest that gaming or other staff can be trained to discern a problem over which experts disagree violently is absurd. To ask them to intervene is to risk verbal and physical abuse and litigation particularly in those cases where there is no problem. This sort of grossly intrusive behaviour is possibly justified in cases of possible drink driving where the potential harm is very serious and properly authorised and trained police can back up the work and collect physical evidence at the time.

We observe that this requirement is to be placed on the industry. This is a convenient way of shuffling off a job which no official or private welfare agency would undertake. All such agencies stress the need for the gambler to recognise their problem before effective treatment can take place. We invite Commissioners and Commission staff to come on to the casino floor and identify and tackle such cases (Page 15.53).



The pricing models need refinement

- On the suggested pricing models (Section 15.9) we would comment as follows:
 - ⇒ Removing bill acceptors from machines seems rather Luddite - it will inconvenience all players greatly and is not well targeted at all. It might be compared to slowing the introduction of broadband cable (or removing it) and restricting users to the coaxial network, to reduce the risk of overuse of the internet.
 - ⇒ We are not sure of the purpose of the upfront charge in relation to problem gamblers (Page 15.66). It would seem to be more likely to discourage harmless recreational play and not affect problem players.
 - ⇒ The threshold idea would provide problem (and other players) with a powerful incentive to conceal their problem and reach the threshold and continue to play indefinitely. Setting the threshold would be impossible. Gaming is not like alcohol - the "tolerance" level varies with every player. Providers would be obliged to ban a wide range of "suspects" with substantial economic losses for users and suppliers alike. (Page 15.66).

Bans on jackpot features are a waste of time

- Bans on linked jackpots are no more likely to be effective than bans on large jackpots.

Gambling already has substantial user charges

- There is some discussion of user charging (Page 15.60 and 15.74). Gaming already has relatively high and occasionally graduated taxation and a range of user charges for commercial and other purposes. In assessing the case for user charges or obligations (suggested at several places in the Draft) existing tax levels should not be taken as datum.
- We agree strongly on the principle of mutual recognition (Page 15.77).



16. Help for people affected

Estimates do not equal reality

- We would note the massive discrepancies between the 8,000 persons attending counselling agencies (as problem gamblers or persons affected) and the Commission's 140,000 estimate of gamblers with severe problems, also the survey results of apparently 130,000 people saying they want help and 53,000 saying they sought help or even the Commission's lower bound estimate of 29,600. We note the small sample, which appears to invalidate the results in Figure 16.3.

The experts disagree violently

- This section of the Draft Report highlights complete disagreement among the experts of the nature of problem gambling and how to treat it.

Counselling has a massive failure rate

- It also demonstrates the massive failure rate of counselling (Table 16.14) even without considering recidivism (Page 16.41). It appears that only about one quarter of problems are fully resolved and about one third are totally unresolved. The weakness of the Commission's conclusions on this matter is disappointing. A robust conclusion that the existing counselling industry is substantially a failure might generate a serious debate about alternative modes of treatment or, at least, realistic assessments of what is possible.

Counselling and research funding should be carefully allocated

- The comments above relating to taxation of the industry apply equally to the conclusion on (Page 16.44). The Commission should consider the implications of this sweeping recommendation for the products of other industries. The Commission's discussion of the magnitude of the required assistance could also be more conclusive given the apparent underutilisation of services (Page 16.45). Certainly, a quadrupling of funding in NSW, where the existing fund is not fully utilised, would seem likely to be wasteful and possibly to induce currently non-existent demand.



More does not equal better

- The conclusion in the first full paragraph on Page 16.48 is a cop-out. It is extraordinary that the Commission favours the distribution of funding to a broad range of service providers simply because there are a broad range of service providers. Surely there is a need to very critically assess the effectiveness of any service that receives funds, otherwise we are in "whiteboard" territory, with anyone who can attract a few clients or make enough noise being eligible for funding. The counselling industry does not have to pass the full market test (as the gambling industry does). It should, at least, have to pass the usual tests for allocation of public funds.

A further weakness of the sort of hypothecated allocation of industry taxation of gambling favoured by the Commission is the likely mismatch, and in this case overprovision, of funds leading to pressure to spend available funds inappropriately. Certainly, a significant proportion of the money paid into the NSW Casino Community Benefit Fund is not spent on gambling related problems and has led to the Trustees of the Fund rather ungenerously renaming it the NSW Government Community Benefit Fund so that the implication of gambling related funding entirely disappears from the title.

17. New technologies

- The electronic trails are available to major gambling providers (Page 17.9).

Tax competition is likely

- Tax competition seems the most likely scenario (Table 17.2) given the very numerous potential jurisdictions. Does this imply that prohibition would be the preferable alternative?

Managed liberalisation is best

- We agree with the Commission that managed liberalisation is the best policy approach to internet gaming.



18. Taxation of gambling

Licence fees are taxes

- It is not clear from the text whether the Commission's tax estimates include upfront licence fees, which can be very substantial for casinos (Page 18.2).

Gambling is highly taxed

- We are not sure of the point of the comparison with alcohol, tobacco and petrol (Table 18.8). Does this, in itself, justify high taxation on gambling?

More for the money can be good

- Box 18.4 assumes that problem gamblers playing more (as distinct from spending more) is a negative. Is this necessarily the case? Might they not satisfy their need at a lower cost?

Regressive taxation deserves a tax break?

- The conclusion in this section appears not to follow evidence. The evidence that tax on EGMs and lotteries is regressive seems very strong. We wonder whether the Commission has taken the view that any significant reduction in taxation on gambling is a bad thing per se even if it reduces inequities and does not increase problem gambling.

19. Earmarking

Hypothecated taxation is not the best approach

- We do not think that the Commission has made the case for earmarking of funding for problem gambling (Page 19.5). First, the Commission's role should be, and normally is, that of critically examining "community perceptions" rather than just accepting them. Secondly, the pre-commitment argument only runs if the purpose is valid. It is not a reason in itself. Thirdly, reinforcing the link between gambling and problems is only valid if the problems are a priority in public spending as a whole.



The difficulty with accepting this line of argument is that it prevents the trade-off between different public spending priorities. It creates a cosy little group of dependents on the public purse that only have to justify their share of a pre set amount of funding. It can produce automatic increases in funding regardless of need (vide the Casino Community Benefit Fund). It encourages rent seeking. Public scrutiny is significantly reduced. There may be far more pressing problems in other areas of public spending such as hospitals, drug rehabilitation and cancer research, which are more deserving than problem gambling. We believe that the Commission's reasoning in respect of other programs applies equally to problem gambling (Section 19.2).

20. Mutuality principle

Taxes should also be able to be reduced

- Why the upward taxation bias in the Conclusion (Page 20.39). Why not reduce taxes on other forms of gambling? Less tax would be seen by almost all Australians as better than more tax.

21. Regulatory processes and institutions

- In NSW, the Treasury controls the setting and collection of gaming tax and the Community Benefit Levy (Table 21.1). The Trustees of the Fund, not the Casino Control Authority are involved in the funds allocation (Page 21.13).
- No appeal processes at all exist for Star City (nor, possibly, other casinos) – (Page 21.30). There can be no valid reasons for this.

Star City
September 1999