Productivity Commission
Draft Report Hearing on
Australia's Gambling Industries
Canberra, 20 August 1999

Supplementary Submission by Professor Richard Blandy and Dr Anne Hawke on behalf of Hon Nick Xenophon MLC

Additional Estimate of the Costs and Benefits of the Gambling Industries

Since our Submission to the Draft Report Hearing on 20/08/99 was sent to the Commission (yesterday), we have had further thoughts about the Commission's analysis of consumer surplus in Appendix C.

In our opinion, the reason for the counterintuitive numerical magnitudes that have emerged from the Commission's analysis, is the assumption that problem gamblers would adopt the demand elasticity of non-problem gamblers if their "spend" on gambling was reduced to the amount spent on average by non-problem gamblers.

The normal "spend" enables the "excess spend" by problem gamblers to be estimated.

The assumed change in elasticity changes the reactions of problem gamblers (to changes in the price of gambling) into those of non-problem gamblers, however. Problem gamblers no longer behave like problem gamblers. They behave like non-problem gamblers. They contract their gambling rapidly as the odds of winning worsen (as non-problem gamblers do). As a result the negative consumer surplus from excess spending becomes much smaller, just as the positive consumer surplus for gamblers becomes much smaller as the elasticity increases.

The results of the Commission's consumer surplus modelling follow from turning problem gamblers into non-problem gamblers during the modelling exercise.

If the elasticity for problem gamblers is maintained at the number that was initially chosen to characterise problem gamblers' behaviour, very different numerical outcomes follow. The share of negative consumer surplus in problem gamblers' "excess spend" increases, the adjusted consumer surplus falls, and the net benefit of the gambling industries becomes more negative.

We have re-estimated the consumer surplus figures in our Submission based on an elasticity for non-problem gamblers of -1.7 and an elasticity for problem gamblers of -0.3 for their current consumption. In our Submission, following the Commission's procedure, the latter elasticity was allowed to change to -1.7 for the problem gamblers,

when their 'normal' level of income was reduced. In our new calculation, problem gamblers are assumed to retain the same elasticity as they started off with of -0.3 when their 'normal' level of income is reduced.

	$million per annum
Spend by non problem gamblers	7001
Non problem gamblers consumer surplus	2041
Spend by problem gamblers	3790
Apparent surplus from problem gamblers	5143
Tax revenue	3833
Total benefit if all consumers are rational	11017
Spend if problem gamblers consume at the rate of normal regular gamblers	401
Surplus on problem gamblers reduced spend	668
loss on excess spend by problem gamblers	(5648)
Net loss for problem gamblers	(4980)
Adjusted consumer surplus	849

If this estimate is combined with either the low or high estimate of the total private and social costs of problem gambling (Table J.6, p.J.29), the annual net cost of the gambling industries to the Australian community can be estimated as between $245.3 million and $4361.4 million. In other words, gambling can only be a cost to the Australian community.

These outcomes are summarised in the following table:

	Low $million	High $million
Consumer Surplus	849	849
Private and social cost	1094.3	5210.4
NET IMPACT OF GAMBLING	**-245.3**	**-4361.4**