

# **Australia's Gambling Industries: Response to the Draft Report**

A Submission to the Productivity Commission

by

The Australian Casino Association

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## 1. Introduction

*Material contained in the Draft Report has contributed to an unfavourable reaction to the gambling industries...*

*...but a good deal of information and analysis in the Draft Report is questionable.*

The Australian Casino Association (ACA) welcomes the opportunity to comment on the Productivity Commission's (PC) Draft Report. The Draft Report has attracted considerable media and public attention.

Unfortunately the public policy debate has been largely unfavourable to the gambling industries. The ACA believes that this, intentionally or otherwise, has been largely due to the material contained in the Draft Report. While there are some positive aspects to the Draft Report, these have been overshadowed by negative impressions, arguments and quantitative material.

The ACA believes that the Draft Report is not balanced, contains a number of incorrect 'facts' (some significant); is based on surveys which have serious faults; in effect presents policy recommendations (which were not part of the terms of reference) and then does not test the benefits and costs of these policy options. It also presents estimates of the costs of gambling which are simply not believable and includes an analysis of the regulatory regime in which casinos operate which does not include a careful weighing up of the benefits and costs.

## 2. Scope and Coverage

*The Draft Report is not about the industry but about problem gambling.*

The ACA is firmly of the view that the Draft Report represents a lost opportunity to provide a balanced and detailed analysis of Australia's gambling industries. Instead, what has been produced is a report which is primarily focused on one issue to the detriment of others. It is not a report about Australia's gambling industries – it is a report largely about problem gambling. Problem gambling is just one of number of areas for analysis set out in the terms of reference. Others have been given what can only be described as superficial treatment (for example regulation – further discussed below) and one has not been formally addressed at all – the adequacy of Australian Bureau of Statistics (ABS) data. In relation to this latter point, the PC says that it will be addressed in the Final Report. But this will be too late. The industry will not have the opportunity to comment, and after all that is the purpose of issuing a Draft Report. The ACA is concerned that the Final Report will contain data and information 'findings' which will lead to an already overburdened casino industry being required to provide more information, fill in more surveys or be subject to even greater regulation than now. This is unacceptable.

*The Draft Report seems to be anti-industry...*

*...and the onus of proof has been reversed – the industry is assumed to be 'special' requiring unique regulation and control*

*There is a lack of balance and consistent tone between the Summary and the rest of the report*

*Too little attention is given to the vast majority of responsible gamblers.*

*It is meant to be an information report so policy 'conclusions' should be removed.*

*Little attempt has been made to understand the dynamics of the industry.*

Whether intentionally or not, the Draft Report has a distinctly anti-industry bias feel about it. This begins early on with a reference to the 'questionable' nature of the industry – an observation sourced from an unnamed industry leader and is further reflected in the efforts by the PC to discredit industry views. The approach adopted by the PC is quite novel. In the past the starting point for analysis was that no industry is 'special' and those seeking special treatment, protection, regulation and so on had to make a justifiable case. Incidentally, this is the approach set down for national competition policy reviews and endorsed by the Office of Regulation Review which is part of the PC. However, in the case of gambling the emphasis and onus of proof seems to have been reversed – the industry is 'special' and requires special regulation and control and it is up to the industry and others to make the alternative case.

There is a distinct lack of balance and consistent tone between the Summary and the remainder of the Draft Report, including Volume 2 containing various Appendices. Given that most people will only read the Summary, this is of major concern to the ACA. In some instances (for example to do with the estimation of costs such as divorce and suicide) the main part of the Draft Report and the Appendices are relatively cautious about the conclusions drawn and estimates obtained, yet this is not fully reflected in the Summary. The tone is far more positive and authoritative with findings essentially presented as 'facts'. On the surface it appears that the Summary and the main parts of the Draft Report were written by different people with the author(s) of the Summary not taking into account some of the caution expressed elsewhere. The imbalance needs to be redressed here.

Even if for the sake of argument the PC's findings about problem gambling are accepted, concentrating on 2.3% of people who are deemed to be problem gamblers means that relatively little attention is being paid to the 97.7% who gamble responsibly. This seems to be way out of balance.

The terms of reference for the inquiry make it very clear that the PC was to produce an 'information report', not a 'policy' or recommendation focused report. However, there are numerous 'findings' and 'policy conclusions' throughout the Draft Report which are essentially policy recommendations, and that is how they have been treated in the media and in the public policy debate in general. They should be removed from the Final Report.

Unfortunately, little attempt has been made to describe and understand the dynamics of the gambling industry in general, and the casino industry in particular. The PC appears to think that the industry *per se* is of little interest. To give just two examples, the casino industry's contribution to Australia's economy is dismissed out of hand. As well, the highly competitive nature of casino gaming has been overlooked along with the nature of the premium player or commission player market (the PC refers

to 'overseas players' rather than making the distinction between premium players and other overseas players). These and other relevant industry issues were set out in the ACA's submission to the PC (ACA, 1998). The omission of a detailed discussion of the premium player market, along with the intrusive regulations which govern it, is quite extraordinary given that overseas premium players can contribute up to 35% of the casino industry's gaming revenue in any year and more than 50% of the gaming revenue for particular casinos.

*There are some positive aspects of the report...*

There are some positive aspects of the Draft Report – for example, the recognition that there are benefits from gambling (that is, it is not all costs as many opponents of the industry would have us believe); the dispelling of the urban myth about money laundering and casinos; and a recognition that in general gambling, in particular casino gambling, is not associated with increased crime. But these aspects have been largely swamped in the public debate by the PC's own emphasis on problem gambling, the presentation of certain questionable material as 'facts' and the reliance on the results from a survey which is seriously flawed.

*... but generally it fails to live up to the expected standard*

The Draft Report does not meet the standards of careful, balanced research that the ACA and the business community at large has come to expect. The PC must redress this imbalance in the Final Report and approach the issue in the same way as other industries have been analysed in the past by the PC and its predecessors.

### 3. **Errors, Misconceptions and the Public Policy Debate**

*The public policy debate has not been balanced...*

The public policy debate following the release of the Draft Report has been anything but balanced. Admittedly the PC has not directly taken part in every aspect of that debate, but the debate and attitudes towards the industry have been heavily influenced by the Draft Report. Unfortunately, the public policy debate has been based on some questionable findings presented in the Draft Report. Three issues have dominated the debate and have become the public face of what the Draft report has to say:

- Australia has 21% of the world's EGMs;
- there are 330,000 problem gamblers in Australia; and
- on average, problem gamblers lose \$12,000 per year.

*... largely because of the prominence given to incorrect information masquerading as 'facts'.*

These 'facts' have become conventional wisdom in a very short period. The 330,000 problem gamblers and the \$12,000 loss per problem gambler are addressed in Section 3 in the context of the surveys.

The reaction of leading politicians and other opinion makers to the key 'facts' in the Draft Report provides ample evidence of how the public policy debate has developed. The 'fact' that Australia has 21% of the world's EGMs is a "source of shame" for the Prime Minister:

"It is a broad national problem and I'm not particularly proud of the fact that Australia has, with a population of just under 19 million people, has 21 per cent of the world's poker machines. I mean I'm proud of some of our records in most fields, *but that is something of which I'm quite ashamed.*" (italics added) Howard (1999)

In addition, the 21% 'fact' has resulted in concern by the Shadow Treasurer and a call for action (which can only mean more regulation).

"The Commission's draft report has revealed some staggering facts about our gambling nation - for a country with less than 1% of the world's population to possess 21% of the world's gaming machines is something about which we should all be concerned.

The findings demonstrate the need for action by the Treasurer." Crean and Thomson (1999)

The Prime Minister's shame and the Shadow Treasurer's concern, along with the public policy debate in general, are based on incorrect information. Anyone with a just a passing knowledge of the gambling industry worldwide would know that the 21% figure is totally incorrect and even if the figure is sourced outside of the PC, the PC should have realised that the figure is nonsense. The estimate was featured prominently in the Draft Report Summary and as this would have been all that many people read, it received far more prominence than it deserved.

*Australia does not have 21% of the world's EGMs,...*

It is not difficult to check information like the 21% (Table 2.1, p. 2.10, Draft Report) especially as gambling in most countries is heavily regulated. Even without a detailed check, the numbers in Table 2.1 look incorrect. For example, 59,000 EGMs in Europe, especially when Attachment N in Volume 2 of the Draft Report states that the UK has more than 250,000 machines (note that the amusement-for-prizes machines are actually low payout money prize machines). In addition, Attachment N also states that Germany has more than 170,000 EGMs. Speaking at an EU conference on the introduction of the Euro, the President of the European Federation of the Coin Operated Machine Industry (Antoja, 1999) pointed out that the EU alone has more than 1 million low payout EGMs plus EGMs in casinos. Moreover, there are numerous press reports of the growth in numbers of EGMs in Eastern Europe. Table 2.1 in the Draft Report indicates that there are 12,000 EGMs in Africa. The Director of the National Gambling Board of South Africa has indicated that there are 12,000 legal EGMs in South Africa

alone (expected to rise to 50,000) plus around 60,000 illegal machines.<sup>1</sup> There are many other machines, legal and illegal, elsewhere in Africa.

The industry is sufficiently concerned about the accuracy of the information in the Draft Report and the way it has been used, to commission independent research to resolve the matter. For example, Professor Christian Marfels has estimated that Australia has just 2.6% of world EGMs<sup>2</sup>, a far cry from the figure presented in the Draft Report. Even then Professor Marfels only includes legal machines in South Africa (not Africa) and the number of machines in Europe is understated.

*...the true figure is closer to 2%, but the damage has been done.*

*Taking into account illegal and legal EGMs and the growth in EGMs in Eastern Europe, it is reasonable to conclude that Australia's share of the world EGM market is less than 2.5%, and probably closer to 2%.*

The PC has publicly responded to suggestions in the media that it made a mistake with its published estimate of Australia's share of the world EGM market. In a letter to the Editor of the Financial Review published on 13 September 1999, the Chairman of the PC said, among other things, that 'the industry is now redefining its market to include products which are quite different from Australia's sophisticated pokies'.... In fact, the reverse is closer to the mark. The casino industry is not about redefining the market but seeking the truth. The PC itself is attempting to redefine the market by introducing the term 'sophisticated' (whatever that means). The definition of EGMs in the Draft Report is perfectly consistent with the new estimates now being provided by the industry. Even if Pachinko machines are excluded from the calculation, Australia still has a share of well under 10% of the world's EGMs. But more importantly, in raising Pachinko machines, the PC again illustrates that it has not done its homework. Modern pinball style Pachinko machines in Japan are a far cry from the traditional pinball machines of the past – pinballs used in the machine can activate an EGM style screen similar to traditional EGMs and prizes are won depending on what combinations appear on the screen. High value prizes can be won. The PC is wrong again.

In order to get the public debate about gambling and the Draft Report back on track, the PC must publicly acknowledge the EGM error and remove reference to the 21% share from the Final Report.

*There can be little confidence in a report which contains errors of fact.*

The 21% error is only one of a number of problems with material in the Draft Report. It also highlights internal inconsistencies in the Draft Report (see the discrepancy between Attachment N and the number of EGMs presented in Table 2.1). The ACA is concerned at what appears to

<sup>1</sup> Sifiso Buthelezi, Chief Executive Officer, South African Gambling Board, *Personal Communication*.

<sup>2</sup> Professor Christian Marfels, Marecon International Research, *Personal Communication*.

be a half-hearted attempt to get to the facts of the matter – something which is out of character with more carefully researched reports of the past. If the PC is unable to get basic information such as the number of EGMs right, it does not give much cause for confidence in other 'facts' and estimates presented elsewhere in the Draft Report.

It is the job of the PC to get the facts and the story right and it must carefully review what has been written before the Final Report is completed

*Attachment N dealing with regulation elsewhere is poorly researched, misleading...*

Attachment N has already been mentioned. It is poorly researched, incomplete, light in its analysis and inconsistent with the main report. It purports to show regulation in other countries but is potentially damaging because it is so limited in its coverage. It is misleading and could be used by opponents of gambling to recommend similar regulatory regimes in Australia when they are clearly not required. For example, the section dealing with casino gambling in the UK is extremely poor and at face value, incorrect (more of that later). Further, it is pointed out that New Zealand casinos are subject to a 4% expenditure tax. No mention is made of the fact that New Zealand Casinos also pay a 12.5% GST. The New Zealand market description is also dated – a number of new casinos will be opening later this year (before the release of the Final Report). Attachment N serves no purpose other than to give a distorted view of world gambling regulation which may be used in the policy debate in Australia – it should be removed from the Final Report.

*...and should be removed.*

*The PC has provided a misleading description of casino regulation in the UK.*

Casino regulations (here and elsewhere) do not appear to be properly understood. The treatment of regulations is of major concern to the ACA and is further discussed in Section 6. However, in the context of errors, misconceptions and the public policy debate it is appropriate to mention some specifics. The treatment of casinos in the UK is mentioned in Attachment N. It is also mentioned on page 8.6 of the main report, in a chapter dealing with 'accessibility and problems':

*"Conditions of entry. In European casinos entry is heavily restricted (Thompson 1998). For example, in the UK a gambler must give 24 hours notice to gamble in a casino (Home Office 1998). In Australia, clubs typically have higher dress standards and more restrictive entry than hotels." (Draft report, p. 8.6)*

The ACA is not sure what part of the Home Office Web Site which is referenced by the PC was read, but the quote gives a false impression of reality – an impression which would not have been gained if more care had been taken. Casinos in the UK, unlike Australia, are clubs and only members and their guests can gamble in them. Once a person joins a club, *a once only application* has to be made to gamble. After an *initial* 24 hour period, the club member is free to gamble at that club whenever he or she wishes. *Bona fide* guests of club members can gamble at any time, without delay. The PC implies that a person must wait 24 hours



when they wish to gamble.<sup>3</sup> The report is either badly written or this is another example of poor research of the facts. Again, this type of material could give some comfort to those wishing to further restrict casino gambling in Australia.

*The casino industry has not been adequately researched.*

Another example related to regulation occurs on page 12.21 of the Draft Report:

“Reflecting the first of these (reasons for exclusivity), all of Australia’s 13 operating casinos are required to be hotel-casino complexes, offering a mix of gambling, entertainment and hotel facilities.”

This will come as some surprise to those casinos which do not meet the above criteria, especially hotel facilities.

Other misleading information includes Table 21.1 which, for example, fails to point out that the NSW Treasury sets gaming tax rates and collects gaming revenue. Moreover, on page 21.13 it is stated that the NSW Casino Control Authority allocates funds from the Casino Community Benefit Fund. This is incorrect. The Trustees of the Fund control the allocation. Again, the PC has not done its homework.

*The Black Rhino example is misleading.*

The Black Rhino example is misleading, and in raising it the PC contradicts its more general analysis of EGMs. Of itself, the Black Rhino issue is not that important. However it has, like the 21% figure, become part of the public policy debate. It is another example of the PC appearing to not understand the nature of the product it is dealing with. On page 15.15 of the Draft Report the PC suggests that consumers could be told that in order to get a 50% chance of getting 5 rhinos it will take 6.7 million button presses, 188 years and cost almost \$330,000. This conveniently overlooks the fact that random numbers are involved and the jackpot could be achieved with just one press of the button (or anywhere between one and 167 million presses). Later in Chapter 15 the PC has a description of the chances of winning on an EGM which seems to contradict its discussion of the Black Rhino EGM. On page 15.20 it is acknowledged that any press of the button is independent of previous presses, and a machine which has not paid out for some time “has no higher chance of paying out in the future”. This is an acknowledgment of random numbers. What does the PC really believe?

<sup>3</sup> If the PC finds the Home Office explanation of the facts confusing, a clearer statement can be found on the British Casino Association Web Site: [www.british-casinos.co.uk](http://www.british-casinos.co.uk). The General Secretary of the British Casino Association, Air Commodore Brian Lemon, has provided further confirmation of the facts, “However, once you are a member of a casino club and the 24 hours has elapsed, thereafter you can play there as you wish without notice.” *Personal Communication*.

*If the PC doesn't get the basics right, the public policy debate will continue to be distorted.*

The PC must get the basics correct or the bulk of the report will continue to have little credibility with the industry. In addition, the public policy debate will continue to be distorted. The above discussion is by no means exhaustive but serves to illustrate how the PC has not done its basic research. It is up to the PC itself to carefully review what it has written to ensure that it has done its job properly.

Further errors and misconceptions arise in the chapters of the Draft Report dealing with problem gambling and the surveys (330,00 problem gamblers and losses of \$12,000 each) and the estimates of costs and benefits.

## **4. Problem Gambling & The Surveys**

*The surveys have major problems*

In addition to the discredited 'fact' that Australia has 21% of the world's EGMs, the public policy debate has been driven by two other findings: that there are 330,000 problem gamblers in Australia and on average they spend (lose) \$12,000 per year. Information about problem gambling, and gambling more generally, is obtained from the surveys conducted by the PC. The surveys have major problems

### **4.1 Causality**

*Causality has not been established*

Survey material is used to help 'justify' causal links between problem gambling and various cost factors. But basically, the PC just asserts causality and no hard scientific evidence is provided to support the assertion. Association is not the same as causation. The PC provides a number of arguments to try and demonstrate causality but alternative arguments can just as easily be made. The PC's position on causal links between problem gambling and other things (such as divorce) appears to be out of step with emerging thinking on the matter. For example, the Australian Institute of Gambling Research has pointed out that:

"Emerging research however, has begun to raise questions about the complex relationship between gambling and other social issues such as unemployment, depression, family tensions, alcoholism etc. Gambling is often just one of a complexity of factors which create problems for some people - and the question of cause and effect requires more investigation. It may be that gambling is merely a symptom, even an escape, from more serious social or serious problems." (AIGR, 1998, p. 19).

### **4.2 The surveys**

The major survey is the National Gambling Survey and this has major flaws. Other participants in this inquiry will no doubt provide more

detailed and technical appraisals of what the PC has done. The ACA offers the following comments on the more obvious flaws in the survey methodology.

*The SOGS has serious limitations.*

Perhaps the most serious flaw in the surveys is the use of the South Oaks Gambling Screen (SOGS). The recent major report on gambling by the National Opinion Research Centre at the University of Chicago (NORC *et al*, 1999) argues that SOGS is outdated and out of favour in the US. The PC has ignored the serious criticisms of SOGS provided by one of Australia's leading statisticians, Dr Terry O'Neill of the Australian National University, set out in an earlier submission to the PC (O'Neill, 1999). The SOGS has been used by the PC when no precise definition of a problem gambler has been established. The validity of trying to measure something which has not been properly defined must be seriously questioned. Moreover, as Dr O'Neill pointed out, the SOGS has no relationship to what is becoming the 'accepted' Australian definition of problem gambling.

*The sample was self-selecting and is unlikely to be representative.*

The survey was conducted by telephone and relies on self-assessment and there is no independent testing of the validity of the truth of answers. To those who received it, the SOGS does not appear in the survey until after a good deal of questioning and this could bias the responses. *Of more serious concern is that the sample was also self-selecting.* The survey was actually only applied to 10,500 people - those out of the 22,166 actually contacted (31,886 numbers were dialled) who agreed to take part. Because the survey sample was self-selected it was not random and there is no basis for believing that the sample is representative of the Australian population.

Even the 10,500 sample size is not strictly correct (although the PC continually refers to that number throughout the Draft Report). This is because only subsets of various groups were actually examined giving an actual sample size of less than 4,000.

*The scientific method was violated.*

Another serious fault with the National Gambling Survey is that the approach violates the scientific method. No 'controls' were allowed for. For example, the SOGS should have been applied to all participants in the survey, not just to those who were identified in a certain group after screening. The SOGS results for non-gamblers and recreational gamblers should have been compared to those for alleged problem gamblers to see how the results compared across categories. The approach adopted by the PC would be unacceptable in a scientific experiment, and relying on this approach the PC has based its conclusions on very shaky foundations.

*The survey of counselling agency clients has little merit.*

The survey of clients of counselling agencies does not appear to have much, if any, statistical merit so the results should not be given any credence. No check was made to see if counsellors interviewed who they were supposed to so the risk of counsellor bias is real. The context of the

questions was loaded by signalling at the outset that gambling causes problems.

### 4.3 Losses by problem gamblers

*The \$12,000 loss per problem gambler looks suspect.*

The \$12,000 loss per problem gambler looks particularly suspect. In Table 7.11 on page 7.32 of the Draft Report it is stated that problem gamblers spend (lose) \$5,513 per year while non-problem gamblers supposedly spend just \$479. These figures are derived from the National Gambling Survey. However, the PC does not believe this figure (although it believes many other findings from the survey) and in Table 5.2 on page 5.10 the now infamous \$12,000 estimate appears (or more precisely, \$11,792). This figure is obtained by applying the spending shares from the survey to the Tasmanian Gaming Commission figures for gambling expenditure. The PC appears to believe the shares but not the absolute amount from the survey - there is no basis for this uneven treatment of the results.

*There is no apparent reason for scaling up the loss estimates in the way the PC has.*

Looking at the results more closely shows that the PC has scaled the problem gambling survey up by 115% yet the non-problem gambling figure has been scaled up by just 30%! This is a leap in logic which the PC has not clearly explained. Moreover, on page 7.39 it says that the survey "underestimates spending, by about 25%" (emphasis added). Why then scale up by 115%? Finally, problem gamblers are more likely to know what they spend than regular gamblers, especially if they are in, or have been in, counselling. This means that the \$5,513 estimate from the survey is probably closer to the truth than the PC has indicated.

*The \$12,000 loss per problem gambler should be removed from the report.*

On the basis of information provided, there is no reason to believe the estimate that problem gamblers lose \$12,000 per year and the figure should be removed from the Final Report.

### 4.4 Responsible gaming

*Casinos are at the forefront in terms of responsible gaming programs.*

More recognition should be given to the responsible gaming initiatives undertaken by Australia's casinos. The casino industry is at the forefront of the gambling industry in general with respect to these matters. Casino industry responsible gaming programs and standards include:

- Customer education and awareness - collateral materials, posters, signage and brochures on problem gambling displayed at locations such as entrances and cashier cage;
- Referral to telephone help-lines;
- Training programs for supervisors;
- Education programs for employees;
- Endorsement of programs which actively prevent underage people from gambling at the facility;

- Alliances with community resource groups;
- Communication materials for staff and orientation programs for new employees;
- Sponsorship of responsible gaming events;
- No mail offers sent to identified problem gamblers;
- gamblers are given the opportunity to 'self ban' or ban themselves from entry
- No credit facilities provided to any gambler;
- Linkages to ethnic communities and;
- Linkages with local treatment providers.

## 5. Consumer Information

*The PC places unreasonable emphasis on consumers being totally informed.*

The Draft Report has a lot to say about consumer information and the need for 'informed consent'. Emphasis is placed on the 'fact' that gambling consumers are not fully informed about what they are doing and this gives rise to justifications for government intervention and more regulation. The PC places very stringent conditions on being fully informed and appear to have neglected the fact that uncertainty and risk influence almost every aspect of our daily lives, from getting a job, driving (and buying) a car, playing sport, electing a government, to getting married and so on. There is a large body of literature on the economics of risk and uncertainty which appears to have been ignored. If the PC's position on government intervention to correct for a lack of full information is taken to its logical conclusion, then presumably the PC would be recommending regulations to govern a majority of aspects of our personal and private lives. The PC's position is simply not sustainable.

*However, casinos already provide considerable information about games played and are at the forefront of the industry in this regard.*

In terms of specifics, even though life is full of uncertainty and risks, Australian casinos do go to some effort to ensure that information is readily available to consumers. In this regard the casinos are industry leaders. However, if consumers are not interested in seeking out the information then they must be prepared to live with that decision. In some cases, it is virtually impossible for gamblers to avoid being directly reminded of the odds associated with certain table games, for example roulette and the money wheel where the odds are actually written on the games. Similarly, people generally understand the odds of two-up without much prompting. In any case, casinos routinely publish, and make available brochures on each of the games played at specific properties. The information includes how to play the games and the expected odds of achieving specific outcomes. Often, people who have not played particular table games before will attend one of the 'how to sessions' run by casinos where they will be provided with relevant

*The odds will also be revealed through playing the games.*

information. To know how to play the games essentially means that a consumer would have some idea of the likely returns.

In any case, even if consumers do not read all of the material provided for them by casinos, they will, through the act of playing (often with relatively small amounts of money per game), discover a good deal about the odds. This experimental approach to playing and learning about the odds does not appear to be seriously countenanced by the PC. It also applies to EGMs where repeated play will relatively quickly 'reveal' the odds. Moreover, while large jackpots are not regularly won on EGMs, there is ample opportunity to win small amounts of money. On the floor of a casino, small wins occur on a regular basis and consumers quickly know where the best odds are.

*Consumers do react to changes in 'price', especially for EGMs.*

EGMs in casinos often return a higher payout than the legislated payout. This is because consumers are less inclined to play EGMs with say an 85% return than one with 92%. The returns may not be written on the machines, but consumers soon learn. Casino operators have advised the ACA of occasions where attempts have been made to lower the payout rates to closer to the legislated rates, yet the consumer reaction has been swift with turnover on the machines noticeably falling - payout rates were subsequently lifted. The revealed nature of the odds is supported by others. For example, Emeritus Professor Blandy said at the (Draft Report) Public Hearings in Canberra:

"So I think the odds are reflected to people in ways that are – you know, they're not put up as prices, 36 cents a throw or something. But they encounter, in the way that the game is played and the enjoyment that they get from it – the duration it lasts and so on – so I think that's why these elasticities are quite high, not because the prices are observable, but the outcomes of changes in prices are observable to people and they react accordingly."<sup>4</sup>

*For casinos the PC's position on consumer information and protection is not soundly based.*

The PC's position on consumer protection through highly detailed information provision does not have a sound foundation either in fact or as a basis for policy intervention, especially in the case of casinos which are at the forefront of the industry in this regard. Perhaps it reflects the PC's inadequate understanding of the industry and how it operates. If the PC really believes what it says about problem gamblers, then it is difficult to see how more and tighter regulations on information provision will make any difference to them. The ACA urges the PC to have close look at its position on uncertainty, risk and consumer information prior to completing the Final Report.

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<sup>4</sup> Professor Blandy, *Transcript of Proceedings, Public Hearings on the Draft Report*, 20 August 1999, page 16.

*The PC has not thought through the arguments on consumer protection.*

Some of the PC's conclusions about consumer protection appear to have been made with little thought as to the consequences and without appropriately weighing up the benefits against the costs. A case in point is ATMs. ATMs at casinos are already placed away from the gaming floors but it is silly to suggest that restricting withdrawals for example will alleviate problem gambling. Moreover, it could pose considerable costs on recreational gamblers and on non-gamblers who may just be using the shopping and entertainment facilities nearby. The PC suggests that costs on non-problem gamblers will not be high once they realise what services apply at gambling venues. Why doesn't the same logic apply to problem gamblers? If they are as seriously affected as the PC would have us believe, then presumably they will just make other arrangements to obtain money, for example carry more cash, which is a dangerous practice.

## **6. Benefits and Costs**

### **6.1 Gambling benefits**

*Estimates of gambling benefits are significantly lowered by the arbitrary approach adopted for problem gambler benefits.*

As noted above, one of the positive aspects of the Draft Report is the recognition that consumers gain benefits from gambling. However, the estimation of the size of the gross benefits is distorted by the arbitrary approach taken towards benefits enjoyed by problem gamblers. The PC is happy to concede that up to a certain point, problem gamblers receive the same benefits as any other gambler. However, the PC arbitrarily applies an expenditure cap, above which it is assumed that problem gamblers receive no benefit. By significantly reducing the benefits to problem gamblers, the PC in effect lowers the net benefit to Australia once estimated costs have been deducted.

It is simply unbelievable to assume that problem gamblers get the same benefit as others up to some arbitrary point and then nothing after that. Even if for the sake of argument there are legitimate costs associated with problem gamblers to be deducted, they should be deducted from the full benefit available to them. It's as if the PC wants to concede that there are benefits accruing to all gamblers but cannot bring itself to go the whole way.

*The PC accepts consumer benefits but rejects supply-side benefits...*

*...because resources would shift elsewhere in the long run.*

*But at any time, the industry makes a direct contribution to Australia's GDP.*

While the PC is prepared to acknowledge benefits on the consumption side, it rejects the notion that there are any benefits on the supply side. This conclusion is based on modelling work done for the PC and by others making submissions to the PC. But the modelling work must be viewed in context. The thrust of the PC's argument is that if the resources used in the gambling industry were not in that industry, they would be utilised somewhere else. Thus, supply-side or production benefits are "illusory". As noted above, this conclusion is derived from modelling work which shows, among other things, that changes to the industry brought about by some policy change would ultimately have little impact on gross domestic product (GDP) as resources shift elsewhere. What needs to be understood is that this result is obtained in the long run. For the type of models referred to (general equilibrium or GE models), the long run is 10 years! The largest industry in Australia would produce a similar effect provided that markets are flexible and efficient enough to allow the required resource adjustment to occur.

The fact of the matter is that at any given point in time any industry, including the gambling industries, makes a contribution to Australia's economy. That contribution is value added. The sum of all value added across the economy equals GDP a concept which is recognised throughout the world and which is estimated using long established and agreed conventions. Australia's 13 operating casinos contribute more than \$1 billion annually to Australia's economy. The PC specifically includes value added in the "illusory" category. The ABS might be interested to learn that its estimates of industry contributions to GDP, along with total GDP, are illusory.

## 6.2 Gambling costs

### 6.2.1 The cost 'multiplier'

*The PC accepts 'multipliers' on the cost side but not on the benefits side. The PC cannot have it both ways.*

The PC argues that problem gamblers affect a number of people and argues in favour of what can be called a problem gambler 'multiplier'. This is despite the fact that the PC elsewhere accepts arguments against multipliers. More importantly, the PC argues for multipliers on the cost side but does not apply the same logic on the benefit side. What about multiplier benefits from the 97.7% of people who gamble responsibly? Using the same logic as the PC adopts for problem gamblers, the multiplier benefits from responsible gamblers would surely swamp the costs! The PC cannot have it both ways. This type of thinking lends weight to the view that the PC is anti-gambling and anti-industry. The other possible explanation is that the PC has simply not taken the time to think through what it has done.



## 6.2.2 Cost estimates

The costs associated with problem gambling are given considerable prominence in the Draft Report. The ACA has serious reservations about their validity.

*The cost estimates are based on suspect surveys and causality has not been established.*

The costs are in part derived from information derived from the surveys. The surveys have major problems so the costs cannot be taken at face value. It is of concern that the PC would not accept the level of spending by problem gamblers revealed in the survey results, but accepts without much question the alleged costs. The PC has not established causation between problem gambling and the alleged cost factors. The causation could just as easily go the other way, for example divorce.

*The PC has incorrectly assumed that all costs require government intervention*

The PC has assumed that virtually all costs associated with problem gambling are cause for policy actions by governments. This ignores the fact that many of the costs are truly private costs (directly borne by the person undertaking the activity) rather than genuine social costs. The long established and widely accepted economic literature on this issue spells out the reasons why only genuine social costs should be of concern to those wanting to intervene. Even then, the market can often find solutions through formal and informal contracting between the parties (casino self-exclusion programs are a good example of this).

Even though there are considerable uncertainties over the various cost estimates (some which are in part acknowledged by the PC in the Appendices which clearly have not been read by many of those taking part on the public debate), the estimates are presented with considerably more confidence in the Summary and in the main report, especially in relevant Tables.

*The costs associated with divorce look particularly doubtful...*

The PC's discussion of the cost of divorce serves to illustrate the tenuous nature of the estimates. It is worth noting at the outset some of the facts on divorce as presented by the Australian Bureau of Statistics.

“Over the last 20 years the divorce rate has fluctuated, generally showing a slight upwards trend. The rate, 2.8 per 1,000 population in 1978, declined to 2.4 in 1987, rose to 2.9 in 1996, and declined in the following two years to reach 2.7 per 1,000 population in 1998.

In 1998 there were 51,400 divorces granted, up from 41,000 granted in 1988. The divorce rate in Australia is lower than in the United States of America (4.3 in 1996) and about the same as in Canada and the United Kingdom (2.6 and 2.9, respectively, in 1995).” (ABS, 1999)

The PC claims that problem gambling accounts for 29,500 divorces and separations each year. This is equivalent to more than half of all divorces in Australia in 1998! Even allowing for the fact that the PC estimates divorces and separations, the figure looks suspect (in any case,

presumably a large number of legal separations end up as divorces, so it is just a timing issue). The PC is also worried by its estimate (see Appendix J) but this does not stop it from presenting it as a hard estimate elsewhere in the report. If the causal link is really there, and given the numbers of people involved as estimated from the surveys, we could expect to see a significant jump in the divorce rate with the rapid expansion in gambling which has occurred in recent years - this has not occurred. In addition, we would expect, on the basis of the PC's analysis that Australia would have a higher divorce rate than countries with less penetration of gambling - this is also not the case. Clearly there are many other factors at work. The discussion is not balanced.

*...as do the costs of depression and crime.*

The treatment of pain and suffering in the Draft Report is also suspect. It seems that double counting has occurred by the PC including both the cost of depression and the symptoms of depression, for example thinking about suicide. Crime and problem gambling is also overstated given that no causal relationship has been established and there is no basis on which the estimates presented can be justified.

*The cost estimates are unbelievable.*

In general, the cost estimates put forward by the PC are, quite simply, not believable.

## 7. The Regulatory Regime

The terms of reference for the inquiry include the following:

“(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 different approaches for industry development and consumers.”

*The treatment of regulation is one of the most disappointing aspects of the report...*

The ACA finds the PC's treatment of regulation to be one of the most disappointing aspects of the Draft Report. While there is an acknowledgment of the complexity and inconsistency of the overall regulatory regime, a listing of various Acts and some description of various regulations, little attempt has been made to formally analyse the effects of this (as required) and to assess the costs and benefits in any kind of consistent and sensible framework. This is of particular concern to the casino industry as it is generally agreed that the industry is the most stringently regulated of all the gambling industries and arguably is one of the most (if not the most) heavily regulated of all industries in Australia. The commission or premium player market within the casino industry is the most heavily regulated of all (and the one most exposed to international competition) and this does not even appear to rate a mention.

*...given the excessive regulation faced by casinos.*

*The costs of regulations must be carefully weighed against any benefits – this has not been done.*

The PC's approach to regulation is surprising as well as disappointing given the approach to regulation adopted by the PC and its predecessors in the past. While the ACA is not advocating the removal of all regulations, the heavy handed regulation of casinos should be given careful attention especially in the context of consumer benefits and competitive neutrality with other forms of gambling and non-gambling activities. Regulations impose costs on society and these must be carefully assessed against any benefits which might flow from them - the net benefit is the key issue. The PC has not provided for this in anything like the necessary detail.

*Administrative, compliance and efficiency costs should be analysed.*

There are three major costs which should be taken into account: when considering the impact of regulations: the costs imposed on regulatory agencies and society of administering the regulations, costs faced by regulated industries (in this case casinos) and individuals of complying with regulations (this can run into millions of dollars per year for some casinos), and efficiency costs on the economy in general.

The Final Report should contain a more rigorous analysis of regulation.

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