Submission to the Productivity Commission

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Tables 10.1-10.3 make it clear that the major costs of gambling are those arising from psychological problems and family breakdown associated with problem gambling. However, the evaluation of these costs in Appendix J is, in my view, clearly inadequate.

Awards for victims of crime are clearly constrained by available funds, and are not useful evidence of costs. This can be seen most clearly in the case of burglary, where the award of $300 would not even cover the monetary equivalent of time spent dealing with the consequences of a burglary, let alone pain and suffering.

It would be far more appropriate to use data from wage premiums and WTP surveys regarding cost of accidental injuries. Although most evidence from such studies relates to fatal injuries, QALY methods can be used to estimate values of nonfatal injuries. Typical values from wage premium and WTP surveys are around $US4-5 million per additional life lost (note that this loss arises from changes in small probabilities over large populations). To suggest that rape, sexual assault and child abuse have a cost that is only equivalent 1-2 per cent of the cost per additional life (i.e. the equivalent of about 1 Quality Adjusted Life Year) seems an obvious underestimate.

In the case of divorce the only financial costs measured here are the legal costs of obtaining a

divorce. It is clear, however, that substantially greater financial costs arise from financial settlements associated with divorce e.g. costs of enforcing child support orders, transactions costs of house sales and ownership transfers and so on.The setup and operation costs of separate households are substantial. More significantly, there is ample evidence suggesting long-term adverse impacts on children's educational outcomes arising from divorce, and this translates into lower earnings. Human capital models therefore imply a financial loss which in present value terms would surely exceed the #30 000 upper bound used here, without even allowing for emotional costs.

The estimates of emotional costs of divorce are in any case far too low. The only theoreticaly valid measure is willingness-to-accept, and is therefore the solution to the statement "I would be indifferent between

(i) my current marriage (apart from problems associated with gambling) ; and

(ii) divorce accompanied by the receipt of a lump-sum of $x"

The suggestion that, on average, the relevant value of x is between $5000 and $30000 seems ludicrous.

Given that many people have difficulty with WTA questions of this kind, consider the WTP form. To avoid liquidity constraints, this question is best posed in annual flow terms as " I would be willing to pay $x per year to maintain my current marriage (apart from problems associated with gambling) as opposed to the alternative of a divorce caused by problem gambling"

Assuming a 5 per cent real rate of discount, this method yields a lower bound of 20x for the emotional cost of divorce. The bounds presented in table J suggest that the mean value of x is between 250 and 1500 (or between 1000 and 6000 if aggregated across the members of a 4-person family). Again, this is obviously far too low.

The quote presented on pp K.4-K.5 is right to say that economic measurement of these costs is highly problematic, and that in general, economic cost estimates are lower bounds. However, since the draft report presents estimates described as upper bounds, the bounds should be plausible.

I would suggest that either:
(i) the current lower bounds should be dropped and the upper bounds presented as lower bounds; or
(ii) both the lower and upper bounds should be multiplied by a factor of 4

In either case, it is necessarily to qualify the conclusion that the aggregate social benefits of the gambling industry are positive.

Web site http://econ.jcu.edu.au/JCQ:JQ.html
