

THE PRODUCTIVITY COMMISSION'S GAMBLING INQUIRY: THREE YEARS ON

Gary Banks

Productivity Commission
Level 3, Nature Conservation House,
Cnr Emu Bank & Benjamin Way, Belconnen, ACT, 2617, Australia.

Abstract:

Considerable progress has been made in addressing problem gambling since the Productivity Commission's inquiry. Recognition that there *is* a problem, and acceptance that existing measures were inadequate to deal with it, are perhaps the most significant changes. Regulatory and self-regulatory initiatives that have been introduced are extensive, with some useful innovations.

It remains unclear whether problem gambling and its associated impacts have moderated. While spending has slowed, this is consistent with maturing markets for gaming machines. That the gaming machine share of gambling expenditure has risen further is significant, because the costs of problem gambling loom larger for this gambling mode.

Significant deficiencies remain in the regulatory environment for gambling. Areas deserving priority attention by governments include: more research on what actually works among possible consumer protection measures; the need for independent and transparent research; a need for effective monitoring and enforcement of industry compliance with consumer protection regulations; and further reforms to policy-making and regulatory governance arrangements, especially to ensure the independence of the regulator.

Key Words: problem gambling, costs and benefits of gambling, gambling regulation, gambling industry

Introduction

It is almost three years to the day since the Productivity Commission delivered its final report on *Australia's Gambling Industries* (PC 1999). In releasing the report, and issuing his Government's initial response, the Prime Minister observed:

The Productivity Commission report is the first comprehensive investigation of gambling in Australia and it is the first time we have had a complete picture not only of the economics and regulatory structure of the gambling industries, but also of the social consequences of the recent rapid expansion of gambling in this country. (Howard 1999)

The report's essential message was that liberalisation of the gambling industries had generated major social costs as well as benefits. It also found that the social impacts related

to ‘problem gambling’ had not been adequately addressed, either in policy formulation or industry regulation.

The report evoked a variety of reactions, from laudatory to hostile. There was support for, or at least acceptance of, the report by most governments. And non-government organisations praised it. But the industry’s reaction was mixed. Some, although critical of aspects of the report, responded constructively. Others were vehemently opposed to the report and its findings.

Since then, there has been a flurry of activity directed at ameliorating problem gambling. The Commonwealth Government initiated a Ministerial Council on Gambling and introduced legislation banning interactive gambling. Most state and territory governments introduced or proposed new ‘responsible gambling’ policies. And those in the industry who were initially hostile to the Commission’s report, began introducing their own responsible gambling measures. Indeed, the Commission’s report is increasingly being invoked as an authoritative source to support the industry’s position on gambling issues, including problem gambling.

Looking back at our inquiry and at subsequent developments, this paper addresses three main questions:

- How well has the Commission’s assessment of the extent and impacts of problem gambling stood up?
- What has happened to the level and composition of gambling activity?
- How effective has been the response by government and industry, and what are the priorities for the future?

How many ‘problem gamblers’?

Perhaps the most startling finding, for many people, was the Commission’s estimate that nearly 300 000 Australian adults had significant problems with their gambling, with 130 000 experiencing severe problems.

These findings should not have come as a surprise, as they were consistent with a number of other studies. However, the extent of problem gambling had tended to be downplayed, by referring merely to its 1 to 2 per cent share of the total population. This is sometimes also misconstrued as 1 to 2 per cent of gamblers. However, as the Commission found from its survey, the proportion of *regular* gamblers experiencing significant problems Australia-wide was more like 15 per cent. And, because problem gamblers spend a lot more time and money at it than other (‘recreational’) gamblers, their prevalence in a gambling venue at any time would normally be higher again. Indeed, the Commission estimated (again consistently with some earlier studies) that problem gamblers accounted for around one-third of the industry’s total revenue.

The Commission’s assessment of the prevalence of problem gambling used the South Oaks Gambling Screen (SOGS), buttressed by self-assessment questions and other indicators. As noted, using the SOGS, the Commission estimated that about 2.1 per cent of the adult population were problem gamblers, with 1 per cent having ‘severe’ problems (applying the ‘Dickerson method’).

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While there have been no other national surveys conducted since then, there have been a few done at the state or regional level. However, most have made significant modifications to the SOGS, rendering comparison difficult. An exception is a large sample study for the ACT (AIGR, 2001). It produced comparable results to the Commission's survey. (See Table1).

Table 1:
Recent estimates of problem gambling prevalence

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<i>Study</i>	<i>Region</i>	<i>Survey methodology</i>	<i>Problem gambling screening tool</i>	<i>Prevalence estimates</i>	<i>PC estimates for the relevant state or territory^{a, b}</i>
Australian Institute for Gambling Research (2001)	ACT	Random survey of 5445 adults in the ACT stratified, for example, by gender and age and using the CATI (computer assisted telephone interview) system.	SOGS and other indicators of harm.	<i>SOGS 5+</i> : 1.9% or 5297 adults. <i>SOGS 10+</i> : 0.45% or 1250 adults.	<i>SOGS 5+</i> : 2.06% or 4588 ACT adults. <i>Dickerson method</i> : 0.73% or 1629 ACT adults. <i>SOGS 10+</i> : 0.07% or 146 ACT adults.
Centre for Population Studies in Epidemiology (2001)	SA	Random survey of 6045 adults throughout SA using the CATI system.	Modified SOGS and self-assessment ratings.	2.0%, or 22 000 adults consisting of: <i>Modified SOGS 5+</i> : 1.9% and <i>Self-assessment</i> : 0.1% rating gambling problem between 5 and 10 on a scale of 1 to 10.	<i>SOGS 5+</i> : 2.45% or 27 809 SA adults. <i>Dickerson method</i> : 1.38% or 15 627 SA adults.
ACIL (2001)	Ballarat, Victoria	Random survey of 1006 adults in Ballarat using the CATI system.	Modified SOGS and self-assessment.	<i>Modified SOGS 5+</i> : 1% of adult population have problems as a result of playing gaming machines. <i>Self assessment</i> : 1% rated their gambling problem 7 and higher on a scale of 1 to 10. Another 3% rated their gambling problem as 5 or 6.	<i>SOGS 5+</i> : 2.14% or 75 925 Victorian adults. (Roughly three quarters of whom as a result of gaming machines.) <i>Dickerson method</i> : 0.82% or 28 974 Victorian adults.
Qld Government (2002)	Qld	Random survey of 13 082 adults throughout Qld using the CATI system.	The recently developed CPGI (Canadian Problem Gambling Index).	<i>CPGI score of 8 to 27 (problem gambling group)</i> : 0.83%, or 21 910 adults. <i>CPGI score of 3 to 7 (moderate risk gambling group)</i> : 2.70% or 71 227 adults. <i>CPGI score of 1 to 2 (low risk gambling group)</i> : 8.18% or 215 824 adults.	<i>SOGS 5+</i> : 1.88% or 48 609 Qld adults. <i>Dickerson method</i> : 0.76% or 19 665 Qld adults.

^a Estimates based on the Dickerson method relate to severe gambling problems (PC 1999, pp. 6.44–46, table 6.11). In its report, the Commission noted that state and territory prevalence rates, particularly for South Australia, were generally less reliable due to smaller samples sizes. ^b The estimates relate to all modes of gambling. The Commission estimated that 71 per cent of problem gamblers were so because of gaming machines.

The SOGS has been the most widely used and validated test around the world, including Australia, and was therefore a logical choice. But it is not without its limitations and the Commission supported the development of more refined tests, provided they are themselves appropriately validated. However, we should not allow the search for an ‘ideal’ screening instrument to become a distraction. What does seem important is to apply a

given test, around which there is reasonable professional agreement, consistently across jurisdictions and over time.

Whether the actual *number* of problem gamblers equates to 1, 2 or 3 per cent of the population, we are still talking about hundreds of thousands of Australians, and several hundred thousand more who are directly affected by their affliction.

It should also be borne in mind that *all* survey screens are likely to understate the extent of problem gambling — however they may choose to define it — simply because people have a natural reluctance to reveal the facts about such matters. That is why the estimate of gambling expenditure from the Household Expenditure Survey is one-quarter of the actual amount based on industry statistics — rendering that instrument of little use for analysis of gambling patterns or problems. Arguably the biggest practical challenge confronting prevalence studies is not the precise screening instrument, but rather the extent to which the design and presentation of the questionnaire can counter this inherent downward bias.

Cost and benefits of liberalising gambling

A novel feature of the Commission’s study was its attempt to quantify the (social) costs of gambling as well as the benefits. This was seen as necessary to counter the natural tendency to ignore what cannot readily be valued.

The real benefits are to consumers

A second source of novelty was the Commission’s approach to measuring the benefits of the gambling industries. Typically, these had been seen as deriving primarily from the jobs and income associated with the industry. The Commission showed that unleashing a previously constrained activity like gambling does not in practice create many new jobs. What it does do is enable people to spend more on gambling and less on other things. Except in depressed areas where unemployment is very high, the gambling industry’s new jobs will be some other industry’s existing jobs.

The real benefits from the deregulation of gambling come from people having increased access to something they like doing (better than some other things) and at a price lower than they would ultimately be prepared to pay. This ‘consumer surplus’ — while not without conceptual limitations — can be estimated, and it turned out to be sizeable, amounting to billions of dollars.

The industry, while puzzled and upset at the Commission’s dismissal of the production-side gains from its expansion, was gratified at the discovery that there were quantifiable benefits on the *consumption* side, which had not previously been estimated (some members of community groups and the press, however, were not so sure).

But where the Commission again parted company with the industry — or at least some of its consultants — was in not treating the consumption gains equally for recreational and problem gamblers, discounting them for the latter group to a level that corresponds to more normal expenditure. The fact that many problem gamblers report an inability to control their gambling, despite a desire to do so, and resort to self-exclusion and other devices to constrain themselves, provides strong support for this approach.

Social costs need to be accounted for

When it came to the *costs* of gambling, the Commission recognised that the psychic or emotional impacts on problem gamblers and their families — such as through family break-up and depression — are valid societal costs for which a value should also be assigned. That is not straightforward, of course, and it was necessary to use proxy measures and provide low and high estimates. Even then we erred on the conservative side (not attempting, for example, to place a value on the social cost of the 35 to 60 suicides attributed annually to problem gambling). As with the benefits, the costs turned out to be substantial.

The upshot was our estimate that the net impact on society of the liberalisation of gambling could be anywhere from a net loss of \$1.2 billion to a net benefit of up to \$4.3 billion. There were found to be significant differences by gambling mode, with lotteries showing a clear net benefit, whereas gaming machines and wagering included the possibility of a net loss. The reason for this is the much higher incidence of problem gambling for these modes.

The Commission's methodology has been broadly endorsed by most (though not all) of those professional economists who have acquainted themselves with it. And, since the inquiry, there have been a number of studies on the regional impact of poker machines that have purportedly drawn on the Commission's approach (see Table 2). The results have been comparable except for a study by ACIL (2001) for Tattersall's which, on close inspection, was found to depart from the Commission's methodology in crucial respects (see Banks, 2002).

Table 2:
Comparison of net benefit estimates

<i>Study</i>	<i>Gambling mode</i>	<i>Year</i>	<i>Region</i>	<i>Range</i>	<i>PC equivalent^a</i>
				\$m	\$m
PC (1999)	All gambling	1997-98	Australia	-1221 to +4277	not applicable
PC (1999)	Gaming machines	1997-98	Australia	-2634 to +1122	not applicable
SA Centre for Economic Studies (2001)	Gaming machines	1998-99	SA provincial cities	-43 to -0.6	not estimated
			Other non-metro	-24 to +9	not estimated
			Adelaide metro	-213 to +44	not estimated
			SA	-280 to +54	-213 to +91
ACIL (2001)	Gaming machines	2000-01	Ballarat, Vic.	+98 to +277	-19 to +8

^a estimate for the same region based on the Commission's methodology.

This underlines the importance of securing arrangements for independent research in this complex and highly contentious area of public policy. Otherwise we will end up, as in the United States, with a lot of research which is mainly directed at satisfying the needs of its sponsor.

Gambling regulations were inadequate

The Commission recognised that its quantification exercise could only produce ‘ballpark’ estimates that would be of limited usefulness for policy. What the exercise did make clear, however, was that the social costs as well as the benefits of gambling were likely to be substantial. This affirmed the need for considerable care in regulating the conditions of access to gambling. It also supported the Commission’s general principle that regulation should be directed at effectively limiting the costs of problem gambling, without unduly impacting on the benefits for recreational gamblers.

In practice, regulatory processes and measures in all jurisdictions were found to fall well short of that ideal. The Commission observed an ‘incoherent’ regulatory environment, one characterised by complexity, fragmentation and inconsistency. Regulation was found to be driven mainly by revenue-raising and probity considerations, rather than the more fundamental objectives of consumer protection and amelioration of social costs.

This was a pretty tough report card; however, most governments took it on the chin. From the outset of the inquiry they began to modify aspects of their regulatory frameworks to address a number of its deficiencies.

As noted, the gaming industry itself began to appreciate that its initial state of denial was not sustainable and, through the newly formed Australian Gaming Council (AGC), developed more pro-active strategies to address the social costs associated with its activities.

Before looking at these initiatives more closely, it may be instructive to see what has happened to expenditure on gambling in the period since the Commission’s inquiry. Problem gamblers account for a sizeable proportion of total gambling expenditure, or industry revenue. If measures to address the problem are working, this could be expected to become apparent in the data.

A recent tapering in ‘expenditure’ growth

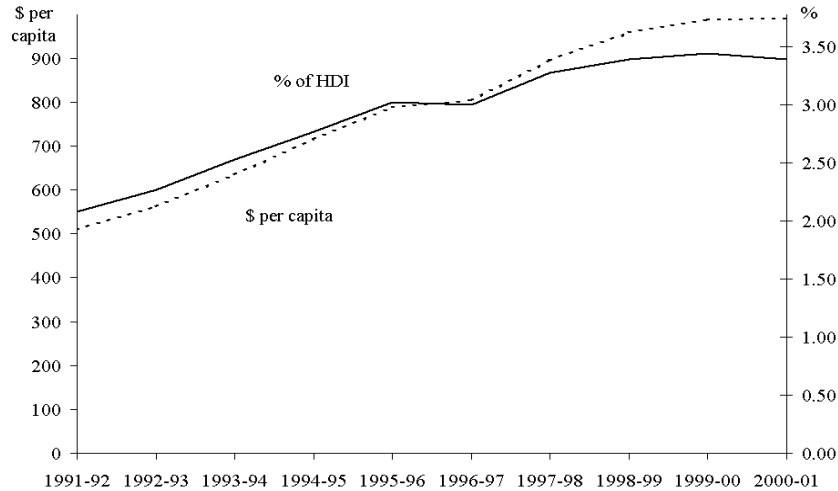
In the decade before the Commission’s inquiry, expenditure on gambling (‘losses’ in common parlance) more than doubled in real terms, rising from 2 to 3 per cent of household disposable income, or an average of around \$800 for each adult in this country. Most of this came from the liberalisation of gaming machines, the number of which more than trebled, reaching some 185 000. They soon spread from their original stronghold in New South Wales clubs, to include pubs and clubs across all states and territories except Western Australia.

Since 1997-98, gambling expenditure has continued to rise, reaching \$14 billion in 2000-01, or \$1000 per adult. But its growth has slowed discernibly, largely reflecting a slowdown in gaming machine expenditure. Expenditure has risen by 15 per cent (in 2000-01 dollars), compared to a rise of 30 per cent over the preceding three years.

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The ‘tapering’ of expenditure is more obvious on a per capita (adult) basis, or as a proportion of household disposable income (HDI) — where there has actually been a decline in the most recent year, from a peak of close to 3.5 per cent (Figure1).

Figure 1:
Trends in gambling expenditure shares^{a, b}



^a Expressed in 2000-01 values. ^b Per capita represents persons over the age of 18.

Data source: Tasmanian Gaming Commission (2002).

At face value, this might suggest that initiatives to moderate problem gambling have had some success. While the slowdown commenced before many harm minimisation measures came into effect, the most marked change in spending occurred in the most recent year, especially in New South Wales and the Australian Capital Territory. (Indeed, in New South Wales, revenue growth from gaming machines, which had still been buoyant in 1999-00, stopped dead in 2000-01.) Moreover, there were other influences that impacted earlier, including the expansion of gambling help services in most jurisdictions and the heightened public awareness of gambling problems at the time of the inquiry.

However, the fact that the slowdown or decline has not been consistent across jurisdictions (Figure 2) complicates matters and — assuming that the differences cannot be attributed simply to differences in the measures taken — raises the possibility of other explanations.

Figure 2:
Trends in gaming machine expenditure as a share of HDI, by state and territory

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Data source: Tasmanian Gaming Commission (2002); Commission estimates.

A 'maturing' market?

A plausible explanation of the different expenditure trends across jurisdictions is that they simply reflect the maturation (or emerging saturation) of the gaming machine market. The typical market growth pattern for any new good or service is one of relatively rapidly rising expenditure initially, while consumers 'come on board', followed in time by a slowing and then levelling out of expenditure (or proportionate expenditure) as demand becomes satisfied. The fact that the gambling market contains a special group of compulsive consumers, whose wants do not conform to the normal pattern, needs of course to be taken into account. However, there is a limit to the spending of even problem gamblers (as their frequent resort to theft and larceny illustrates) and over time many will become 'cured' and leave the pool.

Thus, we observe that the tapering of expenditure is most pronounced in New South Wales and the Australian Capital Territory, which have had access to gaming machines for longer, and it is generally also more pronounced in those jurisdictions where household spending on gambling is highest.

The main exception is the Northern Territory, but this could reflect the dual influence of a longstanding market, yet a relatively constrained one in terms of accessibility of gambling relative to the total population. The relative accessibility of gambling could also explain why the tapering of expenditure in New South Wales has occurred at a higher share of household disposable income than in the Australian Capital Territory and Victoria. New South Wales has substantially more gaming machines per capita than Victoria, and the Australian Capital Territory's machines have been confined to clubs.

Tax is trending up

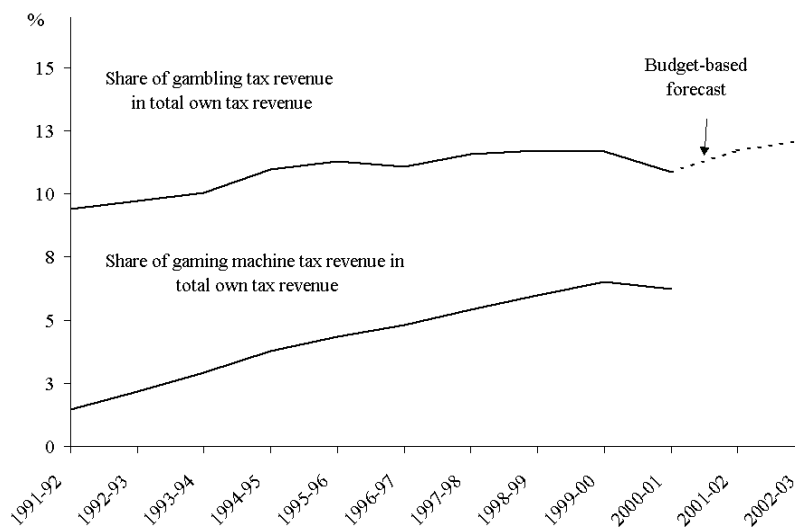
If gaming machine expenditure growth is slowing, this does not seem to be reflected in state and territory fiscal projections, which generally indicate a significant rise in the proportion of total own-tax revenues derived from gambling (Figure 3 — although admittedly the projected growth in New South Wales and the Australian Capital Territory is somewhat lower than for most other jurisdictions).

Interpreting trends in the tax take from gambling is complicated by the introduction of the Goods and Services Tax, which by agreement between the Commonwealth, states and territories resulted in an offsetting initial reduction in state and territory taxes on gambling. Factoring this in, it is reasonable to conclude that we are seeing a continuing rise in the overall dependency on taxes from gambling — at least in all jurisdictions other than Western Australia. The rise in fiscal dependency on gambling is in turn attributable to rising revenue from gaming machines. Even if that stagnates, the states and territories retain the option of putting tax rates up again, and indeed that is what South Australia has effectively done with its ‘super profits’ surcharge on gaming venues.

Gaming machine share has grown

In fact, the gaming machine share of total expenditure on gambling has risen further to 57 per cent in 2000-01 from 52 per cent in 1997-98 (and only 34 per cent in 1991-92) (Figure 4) This is relevant to the broader question of what expenditure trends may reveal about the costs of problem gambling, as the social costs loom larger for this mode than for say lotteries, which has experienced a reduction in its share of gamblers’ spending.

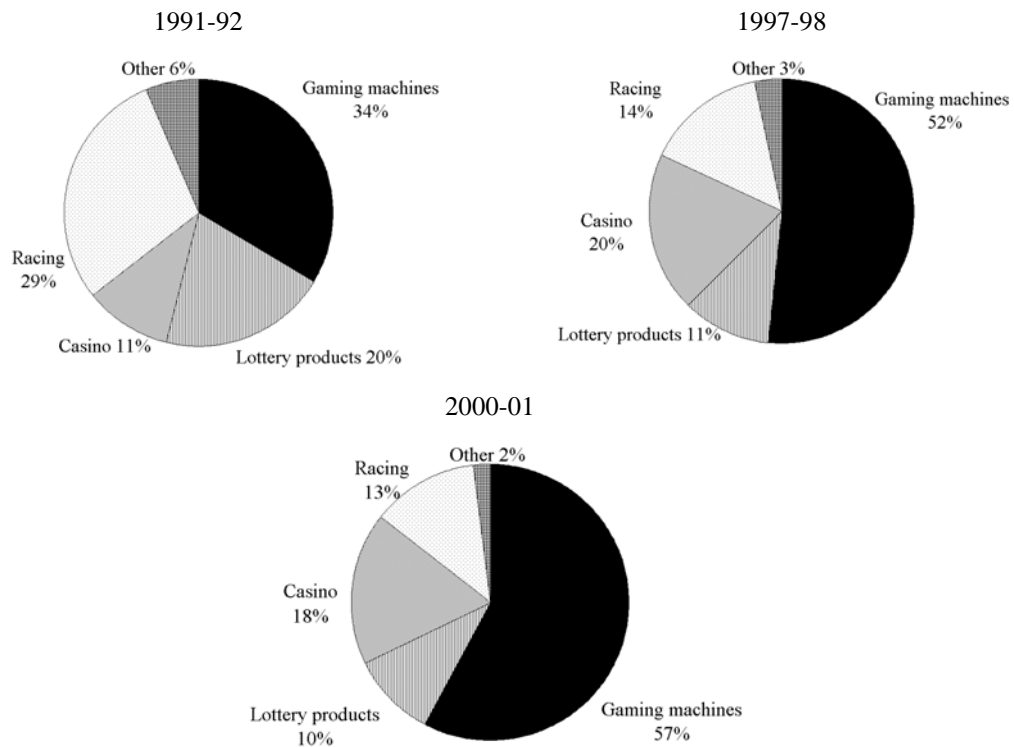
Figure 3:
Trends in gambling tax dependency, all states and territories^{a,b}



^a According to the ABS, ‘gaming machine tax revenue’ in principle captures all gaming machines whether in clubs, hotels or casinos. ^b See Banks, 2002, for a breakdown by states and territories.

Data source: ABS commissioned data; state and territory budget papers for 2002-03; Commission estimates.

Figure 4:
Expenditure on main gambling types, Australia^{a, b}



^a Expressed in 2000-01 values. ^b 'Gaming machines' do not include gaming machines in casinos. 'Lottery products' includes lotto, tattsлото, general lotteries, instant money and soccer pools. 'Casino' includes wagers on table games, gaming machines and keno systems. 'Racing' includes betting with bookmakers and totalisators, both on racecourses and off-course (TAB). 'Other' includes sports betting, minor gaming (such as raffles, bingo, lucky envelopes) and keno.

Data source: Tasmanian Gaming Commission (2002).

In sum, a number of developments since the Commission's inquiry have reaffirmed that problem gambling remains an important issue for public policy. At this relatively early stage it is unclear whether problem gambling and its associated impacts have moderated. That will take longer to ascertain and will ultimately depend on the efficacy of the measures taken, some of which have yet to be, or have only recently been, introduced. I will now examine these interventions in a bit more detail.

Developments in regulation

In its report, the Commission identified a variety of harm minimisation or consumer protection measures which could be taken, rating them against the principle that they needed to target sources of social cost without detracting unduly from the consumer benefits to be derived from gambling. In that way, the benefits of action were likely to exceed the costs, although there are also compliance costs to consider (which can be significant in some cases).

Apart from the important area of counselling for those problem gamblers who seek it, there are three broad categories of measures that we identified (Table 3). Two of these — relating to what might be called 'informed choice' and 'consumer control' — are

essentially about empowering *all* consumers, including problem gamblers, to make informed and deliberate choices. They are therefore likely to satisfy our guiding regulatory principle, providing win-win outcomes for all gamblers.

The third category involves constraints which would potentially benefit problem gamblers, but could also detract from the enjoyment of recreational gamblers. Such measures were therefore seen as requiring more careful assessment of their costs and benefits. Nevertheless, we considered that, at face value, restricting venue-based access to additional money, and limitations on spending rates, looked promising.

Since then, actions have been taken by both industry and government in many of these areas.

Table 3:
Potential harm minimisation and prevention measures

<i>Informed choice</i>	<i>Consumer control</i>	<i>Venue/games restrictions</i>
<ul style="list-style-type: none"> • Meaningful ‘price’ and odds information • Expenditure statements • Warnings • Help service information • Ethical promotion • How games work 	<ul style="list-style-type: none"> • Self exclusion • Pre-commitment <ul style="list-style-type: none"> – spending – duration 	<ul style="list-style-type: none"> • ATMS <ul style="list-style-type: none"> – location – withdrawal limits • Credit restrictions • Bill acceptor limits • Cheque payouts • Spending rates • Enforced breaks • Machine caps • Opening hours • Advertising restrictions • Lighting, sounds and clocks

Industry ‘self-regulation’ initiatives

According to a recent report prepared for the AGC, some 30 voluntary codes of practice have been developed relating to gaming alone. Among the more significant of these are the AGC’s own Responsible Gambling Code, the New South Wales Clubs’ Clubsafe 2000, the Victorian Gaming Machine Industry Code of Practice and, most recently, Queensland’s Responsible Gambling Code of Practice.

The latter is arguably one of the more comprehensive and, unlike most others, is the product of tripartite agreement between industry, government and community groups. It sets out a range of practices covering the provision of information, interaction with customers, exclusion provisions, the physical environment in venues, financial transactions and advertising.

However, not all voluntary initiatives are so extensive or detailed. For 33 gaming organisations surveyed by Hing and Dickerson (2002), it is apparent that the most commonly applicable measures tend to be the ‘softer’ or more discretionary variety, like provision of information or warnings. Less than half of the organisations were covered by

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provisions relating to, for example, restricting gamblers' access to cash through ATMs, EFTPOS, cheques or major winnings (Figure 5).

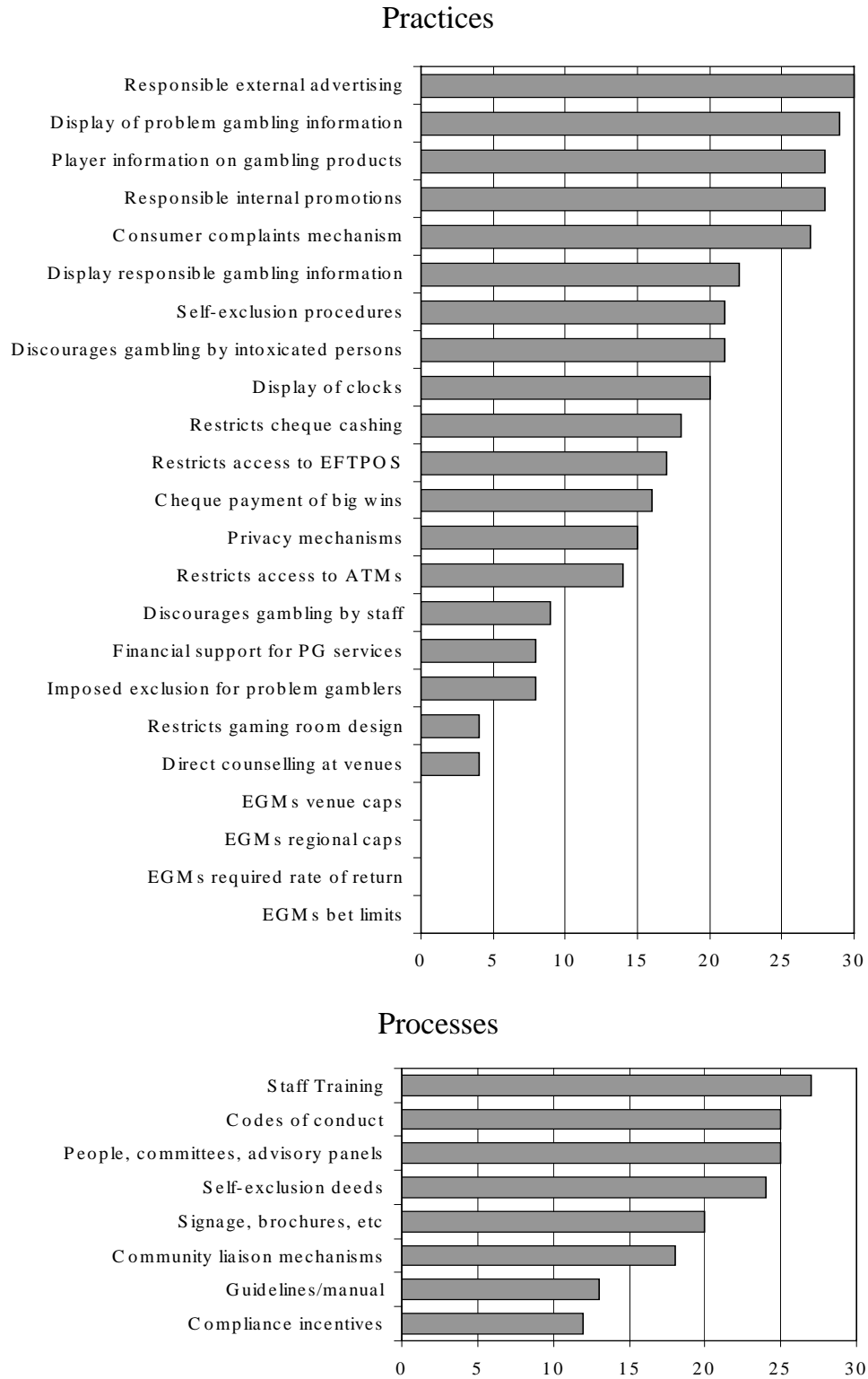
Moreover, the researchers found that none of the codes contained processes for independent monitoring of their implementation or the collection of independent evidence of compliance rates, and few contained processes for periodic independent review and evaluation.

This is a significant deficiency, because as the Commission emphasised in its report, the danger of relying on such voluntary codes of behaviour is that venue operators face an inherent conflict of interest in dealing with problem gambling, given the extent to which their earnings depend on the disproportionate spending of problem gamblers. Indeed, they have a strong financial incentive to do as little as they can get away with. This is not to denigrate them. It is entirely understandable and logical.

Self-regulation works best when there are either inherent incentives to comply or external disciplines that create such incentives. The first condition clearly does not hold and, as recent test cases relating to a common law duty of care illustrate, there are currently weak external disciplines that could be brought to bear without explicit regulation (*Reynolds v. Katoomba RSL All Services Club* and *Philo v. Hurleys Arkaba Hotel and Hurley*).

That measures to address problem gambling and broader consumer protection cannot simply be left to the industry has been broadly accepted by governments and the wider community. Most jurisdictions have undertaken a range of legislative and other regulatory actions since 1999.

Figure 5:
 ‘Responsible gambling practices’ and ‘stewardship processes’ contained in voluntary initiatives



Data source: Hing and Dickerson (2002)

Developments in government regulation

The following overview of recent developments is based on a broad, rather than deep, examination of existing and proposed arrangements. The limited availability of information in public sources, such as government websites, has been a constraint.

Informed choice

In the area of providing for more informed choice, most jurisdictions have introduced some key measures.

- Several governments now require venues to provide information to enable a reasonable understanding of the odds and to address false perceptions of how games work. Redressing such misconceptions, which experts see as contributing to problem gambling, is not straightforward and should desirably involve trials. It is unclear whether any such testing was undertaken and I have seen no assessments yet of how well these regulatory requirements are working.
- Most governments have now introduced requirements for warnings about the dangers of excessive gambling, and information about the signs of an emerging problem, as well as of sources of advice and assistance. However, the letter of such regulation can often be met without meeting its objectives.
- There are now also regulatory requirements in most jurisdictions relating to advertising and promotions. Some of these are quite restrictive – including (in New South Wales) prohibitions on gambling-related advertising and external signage and (in the Northern Territory) prohibitions on the advertising of any inducement to gamble (including free transport or cheap meals).
- A requirement to provide gamblers participating in loyalty schemes with statements of their expenditure (losses) has been introduced in Victoria and New South Wales. This is unlikely to involve much cost — venues already use such schemes to compile market intelligence on their customers — and it could prove particularly useful for ‘at risk’ players.

Consumer control

In the second category — giving problem gamblers options for self-imposed constraints on their spending — there has been a considerable extension and improvement of self-exclusion provisions. For example, in New South Wales a venue is not permitted to refuse a request for self-exclusion; it must also ensure that the person can be readily identified and provide information about counselling services; and the arrangement must apply for a minimum of three months.

So far there is little provision for self-exclusion to be readily extended *across* venues: an important requirement for full effectiveness. An exception is the voluntary arrangements overseen by the Australian Hotels Association in Victoria, which provide for multiple identification of venues in the deed of self-exclusion. The more general applicability of

self-exclusion arrangements may be facilitated in time by technological developments such as smart cards.

Self-exclusion is an important option for problem gamblers, but going ‘cold turkey’ is an extreme measure, and possibly unsustainable for many. The Commission saw a need to explore options to enable a gambler to continue gambling, but to set self-imposed limits on his or her losses prior to commencing gambling, when good intentions are more likely to prevail. At the time, such pre-commitment mechanisms were only being developed for Internet gambling

The practicability of such an approach in venue-based gambling once again hinges on having technology to enable tracking of expenditure across machines and, ultimately, different venues. Smart cards and tokens (rather than notes and coins) are technologies which facilitate such pre-commitment arrangements and it is good to see that experimentation in this area appears to be happening in a couple of jurisdictions (although it is difficult to get all the facts).

Venue and games restrictions

With respect to the third category of measures – imposed ‘constraints’ — there has been considerable regulatory activity, although the cost-effectiveness of measures has not always been tested prior to their implementation.

- As noted, most governments have introduced, or will soon introduce, constraints on access to cash in venues (such as ATM withdrawal limits) and prohibitions on credit or cheque cashing, as well as requirements for ATMs to be located away from gaming areas. The Commission’s survey provided some compelling support for action on ATMs. Only 5 per cent of recreational gamblers reported using ATMs ‘often’, whereas this was the reported experience for 60 per cent of (severe) problem gamblers.
- The Commission was more circumspect about the net benefits of banning bill acceptors on machines, or reducing programmed spending rates, and it saw little utility in enforced breaks. Such measures needed trialing, both to determine their efficacy for problem gamblers and their potential impacts on recreational gamblers. The only such trials of which I am aware were conducted by Blaszczyński and colleagues for the Gaming Industry Operators Group (Blaszczyński, Sharpe and Walker 2001). They found that of three mooted measures — reconfiguring bill acceptors to accept bills no larger than \$20, slowing reel spin speed, and reducing the maximum single bet from \$10 to \$1 — only the latter would be an effective strategy. (This is despite the fact that limiting the denominations on bill acceptors was found to reduce expenditure by 42 per cent, more than any other single modification. Earlier Commission research found that a much higher proportion of problem gamblers used bill acceptors than did recreational players.)

A number of the measures which seemed least promising to the Commission — such as light and clock requirements, and (minor) modifications to venue operating hours — were generally among the first to be introduced. They have populist appeal, but their potential effectiveness has not been demonstrated.

Gaming machine ‘caps’ are widespread

The most common imposed constraint on the gambling industry, pre-dating the Commission’s inquiry, are caps on the number of machines permitted in different jurisdictions.

Since the inquiry, most states and territories have introduced various changes to caps on gaming machine numbers, or ‘frozen’ existing caps pending review. For example, the New South Wales Government introduced recently a state-wide cap of 104 000 machines and a cap on each club of 450 machines, while maintaining a pre-existing cap on each hotel of 30 machines. The Victorian Government introduced regional caps on gaming machines in five ‘vulnerable’ regions.

The Commission was ambivalent about caps as a harm minimisation mechanism for two reasons. One is that, if binding, they impact on the accessibility of services to recreational gamblers. The second is that their effectiveness in limiting the extent of problem gambling is unclear, depending on the size and reach of the cap. (What is effectively a zero cap in Western Australia, for example, will produce quite different results to Victoria’s cap of 27 500 machines.)

One obvious problem in constraining supply is that it can place upward pressure on the ‘price’ of gambling (compounding problem gamblers’ spending difficulties). Another is that it provides strong incentives on both the demand and supply sides for the more intensive use of available machines. Thus Victoria, with one-third the machines in New South Wales (Table 4), has spending rates per machine that are twice as high — and expenditure per head is three-quarters that of New South Wales.

Table 4:
Growth in gaming machine numbers since 1999a, b

	<i>Clubs</i>		<i>Hotels</i>		<i>Casinos</i>		<i>Total</i>	
	<i>1999</i>	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>	<i>2001</i>	<i>1999</i>	<i>2001</i>
NSW	74 206	74 710	23 966	25 452	1 500	1 500	99 672	101 662
Vic	13 479	13 730	13 632	13 714	2 500	2 500	29 611	29 944
Qld	17 948	19 171	11 308	16 028	3 138	3 192	32 394	38 391
Wa ^c	-	-	-	-	1 180	1 383	1 180	1 383
SA	1 468	1 642	10 681	12 454	763	771	12 912	14 867
Tas	226	1 303	1 125	1 606	1 099	1 154	2 492	4 063
ACT	4 953	4 939	60	60	-	-	5 013	4 999
NT	508	557	136	149	608	622	1 252	1 328
Total	112 788	116 052	60 908	69 463	10 788	11 122	184 526	196 637

^a The data for 1999 are obtained from the Commission’s report (PC 1999, table 13.1, p. 13.5). The data for 2001 are obtained from the Australian Gaming Commission website (AGC 2002, Fact Sheet 3 – Australian Gambling Businesses). This data are drawn from state/territory gaming authority annual reports for 2000-01 and industry interviews. ^b Gaming machines are not permitted in clubs and hotels in Western Australian and in the casino in the Australian Capital Territory.

^c The Minister for Racing and Gaming recently reaffirmed the Western Australian ban on gaming machines outside the casino and noted that the Gaming Commission of Western Australia is currently considering whether to approve an extra 200 machines for Burswood Casino (Griffiths 2002).

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With geographic caps, there will be a tendency for machines to migrate to those locations and venues where they can be used most profitably. A common complaint by hotel owners in Victoria during our inquiry was that the duopolists who ‘own’ the machines would generally remove them from any venue that was not getting enough out of them. This can obviously exacerbate incentives for venue owners to ignore the welfare of problem gamblers.

With such considerations in mind, the Commission saw venue-based caps as being preferable to state-wide or regional caps. While it recognised that caps can potentially serve a failsafe role, it saw a need over time to reduce reliance on this blunt instrument as more targeted measures proved their worth. That remains my view.

The Internet gambling ban

Another complicated area for policy analysis is the question of Internet gambling. The Commission acknowledged the threat from the quantum leap in accessibility afforded by this new medium. But we also recognised some moderating features, such as the greater potential for proximity of family, and the scope for more effective consumer protection mechanisms — including complete transaction records, and (most importantly) effective mechanisms for pre-commitment on spending. Taking these into account, and recognising the technical difficulties in enforcing a ban on overseas sites, the Commission on balance favoured what it called a ‘managed liberalisation’ approach. This would require Commonwealth intervention to enforce licensing, and the replacement of an emerging hotch-potch of state and territory regulations (some of which were hard to fathom) with a consistent national framework.

As it turned out, this was not the approach adopted by the Government. It passed an Act in 2001 prohibiting the provision of ‘interactive gambling services’ — whether from Australia or from offshore to Australia. The Act is enforceable through a combination of ‘whistleblowing’ complaints and the imposition of heavy financial penalties.

I am not in a position to make informed comments about how the ban is working in practice (a review is scheduled to take place by next year). On the ‘technical’ issue of whether the ban is curtailing access to sites, a recent survey conducted for the Australian Casino Association (ACA 2002) reportedly shows that Australians are still accessing online gaming sites (mostly offshore, but including Australian sites). But what does such Internet traffic data really tell us? It could be picking up online wagering, which is legal under the Act, or website hits from people who are merely ‘browsing’. It is also hard to imagine that Australian providers would not be deterred by penalties of up to \$1.1 million per day.

Offshore provision remains the main bugbear, as it is very difficult and costly to block such sites. However, the recent passage in the US House of Representatives of the so-called Leach Bill, if eventually passed into law, would be likely to facilitate Australian enforcement. (However, it may also pose difficulties for currently permissible gambling modes like online wagering.)

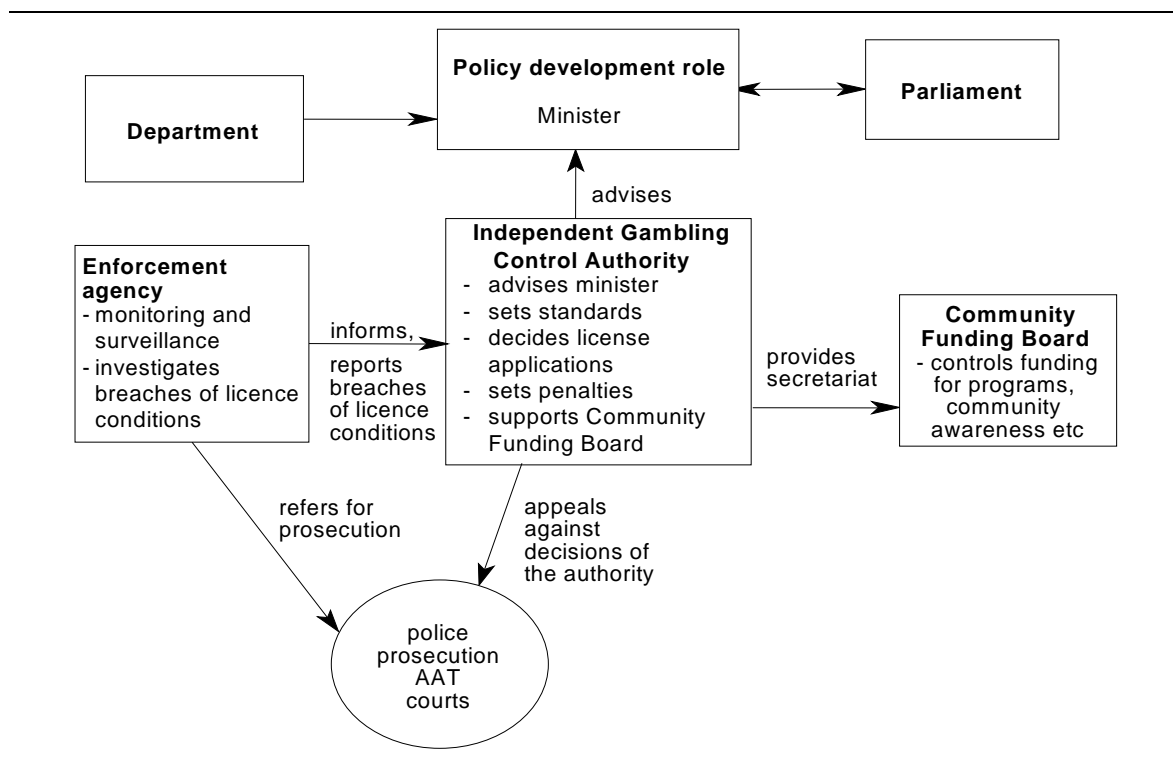
Regulatory and policy-making processes

The Commission’s review of the processes by which gambling regulation had come about (or not come about), and the regulatory structures for overseeing the industry, demonstrated why the regulatory frameworks were so deficient. Decision-making was generally poorly informed about the social impacts, ad hoc and piecemeal, with poorly specified or conflicting objectives and no systematic monitoring and evaluation of outcomes. Regulatory oversight was compromised by potentially incompatible objectives, lack of clarity in reporting responsibilities, conflicts of interest and lack of transparency.

Drawing on basic principles of good government, as well as international precedent, the Commission laid out the sort of institutional framework that it believed was necessary to remedy these shortcomings — clearly separating policy-making from regulatory functions, as well as providing independent mechanisms for the research needed to inform government policy (Figure 6). In particular, it was emphatic that:

“The key regulatory control body in each state or territory should have statutory independence and a central role in providing information and policy advice, as well as in administering gambling legislation. It should cover all gambling forms and its principal operating criteria should be consumer protection and the public interest”. (PC 1999, p. 4).

Figure 6:
The Commission’s regulatory blueprint



Source: PC (1999, chapter 22).

Since then most jurisdictions have made worthwhile improvements — such as the introduction of consumer protection objectives, requirements to consider the economic and

social impacts of licensing applications and greater transparency and public consultation (see Banks, 2002).

But the core requirement of a truly independent regulator is still proving elusive. One jurisdiction which seems to have moved in the right direction is the Australian Capital Territory, which established by statute its Gambling and Racing Commission in December 1999. Victoria has recently acknowledged the deficiencies and reporting tensions of the Victorian Casino and Gaming Authority and has proposed changes which also appear to be in the right direction, although it is hard to tell exactly what is involved from the information that is publicly available.

In all jurisdictions, policy and regulatory responsibility currently lie either with a separate industry portfolio (like the New South Wales Department of Gaming and Racing) or with Treasury and Finance. Neither arrangement is ideal, as the first is vulnerable to industry capture and the second is vulnerable to what might be called *budgetary* capture. The mooted re-location of portfolio responsibilities in Victoria from the Department of Treasury and Finance to the Department of Justice is a significant initiative, warranting serious consideration by other jurisdictions.

One possible spinoff from introducing a more 'neutral' policy and regulatory setting in each jurisdiction — apart from getting better decisions and regulatory outcomes — might be more effective coordination or cooperation among jurisdictions. While different policy approaches and regulatory 'experiments' provide desirable learning opportunities in a Federal system, divergent approaches to research and information gathering do not and this has been compounded by lack of transparency. The current balkanized approach to research is wasteful of scarce resources and missing important opportunities to apply common methodologies to explore common issues of concern (such as the effectiveness of harm minimisation measures and treatment techniques).

In its report, the Commission favoured the establishment of a national research institute to be block funded by all governments. Apart from the useful national perspective that it could bring, it could be a key source of advice untainted by the real or perceived tensions that arise with research sponsored by special interests (whether industry, community or political).

There have been two promising developments. At its meeting in September 2001, the newly formed Ministerial Council agreed to fund an Australian Gambling Research 'Secretariat'. Its primary function would be to pursue a research agenda identified by the Council. The draft agenda looks like a good start. But my understanding is that the Secretariat would only be a vehicle for *commissioning* research: in my view it needs also to be supported by an independent research capability (both to undertake research itself and to screen the quality of what is commissioned).

The second promising development is that the nucleus for such an independent research resource has recently been established at the Australian National University — the Centre for Gambling Research — with core funding from the Australian Capital Territory Government and the University. Wider governmental contributions were apparently sought without success, but this matter could be revisited. It might even be a good topic for the next Ministerial Council meeting (14 months have gone by since the last one).

Some priorities

Three years on from the Commission's inquiry it is apparent, even from this cursory review, that significant progress has been made. Recognition that there *is* a problem is perhaps the most important change, together with acceptance by governments and industry that existing policies and practices were inadequate to deal with it. The many regulatory and self-regulatory initiatives since the inquiry began are impressive in their breadth and coverage of the industry, with some useful innovations occurring in harm minimisation measures.

However, measured against the ultimate policy objective of maximising the net contribution of this industry, by reducing its social impacts without detracting unduly from its benefits, a number of gaps and deficiencies still stand out. I shall identify several that I believe deserve priority attention.

First, there is a burning need for more research on what actually works among the many possible harm minimisation measures. (This is particularly important for those which can involve significant compliance and other costs.) If we are serious about doing things that are effective, rather than just being seen to be doing things, trialing and testing of different approaches is critical. In many cases, this needs to be done *before* measures are introduced. There is a particular need to devote attention to pre-commitment strategies and the ability to cost-effectively harness new technologies.

A *second* and related issue — one that I have not spent much time on in this address — is the need for more follow-up analysis on what forms of remedial treatment (counselling) work best. Significant resources are being directed at help services, but there has been little 'performance auditing' of programs or detailed analysis of outcomes over time that I am aware of. (This is itself not without resource implications, but would nonetheless represent a good investment.)

This leads me to my *third* priority: the need for much greater transparency about what research is being done and, more importantly, what results are emerging. Lack of transparency can encourage suspicions that only 'convenient' research sees the light of day.

My *fourth* priority, therefore, is the need for governments to establish arrangements designed to promote independent research and *fifth*, much greater coordination in data collection and research methodologies across jurisdictions. A jointly funded national research centre could be an important focus for this. Current arrangements under the Ministerial Council are in the right direction, but in my view do not go far enough (and the Council itself has made little progress generally thus far).

Sixth, there is a need to have effective arrangements in place to monitor and enforce industry compliance, whether with government regulations or self-regulation. Penalties on venues that don't meet required standards of harm minimisation need to be enforced as readily as those which neglect matters of probity. A pre-condition for observance of regulation is that it is well understood by those who must apply it. In this brief review, largely confined to publicly available information, I have not always found it easy to identify exactly what is required. More transparency and clarity seem warranted.

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This brings me to the *last* and, in my view, *highest* priority: the need to reform policy-making and regulatory governance arrangements. Ensuring the substantive independence of the core regulator in each jurisdiction is central to this. It has demanding requirements, which the Commission spelt out in its report. In most jurisdictions those requirements have not yet been met.

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