



## Editorial

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## Editorial

Gambling remains a controversial and difficult area of public policy in Australia. This reflects the deep tensions for this consumer product between, on the one hand, its entertainment value and its importance as a tax base and, on the other, its adverse consequences for a sizeable minority of gamblers.

The holy grail of gambling policy is to find instruments that resolve these tensions by substantially reducing the social costs of gambling, while not (unduly) reducing its benefits. That requires translating some of the existing evidence about what is likely to work into actual policy, and directing new research and evaluation into the areas where policy needs to be most active.

Returning to this topic a decade after the first Productivity Commission inquiry (also the first independent national inquiry in Australia), we found that, despite plenty of pointers in the previous report, there had been relatively little research or policy action since then that was targeted where it could do the most good.

On the policy side, incidental measures such as smoking bans and restricted hours for liquor sales, appeared to have been more effective than the formal harm minimisation policies actually introduced by governments. Indeed, we found that virtually no machine design change with any *a priori* likelihood of effectiveness had been introduced in any state or territory during the 10-year interval between our inquiries. Further, in other areas of gambling, such as online gaming and wagering, the tenor of policy has been anti-competitive, rather than directed at enhancing potential benefits to recreational gamblers.

On the research front, governments have commissioned many useful prevalence studies, and considerable research has been undertaken into the behaviours and traits of gamblers (including ‘problem’ gamblers), but key data and key indicators have not always been presented.

For instance, while it is appropriate to publish conventional estimates of the adult rate of prevalence of problem gambling, it is also important to present evidence on risk levels for people most exposed to gambling. While a very small proportion of the total adult population experiences significant harms from gaming machines (a point emphasised repeatedly by the industry), a much larger share of those who gamble regularly experience such problems (around 15%). As my colleague Ralph Lattimore likes to point out, we do not regard mountaineering as a safe recreational pursuit just because the adult prevalence of deaths is low; or see hard drug abuse as a minor policy issue because of its small population prevalence. Yet this logical flaw permeates much policy discourse about gaming machines.

Evidence about the effectiveness of alternative policy options has been a particular weakness in the existing research base. In the case of gaming machines – where the social costs loom largest – there have been few targeted trials of the impacts of alternative machine designs, where harm minimisation has most potential.

By the same token, some policy actions have had no (published) research supporting them. For instance, from a harm minimisation perspective, it is not clear why Aus\$1000 was selected recently by the NSW Government as the new limit for the amount of cash that can be held in gaming machines at any one time. Ex ante, it seems unlikely that a Aus\$1000 limit could bind problematic behaviour any more than the pre-existing Aus\$9949 limit.

Where trials have taken place, the nature of the policy under scrutiny, as well as the scale and design of the trials themselves, have often undermined their usefulness. For example, trials of ‘pre-commitment’ systems in South Australia and Queensland have yielded some insights (for example, on the importance of enabling quick sign ups), but they can only test the efficacy of providing scope for gamblers to make ‘resolutions’ or best intentions, not impose binding commitments on themselves. (A person reaching his or her ‘limit’ could simply play on another machine or without using the identification card.)

Given the difficulty of predicting the full range of behavioural responses by gamblers or providers to any given policy, the patchy research base makes it harder to be certain of the effectiveness of new measures. Industry interests have accordingly advocated a high degree of policy conservatism (that is to say, little or no action). However, requiring too high a burden of proof for harm minimisation policies would lead to policy paralysis, which carries risks of its own.

Policy has to take account of uncertainty and weigh up, on the one hand, the risks and costs of introducing an ineffective regulation with, on the other, the risks and costs of failing to implement a measure that would have been effective. Minimising one risk necessarily maximises the other.

The Commission made its judgments about the competing risks (and expected net benefits) for different policy initiatives based on a ‘triangulation’ approach that assembled evidence from multiple sources.

One illustration of this approach is our analysis of the share of expenditure on gaming machines accounted for by problem gamblers – a highly sensitive matter for the industry, and one having obvious policy connotations. In the absence of more definitive existing studies, the Commission used a range of prevalence surveys, combined with data on spending recorded in those surveys, plus information on playing behaviour or other proxies for spending. The resulting estimates ranged around 40%.

The Commission also considered overseas studies and actual unit record data from a large club in the state of NSW. We even looked at evidence (from fraud studies) about whether it was feasible for problem gamblers to spend sufficiently large amounts on poker machines consistent with our estimates of problem gambling expenditure shares. The diverse evidence consistently supported our conclusion. (‘Hard’ data from one of the larger clubs in NSW revealed that it obtained about 80% of its gambling revenue from just 2% of its ‘Loyalty Card’ members.)

Online gambling is another example. This gambling medium has been contentious in Australia, with opposition to liberalisation coming not only from groups concerned about the social impacts, but also from competing ‘terrestrial’ gambling providers. The Federal government’s 2001 ban on domestic provision of online gaming has reduced, but not curtailed, its market growth, with consumers instead resorting to international sites. Given the risks such sites can involve, and the potential for more effective harm minimisation to be enforced domestically, the Commission on balance saw net benefits in ‘managed liberalisation’. However, recognising that although the risks for existing players would decline, expanded participation in the activity would present new risks, the Commission

proposed initially trialling liberalisation for poker card games, the safest form of online gambling (requiring the exercise of skill and usually having a lower betting intensity).

Another indication of the Commission's approach to policy formulation in the face of limited evidence is our support for a 'pre-commitment' system for gaming machines. The Commission recommended a system that gave people the capacity to set themselves spending limits. The proposed system would include default limits, such that the norm would be safer play, but with the consumer able to override these (including choosing no limits). Here the Commission drew on evidence from behavioural economics about the relative efficacy of opt-out over opt-in arrangements.

A defining element of the proposed scheme is that pre-commitment undertaken would be genuine, with no scope for the consumer to overturn it while playing. This is consistent with behavioural evidence from many studies about control difficulties experienced by problem gamblers (and indeed many recreational gamblers). The design also took account of some of the flaws identified in similar schemes abroad (such as people borrowing cards, privacy issues and the need to avoid inconveniencing small and casual spenders). The Commission also considered the technical evidence in seeking to implement pre-commitment most cost-effectively, and the system wide changes (such as to monitoring arrangements) that would be required. Finally we recommended that a (proper) pilot scheme be conducted, with Australian government funding, to generate direct evidence of outcomes before proceeding to wider implementation.

The potential for unintended consequences and the imperative to learn about how people actually behave in reaction to new policy measures, make trials and *ex post* evaluations critical features of a good policy process. The potential for policy errors can also be reduced through targeted measures, and carefully phased implementation. The Commission's recommended changes to gaming machines involve a 10-year implementation period to reduce the costs of machine changes and allow adaptive commercial responses by gambling providers (to an environment that would present opportunities as well as costs). This of course has not prevented industry representatives putting their own views about resulting costs and job losses. (Many of these have been exaggerated. A decline in gambling activity over time would not lead to significant unemployment, for example, as the industries' employees have skills in demand elsewhere in the services sector.)

Good evidence and good policy outcomes cannot of course emerge from a vacuum. Governance arrangements are fundamental to both.

While some of the governance arrangements have improved over the last decade, there are strong grounds for all jurisdictions having an independent gambling regulator and in locating gambling policy in departments responsible for consumer, justice or health matters, rather than for revenue or industry development. The appropriate framework for gambling policy should be a consumer and public health one, and its position in the bureaucracy should reflect that.

Transparency and consultation are still too often lacking in policy development. Research data are often not available for academics or others, and information is often not published in a timely way (and sometimes not published at all). Surveys of prevalence of gambling problems and behaviours have often used inconsistent methods and questions, which make it hard to get a national perspective. Different jurisdictions often duplicate each others' efforts and, as noted, research has often not focused on priority policy areas, or been used to evaluate existing policy measures.

Beyond a greater commitment to openness and rigour in jurisdictions' own research and evaluation efforts, the Commission saw considerable benefits in the establishment of a

new national research body. Initially funded by the Australian Government, it would provide nationally coordinated research, strongly focused on better policies, and enable open access to data and research findings. The new institution would also adopt a multidisciplinary approach, bringing some of the insights of public health and consumer policy into gambling policy. It would consult with state and territory governments and other stakeholders through an advisory group, but it would be independent, so that its findings would be impartial.

In sum, the social costs and benefits of gambling are large. Changes in policy that can significantly reduce the former without unduly reducing the latter have the potential to produce large social dividends. An evidence-based approach to gambling policy will need to have a bigger role to play if we are to get the balance right.

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