

Gambling on the Productivity Commission

All the evidence is in, yet the government has ordered another inquiry into the impact of gambling, writes Peter Mares.

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Above: Anti-pokies senator, Nick Xenophon, after taking questions from journalist at Parliament House last month.

AAP Image/ Mark Graham

KEVIN RUDD hates poker machines. At least that's what [1] [he told](#) the *Australian* as he pitched for votes before the federal election. But since he became prime minister Mr Rudd's passion seems to have cooled. He hasn't initiated any legislation or implemented any policy that would help him keep his pre-election promise to "wean" state treasuries off their addiction to pokie revenue. If anything, he has fed their habit, since a fair slice of the stimulatory cash served out to pensioners and "working families" is being fed back to the states via slots in suburban pubs and clubs. (The December distribution of funds under the government's first \$10 billion economic stimulus package coincided with a record month for gambling in [2] [Victoria](#) and significant jumps in poker machine revenues in [3] [Queensland](#) and [4] [South Australia](#).)

In place of action, Mr Rudd has, via the Council of Australian Governments, directed the Productivity Commission to conduct [5] [another inquiry](#) into the social and economic impacts of gambling. This will be a reprise of the commission's influential [6] 1999 inquiry into the same issue, and although gambling technologies and regulatory regimes have changed since then it seems unlikely that the new inquiry will reach substantially different conclusions. A decade ago, the commission found that some forms of gambling (lotteries, for instance) had a clear net benefit to society, but that others, notably electronic gaming, probably had a negative impact. Electronic gaming machines scored poorly compared to other kinds of betting because of the "much higher incidence of problem gambling" on the pokies.

The commission dismissed simplistic arguments about the economic benefits of the jobs created by the industry, noting that money spent on gambling was money *not* spent on

other goods and services. If gambling hadn't been liberalised in Australia then "most of the resources that went into the gambling industries would have been employed in other uses, creating similar levels of income and jobs to gambling itself."

The "main source of national benefit from the liberalisation of gambling," the commission concluded, "has been the consumer gains from access to a service that gives people enjoyment." This is a strange argument – and one that would seem to be vulnerable to the same logic used by the commission to discount the industry's job creation claims. Surely if gambling had not been liberalised then the "enjoyment" that people derive from it would have been found in other, arguably less socially damaging forms of leisure and entertainment? It is hard to believe that there is a greater amount of "enjoyment" to be found in an Australia with poker machines than one without. On that logic, people in Western Australia (where poker machines remain restricted) must experience less "enjoyment" than residents of other states.

If evaluating the supposed social and economic benefits of gambling is tricky, so too is putting a dollar value on its costs. In its own words, the Productivity Commission "erred on the conservative side" when it embarked on this exercise. It didn't try to put a dollar value on the suicides – between thirty-five and sixty each year – attributed to problem gambling, for example. Nevertheless, the commission concluded that the spread of poker machines in Australia might well have done more harm than good – that, on balance, the enjoyment of recreational players was outweighed by pain of those who become addicted. At best, the commission estimated a net benefit of \$1.1 billion from pokies; at worst, a net loss of \$2.6 billion.

[7] [Reflecting on the inquiry](#) three years later the chair of the commission, Gary Banks, said that its "most startling" finding was the estimate that "nearly 300,000 Australian adults had significant problems with their gambling." The other headline from the report was the commission's estimate that the gambling industry derived about one third of its total revenue from problem gambling.

This finding was not surprising and is consistent with other earlier studies. But coming from the disinterested, conservative and economically focused Productivity Commission it had a profound effect on public debate. It laid bare an essential and ugly truth: that gambling industry profits and, by extension, the lucrative revenue streams flowing to state governments, are underpinned by the misery experienced by problem gamblers and their families. Poker machines are the suburban reality behind the problem gambling statistics, and there is no reason to think that this fundamental reality has changed since 1999 – despite the profusion of education campaigns, harm minimisation measures, responsible gambling codes and counselling services during the subsequent decade.

Federal, state and territory governments responded to the commission's report by setting up a [8] [Ministerial Council on Gambling](#) under the Council of Australian Governments. The council developed a National Framework on Problem Gambling, and over the past five years state and territory governments have spent \$200 million on responsible gambling and harm minimisation programs.

There have been some sensible measures. Note acceptors on poker machines have been banned in South Australia. In some jurisdictions larger winnings must be paid out by cheque rather than in cash. All gambling venues must now have clocks on display, and almost all must shut down gaming operations at least once every twenty-four hours. But as a [9] [summary](#) of the various measures makes clear, harm minimisation across the states and territories is patchy and inconsistent. Most measures are at the soft end of regulation (requiring that warning signs be displayed or information provided about the odds of winning and losing on various gambling products). There are also self-exclusion regimes and procedures to discourage people from gambling when drunk. But it is generally left to industry to self-regulate responsible gambling programs. As Gary Banks [7] [concluded](#) in

2002, these voluntary codes are fundamentally flawed because “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.”

Although the breakneck growth of the gambling industry has slowed, this probably has more to do with the maturation of the industry than with the introduction of harm minimisation measures. The industry does hit an occasional speed hump that reduces its income – the introduction of smoking bans in pubs and clubs, for instance – but revenues recover within a couple of years and continue growing. According to the [10] [issues paper](#) released by the Productivity Commission to accompany its new inquiry, Australian adults each “spent” (that is, lost) approximately \$1100 on gambling in 2005–06. Considering that a fair proportion of us never bet, the actual losses per *gambler* are of course much higher. Collectively we lost about \$17.5 billion in 2005–06, almost as much as we spent buying clothes and shoes (\$20 billion) and significantly more than we spent on alcohol (\$11 billion) or on paying our household energy bills (\$11 billion).

Within the industry as a whole, poker machines continue to steal market share from other forms of gambling, and now account for 59 per cent of all money lost, compared to just over half in 1997–98 and a third in 1991–92. Given that electronic gaming is the preferred form of gambling for problem gamblers – in one study 84 per cent of problem gamblers in Victoria [11] [nominated](#) the pokies as their favourite method of gambling – it is quite conceivable, even likely, that the social and economic impact of gambling is even greater today than it was when the Productivity Commission released its first report. It is also likely that industry and state governments are now more even economically dependent on revenues derived from problem gamblers. (In their article “[12] [Risky Business](#),” researchers Charles Livingstone and Richard Woolley estimate that 53 per cent of the money lost on pokies in Victorian pubs and clubs in 2005–06 came from the pockets of at-risk or problem gamblers.) All of which raises the question: why another inquiry? Why wait to act?

THE GENEROUS READING of the prime minister’s decision to go back to the Productivity Commission for a new report on gambling is that he is fulfilling Labor’s commitment to producing “evidence based policy.” The cynical view is that he has kicked a difficult problem off the parliamentary playing field in the hope that it will get lost in the long grass. Already the inquiry has been used as a justification for delaying action. In November Labor and Coalition members of the Senate Community Affairs Committee [13] [rejected](#) three bills to tackle problem gaming on the basis that “the anticipated Productivity Commission inquiry” would “provide all stakeholders with reliable national research and data on this important issue.” Two of those bills were introduced by Family First’s Steve Fielding. The [14] [first](#) would have imposed a new “harm reduction” tax on gaming machine revenues to generate funds for education and counselling to reduce problem gambling. The [15] [second](#) attempted to render the machines themselves less harmful by reducing maximum bet levels, play speeds and jackpots. And the [16] [third](#), introduced by South Australian independent Nick Xenophon, would have banned automatic teller machines from gaming venues.

Senator Fielding’s bills were complicated responses to complex issues and may have been difficult to implement. The Xenophon bill proposed a relatively straightforward measure with relatively few drawbacks – the main one being the minor inconvenience caused to non-gambling patrons in pubs and clubs who might want to withdraw money from a convenient ATM to spend on food or drink.

Establishing a direct link between problem gambling and easy access to cash isn’t rocket science. The Productivity Commission’s 1999 inquiry found that problem gamblers were far more likely than recreational gamblers to withdraw cash from an ATM at a gaming venue. (One in five problem gamblers said they *always* did so.) Providing cash advances on credit cards at gambling venues is banned everywhere and ATMs have been removed from gaming

rooms. But a short walk to the front bar of a pub or club isn't much of a barrier for a problem player. Nor are limits on the size of individual withdrawals. The Northern Territory, Victoria and South Australia all limit the sum that can be withdrawn from ATMs at gambling venues to \$200 per transaction per card, with uncertain benefits. As reformed gambler Sue Pinkerton told the Senate Community Affairs Committee, "When I was gambling in South Australia they already had in force the \$200 per transaction rule. I would make anything up to five or six visits to the ATM in a session to get another \$200."

One of the first submissions to the new Productivity Commission inquiry came from Mr Keith Richardson, a private citizen who has no doubt that ATMs should be banned from gambling venues. In 2004, after spending the night drinking and playing the pokies at a suburban hotel, Mr Richardson's son fell onto the tracks at a suburban railway station and was killed by a passing train. Mr Richardson writes that his son had problems with both alcohol and gambling: "The autopsy revealed he had a blood alcohol of 0.285. His wallet was empty." Mr Richardson says his son would usually have returned home by taxi but did not do so on the morning he died because he did not have the fare, having withdrawn all his money to gamble at the pub.

"Had the ATM not been situated in the hotel," he continues, "our son would have had to leave the premises, walk past the taxi rank adjacent to Hornsby railway station and then proceed for another 200–300 metres to where a bank ATM is available to withdraw money so he could continue playing the poker machines... There is no doubt in my mind that the fact that our son could beggar himself by walking a few metres from poker machine to ATM under the one roof was a significant contributor to his death – which has ruined a number of lives. It is not just the gambler who pays for his addiction."

There are no ATMs in pokie pubs and clubs in Tasmania, which may partly explain why the losses of Tasmanian gamblers are significantly lower than those in other states and territories. In 2005–06 per capita turnover on Tasmanian gaming machines was \$2575, compared to \$6100 in South Australia, \$6274 in Victoria and \$10,848 in New South Wales. The Victorian government has^[17] [promised](#) to ban ATMs altogether from pubs and clubs with pokies by 2012.

In short, the rational argument in favour of a ban on ATMs in gambling venues has been won. Given the evidence of a link between easy access to cash, pokies and problem gambling, it hardly seems necessary to wait for another Productivity Commission report to banish ATMs from gambling venues nationwide. If the Rudd government had supported the Xenophon legislation it might also have bought itself some political goodwill to help win independent and Green support for other Labor bills in the Senate.

A BAN ON ATMs in pubs and clubs will not end problem gambling, of course. Nor would it be enough to end Senator Xenophon's long running crusade against the one armed bandits. He argues that what is needed is a fundamental shift in approach, one that sees problem gambling not as the result of an individual moral failing or lack of willpower but rather as the inevitable outcome of an unsafe product – the poker machine itself. Despite some very interesting ^[18] [recent research](#) on the features of individual machines there is still very limited public information on the psychology embedded in the technology of pokies, on the features that draw players in and encourage them to keep playing and keep losing. As Nick Xenophon says, "Regulators are more concerned with whether or not a machine will electrocute you than whether it will bankrupt you." To Xenophon, today's suburban gambling machines are like lawnmowers with blades that stick out too far. While some people manage to cut the grass without harm, many lose toes and even feet.

Xenophon would like to see poker machines removed altogether from pubs and clubs, but failing that he thinks machines could be made much safer through regulation – by reducing the speed of play, for example, and restricting betting to a single line per spin, reducing minimum bet levels, reducing the size of jackpots and banning note acceptors in all

jurisdictions. Another approach would be to mandate card-based play: this would enable (or perhaps require) gamblers to set limits on the amount that they are willing to lose before sitting down at the machines. It would also allow play to be tracked and alerts to be activated when the pattern of play suggested problem behaviour. And it would create an electronic record of gambling activity, which could provide regulators (and lawyers) with evidence of whether a venue operator had honoured their duty of care to customers and made serious efforts to intervene when a gambler was engaging in high risk play.

Xenophon follows [12] [Livingstone and Woolley](#) in challenging “the business as usual scenario” in Australian gambling – the industry’s view that only a small proportion of gamblers suffer harmful consequences from playing the pokies, and that it is the personal failings of these individuals, not the machines themselves, that are the source of the problem. This “comfortable orthodoxy” masks “a level of harm production that would not be acceptable in other consumer markets.”

This line of thinking seems unlikely to influence the Productivity Commission’s new inquiry. As in 1999, the commission has emphasised in its [12] [issues paper](#) that the guiding principle in assessing measures to regulate gambling is “whether the measure can target the sources of social costs of gambling *without detracting unduly from the benefits of gambling*” (my emphasis). As noted, in the commission’s view the benefits of the industry are to be found primarily in “the enjoyment” experienced by recreational gamblers. But what if effective regulation and the enjoyment of recreational gamblers are mutually exclusive? What if rendering machines safe for problem gamblers makes them unappetising for recreational users? Or, as is perhaps even more likely, what if safe machines make the industry itself unprofitable? Given that the pokie industry is reliant on the sustained, heavy and socially damaging losses of problem gamblers, this seems a likely outcome. An industry that protected problem gamblers while enabling recreational punters to have harmless fun would generate meagre tax revenues, which means that state and territory governments are unlikely to seriously contemplate measures to render poker machines truly safe until Canberra offers them an alternative revenue stream. With the big federal surplus spent fighting the global financial crisis, the task of buying the states off their pokie addiction has become economically and politically more difficult.

By the time the Productivity Commission releases its final report towards the end of this year, federal Labor will be back in campaign mode and state elections will be looming in South Australia and Tasmania (both set down for March 2010). Could this provide the setting for bold new policy initiatives from Kevin Rudd to end the system of “state sanctioned addiction” (Senator Xenophon’s words)? Or will it mean that the impetus for action is once again dissipated in the froth and bluster of electoral politics? It would be a shame if we had to wait yet another decade for serious attempt to limit the damage that pokies cause. •

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[2] Victoria: <http://news.theage.com.au/breaking-news-national/victorians-set-new-gambling-record-20090123-70md.html>

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[5] another inquiry: <http://www.pc.gov.au/projects/inquiry/gambling-2009>

[6] 1999 inquiry: <http://inside.org.au> <http://www.pc.gov.au/projects/inquiry/gambling/docs/finalreport>

[7] Reflecting on the inquiry: <http://www.pc.gov.au/speeches/cs20021121>

[8] Ministerial Council on Gambling: http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/programs/gambling-gambling_framework.htm#1

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