

What Are The Social Costs of Gambling?

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Background

- The social and economic effects of gambling is one of the primary areas of gambling research
 - Pathological/problem gambling diagnosis, prevention, and treatment is another
- Conferences in Whistler, CA (2000) and Banff, CA (2006) were dedicated to economic/social effects
 - Particular focus on costs

Background, cont.

- There have been 3 general perspectives on social effects
 - Economic perspective
 - Welfare economics
 - Cost of Illness
 - Substance/alcohol abuse
 - Public health
 - Focus on cost minimization

Different Perspectives

- There are some similarities in the various approaches
 - Economic and cost-of-illness perspectives are similar in many ways – measure the same things
 - Most people are sympathetic to the public health focus on harm minimization
- Differences still exist in terms of
 - Definition of “social cost”
 - How to deal with transfers, lost work productivity, and other cost items
 - Monetary measurement of costs and benefits

No Perfect Methodology

- There does not appear to be a single methodology that will satisfy researchers in all different disciplines
- The focus on monetary estimates of costs and benefits is not warranted
 - Monetary estimates are mostly arbitrary
 - Reliance on such data is a recipe for poorly informed policy

Examination of Two Important Perspectives

- This paper focuses on a few critical aspects of two approaches to the social/economic costs of gambling
 - The definition of social cost provided by Markandya and Pearce (1989) is the foundation of cost-of-illness studies that have been adapted to gambling and some economic studies
 - The new Canadian SEIG (2008) is hoping to be the new standard for cost-benefit studies – at least in Canada
- The “economic” perspective, of which I am a proponent, is not discussed in detail here
 - It has its own serious problems

[1] Markandya and Pearce (1989)

- This paper serves as the foundation for a variety of social cost studies, including...
 - Australian Productivity Commission (1999)
 - Single et al., “International Guidelines for Estimating the Costs of Substance Abuse, 2e” (2003, see pp. 9-10)
 - Collins and Lapsley (2003, see pp. 125-127)
 - Subsequent studies?
- Markandya and Pearce (1989) extends analysis by Atkinson and Meade (1974)

Markandya and Pearce (1989), cont.

- For a cost to be “private” the actor must have *full knowledge* about the potential costs of consuming the good.
- For smoking (the subject of their paper), it implies that if the consumer is not “fully informed” about the harm of smoking, he underestimates the harms and chooses to smoke too much.
- The result is a social cost, *even if the cost is borne by the smoker himself.*

Markandya and Pearce (1989), cont.

"To the extent that the costs are knowingly and freely borne by the consumer or producer himself, they are referred to as PRIVATE COSTS but to the extent that they are not so borne but fall on the rest of society, they are referred to as SOCIAL COSTS. Hence, the total cost of any activity is the sum of the private and social costs."

(p. 1139)

Markandya and Pearce (1989), cont.

- “If his actions are determined by a perceived cost that is in fact less than his actual cost, then the difference between the two can be viewed as a social cost.” (p. 1140)
- Some costs have been ignored, and the smoker over-consumes

Markandya and Pearce (1989), cont.

- This definition of social cost, whether applied to smoking or gambling, may be biased toward overestimating costs
 - Viscusi and Hakes (2008) find that people tend to *overestimate* potential risks from smoking
 - This suggests that they smoke less than is socially optimal
 - The Markandya and Pearce (1989) framework assumes that people will only under-estimate, and not over-estimate risks
- All decisions are uncertain, to an extent
 - No one perfectly estimates costs and benefits of an action

Markandya and Pearce (1989), cont.

- Further investigation should examine the extent to which this aspect of the social cost definition contributes to monetary estimates
- This example shows how important the definition of "social cost" may be

[2] Socio-Economic Impact of Gambling (SEIG) Framework

- This Canadian report was released in February 2008
- Funded by a number of Canadian research/government organizations
- Primary author Mark Anielski
- SEIG is promoted as being a possible gold-standard for social/economic research
- Provides a detailed list of costs and benefits to be measured

SEIG, cont.

- While a standardized methodology would be useful, SEIG may not be the best hope
 - But it is already being used as a foundation for several Canadian studies
- At least 8 issues should be considered before researchers adopt this as a standard tool for analysis

SEIG 1: Flexibility- Comparability Tradeoff

- A primary benefit, according to its authors, is its flexibility
- Researchers in different jurisdictions may wish to focus on different items to measure
 - SEIG lists many, many different items that may be measured
 - No single study could do all of them
- Such flexibility implies limited comparability across jurisdictions, through time, and in evaluating different treatment tools
- Researcher bias has been a serious problem in monetary estimates of costs/benefits

SEIG 2: Bias Against Benefits of Gambling

- One serious limitation, for economists, is that the SEIG ignores “consumer’s surplus” (CS)
 - CS is the difference between what people are willing to pay, and what they actually pay
 - Like profit to producers, except for consumers
 - CS is perhaps the largest benefit from legalized gambling
- The result of this is a likely under-estimate of the benefits of gambling

SEIG 3: Measurement Problems

- The SEIG authors are upfront about data measurement problems in most of the indicators they identify
 - This is a very important positive aspect of SEIG
- Many of the costs identified are simply unmeasurable
- Even if researchers developed a measurement tool, it's not clear that monetary estimates are useful
 - This view may be shared by Eric Single, Mark Kleiman, and others (COI)

SEIG 4: Attribution of Costs to Gambling

- Over half of problem/pathological gamblers have comorbid disorders
- SEIG authors acknowledge that it is not possible to dole out measured costs in shares corresponding to causality
- Without some reasonable mechanism, cost estimates are not much more than arbitrary

SEIG 5: Means to an End?

- Goals of SEIG are
 - Help show where investment should be made to reduce preventable negative impacts of gambling
 - Help to evaluate how well such investments are achieving their goals over time
- These goals are very reasonable, and the SEIG can help in these regards
- Yet, it is not clear that identification and measurement of all costs and benefits is necessary to achieve the above goals
- Researchers have come to some agreement about *types* of potential harms of problem/pathological gambling behaviors

SEIG 6: Reliance on GPI

- The SEIG uses the Genuine Progress Index, which is a relatively new alternative to basing measurement on GDP (gross domestic product)
- Indeed, GDP has numerous problems
 - Ignores non-market activity
 - Many “bad” expenditures add to GDP
 - Medical expenses/treatment
 - Repairs from natural disasters
 - Many expenditures that add into GDP can hardly be seen as “good”, even though they may be rational
- GPI attempts to measure in a way that good things increase the index, “bad” things do not

GPI, cont.

- I agree that GDP is flawed, and I am sympathetic to the GPI principle
- But GPI also has flaws...
 - Ignores CS, which is really a benefit to consumers
 - Treats inequality as a cost
 - Includes wealth transfers in its computations
 - Subjective
- As an economist, these things trouble me
- The likely result is a bias against gambling

SEIG 7: Advantages over Other Methodologies?

- The SEIG report is very detailed about different items to be identified/measured
- Suggests that it will help researchers come to an agreement
- But the SEIG framework raises a whole variety of new issues to be debated among researchers
- A flawed methodology that is well known may be preferred to an unknown (and also flawed) methodology
- What benefit will a shift to an entirely new methodology provide?

SEIG 8: Funded Research May Avoid Peer-Review

- The SEIG report emphasizes the need for additional research funding
- It provides a long menu for potential research projects
- However, if such research is funded and is not aimed for academic journals, the lack of peer review could be counter-productive
- To truly become an accepted standard for social/economic research in gambling, such studies must be able to survive peer review

SEIG: Summary

- Overall the SEIG report does highlight many of the areas that have not yet been examined by researchers
- It is important to bring attention to these issues
- But the usefulness of detailed research as suggested by the SEIG report has not been demonstrated
- Given the problems with accurate cost attribution, monetary measurement, etc., it is not clear such research is worthwhile

The Economic Perspective

- As an economist, I still lean toward a perspective based on welfare economics
- However, there are controversies
 - transfers of wealth
 - lost work productivity
 - costs that are “internalized”
 - many of the negative effects of problem gambling that have been identified aren’t considered “social costs”
- Has some of the same measurement problems as other methods

Conclusions

- Specific monetary estimates for the costs of problem gambling may not be worth developing
- There exist major disagreements among researchers about the definition of costs/benefits, and how to measure them
- Other limitations
 - Researcher bias (discipline-related; pro- or anti-gambling)
 - Data availability/quality

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