How to regulate gambling markets?

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Context

Netherlands Gambling Authority (NGA), established in 2012.

Recommendation from mandatory 5-year evaluation in 2017:

“The NGA must develop a market vision that focuses on the consequences of its regulatory activities for markets. This must become part of the supervisory strategy.”

Public consultation of policy paper with market vision in Q4 2018.

This presentation: broad overview of
The economic approach to regulation

1. Which persistent market failures are there without regulation?

2. Which legitimate public interests are at stake?

3. Which regulation is effective and proportional?

4. Do regulation benefits outweigh the costs of government failure?
1. Market failures of unregulated gambling (I)

Classical economics (consumer perfectly rational)

Efficiency:
1. negative externalities = costs imposed on third-parties (crime);
2. imperfect information (false advertisements);
3. network externalities = mutual benefits induced among players:
   > lottery jackpots;
   > liquidity pooling (poker, exchange betting);
4. economies of scale, scope and density (casinos).

3) and 4) can lead to winner-takes-all markets, barriers to entry.
1. Market failures of unregulated gambling (II)

Behavioural economics (consumer not perfectly rational)

Paternalism:
- gamblers misjudge odds (gambling fallacies);
- gamblers are irrational and ignore self-interest (addiction).

Other considerations

Equity: taxation of windfall gambling profits

Morality:
- gambling is indecent / repugnant / sinful;
- gambling discourages honest labour.
2. Public interests and government policy

Public interest = persistent market failure that legitimizes government intervention.

Gaming and Betting Act (1964) defines 3 public interests:
1. Prevention of gambling addiction;
2. Consumer protection (false advertisement, deceptive practices);
3. Combating crime (money laundering) and illegal gambling.

Like most EU countries, the Netherlands has an implicit* policy goal:
4. Raising tax revenue and donations to good causes.
   Lottery donations address a market failure in philanthropy.

* EU law only allows this as a beneficial side-effect, not as a legitimate explicit goal.
3. Effective and proportional regulation

Economic guidelines:
- Above all: ensure competition and consumer empowerment;
- Generates innovation and welfare to consumers;
- Without it, illegal gambling will prosper;
- Needs competition policy, low barriers to entry.

Target gambling specific risks:
- Address underlying problems:
  > Player limits & exclusion reduce addiction, limited supply won’t;
- Aim for technological neutrality:
  > Roulette table, machine & software offer identical gambles;
  > Separate laws = inefficient labour/capital mix, less innovation.
4. Does regulation outweigh its costs?

Full social cost-benefit analysis beyond the scope of policy paper:
- Hard to separate *cause-and-effect* (e.g. addiction & depression);
- Must do *proper accounting* (debt relief is a cost, not debt itself).

Costs and side-effects of regulation:
- Industry reducing competition through *regulatory capture*;
- Technology innovating much faster than the law;
- Perverse incentives as side-effect.

Beware of the politician’s regulator’s syllogism:
*We must do something. This is something. We must do this.*
Timeless advice

“Sometimes nothing is the hardest thing to do.”
- Tyrion Lannister

www.gameofquotes.blogspot.com
Thank you! Questions?