



# 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:**

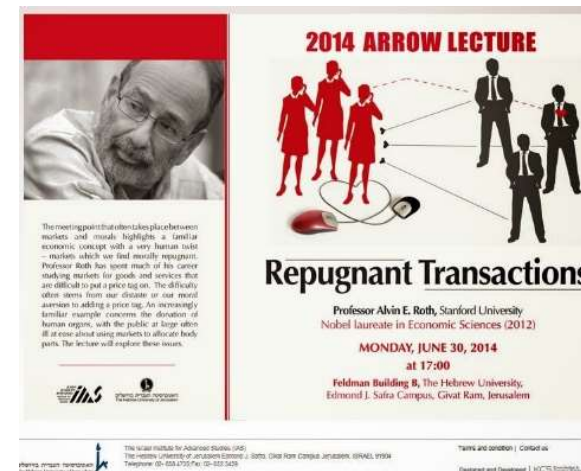
- gamblers misjudge odds (gambling fallacies);
- gamblers are irrational and ignore self-interest (**addiction**).

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





Thank you! Questions?