

# [The economic arguments for gambling](https://assignbuster.com/the-economic-arguments-for-gambling/)

### I. Introduction

This report focuses on the economic arguments for gambling, outlining the purpose and potential impacts and results of government intervention on the society. In considering the economy as a whole, the impact on society also includes the impact on business. Inevitably the rapid expansion of gambling industry raises important questions why public requires gambling industry to be exceptionally vigorously regulated and what are the consequences of this for maximising economic benefits and minimising external costs. Further, both the externalities would be dealt with. The scope of this report is limited to gambling in UK. The report concludes by showing how and why the balance between consumer choice and consumer protection should be considered.

### II. Gambling industry in UK

Gambling is defined as “ taking the chance of losing money or belongings and when winning or losing is decided mostly by chance”. Participants in gambling indeed put “ something at risk,” and the value of the “ something at risk” is measured not only in pounds but also in the social costs associated with gambling. Gambling has been practiced in the UK for centuries. Since Chancellor Gordon Brown cut betting tax in 2001 (replacing betting duty with a tax on the profits of gaming companies), the amount the nation spends on betting has increased sevenfold with £50bn spent last year alone. £50bn is a truly huge sum, representing just fewer than 5% of national income and more than the government spent on defence and transport combined in 2005.

### Categories of Gamblers (Appendix 1)

Adults who have never gambled have decreased from 33% to 15% in last three decades. Gambling expenditures has increased 0. 30% of personal income to 0. 80%. Gambling patterns among women have grown more like those of men. Technological progress, social trends, globalization and especially the recent and still ongoing economic crisis are at the source of both lands based and online gambling rehabilitation. Originally a niche market of low economic importance, gambling has become a mainstay of the economies of several countries, while in many others it is seen as a possible lifeline and end to their current economic crises, (For example: Nepal). In past three decades, legalized gambling in the UK has grown from very limited to extremely commonplace. Size, scope, and legality of gambling determined by government.

Gambling industry is generally taken as a Controversial industry. It is mostly taken as De-merit good. The government may seek to reduce consumption of de-merit goods. Consumers are less aware of the negative externalities that these goods create – they haveimperfect information. The usual approach to de-merit goods is to tax consumption, so that the private cost of consumption is increased and demand contracts. But the government has actually got rid of betting & gaming duty (it was abolished in 2001) to be replaced with a tax on the profits of gaming companies.[1]

### III. Supply and Demand of Gambling Industry

Just like any other business in a capitalist society, the gambling industry is driven by the principles of supply and demand. Gambling supporters say that demand drives supply. In other words, the industry grows and spreads into new markets because the public is eager to gamble. Illegal gambling has always flourished in many countries, and opinion polls show that most people favour legal gambling opportunities-particularly lotteries and casinos. Gambling opponents say that supply drives demand arguing that people would not be tempted to gamble or to gamble as often if opportunities were not so prevalent and widespread. They see gambling as an alluring temptation with potentially dangerous consequences. So it can be said that gambling opportunities are presented, promoted, and supported not only by the business world but also by government leaders and politicians-people who are supposed to represent the best interests of the public they serve.

### IV. Price Elasticity of Gambling

The price elasticity for problem gamblers is less than that for non-problem gamblers. The overall (average) price elasticity is, therefore, a combination of an above average price elasticity for non-problem gamblers and a below average price elasticity for problem gamblers. It is reasonable to suppose that the difference between these two price elasticities could be quite large, encapsulating high responsiveness to changes in the odds of winning among non-problem gamblers, on the one hand, and low responsiveness to changes in the odds of winning among problem gamblers, on the other. So elasticity’s determinant is perception ( i. e Necessity vs Luxury).

### V. Government Intervention

Role of government is to balance many factors- not just efficiency: social welfare, and equity also enter into the concerns of Government. Gambling commission[2] of UK claims “ Keeping gambling safe and fair for all”.[3] Gambling is a public private sector partnership in which both government and the industry have an interest in ensuring that the industry is both profitable and favourably regarded by the public. Well regulated, gambling has the capacity to deliver modest economic benefits to those most in need. Well regulated the harm that gambling does can be kept to a minimum, especially through education. The law on gambling is now more than 30 years old. The current laws do not cater for modern technology or the Internet and consequently do not provide satisfactory consumer protections. The Government has drafted new legislation to modernise regulation and ensure that it can respond flexibly to future technological and market developments. In doing so it will continue to ensure that the main objectives for gambling are maintained, namely to:

* Preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime.
* Ensuring that gambling is conducted in a fair and open way.
* Protecting children and other vulnerable persons from being harmed or exploited by gambling.

The gambling industry in Great Britain is substantial, with a turnover of over £100 bn in 2008/09. Gross gambling yield[4] was estimated at £12 bn in 2008/09. 25% of this £12 bn was generated by the National Lottery and most of the remainder by those industries which are regulated by the Commission.[5] This expenditure was used to pay around: £1. 6 bn in betting duties, £400 million in corporation tax and VAT, and £1. 9 bn in good cause’s contributions. It also funded employment of around 124, 000 full time equivalents. As governments try to cope with fiscal pressures, many governmental entities have turned to legalized gambling as a revenue source preferable to tax increases on the residents of a particular area. Gambling revenues are used to finance continually growing demand for government services. Government agencies charged with enforcing laws and regulations on gambling activities within their areas of jurisdiction issue numerous publications and statistics. (Appendix 3) Government has not allocatedsufficient funds nor taken adequate corrective measures for dealingwith the social and financial consequences that are created byaddictive gambling. Many governments have state monopolies on some or all of the commercial gambling which goes on in their jurisdiction. Many governments respond to prohibitionist pressure. For Example in USA, every continental state without a lottery bordered at least one state with one, making out-of-state lottery gambling feasible for a sizeable number of adults.[6] Sales on instant lottery games account for almost half of all state lottery revenue.(Appendix 4)

Gamblers don’t like paying tax. That makes them no different from most people. But different governments have different ways of making gamblers pay tax.[7] ( Joe Saumarez Smith, 2001). The UK government demanded bettors to pay 9% tax on either their stakes or their winnings. This made the Treasury a lot of money but it also meant a huge number of serious gamblers started to take their business overseas[8]. Hence the commission has come up with remote gambling operator licensed which increased from 300 to 328 during this year.

As at 31 March 2009, the Commission had issued 714 on course general betting licences and 720 off course general betting licences. The approximate numbers of betting shops (excluding Northern Ireland) operated by each of these operators is as follows:

### VI. Advertising in Gambling (Appendix 4)

It has been proved that advertising has played important role in the consumption of gambling especially targeting children under 21. The Advertising Standards Authority’s code includes rules on betting and gaming. The fundamental principle of the ASA’s code is well-known -“ All advertisements should be legal, decent, honest and truthful”. The ASA also has specific rules relating to betting and gaming. These are:

* The gaming industry and the advertising business accept responsibility for ensuring that advertisements contain nothing that is likely to lead people to adopt styles of gambling that are unwise
* Advertisements and promotions should be socially responsible and should not encourage excessive gambling
* Care should be taken not to exploit the young, the immature or those who are mentally or socially vulnerable
* Advertisements should not be directed at people under 18 through the selection of media, style of presentation, content or context in which they appear. No medium should be used to advertise betting and gaming if more than 25% of its audience is under 18 years of age
* People shown gambling should not be, nor should they look, under 25.

### VII. External costs and benefits of gambling in consumption

“ While the report shows that problem gambling still only affects a small minority of people, it does remain a serious issue” Prime minister’s spokesman.

Gambling has given rise to market failure as there is existence of external costs and benefits and also the knowledge is not perfectly passed onto people. Too much gambling policy (and therefore too much funded research) is really determined by residual convictions that gambling is a vice[9] . But conceptions of vice may be anachronistic and/or irrational, cp sex outside marriage, gay sex etc. But Gambling has Marginal Social Benefit.[10]

Remote Gambling[11] is on the boom now-a-days. It has many negatives as it is the most convenient form of gambling available wherever you are 24/7, permitting all forms of gambling for unlimited stakes and prizes, and therefore the most dangerous from the point of view of impulse gambling and excessive gambling. Also it’s extremely convenience of paying esp. on telephone or TV rental accounts. It is very hard to regulate so as to enforce the implementation of safeguards. There is no control of advertising and it has many problems of player identification, esp. minors which makes Gambling a source of Marginal social cost[12].

a) Social and economic costs:

* Increased criminal justice system impacts. It has been seen that those who begin gambling legally often end up gambling illegally.
* Health-care related to the treatment of problem gambling.
* Costs borne by individual problem gamblers and their families.
* Displacement effects in retail, entertainment and food service sectors.

b) Social and economic benefits:

* It promotes stimulation, socialisation and other factors associated with healthy aging.
* Employment gains from hospitality and tourist-oriented business growth as well as related economic spin-offs (“ multiplier effect”).
* Government revenues derived from the ownership or operation of gaming.
* Infrastructure improvements.
* It also promotes the virtues of stoicism.[13]
* It is socially/economically desirable as it promotes entrepreneurship.[14]

Please find the graph below which shows the “ External costs and benefits of gambling in consumption”.

### VIII. Recommendations and Conclusions

Knowledge of gambling’s impact enables the determination of the healthiest gambling policy – a policy in which the trade-off between the harm and good of gambling expansion provides the maximum public benefit” (Azmier, Kelley, & Todosichuk, 2001).

Government should ensure people know what they are doing. We need to discover what the minority of problem gamblers do wrong, we need to discover what the vast majority of non- (or at least really-not-very-serious) problem gamblers (mostly) do right. To stop crime, use technology to tame technology by accentuating the positives of player-tracking, loss-limiting, e-consumer education and e-counselling etc. Be alert to the wider civil liberties issues. Governments should not interfere in transactions between willing buyers and willing sellers except to prevent the use of force and fraud by one party against the other. Government should not forget that gambling is a way of escape from problems may be a good thing for an individual- taking time out. Adults should not be prevented by government from deciding for themselves how to spend their own time and their own money in pursuit of pleasure. It’s a good way of raising money for good causes/generating relatively unresented taxes both general and hypothecated. It will attract additional tourist spend and prevent local “ spending abroad” (Not much applicable to any jurisdiction not close to others where gambling is illegal). Hence programmes of treatment (mainly for 1%); public awareness (for a further 4%) and research, especially in what effectively protects the vulnerable minority without spoiling the pleasure of the vast majority who experience no problem at all. Government should not forget that gambling should be encouraged as it significantly contributes to UK economy, generates full employment, and also consider The principle of equal liberty[15], but it should be properly regulated.

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