knowledge snapshot

A policy framework to analyze the trade-off between government net revenue and social harm from gambling

What this article is about

Society has a dilemma in weighing the costs and benefits of the government's operation of gambling activity. Government operated gambling venues, equipment, and lotteries provide tax revenue which can, potentially, fund many socially desirable programs (e.g., in education and healthcare). However, gambling activity results in social harm to problem gamblers and their families (e.g., debt, domestic violence, crime, mental health issues, etc.).

The gambling research literature that has addressed public policy has primarily focused on harm minimization. This article emphasizes the imbalance of this approach. While the social harm from gambling should never be ignored, the social harm that can be prevented by the government spending its net revenue from gambling in a socially beneficial way should not be overlooked. The article describes the process that a policy maker would follow to weigh the social harm from gambling, against the government's net revenue from gambling, to find the best ('optimal') combination of harm and revenue.

What was done?

To determine the optimal gambling policy, of the authors use concepts from microeconomic theory. These are deployed in a series of graphs with revenue on the x axis and harm on the y axis. The authors use a three-stage process to find the optimal combination of harm and revenue.

What you need to know

In the first stage, they identified graphically all feasible combinations of harm and revenue. No other combinations of harm and revenue are attainable.

Why is this article important?

This article provides an economic framework for optimal public gambling policy that incorporates the central concepts of efficiency and society's values. It employs the basic tools of microeconomics in its analysis. A logical analytical framework to address gambling policy choices has been lacking in the academic gambling literature, which largely endorses the goal of gambling harm minimization, without any consideration of the negative impact of this goal on government net revenue. The authors argue that it is flawed to only focus on the harm created by gambling, while entirely ignoring the potential harm reduction higher government gambling revenues could fund. The authors argue that the optimal government-operated gambling policy may not necessarily be the one that results in the minimum level of harm. This article provides important economic perspective that is missing from the academic gambling literature.

In the second stage, the authors defined and graphically depicted the efficient combinations of harm and revenue. Efficient combinations of harm and revenue are those where harm cannot be reduced without also reducing revenue, or where revenue cannot be increased without also increasing harm. For all efficient combinations of harm and revenue, a trade-off between them is unavoidable. The efficient combinations are depicted as a curve on a graph. Any point below the curve is not attainable. Any point above the curve is inefficient and can be improved without a trade-off.

The third stage accounts for society's values. The optimal public policy would be the feasible and efficient combination of harm and revenue that society would consider the most desirable.

The authors use *social indifference curves* to find the optimal efficient combination. A social indifference curve shows all the combinations of gambling harm and gambling revenue that society considers equally desirable. Many social indifference curves can be drawn, representing higher or lower levels of value. By drawing many social indifference curves over the curve of efficient possibilities, the highest value social indifference curve that touches the curve of efficient possibilities will show the most socially desirable combination of gambling harm and gambling revenue.

The optimal gambling policy will change over time as improvements in gambling harm reduction techniques create new opportunities that change the curve of efficient possibilities, so that the point of the optimal gambling policy could result in less harm from gambling without reducing gambling revenue.

Who is it intended for?

This article is intended for all stakeholders working on issues of gambling, including policy makers and gambling researchers. It encourages stakeholders to account for the societal benefits that can be generated from gambling revenues, and not just societal harms that result from gambling.

About the researchers

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Citation

Study funding

Gambling Research Exchange Ontario (GREO)

Gambling Research Exchange Ontario (GREO) has partnered with the Knowledge Mobilization Unit at York University to produce Research Snapshots. GREO is an independent knowledge translation and exchange organization that aims to eliminate harm from gambling. Our goal is to support evidence-informed decision making in responsible gambling policies, standards and practices. The work we do is intended for researchers, policy makers, gambling regulators and operators, and treatment and prevention service providers.

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