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Casino debate: Laying out all the cards

By Gillian Koh

THE Singapore Government has spelt out social safeguards and parameters within which a proposed casino here must operate, and will leave it to private operators to see if they can work them into their feasibility plans for an integrated resort.

The targeted group of investors seems to be the large casino resort operators based in the United States - the likes of Hurrah's Entertainment and Kerzner International.

As we understand it, the casino resort industry in the US is seeking opportunities for expansion in Asia, an under-developed yet promising market given the rising affluence in China and India.

Singapore is attractive because it is a jurisdiction where rules of corporate governance are strong and are enforced. The largest casino operators are those listed on Wall Street and based in Nevada, under the jurisdiction of the Nevada Gaming Control Board. They will not jeopardise their listing and licences in countries which cannot assure them that their stringent rules of governance will be upheld there.

The casino is integral to the business model of this targeted group of resort operators. It is a revenue and profit-generating centre that cross-subsidises and makes other non-gaming facilities and services feasible. The latter could include a large, world-class convention centre which will generate high-value traffic for the casino, and the hotel, food and beverage sectors of the resort.

But will it be able to generate growth for the entire economy - not just the resort? To succeed, it must attract visitor traffic greater than what the resort can absorb so as to minimise trade diversion or cannibalisation of existing enterprises. Casino proponents count on the spillover effect being a positive one.

But there are no guarantees. Operators will seek to recoup their investments. They might try to channel some of their clients in other locations to the new venture.

Given that the casino will be the key money spinner, we can count on the operators to market it aggressively. It will certainly not be some pokey little den or a low-key, subtle attraction in the resort.

The Government has announced that it will set an upper limit of 15,000 sq m for a casino, and up to 2,500 slot machines, which is more than what

some of the largest resorts in Las Vegas have. If the casino cross-subsidises the resort's non-gaming amenities and activities, it will pose a market distortion to similar businesses. If the project flounders, the operator could be tempted to undercut the market as it has the casino as a financial buffer.

It is likely that patronage of the casino will depend greatly on the local population. The measures to limit the physical size, the percentage of gambling revenue to total revenue (in force five years after the contract for development is awarded), and a government levy for entry imposed on Singaporeans and permanent residents indicate the sort of balance that the Government seeks to achieve in allowing for the development of an attractive tourism product which it knows poses some level of social risk.

However, the proposed safeguards are not without economic costs or constraints. Already, the Government will allow the casino to pay a preferential tax rate on gross gambling revenue of 15 per cent, significantly lower than the 40 per cent applied in Macau.

With increasing competition from potentially less regulated casinos, there is the danger of pressure to lower the tax rate to keep the resort viable. The Government must ensure that sufficiently high consumer protection standards would be non-negotiable.

What about the social impact of gambling?

The key problem is that there is no definitive set of figures and certainly no systematic study for Singapore to form a conclusive case.

Comparative studies in other countries indicate that the prevalence of problem and pathological (P&P) gambling, or gambling addiction, can range from one per cent to 8 per cent of the adult population, depending on the location and design of the study.

Two major US government research groups - the National Research Council and the National Opinion Research Centre - estimated in a 1999 report that there were 7.5 million P&P gamblers. Assuming a base of 217,766 million resident adults (over 18 years old) in the US, this would translate to a 3.44 per cent incidence level.

The National Productivity Commission of Australia estimated in 1999 that 5 per cent of Australian adults were P&P gamblers.

If we were to use a conservative estimate - that 1.5 per cent of the Singapore adult resident population (above 20 years) were P&P gamblers, this would translate to 38,319 people.

Now for the social cost. Taking the average of eight research studies in the US, each P&P gambler incurred US\$13,586 (S\$22,160) per annum in direct social cost in so far as these costs could be imputed. These would

be the combined impact from productivity loss, bankruptcy, crime, suicide, illness, abuse, divorce and separation, social service and treatment costs.

Even if we made a very conservative estimate of \$5,000 per annum for treatment cost alone for each P&P gambler in Singapore, this would translate to an annual bill of \$192 million. If we took the US figure as an indication of the total cost instead, that would give us an estimate of \$860 million.

We are cautioned not to stop there. It is well established that the social impact of gambling is not confined to the problem gambler. Each would most certainly affect eight to 15 significant others - be they spouses, children, extended family or close friends. Taking a conservative estimate of eight, the circle of misery widens to an extra 290,400 people.

Another factor to consider is the marginal impact of expanded opportunities to gamble. Among the findings of the American report mentioned above is that the presence of a gambling facility within 80km doubles the prevalence of P&P gamblers.

If we translate that finding to Singapore, we could be looking at an increase from 38,300 to 76,000 P&P gamblers, with an additional 580,800 people affected.

The bill for treatment costs alone would double to \$384 million, with total costs reaching an estimated \$1.7 billion.

Some might feel that the marginal increase would be lower than in the US study, because a casino in Singapore could simply divert some of those Singaporean gamblers now going to Batam or Genting Highlands.

Also, it is difficult to believe that the absolute number of people with severe psychological disorders and social problems would be so high. Then again, it is possible that the current set of pathological gamblers, when faced with greater gambling opportunities, might affect more than just eight people.

Social service practitioners have been quick to admit that they are woefully under-resourced to deal even with current levels of gambling addiction and the attendant social issues. There are no more than 15 qualified professionals and one agency, Community Addictions Management Programme (CAMP) based at the Institute of Mental Health. The related issue is determining how the costs for treatment and other social services will be borne.

One positive outcome of the recent debate is that the Government is now committing itself to addressing existing problems from gambling addiction, and this after it conducts a much needed thorough review of the problem's size and scope.

At a recent forum organised by the Institute of Policy Studies on the casino proposal, views were split down the middle. Participants, who were opinion leaders in key stakeholder groups, were divided between not having such a resort, and having it but with all the critical social safeguards.

There were those who felt that Singapore would be able to introduce and enforce all the right social safeguards and rules of corporate governance to arrive at a uniquely Singapore model. There were others who held a deep conviction that the presence of a casino on Singapore soil would open the road to social implosion. Many who spoke up wanted Singapore to pursue more 'innovative' ideas to boost tourism.

If the resort were built, however, 83.3 per cent of the participants in the poll were at least prepared to tolerate the presence of a casino. The remaining 16.7 per cent indicated that they would actively campaign against it. Some would argue there was a clear majority in the room that day who would be 'mature' enough to allow for the freedom of choice and responsibility.

Singaporeans have been assured that if the risks prove too high, the Government is prepared to shelve the idea.

The casino debate is one instance where the Government is counting on the public to give its views. Will we achieve some kind of 'democratic consensus', or will an overwhelming number say 'no' to the casino? How will the Government tot up the responses?

We look forward to continued open and holistic engagement with the Government on the justification for the project, so that Singaporeans might all arrive at an informed and mature decision that will serve our people well in the long run.

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