ARE FILIPINOS NATURAL BORN GAMBLERS?

By: Marvin Castell and Joel Tanchuco

A tourist who visits the Philippines will notice a habitual and pervasive social activity: gambling. From the humblest barrios to the most affluent villages, Filipinos are into gambling. Those who like it legal can go to casinos or place their bets with lotto and bingo outlets. Many municipalities have cockpit arenas. On city streets, there are card games and “cara y cruz”. Some other people play mahjong while others place their bets with bookies going house to house for the numbers game we call jueteng.

The moral and ethical arguments against gambling are numerous. All of them lead to a sense of loss about wasted resources, which could have been used for more productive endeavours that improve lives and reduce community problems. The sense of loss and waste in turn triggers efforts by the private and public sectors, and religious groups, to control, penalize and even eliminate gambling. Yet gambling on a national scale goes on unabated.

One approach to understanding gambling behaviour is to use the idea of opportunity costs. Opportunity costs are resources used in the pursuit of activities that could have been devoted to alternatives instead. A gambler devotes money and time to an activity whose opportunity cost is relatively lower than other non-gambling activities. The benefits or satisfaction derived from gambling, coupled with the relatively lower opportunity costs, induces gamblers to persist in their behaviour. But explaining gambling using opportunity costs quickly becomes problematic once individual rationality becomes imputed as a consideration. Gamblers need money to continue, money that should come from incomes earned. A gambler who is rational will realise that he has to find a steady source of money, but continued gambling will quickly threaten this source. This would suggest that gambling activity is quickly self-limiting, which of course it is not. (Gamblers are known to continue gambling even after they have run out of cash; they plunge into increasing debt.)

We might try an alternative approach to explain gambling behaviour. Consider the gambler as a (somewhat) rational individual. The typical rational and economic individual earns income and allocates it to different expenditures. The individual’s rationality dictates that some of the income be set aside as savings. But the available alternatives are not that attractive. A realistic identification of these alternatives will probably include putting the savings as deposits into financial intermediaries, converting the money into productive endeavors, setting up a small business or extending credit to neighbours in need.

But our rational individual who considers the reality of these savings alternatives might come to several conclusions. Deposits made in banks typically earn low interest, which is eroded by taxes and inflation. If savings are invested in a business, in the current economic environment the odds against success are formidable, and any earnings may likewise be eroded by inflation. Lending money to needy neighbours creates the problems of repayment and the risk of anti-usury sentiment. In sum, our “potential” saver may see all these alternatives as unappealing, and expect the eventual loss of his savings.

Then the individual comes across gambling. The chances of winning are close to nil, but the relative attractiveness of the rewards are not inferior to the previous alternatives given. Economists might call this expected utility or satisfaction. Note also that most gambling bookies stay close to the individual, and so reduce the transaction cost of converting savings into gambling. Relative incentives provided by gambling then become comparatively attractive.

Some would argue that this reasoning evades consideration of the low income levels or total lack of savings. If incomes are so low or there are no savings, then individuals cannot find the money to gamble in the first place.

Another contrary argument is that individuals who devote their time to this pastime should eventually realize the opportunity losses of both their money and time. If a typical gambler can be made aware of the opportunities foregone, we are sure he will reassess the attractiveness of gambling.

We do not intend to justify gambling behaviour here, but rather see it as a sign that society probably needs to change the comparative incentives to alternative activities. Legally sanctioned gambling activity should never be justified for revenue raising purposes; doing so would simply improve incentives to gamble. Improving the relative incentives of more productive pursuits like savings would seem to be the more straightforward solution, but we must admit this will not be easy. We can make many small starts at finding ways to improve returns from financial instruments, small businesses, or to bring down the inflation rate. Maybe a good start will also involve facilitation campaigns that inform people of the alternatives and the more attractive ways of allocating savings.

All of which should lead us to a second look at the vast amount of government resources being spent for to control and penalize gambling. Perhaps the state is better off refocusing its attention to other concerns. This pastime, illegal or not, will persist as long as savings remain a poor alternative. The state should calculate the beneficial effect on the economy if the money now spent on gambling (not to mention the resources expenses on controlling or punishing it) were saved instead. Then the state could establish saving institutions tailored to these financial flows. For instance, financial institutions whose employees, like bookies, go out to collect savings in small denominations.

The next time you see people gambling on the streets you should understand these people. Theirs is not an ideal national pastime imbedded in the national psyche; they may simply be reacting to the incentives we provide in our society, which negate of the best efforts of moral crusaders and law enforcers.

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