

ECONOMIC BRIEF NO. 39

Taking Chances — A Fact of Life

This series of economic briefs explores fundamental concepts in economics and community and economic development.

Risk is a fact of life. People are at risk when they eat picnic food prepared by others, buy a house, fly a plane, drive a car, start a business. The economy is larger and more diverse because people take risks.

People are encouraged to risk by hope of profit or by guarantees of protection or at least reimbursement against loss. Favorable tax treatment of capital gains recognizes that gains often come from taking entrepreneurial risks on new products, new services, or new markets. Loan guarantees encourage banks to take a chance on first-time borrowers or start-up businesses. Crop insurance keeps farmers in business when disasters strike and crops fail.

People are also discouraged from taking risks by warnings and sanctions. Warning labels appear on cigarettes and alcohol, and laws set minimum ages for these activities. Signs warn "proceed at your own risk" and barriers keep people out of risky areas. Regulations require licensing of drivers, pilots and operators of large watercraft or 18-wheelers, activities which may endanger others. Inspection services guarantee the safety of food, safety standards protect the lives of riders in cars, and rigorous tests ensure the safety of medicines.

People often choose to take risks for the thrill of it. They climb icy mountains, ride dangerous rapids, jump from air-

planes, day-trade in stocks, and gamble—recreational risks providing an adrenaline rush, the psychological lift of beating odds, or hope of a financial windfall. Unlike entrepreneurial risk, which may result in profit or loss or insurable risk, where risk of loss is shared, recreational risk serves no essential economic or social purpose. This risk is not wrong, but there's no particular reason to encourage it. Whole industries are built on serving those who like to take chances, and their existence encourages risk-taking by others who might not take such risks if they were not accessible and affordable.

Most people are comfortable with the government's encouraging people to undertake entrepreneurial risks and offering guarantees against certain kinds of risk, such as natural disasters, bank failure, and home mortgage loans. It is harder to judge the appropriate role of government in protecting people from undertaking risky ventures for thrills or risky ventures that may harm others.

When it comes to recreational risk, the questions about government's role multiply. Nowhere is that more evident than with gambling.

With gambling, a potentially addictive, risky activity, the risk is almost purely financial. Like alcohol and tobacco, gambling has many occasional recreational users. Unlike tobacco and

alcohol, gambling's damage is primarily to the pocketbook, not the heart, lungs and liver. Many arguments offered for government regulation of tobacco and alcohol are relevant to gambling—controlling access by minors, regulating payouts for consumer protection, taxing to discourage an activity widely considered undesirable. Many arguments about the futility of prohibition also apply to gambling.

Economics can suggest ways to tax, regulate, and discourage taking recreational risks including gambling. But questions still remain. Is it government's role to inform consumers about risks and then let them decide what's risky? Are there circumstances under which government should intervene? Are there compelling reasons to outlaw a particular risky activity? Economics can suggest ways to tax, regulate, and discourage taking recreational risks of many kinds, including gambling. But questions still remain. Is it government's role to inform consumers about risks and then let them make their own choices? Are there circumstances in which the government should limit access to a risky activity? Are there compelling reasons to outlaw a particular risky activity? As South Carolina, just recently divorced from video poker, prepares to initiate its state lottery, these are questions that citizens need to contemplate.

In furtherance of Clemson University's land-grant mission, the Community and Development Program provides access for community leaders in South Carolina to expertise in all branches of knowledge on the University campus.