A cautious approach to public policy and loot box regulation

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HIGHLIGHTS

- Loot box research is thriving, but the policy implications of this work are unclear.
- Economic analysis of policy proposals is necessary to inform addiction research.
- A three-part framework for analysing regulatory responses to loot boxes is outlined.
- Economic analysis traces the costs and unintended consequences of public policy.
- Some examples of problems resulting from hasty policymaking are outlined.

Research on video game loot boxes is thriving, and has already inspired a wide range of academic commentary (Drummond, Sauer, & Hall, 2019; King and Delfabbro, 2018, 2019). The main empirical question in this literature is whether loot boxes encourage addictive or harmful behaviors such as excessive spending by problem gamblers (Brooks & Clark, 2019; Li, Mills, & Nower, 2019; Zendle and Cairns, 2018, 2019; Zendle, Meyer, & Over, 2019). However, a second and no less important challenge involves outlining appropriate policy responses to the potential harms of loot boxes. This is a multidisciplinary task that amongst other things will require special attention to economic issues. Yet while it is understandable that psychology research has not yet focused on these problems, it is concerning that several studies nevertheless call for regulating loot boxes, and in doing so, overlook crucial economic insights (Drummond et al., 2019; Li et al., 2019; Zendle & Cairns, 2018; Zendle et al., 2019; Zendle, Meyer, Waters, & Cairns, 2019). This commentary suggests that such calls are hasty, and outlines some reasons why a more careful approach influenced by economics can add nuance to the discussion and also work as a complement to ongoing research.

At the heart of the policy discussion is an unfortunate non sequitur. The underlying argument is roughly this: ‘Surveys of gamers reveal correlations between loot box spending and relatively high scores on measures of problem gambling. Therefore, action must be taken through public regulation to prevent loot boxes causing harm to vulnerable groups like problem gamblers and children.’ There is a misstep here, however: revealing a correlation that might in turn indicate harm tells us almost nothing about appropriate policy responses. It does not follow that because harm exists, policy interventions are necessary or desirable. Likewise, the possibility of harm also implies little about what kind of responses might be most effective. There are at least two economic reasons for this: first, self-regulatory measures can sometimes rectify harm without policy interventions, and do so more quickly and at lower cost; and second, public policy generates costs and unintended consequences that can create more harm than the problems they are intended to solve, and sometimes even worsen those problems. Taking these sorts of issues into account is vital for developing a nuanced and effective approach to any kind of policy, and loot boxes are no exception. In practice, justifying sound policy solutions requires overcoming several challenges: (1) demonstrating the existence of serious public harm, (2) showing the failure of non-governmental solutions to that harm, and (3) providing evidence that a policy is not counterproductive and that its costs and unintended consequences do not outweigh its potential benefits (I focus here only on economic criteria, and leave aside ethical and legal considerations about rights and obligations, although they are also important for a fuller discussion of policymaking).

The literature on loot boxes has begun to gather evidence regarding the first challenge of demonstrating harm, although current findings are based on measures of statistical rather than economic significance, and there are still many methodological and interpretive problems to be worked out before we can be confident in the results. However, the second and third challenges are to date unmet. In fact, some evidence runs in the opposite direction; for example, numerous game developers are modifying or removing loot boxes from their games in response to customer criticism, while the sales platforms of companies like Apple and Google are making loot boxes more transparent (McCaffrey, 2019). Researchers have proposed a wide range of self-regulatory mechanisms as well (King & Delfabbro, 2019), and it appears that even before these recommendations were made by academics, some were already being adopted by developers, their strategic partners, and other industry stakeholders (McCaffrey, 2019).

The implications of public policy interventions are almost completely unstudied though. Two points are worth raising as examples of
potential costs or unintended consequences. First, restricting the marketing, sale, or use of loot boxes will likely create a case of “raising rivals’ costs.” This is a well-known strategy in which (mainly) large, established firms use regulation to disadvantage their smaller, less wealthy competitors, who must pay relatively higher costs of compliance. In the loot box case, this means regulatory policy would favor industry giants like Electronic Arts at the expense of independent developers. It would also do little to remedy any addiction problems linked to loot boxes, as it would increase the market power of the companies who are generally considered to be their most aggressive sellers. Second, if anything, restrictions could make potential addiction problems worse, as loot box buying (or related practices like skins gambling) will be pushed into grey and black markets where behavior is more difficult to monitor and standards of safety are harder to enforce. These outcomes are the universal results of even well-intentioned policies. Yet they are only a few examples of why we should be wary about jumping to policy conclusions, and why a cautious, nuanced, and multidisciplinary approach is needed.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

References


