

Australia's Gambling Industries

A Submission to the Productivity Commission's Inquiry into Australia's Gambling Industry

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Foreword

This Submission was prepared independently by ACIL Consulting Pty Ltd. The assignment was funded by a group of six gambling service providers — Crown Limited, Jupiters Limited, Star City Casino, TABCORP Holdings Limited, TAB Limited and Tattersall's. They support the policy principles enunciated in the Submission but do not necessarily agree with some of the conclusions drawn by ACIL from their application.

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Abbreviations

ABS:	Australian Bureau of Statistics
ACA:	Australian Casino Association
AIGR:	Australian Institute for Gambling Research
CPI:	Consumer Price Index
EGMs:	Electronic Gaming Machines
GDP:	Gross Domestic Product
HES:	Household Expenditure Survey
ICGTF:	Inter-Church Gambling Task Force
ISPs:	Internet Service Providers
nec:	Not elsewhere classified
RAQ:	Relationships Australia, Queensland
SOGS:	South Oaks Gambling Screen
SLS:	Springvale Legal Services
TGC:	Tasmanian Gaming Commission
VCGA:	Victorian Casino and Gaming Authority

Glossary

Bet:	An amount placed on the outcome of a future uncertain event, particularly pertaining to gaming. In other words, it is the amount spent on a particular form of gambling
Casino gaming:	The figures reported under this heading represent wagers at casinos and include wagers on table games, gaming machines and Keno systems.
Clubs:	Licensed premises with gaming machines.
EGMs:	Electronic Gaming Machines. The figures reported under this heading represent EGMs situated in hotels and clubs and not in casinos, unless otherwise stated.
Expenditure:	The amount wagered minus the amount won by people who gamble. It can also be thought of as the gross profit to the operators of each particular form of gambling.
Expenditure per capita:	The amount spent per person. In relation to gambling, this is the total expenditure on gambling divided by the adult population.
Gambling:	The lawful placement of a wager or bet on the outcome of a future uncertain event. Wagering and gaming related gambling are commonly distinguished.
Gaming:	All legal forms of gambling other than racing, such as lotteries, EGMs, casino gaming, pools and minor gaming.
Household disposable income:	Total net income, whether cash or kind, and after deduction of direct taxes, available to households.
Hotels:	Premises also referred to as pubs, taverns and bars, licensed to sell alcoholic beverages.
Minor gaming:	The collective name given to raffles, bingo, lucky envelopes etc.
Market failure:	A market is said to 'fail' when significant economic effects, positive or negative, are not taken into account by voluntary market processes. A consequence of market failure is likely to be too much or too little production/consumption relative to what would have been the case had all effects been priced in the market. Market failure is also defined in terms of 'externalities' and 'unpriced spillovers'.
Operating profit:	Profit before extraordinary items are brought into account and prior to the deduction of income tax and appropriations to owners (eg: dividends) are paid. 'Operating Profit Margin' is the percentage of operating profit before tax divided by sales of goods and services.
Racing:	Usually defined in the gambling industry as horse and greyhound races and other specified contests covered by TABs. Figures reported under the racing heading include legal betting with bookmakers and totalisators, both on racecourses and off-course. It is related to.
Turnover:	An expression often used to describe the amount wagered and bet on every game. This does not include any additional charges that may also be paid at the point of purchase, such as selling agents' commissions in the case of lotteries.
Wager:	A bet or an amount placed on the outcome of a future uncertain event, pertaining to sport, mainly racing. In other words, it is the amount initially outlaid on a particular gamble.

Executive summary

This Submission

This Submission has been prepared by ACIL Consulting Pty Ltd for a group of gambling service providers comprising Crown Limited, Jupiters Limited, Star City Casino, TABCORP Holdings Limited, TAB Limited and Tattersall's.

Its purpose is to provide factual information on the industry, to explore the key policy issues and to point to possible areas of policy change that would be in Australia's interest.

This Submission draws on two main policy principles: consumer sovereignty and the idea that markets generally work most efficiently without government intervention.

The Submission draws upon well-established and widely-accepted principles that are applied to the development of public policy on the conduct and enjoyment of economic activities. The policy principles are that:

- individuals are generally best placed to determine which economic activities they should engage in and the extent of their engagement;
- free choice may not deliver socially optimal outcomes if there is 'market failure'. Some constraints on voluntary outcomes may be worthwhile in these circumstances;
- some people (such as children or the mentally unfit) may be judged not to be competent to exercise free choice;
- however, minimal interference in markets generally ensures that consumers and suppliers are able to make the economic decisions that are in their best interests;
- intervention by government to correct market failure always has side effects; and therefore
- intervention by government to correct market failure does not necessarily yield a net benefit to the community.

These principles have formed the basis for public policy reform since the early 1980s...

These are the policy principles that the Productivity Commission and its predecessors have applied in the past to the conduct and enjoyment of a wide range of economic activities. They have formed the basis for much of the reform of public policy since the beginning of the 1980s, including the Agreements on National Competition Policy adopted by all Australian governments in April 1995.

... but they have not been applied to gambling.

Traditionally these principles have not been applied to the conduct and enjoyment of gambling activities in Australia. The Submission takes the view that the community would benefit from their application to the enjoyment of gambling and the provision of gambling services in this country.

Current regulations reduce both consumer and producer welfare. Justifications for this level of restriction are weak. Consumer interests are best looked after in competitive markets.

Briefly, the Submission explains that gambling is subject to arbitrarily high and discriminatory taxation and regulation which reduces both consumer and producer welfare. The Submission also explains that the reasons commonly advanced for restrictions on the industry and on consumer access to gambling products have little foundation. Mostly, it looks as if the objectives could be better approached in less intrusive ways. In particular, the claims of commentators about problem gambling being an issue for governments are often exaggerated. Basic rules blocking access by minors are of course necessary. But with adults, the Submission argues, the community's best safeguard is a competitive gambling sector in which suppliers will look after the well being of their customers.

Recent relaxation of some restrictions has raised competition. While further policy action is required, there must be a phased approach to further change.

Some of the regulatory restrictions on the industry have been relaxed in many states and territories in recent years. These changes have increased competition that, in turn, may be expected to have encouraged greater efficiency and productivity in the provision of gambling services to the Australian community. Nevertheless, policy in this area has a way to go. Although the industry is not as open to competition as it should be, moves in the direction of a more open industry would be better made steadily over the medium to long run. Such moves need to recognise that incumbents have paid large amounts for their rights to operate and have large investments at stake. Accordingly, there would need to be a phased approach to any change to ensure that what happens is credible and fair and preserves the integrity of existing contractual arrangements.

Nature of Gambling

People enjoy gambling.

There are some features of gambling as an activity that help explain its popularity and which some people say provide a basis for the consideration of gambling policy issues.

Outcomes can be governed by fate or influenced by skill — forms of gambling characterised by the latter can be pursued professionally.

The Oxford Dictionary defines gambling as games of chance decided by skill, strength or luck. There is more in this simple definition than meets the eye.

The degree to which outcomes are governed purely by fate rather than able to be influenced by learning or innate skill, is the important conceptual distinction which marks the boundary between gambling forms which can be pursued professionally and those which cannot. Thus certain card games (such as poker), race gambling and baccarat attract professional players while lotto, electronic gaming machines (EGMs), scratch tickets and raffles generally do not. The former are sometimes known as 'hard' and the latter, seen solely as entertainments, as 'soft' forms of gambling.

Gambling has not only provided entertainment but has been used by scholars to study probability and risk management.

Gambling's functions as business and entertainment are blurred due to different attitudes to risk — attitudes to a gamble differ in the same way that attitudes to an investment differ.

The gambling industry received \$80 billion in wagers and bets, and generated \$10 billion of gross output in 1996-97 — half was from EGMs.

Recent strong growth in gambling is mainly from EGM and casino gaming.

Gambling has been both a source of entertainment, and a theatre for the pitting of skills, for thousands of years. Gambling has also provided the setting in which the principles of probability and risk have been divined. Developments in this field since the Renaissance are regarded by some management experts as forming the basis of most modern achievements in business and the affairs of state.

The modern theory of the management of risk and uncertainty contains two principles which tend to blur the distinction between gambling's role in entertainment on the one hand and business on the other. One is that attitudes to risk and the value (or utility) of a particular game differ widely between individuals, depending on such things as age, wealth, upbringing, experience and, of course, genetics. Another is the fact that when considering a choice between more risky and less risky actions, individuals will make decisions in the context of the whole 'portfolio' of risky ventures (investments, career, lifestyle, choice of partner, etc) in which they are presently engaged. The upshot is that what will be a rational involvement in a risky activity like gambling to some may be quite irrational for others and what qualifies as business to person A may be mere folly to person B. People's needs for relaxation and involvement in distractions are no less diverse.

In this light, it is not surprising that it is difficult for governments to impose restraints on gambling rules that unambiguously improve social well being.

Australia's Gambling Industry

Gambling is an important industry. In 1996-97, the latest year for which official data are available, Australia's gambling industry received wagers and bets totalling \$80 billion. Of this, some \$10 billion represented the gross output of the industry. The industry contribution to gross domestic product (GDP), or value added, was around \$5.5 billion or just over 1 per cent of GDP. In terms of value added, Australia's gambling industry is about twice the size of the textiles, clothing and footwear industry but is considerably smaller than most other industries such as agriculture, transport, mining, construction and the retail trade.

Of the gross output, nearly half related to EGMs, with casino gaming accounting for a further 19 per cent and racing 15 per cent.

Both the total bets received and the gross output of the gambling industry have increased significantly over the past ten years. The increase in expenditure on EGMs and casino gaming has more than offset the fall in the share of output of racing and lotteries over this period.

A lessening in restrictions on gambling in the 1990s has had a positive effect on the economy and also heightened competition within the industry.

Gambling has indirect links with many industries and there are estimates suggesting that in Victoria, for example, as many as 35,000 jobs in gambling and related industries emerged in the first five years after the relaxation of gaming laws in 1992.

In recent years there has been an increase in the number of gambling service providers and products available. This has increased competition within the industry which, in turn, should have helped to increase its efficiency and its productivity.

Consumption of Gambling

Consumer spending on gambling has risen notably since the early 1980s. This rise has coincided with an increase in expenditure on other entertainment products.

In 1996-97, consumer expenditure on gambling was \$10 billion. This represents 3 per cent of household disposable income, and means that each Australian adult spent \$700 on gambling on average in that year. Expenditure on gambling has increased from 2.1 per cent of household incomes in 1990-91 and 1.7 per cent in 1980-81, which is in line with the increase in gaming opportunities available to consumers. Also, expenditure on entertainment and recreation goods and services in general, which includes gambling, has increased — up from 11 per cent of household disposable income in 1994-95 to 11.7 per cent in 1997-98.

The profile of gamblers differs between gambling products.

The profile of consumers who participate in gambling activities differs according to the type of game played. The differences include the sex and income level of the consumer. For example, on average men prefer to bet on sporting events while women marginally prefer lotteries and EGMs, and high-income households spend a greater proportion of their gambling expenditure on casinos and EGMs than those on lower incomes. Overall expenditure on gambling is proportionately greater in lower income households.

Gambling consumption patterns have changed markedly over the past 10 years.

The pattern of gambling consumption has changed significantly over the past decade. While the share of expenditure on casino gaming and EGMs increased significantly over the past ten years, its increase has probably been at the expense of racing and lotteries, although the extent of this effect is not clear.

Measuring the Benefits from Gambling

'Consumer surplus' and 'value added' together can be used to estimate the benefits of gambling.

In estimating the benefits of gambling to the community, an estimate of the benefits to both consumers and the providers of gambling services is required and account needs to be taken of the taxation obtained by governments from the industry for general use. An economic concept which can be used to estimate the benefits of a good or service to consumers is consumer surplus. Consumer surplus measures the difference between the amount a consumer is prepared to pay for a good or service, rather than go without it, and the amount actually paid. Producer surplus measures the net economic benefit to providers of

Modelling work shows the entire economy could gain significantly from a combination of lower entry restrictions and lower taxes.

Problem gambling is not as big a problem as some people say.

Just because a few people have trouble controlling their spending on gambling, this is no reason for taxing everybody.

For their own reasons, some commentators seem to want to have it both ways.

gambling services, which together with the revenue from gambling taxes is approximately measured by the industry's 'value-added' (that is, its contribution to national GDP).

Currently the industry generates annually consumer surplus of at least \$5 billion and GDP of about \$5.5 billion. Together these represent benefits of the industry to the Australian economy.

General equilibrium simulations conducted for this Submission show how consumers, the gambling industry and the Australian economy as a whole could all gain from lower taxes on and less regulation of the gambling industry. As for the significance of the gambling industry, one of the simulations shows, for example, that for every percentage reduction in gambling output brought about by a gambling tax increase, national GDP could fall by as much as \$300 million in the long run.

The Issue of 'Problem' Gambling

Problem gambling is perceived to be a major social issue and a reason for containing gambling. There are many reasons for thinking it is not as grave a problem as it is commonly portrayed.

There is a broad consensus that for a very large majority of Australians gambling is an enjoyable and harmless form of entertainment. Moreover, culturally, Australia is more tolerant of gambling, and is less likely to see gambling as immoral or to see gambling habits as problems, than societies such as the United States.

There is also a broad consensus that a small sub-group of people suffer emotional and financial distress as a result of their compulsive gambling activities and that by their actions, some of them impose costs on their families or more generally on society at large. These phenomena are said to constitute 'problem gambling'.

It is wrong to blame gambling as an industry for difficulties experienced by a small number of people with deep seated personality disorders. This is not how people with so-called 'problem consumption' of other goods and services such as junk food or 'adventure' sports are treated. It is really quite perverse to be taxing the vast majority of gamblers and the venues in which they responsibly gamble, to support a very small number of those deemed to be 'problem' gamblers.

Whether viewed as a personal health issue or as a social impost, the extent of 'problem' gambling is difficult to measure. Casual empiricism and folklore dominate most commentaries, including most of those contained in submissions to the Productivity Commission. Some submissions that have initially expressed an acceptance of Australian traditions of tolerance for gambling have later expressed quite conflicting recommendations for further suppression of the industry.

Gambling suppliers are keen to prevent harm coming to their customers...

... and general support services exist.

The case for treating problem gamblers as if they are insane is not convincing.

There are insufficient grounds for current government outlays on problem gambling.

Governments should back-off.

The perceived link between crime and gambling has been a reason to restrict gambling ...

... but there is no evidence confirming the link.

Though they may be well-intentioned, it is clear that many parties have a strong career interest in exaggerating the problem gambling phenomenon and in seeing that the reported incidence is never below some threshold.

By contrast, gambling service suppliers are highly visible and have reputations to protect and have a strong economic incentive to contain problem gambling. Voluntarily they have adopted a range of effective measures for this purpose.

Problem gamblers have also been assisted by medical practitioners and traditional safety net organisations and support groups.

Economic analysis indicates that there is not a very coherent case for special government intervention to contain problem gambling. The externality argument is unconvincing and compulsive gambling does not fit the usual precepts of irrational behaviour that warrant treating adults as if they are insane.

One of the most influential thinkers on the issue of addiction, Nobel Prize winner Professor Gary Becker, points out that addicts are not made happier if forced to restrict their consumption against their will.

Thus it seems, Australian states have been outlaying large sums (probably tens of millions annually) to combat problem gambling without proper grounds for action and the transparency and accountability of that funding is not high.

Equally, the repeated calls by some groups for further regulation of gambling and a greater earmarking of funds to deal with the problem appear baseless.

A risk of overstating problem gambling which the Australian Institute of Criminology has mentioned is that law breakers will begin to use problem gambling as an excuse for their crimes. Already in Melbourne a number of suspects have offered what is becoming known as the 'Crown defence,' though to date the courts have not been taken in by this.

Our conclusion is that it may now be time for governments to take steps to de-mystify and de-institutionalise problem gambling as an issue.

Crime and Gambling

Some people fear there is a link between crime and gambling. They seem to think that local disturbances, money laundering by mobsters and race or game fixing are natural accompaniments of gambling. In Australia, as elsewhere the fear of such a link is sometimes cited as a reason for restricting the industry.

We believe there is no statistical evidence that gambling attracts crime. Criminal involvement in gambling appears to be a thing of the past in the US and in Australia (which in any case has a different history). The

The community's best defence against crime is competition not restriction.

legalisation of casinos and poker machines appears to have diminished crime rather than encouraged it. Indeed, a recent US survey points to a number of cases where both crime rates and actual numbers of crimes have fallen in districts where gaming establishments have commenced.

While it may not be wise to do away altogether with prudential controls on gambling service providers or supervision of draws and venues to ensure fair dealing, the community's best defence in the long run will be to encourage further competition amongst suppliers and avoid the types of controls or taxation levels which push gambling activity underground.

Taxes, Fees and Charges

Gambling taxes are high, complex and distortionary and cause inefficiencies.

Australia's gambling industry is highly taxed, averaging 60-70 per cent in effective tax terms. The various tax regimes are very complex, distortionary and combined with heavy regulations produce inefficient outcomes. The tax burden on consumers is regressive. It is unfair that those on lower incomes who gamble responsibly are required to support the social workers and support groups associated with so-called problem gambling.

Taxes vary greatly between regions and products — the reason for this is unclear.

In each jurisdiction the rates of tax vary across, and even within, gambling products for no good reason. The rates of tax on other goods and services as well as other forms of entertainment are generally much lower than those on gambling. These characteristics will not be altered by the proposed introduction of a goods and services tax unless one of the main causes of the problem — vertical fiscal imbalance — is squarely addressed at the same time.

Gambling taxes are not efficient, simple nor equitable.

Gambling taxes can be assessed using traditional and widely accepted economic criteria that have been applied to arguments for reforming the taxation system. They are economic efficiency, administrative efficiency or simplicity, and equity. The present array of gambling taxes do not hold up well against any of these criteria.

Taxes have distorted both consumer and producer decisions.

The taxation treatment of gambling has distorted consumer spending patterns as well as the provision of gambling services. The end result is that consumers are being discouraged from spending their income on services they value more highly and providers of gambling services are being discouraged from servicing consumer needs.

Simplifying and lowering taxes would benefit the community.

Reducing the rates of gambling taxation and simplifying the tax regimes would reduce the losses that the community suffers as a result of these distortions.

Taxes should be reviewed in light of competition from the Internet.

The introduction and expansion of Internet gambling provides a further reason for reviewing gambling taxes. Increased competition for the gambling dollar from untaxable Internet suppliers could be a factor which forces Australian governments to reduce and simplify taxes on traditional

forms of gambling and fund any support for problem gambling from consolidated revenue.

Regulation of Gambling

Gambling is subject to complex and intrusive regulation, much of which has a taxation purpose.

As well as being heavily taxed, the gambling industry is highly regulated and because they are intertwined, both forms of intervention should really be considered together. Regulations exist in the form of licensing of operators; limits on type, size, number and distribution of outlets; controls on payouts; controls on the kind of gambling activity and number of EGMs and gaming tables; and restrictions on advertising. Also there are staffing regulations and stringent day-to-day supervision of suppliers' contracts. Many of these measures are linked to a taxation purpose.

Concerns about social impacts do not justify the extent of regulation observed.

The main pretext for the current stringent regulation of the gambling industry is to limit the social impacts associated with gambling, notably problem gambling and crime. As noted, there are doubts about the gravity of these problems, indicating that the current regulatory structure is far in excess of what would be efficient, or fair.

Consumers and the industry are made worse off.

The case for reform is overwhelming. The current regulations limit the benefits to consumers per dollar spent on gambling. In addition, the regulations constrain individual operators and discourage operators from offering the product mix that consumers value most highly. Productivity is compromised.

The treatment of clubs is anomalous.

In many jurisdictions, the regulatory treatment of gambling is less restrictive for clubs with gambling facilities than for hotels and casinos. This gives clubs an unfair advantage and distorts competition, thereby reducing economic welfare. The freedom of many clubs from income tax is another privilege that is distortionary and ought to be reformed.

Federal fiscal imbalance is a problem and should be fixed. Deregulation must proceed, with regard for arrangements already reached with existing suppliers. Internet gambling makes deregulation more urgent.

The highest reform priority is for governments to begin applying the same policy paradigm to gambling regulation as they apply to other industries. Federal fiscal imbalance, the mismatch of taxation and spending responsibilities, is the main reason for the over-taxation of gambling and indirectly, for its over-regulation too. That problem should be tackled at source by devolving taxation powers. The states and territories should accept responsibility for deregulation, but will need to ensure that the contractual arrangements they have entered into with existing providers are not repudiated. Emerging competition from unregulated Internet gambling increases the urgency of getting on with deregulation of the domestic industry.

Internet Gambling

Internet gambling is a fact of life and is expanding ...

Internet gambling is a new phenomenon that some people are worried about. We have found that:

...and banning it is likely to be difficult to enforce.

Australian action is encouraging, and ...

... perceived problems concerning crime, compulsive behaviour and access by minors are over-stated.

- there is a huge range of actual and possible gambling products available on the Internet;
- Internet gambling is already established in a number of countries;
- currently, Australian interest in Internet gambling is low, but could change;
- attempts to regulate Internet gambling are at odds with policies in many countries to keep e-commerce as a free trade zone;
- there is a move in the U.S. to ban Internet gambling but this is likely to be difficult to enforce, especially in other countries;
- Australia has taken a more positive approach by establishing a framework (and legislation) for legal Internet gambling;
- the advent of Internet gambling means that existing tax and regulatory regimes should be reviewed;
- crime and problem gambling concerns are probably overstated; and
- due to the nature of the technology, it is very difficult for children to access gambling on the Internet.

1. Introduction

This Chapter outlines the well-established and widely accepted principles that are applied to the development of public policy on the conduct and enjoyment of economic activities. The policy principles are that:

- *individuals are generally best placed to determine which economic activities they should engage in and the extent of their engagement;*
- *free choice may not deliver socially optimal outcomes if there is ‘market failure’. Some constraints on voluntary outcomes may be worthwhile in these circumstances;*
- *some people (such as children or the mentally unfit) may be judged not to be competent to exercise free choice;*
- *however, minimal interference in markets generally ensures that consumers and suppliers are able to make the economic decisions that are in their best interests;*
- *intervention by government to correct market failure always has side-effects; and therefore*
- *intervention by government to correct market failure does not necessarily yield a net benefit to the community.*

These are the policy principles that the Productivity Commission itself has applied in the past to the conduct and enjoyment of a wide range of economic activities. They have formed the basis for much of the reform of public policy since the beginning of the 1980s, including the Agreements on National Competition Policy adopted by all Australian governments in April 1995.

Traditionally these principles have not been applied to the conduct and enjoyment of gambling activities in Australia. The remainder of this Submission is based on the view that the community would benefit from their application to the enjoyment of gambling and the provision of gambling services.

1.1 Background

The most appropriate approach to the analysis of the gambling industry and associated issues is to consider it within the well-established and widely accepted economic framework of analysing industries and consumption activities. This approach, as a general rule, sees industries competing on broadly equal terms, with consumers as sovereign

individuals, being free to choose which products they will consume, in what quantities and when.

The economic approach to issues begins with the proposition that any assessment of what an activity contributes to the welfare of the community must recognise that all activities have both benefits and costs, and that policy needs to consider and reflect both fully. The economic framework for assessing costs and benefits is based on a number of key principles. These are outlined below.

1.2 The policy principles and their rationales

One basic economic tenet is the ‘consumer sovereignty’ principle that individuals are generally best placed to assess for themselves the benefits that they receive and the costs that they incur from engaging in an activity. A corollary of this is that, generally, an individual will only engage in an activity to the extent that the benefits of doing so outweigh any costs involved. Another is that the activities we observe can be safely assumed to represent the set which gives greatest possible satisfaction to those engaged in them, given the constraints of income, time, available information, and so on.

In contradiction of the consumer sovereignty principle, it is often said there are circumstances where people are unable to determine what is in their own best interests. By extension, the argument sometimes goes, such people should not be allowed the freedom to choose the activities that they engage in. The notable examples put forward are those who are minors or whom the courts have judged to be legally insane. But the net is often cast much wider. **Considerable care needs to be taken with this line of argument** as it can lead to gratuitous paternalism and be used to deny consumers their rights, restrict their freedom and undermine their well-being.

Minimal interference in markets generally ensures that the decisions of individual consumers or suppliers reflect all the benefits and costs associated with each activity in which they engage. In such circumstances intervention to force changes in those decisions will only reduce the net benefit that each market participant derives. Competitive markets characterise most economic activity in Australia. A lightly regulated, competitive market tends to be accepted as the default option, with the onus of proof for intervention resting with its advocates. This, indeed, is the approach that was formally adopted by all Australian governments to the regulation of competition under the National Competition Policy. This tradition is a compelling reason for commencing from the position that gambling should be treated like any other industry.

There may be circumstances in which markets fail to ensure that each market participant gains the greatest possible net benefit. These

circumstances occur when there are costs or benefits that are not fully reflected in market prices or other contractual forms of payment. Often poor policies reflect unduly hasty acceptance of the assertion that the market has failed the community. Market failure is discussed in more detail below.

All intervention by governments distorts market behaviour to some extent and thereby imposes an economic cost on the community.

Whether the costs of an intervention are outweighed by its benefits is an empirical question. The rationale for intervention cannot be determined *a priori* but is only capable of being resolved on a case-by-case analysis of the costs and benefits to the community as a whole. However, the significant information demanded for efficient intervention represents a major hurdle to be overcome.

Finally, participants in the political process are not disinterested in the economic outcomes from government intervention. This means that the risk of government failure has to be taken into account in assessing the benefits and costs of intervention. Government failure is also discussed in more detail below.

1.2.1 Market failure

A market is said to fail when economic effects are not fully captured by voluntary market processes. That is, the positive or negative aspects of an activity are not taken fully into account by those who either undertake or enjoy them. The consequence of market failure is likely to be too much or too little production/consumption relative to what would have been the case had all effects been priced in the market. Market failure is also defined in terms of ‘externalities’ and ‘unpriced spillovers’.

A well-known economic insight is that if an activity has spillover effects that remain ‘external’ to the economic system, national income might be improved by corrective government intervention.

However, in popular economic commentaries it is often asserted that government intervention is required to correct for certain spillover effects, when in fact this is not so because the particular spillovers are already being priced indirectly. What seem to casual observers to be external effects, sometimes on closer inspection are found not to be.

Even if external effects are present, it does not automatically follow that corrective government action is required on efficiency grounds.

Two main mechanisms — cooperative activity amongst individuals and contracting — will often prove flexible enough to eliminate externalities altogether. The modern understanding of the potential for voluntary arrangements to cope with spillovers involving negative or beneficial

impacts on others owes much to scholars such as Professor Ronald Coase,¹ the 1993 Nobel Prize winner. His analysis has become the most accepted view.

Another issue in the context of identifying (and correcting) market failure is the potential for decision makers to confuse so-called ‘public goods’ with economically unjustifiable ‘merit goods’. Merit goods is the term traditionally used by public finance specialists to describe the type of good or service which governments supply or subsidise, not on the basis of the failure of the market to reflect supply and demand conditions, but rather on the grounds that an influential interest group insists on it. Subsidies for opera, ballet and public orchestras are sometimes cited as examples. As will be discussed later in this Submission, provision of public gambling related activities such as government supported services to combat ‘problem gambling’, might be another. There is an overtly paternalistic flavour to merit goods — ‘we know what is good for people, even if they do not know it themselves’.

By contrast, so-called public goods are recognised by economists as goods or services afflicted by *genuine* market failure. The important difference between the public good and merit good concepts is that the latter has only a normative (value judgement) basis and not an objective basis. One consequence is that there is no basis for estimating whether the provision of a merit good is delivering a net benefit.

1.2.2 Government failure

As noted earlier, **intervention by government intended to correct a failure of the market to realise the best possible outcome for the community as a whole can be plagued by ‘government failure’.** Government failure can occur in a number of ways.

First, public officials cannot always be relied upon to act in the public interest. They understandably have a strong interest in protecting jobs, promotions and so on, so will not want to see the programs or regulations they administer challenged and wound up. The upshot is that inappropriate structures can be left in place.

Second, there is usually no reason to expect that governments are better at providing goods and services than the private sector, even those which markets imperfectly provide. The point is most readily seen with certain services we used to think were the preserves of government but in which the private sector now plays an increasingly valuable role - such as in navigation, the postal system, personal security and biological research.

¹ Coase, R, 1960, “The Problem of Social Cost”, *Journal of Law and Economics*, 3, October; pp. 1-44.

Often lowest common denominator outcomes result from government sponsored bodies.

Third, politicians have a direct vested interest in being seen to do something when vocal interest groups capture media headlines with stories about the alleged detrimental impact of this or that policy or activity. For example, doing something about ‘problem gambling’ is generally regarded as being ‘a good thing’. A risk is that various support programs might be started and expanded irrespective of the need or their benefits to the community as a whole (problem gambling and associated issues are discussed later in this Submission).

Finally, government funding for programs must come from somewhere — public funding is not costless — and might involve one or both of raising more taxes than would otherwise be the case or diverting taxpayer funds from other uses. Additional government revenue will end up increasing the existing economic distortions associated with the tax system or in generating new ones. Diverting revenue from other public expenditure programs means foregoing the benefits to the community from such programs. Either way the net result can be to make the situation worse.

The key issue is that even if the market clearly fails in the provision of gambling services, this does not of itself justify the existence of public funding, regulatory and institutional arrangements to combat the market failure. At the very least, the market failure must outweigh any government failure that may be reasonably expected to be associated with fixing it. This apparently straightforward point is often forgotten by proponents of government intervention and stands as an important reason why the current array of interventions, including tax policy, in Australia’s gambling industry deserves review.

1.3 Coverage of the Submission

The purpose of this Submission is to provide factual information on Australia’s gambling industry, to explore the key policy issues and to point to possible areas of policy change that would be in Australia’s interest.

The Submission draws upon well-established and widely accepted principles (which were discussed in more detail in Sections 1.1 and 1.2) that are applied to the development of public policy on the conduct and enjoyment of economic activities.

These are the policy principles that the Productivity Commission and its predecessors have applied in the past to the conduct and enjoyment of a wide range of economic activities. They have formed the basis for much of the reform of public policy since the beginning of the 1980s, including the Agreements on National Competition Policy.

Traditionally these principles have not been applied to the conduct and enjoyment of gambling activities in Australia. The Submission sets out to demonstrate the advantages to the community of their application to gambling's activities in this country.

Briefly, the Submission explains that gambling is subject to arbitrarily high and discriminatory taxation and regulation which reduces both consumer and producer welfare. The Submission also explains that the reasons commonly advanced for restrictions on the industry and on consumer access to gambling products have little foundation. Mostly, it looks as if the objectives could be better approached in less intrusive ways. In particular, the claims of commentators about problem gambling being an issue for governments are often exaggerated. Basic rules blocking access by minors are of course necessary. But with adults, the Submission argues, the community's best safeguard is a competitive gambling sector in which suppliers will look after the well being of their customers.

Some of the regulatory restrictions on the industry have been relaxed in many states and territories in recent years. These changes have increased competition that, in turn, may be expected to have encouraged greater efficiency and productivity in the provision of gambling services to the Australian community. Nevertheless policy in this area has a way to go. Although the industry is not as open to competition as it should be, moves in the direction of a more open industry would be better made steadily over the medium to long run. Such moves need to recognise that incumbents have paid large amounts for their rights to operate and have large investments at stake. Accordingly there would need to be a phased approach to any change to ensure that what happens is credible and fair and preserves the integrity of existing contractual arrangements.

2. Nature of Gambling

There are some features of gambling as an activity, which help explain its popularity and which some people say provide a basis for the consideration of gambling policy issues.

The Oxford Dictionary defines gambling as games of chance decided by skill, strength or luck. There is more in this simple definition than meets the eye.

The degree to which outcomes are governed purely by fate rather than able to be influenced by learning or innate skill, is the important conceptual distinction which marks the boundary between gambling forms which can be pursued professionally and those which cannot. Thus certain card games (such as poker), race gambling and baccarat attract professional players while lotto, EGMs, scratch tickets and raffles generally do not. The former are sometimes known as ‘hard’ and the latter, seen solely as entertainments, as ‘soft’ forms of gambling.

Gambling has been both a source of entertainment and a theatre for the pitting of skills for thousands of years. Gambling has also provided the setting in which the principles of probability and risk have been divined. Developments in this field since the Renaissance are regarded by some management experts as forming the basis of most modern achievements in business and the affairs of state.

The modern theory of the management of risk and uncertainty contains two principles which tend to blur the distinction between gambling’s role in entertainment on the one hand and business on the other. One is that attitudes to risk and the value (or utility) of a particular game differ widely between individuals, depending on such things as age, wealth, upbringing, experience and, of course, genetics. Another is the fact that when considering a choice between more risky and less risky actions, individuals will make decisions in the context of the whole ‘portfolio’ of risky ventures (investments, career, lifestyle, choice of partner, etc) in which they are presently engaged. The upshot is that what will be a rational involvement in a risky activity like gambling to some may be quite irrational for others and what qualifies as business to person A may be mere folly to person B. People’s needs for relaxation and involvement in distractions are no less diverse.

In this light, it is not surprising that it is difficult for governments to regulate gambling in a way that will unambiguously improve social well being.

2.1 Definition of gambling

The Oxford Dictionary defines gambling as playing games (contests bound by rules and decided by skill, strength or luck) of chance for money stakes. In Australia there is a wide variety of organisations providing (legal) gambling services. Providers of gambling services range from racecourses, totalisators, bookmakers, sports betting businesses, casinos, clubs, hotels, lottery organisations and agents and various charities (including churches and community service organisations). The various gambling services these providers offer include wagering, sports betting, casino table games, EGMs, lottery games (including Keno), pools, scratch tickets, bingo games and raffles (raffles sometimes have non-monetary prizes). In addition, many venues provide services additional to gambling activities such as shops, restaurants/food premises, bars, nightclubs, places of accommodation (ranging from budget to 5-star international standard), convention and conference facilities, exhibition venues, sporting facilities, theatres and concert venues.

This report categorises gambling service providers into businesses (both private and public sector) which provide casino gaming, EGMs, lotteries, minor gaming, racing and sports wagering operations. This schema is consistent with the generally accepted approach adopted by the Australian Bureau of Statistics (ABS) and the Tasmanian Gaming Commission (TGC), both of which produce a wide variety of official industry statistics.

2.2 Chance, skill and gambling

Evidence of gambling goes back thousands of years, with the earliest known form being a kind of dice game played with an 'astragalus', or knucklebone. Sets of knucklebones have surfaced in archaeological digs in many parts of the world. Egyptian tomb paintings dating from 3500 BC depict games being played with them and Greek vases show young men tossing the bones into a circle. And it is said that backgammon boards were buried with the Pharaohs.²

Dice games are said to have come to Europe from the Middle East via the Crusades. Card games developed in Asia from ancient forms of fortune telling, but they did not become popular in Europe until the invention of printing.

Peter Bernstein, the well-known American investment adviser and the author of a recently published survey of risk management, notes that games of chance need to be distinguished from games in which skill

² Raiffa, H, 1970, *Decision Analysis: Introductory Lectures on Choices under Uncertainty*, Addison-Wesley, Reading, Massachusetts.

makes a difference.³ The principles at work in roulette, dice and slot machines are identical, but they explain only part of what is involved in poker, betting on the horses and backgammon. With one group of games, the outcome is determined by fate; with the other group, choice comes into play. **The odds are all you need to know for betting in a game of chance, but you need more information to predict who will win and who will lose when the outcome depends on skill as well as luck.** Thus there are card players and racetrack bettors that are genuine professionals, but no one makes a successful profession out of shooting craps.

Poker, an extremely popular card game played regularly by millions worldwide, is about 150 years old. It is an American variation of an earlier form. Poker has been described as “secret ploys, monumental deceptions, calculated strategies and fervent beliefs [with] deep invisible structures ... A game to experience rather than to observe”.⁴ Luck is just one element.

Some people say the stock market is little more than a gambling casino, and Bernstein devotes a chapter of his book to that issue. In any case, the idea that the scope for the exercise of skill separates some forms of gambling from others is well established. Those involving pure chance are sometimes termed ‘soft’ and those involving skill, ‘hard’.

In fact, insights gained about risk since the 17th Century, and especially those concerning the difference between price and utility on the one hand and the principles of diversification on the other hand, indicate that the notional difference between soft and hard types of games is rather blurred. Quite rationally, individuals may have very different perceptions of the value and purpose of a particular wager. The differences in people’s attitudes are sometimes expressed as ‘personality’ traits. Whether such traits define ‘genetic differences’ or people’s different circumstances and experiences is one of the longstanding debates in psychological theory.

A brief history of ideas about risk and risk management in a gambling context is presented below.

³ Bernstein, P, 1998, *Against the Gods: The Remarkable Story of Risk*, Wiley, New York.

⁴ Bernstein, 1998, *ibid.*, citing David M. Hayano, 1982, *Poker Face: The Life and Work of Professional Card Players*, University of California Press, Berkeley and Los Angeles.

2.3 Gambling and the development of risk analysis

2.3.1 The 'Enlightenment'

Notwithstanding gambling's long history, it will come as a surprise to many people to learn that the analysis of probability and risk as a business and gambling aid emerged only in the mid 1600s. Moreover, as Bernstein points out, **many of the most sophisticated ideas about managing risk and making decisions have developed from the analysis of the most childish games of chance and skill.**

Despite their mathematical skills, it seems the great Greek, Hebrew, Roman and Arabic philosophers had not broken through their preoccupation with discovering absolute truths to confront probability in a systematic way. For the ancients, the worldly affairs of men were assumed to be fickle and dictated by the whims of the gods, and thus not amenable to worthwhile prior analysis except by the likes of oracles. The future was regarded as little more than a black hole.

The key developments behind the emergence of modern principles of risk analysis in Europe are said to have been⁵:

- the gradual adoption in Europe from the 1,000 to 1,500 of the numbering system which Arabic scholars had adopted from the Hindus around 700 AD. This transformed mathematics and measurement in astronomy, navigation and commerce, and fostered abstract thought. A key European contribution was the handwritten, *Book of the Abacus*, which Fibonacci completed in Italy in 1202;
- the re-emergence during the Renaissance and the Protestant Reformation of a scientific tradition where philosophy was less dominated by the clergy and the future came to be seen more commonly to provide opportunities for advancement through independent personal endeavour; and
- a challenge set in 1654 by a French gambler and nobleman, the Chevalier de Méré, for the famed French mathematician Blaise Pascal. The question was the famous 'problem of the points': how to divide the stakes of an unfinished game of chance between two players when one of them is ahead. The puzzle had confounded mathematicians since it was posed two hundred years earlier by the monk, Luca Paccioli — who among other things had tutored Leonardo da Vinci in multiplication tables.

Most experts on the history of the subject include a reference to the 16th Century Renaissance physician named Girolamo Cardano (1500-1571).

⁵ Adapted from Bernstein, 1998, *op. cit.*; pp. 1-8.

Cardano was probably the first person to investigate closely the mathematics of probability in dice throwing. Indeed he was probably the first to write an analysis of games of chance. Certainly he had a strong interest in the subject — he confessed to “...immoderate devotion to table games and dice ... During many years ... I have played not off and on but, as I am ashamed to say, every day.”⁶ He played everything from dice and cards to chess. He even went so far as to recommend gambling as beneficial: “in times of great anxiety and grief ... I found no little solace at playing constantly at dice.”

However, he was far from dysfunctional. He was the most famous physician of his age, wrote 131 printed works, claims to have burned 170 more before publication and left 111 in manuscript form at his death. He wrote the first descriptions of the symptoms of typhus, wrote about syphilis and developed a new way to operate on hernias. He wrote about mathematics, astronomy, physics, urine, teeth, religion, morality, and immortality.⁷

Cardano’s treatise on gambling, titled *Book on Games of Chance* seems to have been the first serious effort to develop the statistical principles of probability. The most sophisticated aspect was its treatment of combinations. The book was first written in 1525, rewritten by him in 1565, and then found amongst his manuscripts when he died in 1571 and ultimately published in Basle in 1663. By then others, unaware of Cardano’s work, had also made great strides.

Whether Cardano wrote his book as a guide for gamblers or as a theoretical work is not clear. But his book demonstrates that gambling has been the laboratory in which the quantification of risk and decision making has its roots.

The centre of mathematical innovation, especially in calculus and algebra, shifted to France in the 17th and 18th Centuries, and advances well beyond Cardano’s efforts ensued.

In the early 1700s, Swiss scientist and mathematician, Jacob Bernoulli invented the Law of Large Numbers (presented in the book *The Art of Conjecture*) and the methods of statistical sampling that drive modern polling and survey techniques. By 1725 mathematicians in England were devising tables of life expectancies and by 1700 the British Government was financing its deficit through the sale of life annuities. In 1730, Abraham de Moivre proposed the bell shaped ‘normal distribution’ and

⁶ Cited in Bernstein, 1998, *op. cit.*; p. 45.

⁷ Bernstein, 1998, *op. cit.*, pp. 45-46.

discovered the standard deviation concept, which are the two key components of the 'Law of Averages'.

Another important breakthrough came in 1738, when Jacob Bernoulli's nephew, David, as distinguished a scientist and mathematician as his uncle, defined the systematic process by which most people make choices and reach decisions and explained why most people are risk averse.

In the 1750s, marine insurance emerged as a flourishing business in London. Stock exchanges had become established in most European centres following the example of Amsterdam 100 years before. Also in the 1750s the dissident English cleric, Thomas Bayes, developed a procedure for blending new information with old (eg subjective information) to improve decisions, now known as 'Bayes theorem'.

Thus, it has been argued, all but two of the precepts of modern analysis of decisions and choice had been established between 1654 and 1760. The other two were the discovery of 'regression to the mean' by amateur English mathematician Francis Galton in 1875; and the mathematical demonstration by Harry Markowitz of the University of Chicago, of why diversification makes economic sense. In view of their importance in the present context, we will return to Markowitz's findings a little later.

2.3.2 The 'utility' concept and the Petersburg Paradox

The Chevalier de Méré was a French gambler and philosopher who is said to have been very proud of the way he applied the mathematics of probability to his gambling strategies. The brainteaser he set Pascal in 1654 had appeared repeatedly in the writings of mathematicians during the 16th and 17th Centuries: 'How do we divide the stakes in an uncompleted game?' Pascal, a brilliant mathematician, was 31 years of age. At that stage, he was a regular visitor to the gambling tables of Paris in an age when this kind of activity was considered unexceptional⁸.

With the help of a celebrated scholar and mathematician from Toulouse, Pierre de Fermat, Pascal discovered the theory of probability that lies at the heart of the concept of risk. A key contribution was their demonstration that the personal yield (or utility) from an outcome and one's beliefs about their probability should influence a decision.

In the wake of the Pascal/Fermat discoveries, mathematicians added new layers of insight, transforming probability theory from a gambler's toy

⁸ Interestingly, Asian societies today reflect much the same attitudes as were evident in Paris then. Moral and ethical objections by certain Christian groups appear to stem from the 19th and 20th Centuries.

into a powerful instrument for organising interpreting and applying information.

A principal contributor was the Swiss mathematician, Daniel Benoulli, another of Jacob's nephews, who worked in St Petersburg from 1725 to 1733. In 1738 in a paper initially presented to the Academy of Sciences in St Petersburg in 1731 (*Exposition of a New Theory on the Measurement of Risk*), he established a point Pascal and Fermat had discovered, that people see risks and rewards differently and in particular that "the *value* of an item must not be based on its price, but rather on the *utility* that it yields".⁹ Because people see rewards differently, their preparedness to take risks or their decision to proceed with strategies carrying different combinations of risks differs also¹⁰.

In his St Petersburg paper, Daniel Bernoulli attacked the idea that the weighted probability of possible outcomes was sufficient for decision making under risk. Although the facts are the same for everyone, "...the utility is dependent on the particular circumstances of the person making the estimate. There is no reason to assume that ... the risks anticipated by each [individual] must be deemed equal in value".

One of Bernoulli's most famous illustrations of the point has become known as the 'Petersburg Paradox'. It involves the question of how much 'Peter' should pay 'Paul' for the privilege of taking part in a game where Peter tosses a coin till it comes up with heads with him paying Peter 1 ducat if it comes up on the first toss, 2 ducats if it comes up on the second, 4 ducats if it comes up on the third and so on. Strictly calculated, the 'expected value' of the game is infinity. A variety of answers as to the worth of the game have been posited, all depending to some degree on the initial wealth of the prospective purchaser. Bernoulli's extended mathematical analysis of the issue assumed that the personal valuation of increases in wealth were inversely related to initial wealth.¹¹

'Utility' proved to be such a powerful concept that over the next two hundred years it formed the foundation for the dominant paradigm that explained human decision making and theories of choice. Utility has had an equally profound influence on psychology and philosophy, for Bernoulli set the standard for defining human rationality, and the theory of games — the innovative 20th Century approach to decision making in

⁹ Bernstein, 1998, *op. cit.*, p. 99, citing Bernoulli, 1738.

¹⁰ Ultimately, behind this insight is the now commonplace theory of demand, including the concept of consumer surplus, which we shall introduce in Chapter 5 of this Submission.

¹¹ His concept of wealth included human capital, another innovation.

war, politics and business management — makes utility an integral part of its entire system.¹²

It was not for two hundred years that it was revealed that Bernoulli's propositions were short of the mark in a few key areas.

2.3.3 Uncertainty and the portfolio concept

Keynes' *Theories on Probability* published in 1921 became one of several works in the first half of the 20th Century to repudiate parts of Bernoulli's prescriptions. In business and economics, if not in games of pure chance, the mathematical frequencies of past occurrences are inexact predictors of the future because of uncertainty. **Keynes was one who emphasised that uncertainty is an important (subjective) part of how the future will unfold. He considered that even perceptions of so-called 'facts' differed: "the basis of our degrees of belief are part of our human outfit."**¹³

Another of Bernoulli's conclusions that has been overturned in recent years is the expectation that people's actions ought always display risk aversity in 'recognition' that a loss of wealth will cause more pain than the pleasure of an equivalent gain. Among other things, this proposition had led to his warning to gamblers that anyone who participates in a fair game is acting irrationally.¹⁴

Two seminal theoretical studies to challenge this view of the world have been von Neumann and Morgenstern's *Theory of Games and Economic Behaviour* of 1944 (which focused on strategy and imperfect knowledge and is regarded as a pioneering work on game theory), and Harry Markowitz's influential 14-page article "Portfolio Selection" which appeared in the *Journal of Finance* in June 1952. Markowicz, then a 25 year old graduate at the University of Chicago, later (in 1990) received the Nobel Prize in Economics for his elaboration of the principles of diversification and the key insight that **peoples' decisions at the margin are rationally influenced by the risk structure of their existing portfolios.**

What the developments of the theory have continued to underline is that even the most rational amongst us will often disagree about what the facts mean. **This should be a strong reason for caution on the part of**

¹² Bernstein, 1998, *op. cit.*; p. 110.

¹³ Bernstein, 1998, *op. cit.*; p. 227, citing Keynes, 1921, p. 4.

¹⁴ Bernstein, 1998, *op. cit.*; p. 113.

governments about their ability to regulate gambling activities for the common good.

3. Australia's Gambling Industry

In 1996-97, Australia's gambling industry generated \$80 billion in total wagers and bets by consumers. Of this, some \$10 billion represented the expenditure (or net losses) by consumers on gambling services.

The industry's contribution to GDP or value added is more than \$5 billion, of which some two-thirds is tax. The industry's value added is comparable to that of many of Australia's traditional industries.

In terms of expenditure, nearly half was spent on EGMs, with casino gaming accounting for a further 19 per cent and racing 15 per cent of total expenditure. Similar percentage shares exist for turnover.

Both expenditure and the total amount wagered or bet of the gambling industry has increased significantly over the past ten years. The rise is exclusively due to an increase in both expenditure and total wagers and bets on EGMs and casino gaming, which more than offset the fall in wagers and bets and expenditure of racing and lotteries over this period.

Gambling has indirect links with many industries and there are estimates suggesting that in Victoria, for example, as many as 35,000 jobs in gambling and related industries emerged in the first five years after the relaxation of gaming laws.

3.1 Industry scope and overview

The gambling industry covers a wide range of activities provided by a variety of organisations, as outlined in Chapter 2. Not only are the characteristics of each kind of gambling activity very different (baccarat versus bingo, for example), there are also some significant product quality and organisational differences by state.

The gambling market is at different stages of maturity in different states. The different stages of maturity are primarily the result of differences in the timing of the easing of restrictions on entry into the industry. For example, while casinos are a relatively new development in NSW and Victoria, the other states have had at least one casino for a number of years. Australia's first casino, Wrest Point in Hobart, opened for business 25 years ago in 1973. In addition, the introduction and expansion of EGM licences in Victoria occurred recently, while lotteries and racing gambling operations have been in Victoria and NSW for a

century and a half¹⁵. In contrast in Western Australia, where racing also has a long history, EGMs remain prohibited in locations other than the Burswood casino.

Together casinos, EGMs and racing gambling dominate the gambling industry in terms of both 'turnover' (the total amount wagered and bet) and expenditure (the amount gamblers do not keep - see Box 1).

However, people purchase lottery tickets more often than they frequent casinos or play EGMs. Yet, more is spent on gambling at casinos, and on horse and dog racing and EGMs.

Box 1: Turnover (the total amount wagered and bet) and expenditure

Providers of statistics on the gambling industry (notably, the ABS and TGC) tend to use the term '**turnover**' to mean the amount wagered, or the total amount bet on every game. However, for clarity, in this Submission, the term 'turnover' will be replaced by '**total wagers and bets**'.

The amount wagered is not 'turnover' in the usual business sense. Instead, as with banking, where the institution deals with a gross inflow and outflow of money, the usual business concept of turnover is the interest cost (for borrowers) and account keeping charges (for lenders), that is, the amount customers do not take with them when they leave. For the gambling industry as a whole, it is the average amount customers do not take away. For clarity, in this Submission we will call this '**expenditure**'. It will have the same magnitude as the service providers' gross revenue.

Ordinarily, one might expect the difference between the amount wagered and the expenditure to reflect the odds of the games concerned. On this point, the official statistics can be confusing. For example, in the case of casinos, the gambling industry's standard concept of 'turnover' reported by the TGC is actually the 'handle' or drop. This is the amount the customer first uses at table games to purchase chips. This will almost always be lower than the amount wagered — the latter will include any winnings of chips used in subsequent bets. Literally, the amount wagered will be the sum of all the chips appearing at each spin of the wheel. At whatever time the customer's stock of chips is inspected, the expected per cent future take by the house on any proportion of it wagered will be the same. At the start the expected loss might be \$10. One hour later the expected loss might be \$2. Towards closing time the expected loss might be \$100. A similar situation exists with EGMs where the credits played may exceed the initial stake by several times.

Clearly no difference between 'amount wagered' and 'handle' exists in the case of the TAB. You have to cash your winning tickets in order to be able to place your winnings on another race. Thus, unlike the case with casinos and EGMs, official race gambling statistics will show a relationship between the amount wagered and the amount lost which correctly reflects the odds on offer.

It can be appreciated nonetheless, that as in the case of casinos and EGMs, many race gamblers choose to use any winnings they obtain in follow-up bets. The financial position of a TAB client following the last race could be the outcome of a whole afternoon's activity and need bear no relation to the initial stake bet on the first race. The official statistics make no distinction between the types of products where repeated wagering of winnings occurs over a 'session' and products, such as lotteries, where individual wagers tend to be discrete events.

The dominance of expenditure and total wagers and bets generated from casinos and EGMs has been a relatively recent development.

Since the early 1990s, growth of these activities has been significant, more so for EGMs than casinos. The main reason for this is the increase in the number of casinos and EGM licences granted over that period. It appears that some of this growth has been at the expense of more traditional forms of gambling, such as racing and lotteries which have

¹⁵ The first 'official' horse race recorded in Australia was on 15 October 1810 at Hyde Park in Sydney. It was at a race meeting organised by officers of the First Battalion, 73rd Regiment.

experienced relatively slow growth in total wagers and bets and expenditure¹⁶.

The economic impact of the growth in gambling activity has had a positive impact on the economy. It has provided new employment opportunities, given a boost to tourism and the building and construction industry (due to the building of new venues or refurbishment of existing venues), and had positive flow on effects to industries that supply gambling service providers. This has been particularly apparent when a new casino has opened and when a substantial number of EGM licences had been granted.

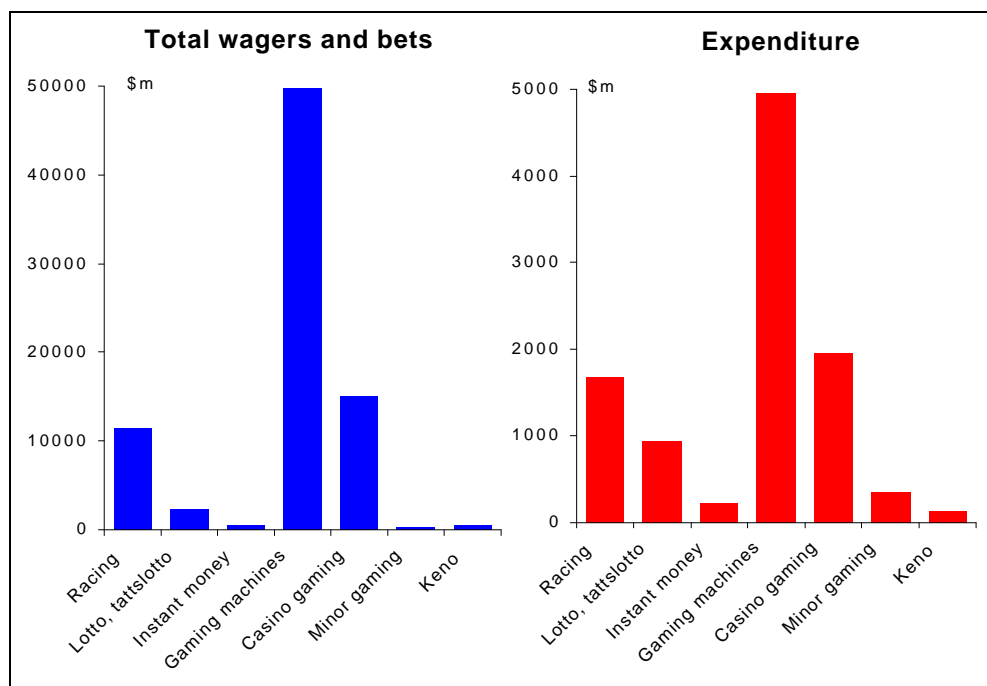
3.2 A snapshot of gambling services

3.2.1 The size of the gambling industry

In 1996-97, the gambling industry attracted nearly \$80 billion in total wagers and bets. Gaming machines, casino gaming (which includes table games and EGMs) and racing accounted for over 95 per cent of turnover in 1996-97. As the chart on the left of Chart 1 shows, of these three forms of gambling, EGMs had the highest amount of wagers and bets in the industry¹⁷.

¹⁶ Also, there may have been some substitution for various forms of 'subterranean' gambling activity such as card schools and illegal gaming houses.

¹⁷ The 'Gaming machines' category does not include EGMs in the casinos. 'Casino gaming' includes table games, EGMs and Keno systems within the casino. This is true for all expenditure and 'turnover' statistics sourced from the TGC.

Chart 1: Gambling wagers and bets and expenditure by type, 1996-97

Source: Tasmanian Gaming Commission, 1997

Expenditure on gambling in Australia was \$10 billion in 1996-97 (Chart 1). Nearly half of the \$10 billion was spent on EGMs, with casino gaming accounting for a further 19 per cent and racing 15 per cent of total expenditure. The pattern of expenditure across the different gambling products is similar to that of turnover.

3.2.2 The gambling industry's impact on the economy

Measuring the output of the industry

As discussed in Box 1, by definition, 'expenditure' is the gross gambling profit of the industry. Hence, the gambling industries generated \$10 billion in gross gambling profit in 1996-97. The total amount wagered and bet, on the other hand, does not take into account the cost side of the gambling business.

The ABS publishes statistics on the value of gambling: 'gross takings', 'net takings' and industry gross product. In *Gambling Industries* (Cat. 8684.0), the ABS reports 'gross takings' for some gambling sectors and 'net takings' for all sectors (Table 1).

Table 1: ABS measures of gross and net takings, 1994-95

	Net takings (\$m)	Gross takings (\$m)
Poker/gaming machines	1,196.0	na
Casino Keno	25.5	na
Other casino gambling	1,012.7	na
Lotteries, Keno, lotto, pools, scratchies	1,344.6	3,439.1
On course totalisators	1,300.6	365.5
Off course TAB	included in above	8,022.7
Bookmakers	44.2	839.7

Source: ABS 1997, Cat No 8684.0

‘Gross takings’ is defined as the sum of all components of income before the payment of prize money and winnings are netted off. ‘Net takings’ is gross income minus the payments of prize money and winnings.¹⁸

The ABS net takings figures are not entirely consistent with the expenditure figures published by the TGC. ‘Expenditure’ by TAB on-course and off-course across Australia is recorded by the TGC as \$1,381 million, which is about \$80 million more than the equivalent ABS net takings figure. The difference is not big and could be because ABS excludes ‘gambling commissions’, while the TGC is ambiguous on this point. We note that ABS says gambling commissions for bookmakers, TAB agencies and betting shops are \$85.2 million. As with tax, we consider this should be counted as part of TAB expenditure. In this regard, it seems the TGC data are the more reliable estimate of ‘net takings’, or expenditure, of the gambling industry.

Measuring value added

A measure of ‘value added’ for the gambling industry would be useful in assessing the impact the gambling industry has on the economy, and how it compares to other industries. Value added is the value of output, or sales, of gambling activities, less the cost of outside purchases of goods and services used in the production process, such as raw materials or electricity. The sum of the value added for all individual activities across the economy totals Gross Domestic Product (GDP).

¹⁸ Oddly, in Table 5 of the same publication, ABS defines ‘Total gambling takings’ as a sum comprising some gross and some net takings. The difference between gross takings and net takings is operating costs and taxation (including compulsory transfers to race clubs, safety net funds etc.).

Unfortunately, there are no official statistics of value added for the gambling industry. While it can be estimated, there are some difficulties in measuring the exact amount of value added of the industry which need to be addressed. Most notable are the differences in definitions of key variables by sources and the lack of timely data available from the ABS.

A rough estimate of the value added of the gambling industry would be to take the 'industry gross product' figures cited in the ABS *Gambling Industries* publication, and add the amount of tax revenue from gambling. The ABS industry gross product estimate for 1994-95 is \$2.1 billion. Adding on government taxation revenue from gambling for that year (sourced from the TGC) of \$2.9 billion gives a **value added figure for the gambling industry in 1994-95 of \$5 billion**.

There have been a number of changes within the industry since 1994-95 (see Section 3.3). However, the ABS data are only available for 1994-95. We can get a rough estimate of value added in 1996-97 using the change in expenditure from 1994-95 to 1996-97 and applying that to the value added figure for 1994-95.¹⁹ Doing this gives an **estimate of value added of more than \$5 billion in 1996-97**.

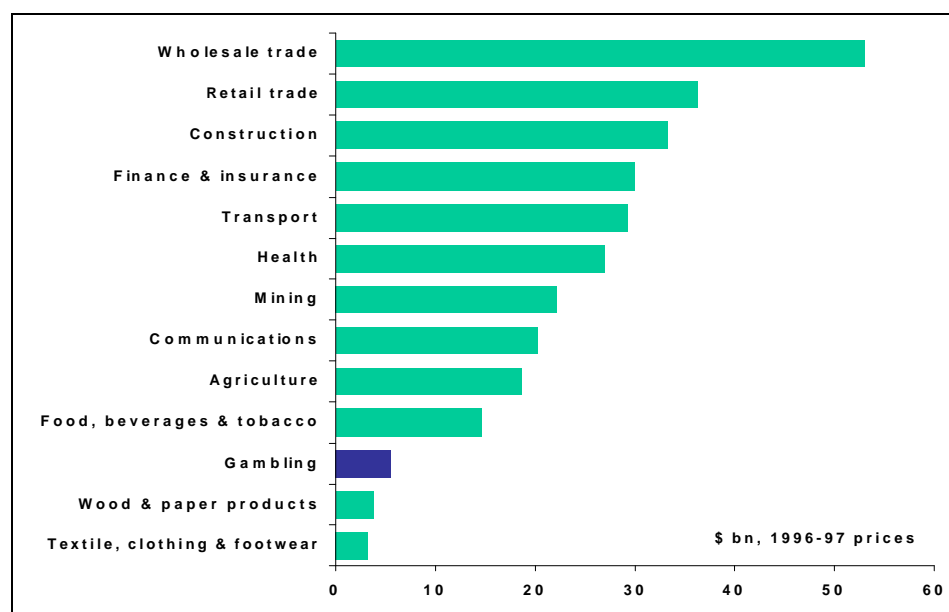
Even though this estimate of the gambling industry's value added is not strictly comparable with the available value added data on other individual industries it provides a useful summary statement of the gambling industry's place in the economy.

Comparison with other industries

How does the gambling value added estimate of \$5.5 billion in 1996-97 compare with that for other industries? The estimate suggests that the gambling industry contributed just over 1 per cent to national GDP in 1996-97. (Notionally, GDP is the sum of the value added for all industries) Chart 2 compares the value added of the gambling industry to a range of other industries. While in GDP terms the gambling industry shows up as having nearly twice the value of the Textile, clothing and footwear industry, it is a lot smaller than most other conventionally defined industries such as Agriculture, Transport, Mining, Construction and Retail trade.

¹⁹ To get a more accurate estimate of value added, estimates of operating expenses and tax revenue are required. However, the data for operating expenses is unavailable. Using this compromise, we are ignoring the fact that the definitions of the data from TGC and ABS are not strictly comparable. Thus care needs to be taken when interpreting the estimate of value added of 'more than \$5 billion'.

Chart 2: Value added of selected industries, 1996-97



Source: ABS 1998 Cat No 5206.0, ABS, 1997, Cat No 8684.0 and Tasmanian Gaming Commission, 1997

3.2.3 Structure of service providers²⁰

The gambling industry is a large and diverse industry, with over 6,800 businesses providing gambling services. Some of these businesses provide gambling services either as their predominant activity (such as casinos, bookmaker/betting shop operations, TAB and totalisator operations and agencies, and lottery operations). Others have some other activity as their main source of income (such as pubs, taverns and bars, hospitality clubs and horse and dog racing clubs).²¹

The gambling industry generates two sources of income: net takings (that is, after payouts of winnings) from gambling and commissions from gambling. Table 2 shows the breakdown of total earnings by type of gambling business. As these are derived from an ABS survey, the latest figures are for 1994-95. The total is comparable to the figure published by the TGC for that year.

²⁰ This section uses the latest ABS survey data, taken for the 1994-95 year for gambling services, and a survey of casinos taken in 1995-96 (also referring to 1994-95). Unlike the TGC, the ABS uses the term 'takings' rather than 'expenditure', but essentially, these are the same concepts.

²¹ ABS, 1997, *Gambling Industries 1994-95*, Cat. No. 8684.0, February. The term, 'hotels' is interchangeable with 'pubs, taverns and bars'.

Table 2: Businesses with gambling activities, 1994-95

	Businesses at end June		Net takings		Commissions	
	No.	%	\$m	%	\$m	%
Gambling industries						
Casinos	14	0.2	1,382	18.2	1	0.2
Lottery operation	9	0.1	1,881	24.8	n.a.	n.a.
Lottery agency	169	2.5	n.a.	n.a.	n.a.	n.a.
Bookmaker/betting shop	658	9.6	44	0.6	-	-
TAB & totalisator operation	15	0.2	1,615	21.3	-	-
Totalisator agency	1,163	17.0	-	-	85	19.1
Other	13	0.2	n.a.	n.a.	-	-
<i>Total Gambling industry</i>	<i>2,041</i>	<i>29.9</i>	<i>4,924</i>	<i>64.8</i>	<i>106</i>	<i>23.7</i>
Clubs (hospitality)	2,144	31.4	2,222	29.3	133	29.8
Pubs, taverns & bars	2,327	34.1	440	5.8	136	30.5
Sports industries	315	4.6	10.8	0.1	72	16.0
TOTAL	6,826	100.0	7,597	100.0	447	100.0

Source: ABS, 1997, Cat No 8684.0

Of the gambling businesses, lottery operations had the highest rate of net takings, with TAB/totaliser operations and casinos²² next highest. Clubs, pubs, taverns and bars with gambling facilities accounted for about 35 per cent of total net takings.

Table 3 shows the dominance of EGMs in terms of net takings from all gambling operations. The majority of those takings were from EGMs located in hospitality clubs.

²² Figures on casino gambling include EGMs within casinos.

Table 3: Net takings by type of gambling activity, 1994-95

Type of gambling activity	Net takings	
	\$ m	%
EGMs	3,869	50.9
On-course totalisator sales and off-course TAB sales	1,301	17.1
Bookmaker's turnover	44	0.6
Lotteries, Keno, lotto, football pools, instant money sales, and other gambling	1,345	17.7
Casino Keno	26	0.3
Other casino gaming (incl. table games & EGMs)	1,013	13.3
TOTAL	7,597	100.0

Source: ABS 1997, Cat No 8684.0

Of the 6,800 businesses that provided gambling services in 1994-95, Table 4 shows that there were 2,041 businesses whose predominant activity was the provision of gambling services. These operations generated \$15.5 billion in total income and reported an operating profit before tax of \$1.3 billion in 1994-95. This represented an operating profit margin of 8.4 per cent.²³

In comparison, there were 2,327 pubs, taverns and bars with gambling facilities in 1994-95. They earned \$3.4 billion of income (of which gambling only accounted for 17 per cent) and generated an operating profit before tax of \$0.2 billion.

In addition, there was 2,114 clubs with gambling facilities in 1994-95. Table 5 shows that 54 per cent of pubs, taverns and bars and 65 per cent of clubs had gambling facilities in 1994-95.

²³ 'Operating profit' is profit before extraordinary items are brought into account and prior to the deduction of income tax and appropriations to owners (eg: dividends). 'Operating profit margin' is the percentage of operating profit before tax divided by sales of goods and services.

Table 4: Summary of operations — Businesses that provide gambling services, 1994-95

	Unit	Gambling industries			Pubs, taverns and bars with gambling facilities	Clubs with gambling facilities
		Lotteries	Casinos	Other		
Number of businesses	no.	178	14	1,849	2,327	2,114
Employment	no.	2,006	15,837	14,219	48,618	53,181
Sales of goods and services	\$m	4,099	1,643	9,699	3,385	-
Takings and commissions from gambling	\$m	3,997	1,383	9,627	576	-
	%	97.5	84.2	99.3	17.0	-
Operating profit before tax	\$m	793	107	391	183	-
Operating profit margin	%	19.4	6.5	4.0	3.9	-
Industry gross product	\$m	867	650	594	1,257	-

Source: ABS, 1996, Cat No 8684.0 and ABS 1997, Cat No 8687.0.

Table 5: Clubs, pubs, taverns and bars, 1994-95

	Pubs, taverns and bars		Clubs	
	With gambling facilities	Without gambling	With gambling facilities	Without gambling
Number of businesses	2,327	1,997	2,114	1,140
Employment	48,618	22,820	53,181	9,355
Average number of employees per business	21	11	25	8

Source: ABS, 1996, Cat No 8687.0

3.2.4 Employment in gambling services

As presented in Table 4 and Table 5, **just over 135,000 people were employed in the gambling and related industries in 1994-95**: about 32,000 in businesses whose predominant activity is the provision of gambling services and nearly 103,000 in clubs, pubs, taverns and bars and with gambling facilities.

On average, each of those businesses involved in gambling employed significantly more people than those that were not. Each pub, tavern or bar with gambling facilities employed twice the number of those without such facilities. In the case of clubs, those with gambling facilities had three times the number of employees on average.

The ABS has recently released employment statistics for casinos in Australia in 1997-98. Table 6 shows a significant increase in employment in casinos over the 1990s, which reflects the opening of six new casinos in Australia over that period.²⁴ The fall in employment in 1997-98 compared to 1996-97 is a result of the closure of the Christmas Island casino and the effect of the Asian crisis on the industry. Importantly, nearly 80 per cent of these jobs in 1997-98 were permanent positions.

Table 6: Employment in Australian casinos

	1991-92	1994-95	1995-96	1996-97	1997-98
Number of casinos	8	14	14	14	13
Employment (number)					
Permanent employees	5,712	11,281	14,038	17,490	15,920
Casual employees	3,506	4,556	4,452	5,018	4,611
Total employment	9,218	15,837	18,490	22,508	20,531

Source: ABS, 1998, Cat No 8683.0

Case study: Effect of gambling on employment in Victoria

A study by the National Institute of Applied Economic and Social Research (NIAESR) for the VCGA in 1997 found that by 1996, **new gambling operations (EGMs and the casino) had increased employment in Victoria by 34,700 persons.**²⁵ This takes into account both the positive and negative direct and indirect effects from the new gambling operations. The study found that direct new gambling industry employment displaced some employment in other traditional gambling sectors such as racing but the overall net effect was positive.

The NIAESR study estimated the change in direct employment resulting from the new gambling operations and employment in traditional gambling industries in Victoria from 1991-92 to 1995-96²⁶ (Chart 3). While new gambling boosted employment by over 8,600 by 1995-96, the NIAESR study estimates that this change coincided with a decline in employment in traditional gambling industries of over 10 per cent. The

²⁴ Historical employment figures for other businesses whose main activity is gambling (ie: lotteries and other gambling services), and clubs, pubs, taverns and bars are unavailable. Figures for 1994-95 are shown in Table 4.

²⁵ National Institute of Applied Economic and Social Research, 1997, *The Impact of Gambling on Victorian Employment*, Report for the VCGA, August.

²⁶ 'New gaming' employment is estimated as gaming employment associated with EGMs at gaming venues, VCGA employment, casino and estimated gaming employees at Tattersall's and TABCORP. 'Traditional gambling' includes all other estimated employment at Tattersall's and TABCORP and bookies and clerks.

overall net direct impact on employment was the creation of 8,000 new jobs.

Chart 3: Direct effects on Victorian employment due to the new gambling operations



Source: National Institute of Applied Economic and Social Research, 1997

The NIAESR study estimates that indirectly new gambling industries resulted in a net rise of 26,500 jobs by 1995-96. It concludes that the indirect impact of new gambling activities on employment included the following effects:

- the expenditure on goods and services of the net gambling industry employment directly created by the new gambling activities;
- the impact on the Victorian budget of the net taxation received directly generated by new gambling activities;
- the distribution of gross operating surplus from new gambling activities;
- the increase in the net inter-industry demand for goods and services generated by the new gambling activity sector; and
- capital expenditure applied to create the infrastructure to support the new gambling activities.

The study also found that the impact of new gambling activities was to reduce Victoria's unemployment rate by 1 percentage point in 1995-96.

New investments by hotels and clubs to expanding and upgrading their facilities as a result of the new EGM licences led to a significant number of new jobs in these venues. Detailed information about new investments in gaming venues as well as the change in the number of employees is

shown in Table 8 in Section 3.4. The employment changes as a result of the EGM licences in some of the venues are:

- Zagames hotel at Caulfield employed 45 extra staff;
- A new club at Kilsyth opened, employing 50 staff;
- Royal Hotel in Ferntree Gully employed 45 extra staff; and
- The Wantirna Club opened, hiring 65 employees.

Crown casino not only provided new employment opportunities, but also has a training facility that covers a range of training courses relevant to all aspects of the casino. In addition, the casino provides professional accreditation qualifications, apprenticeships and traineeships (Box 2).

Box 2: Crown casino's training initiatives

Crown has a strong commitment to staff training and development. All employees have equal access to training and development and are encouraged to attend or ask for training. Annually, Crown spends about \$4 million on training courses alone and Crown's commitment on training to date is in excess of \$35 million. Approximately 8,000 employees would attend one or more training courses annually that is in addition to induction training and compulsory job-specific training.

Crown casino has a dedicated training facility — Crown College — that develops, facilitates and administers a comprehensive range of structured in-house training courses (approx. 80). Courses include occupational health and safety training, first aid courses, computer courses for a wide range of packages and levels and specialist technical training tailored for various business units such as wine appreciation, report writing, lighting systems maintenance and gaming table reclothing. There are also two compulsory courses for all gaming and hospitality employees: Responsible Serving of Alcohol and Responsible Serving of Gaming. In addition, Crown is a Registered Training Organisation and thus provides a number of nationally recognised and accredited Certificates in Gaming and Hospitality. Crown College was awarded the Certificate of Excellence Award for Industry Training — Private Sector in the Victorian Tourism Awards.

Crown has also developed strategic alliances with several educational institutions including RMIT, Victoria University, Swinburne TAFE, William Angliss and Holmesglen TAFE. These institutions provide training in food and beverage, hospitality and gaming related subjects. RMIT has recently provided a 13-week Management Development Program to over 200 front-line management staff, concentrating on Service Delivery and Leadership.

Crown accommodates and offers hundreds of apprenticeships in the food and beverage and gaming areas. There are a number of traineeships that assist employees obtain a professional qualification and industry recognition across all disciplines of Crown.

Source: Crown casino

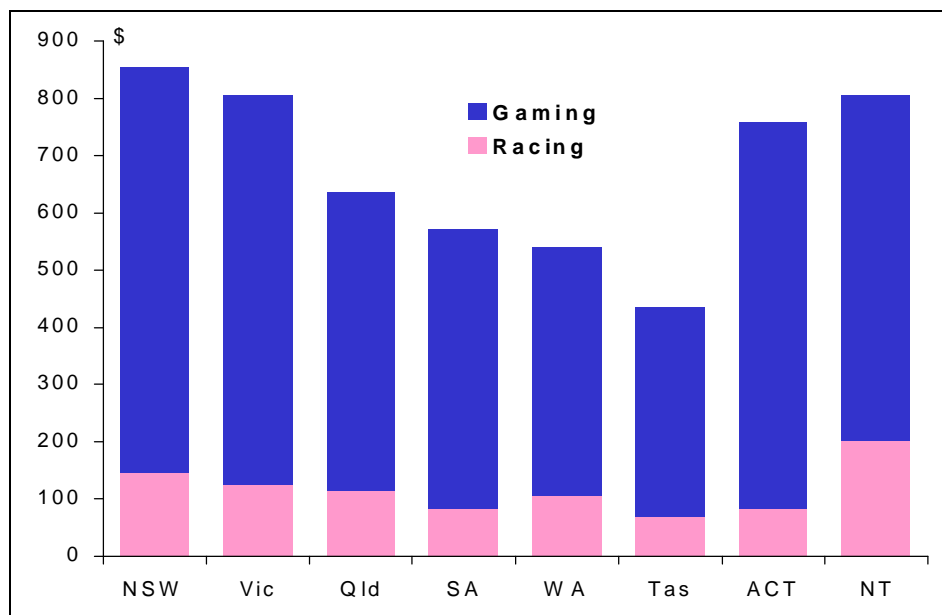
3.2.5 Gambling services by state

Gambling expenditure per capita in NSW was the highest of all the states in 1996-97, at \$853 (Chart 4). Per capita expenditure was also high in the Northern Territory (\$806) and Victoria (\$805). **In all of the states, about 80-90 per cent of gambling expenditure per capita was spent on gaming²⁷** except in the Northern Territory, where per capita expenditure on racing was significantly higher than any other state. Compared to 1995-96, per capita expenditure in South Australia and Victoria increased

²⁷ 'Gaming' includes casino gaming, EGMs, lottery operations including pools, minor gaming such as bingo, lucky envelopes and raffles, and Keno operations.

by 5.9 per cent and 5.6 per cent respectively, mainly due to a large increase in gaming expenditure in these states, reflecting an increase in the number of EGM licences over that period.

Chart 4: Real per capita gambling expenditure by state, 1996-97



Source: Tasmanian Gaming Commission, 1997

Care needs to be taken in interpreting per capita figures. **Per capita expenditure on gambling as reported in official statistics such as those prepared by the TGC can be viewed as an upper bound.** This is because the estimates are derived by dividing expenditure by population. In most cases this will be a reasonably accurate picture **but all gambling expenditure is not made by Australians.** Foreigners also use Australian gambling facilities. In the case of some casinos, a large proportion of the total expenditure is derived from foreign premium players who represent less than 1 per cent of casino customers. Similarly, some gambling service providers in the Northern Territory, for example, earn substantial revenue from foreign gamblers.

Importantly, the median expenditure on gambling is likely to be significantly lower than the mean. This is because the transactions of a small group of high stakes gamblers increase the mean figure while the bulk of gamblers spend much less than that reported in Chart 4. This is especially the case for casino and, to a lesser extent, racing expenditure,

but less of an effect on the expenditure figures reported on lotteries and EGMs²⁸.

3.3 Structural changes in gambling services

The gambling industry has changed significantly over the past decade, mainly as a result of the increase in the number of casinos and EGM licences since the early 1990s. This expansion of gambling facilities was a direct consequence of a relaxation of the restrictions placed on the industry by governments.

The loosening of gambling regulations has led to a number of positive outcomes, namely:

- an increase in the number of operators;
- a number of privatisations within the industry;
- an increase in the range of products offered to the consumer; and consequently,
- an increase in competition in the gambling industry.

The increase in competition among the gambling service providers has resulted in a more productive industry. While official estimates of productivity are unavailable, and an estimate will not be provided in this submission, we expect the Productivity Commission will address this issue as a part of its review of Australia's gambling industries.

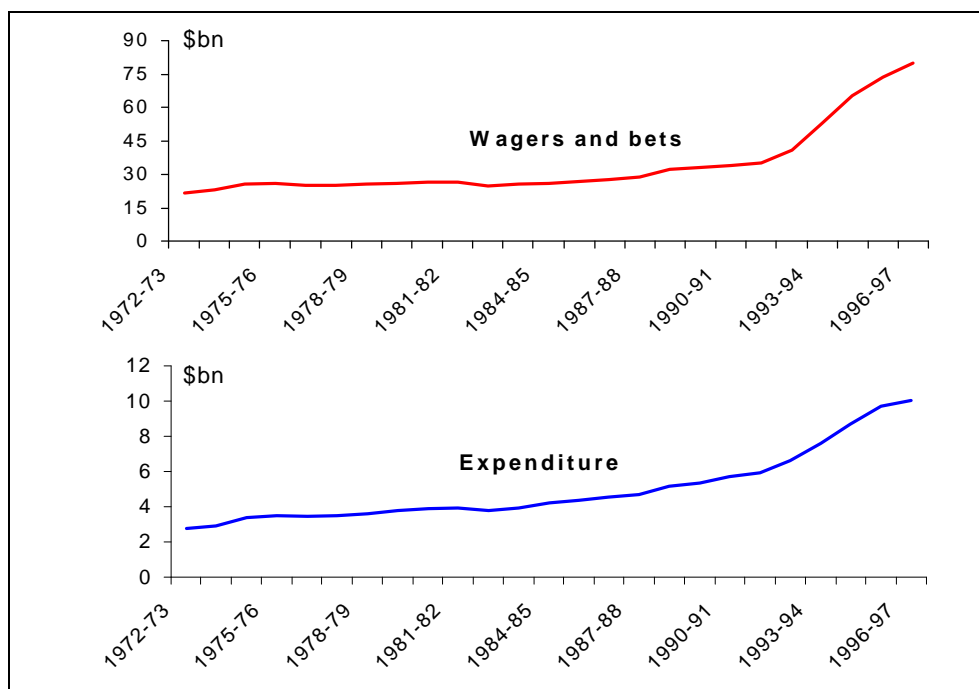
This section outlines the major changes that have occurred in the industry, while Chapter 9 provides an assessment of regulatory changes.

3.3.1 Overall growth in gambling services

Following a period of relatively subdued growth in the industry, **the amount of wagers and bets increased markedly in the 1990s. This was mainly due to an increase in the number of EGMs in many states and the opening of 6 new casinos over that period.** The industry generated \$34 billion in wagers and bets in 1990-91, and this increased to nearly \$80 billion in 1996-97. This change is reflected in an increase in gambling expenditure,²⁹ which rose from \$5.7 billion in 1990-91 to just over \$10 billion in 1996-97. The growth of both wagers and bets and expenditure over the past 10 years is shown in Chart 5.

²⁸ Constant references to Australia's per capita gambling expenditure may distort people's perceptions. Public references to per capita gambling expenditure may be applied by the public to their own income levels and taken to be some measure of the extent of gambling and therefore problem gambling, leading to false conclusions about the weight of gambling expenditure in the median household.

²⁹ Note the differences between 'wagers and bets' and 'expenditure' measures — see Box 1.

Chart 5: Wagers and bets and expenditure on gambling

Source: Tasmanian Gaming Commission, 1997

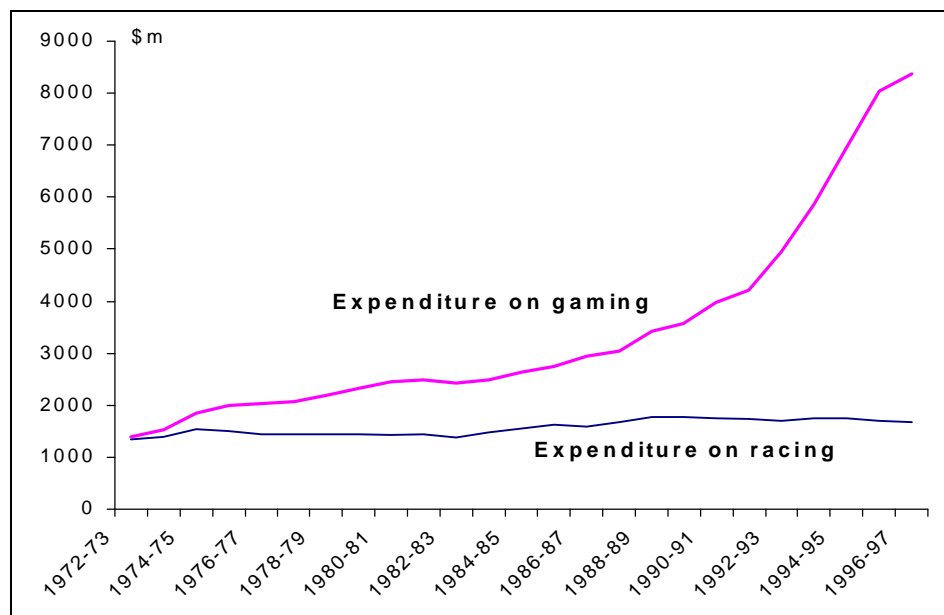
3.3.2 Changes in the composition of gambling services

Wagers and bets on EGMs and casinos accounted for over 80 per cent of total wagers and bets in 1996-97, compared to just 43 per cent in 1986-87. Over the same time period, racing's share of total wagers and bets declined from 46 per cent to just over 14 per cent.

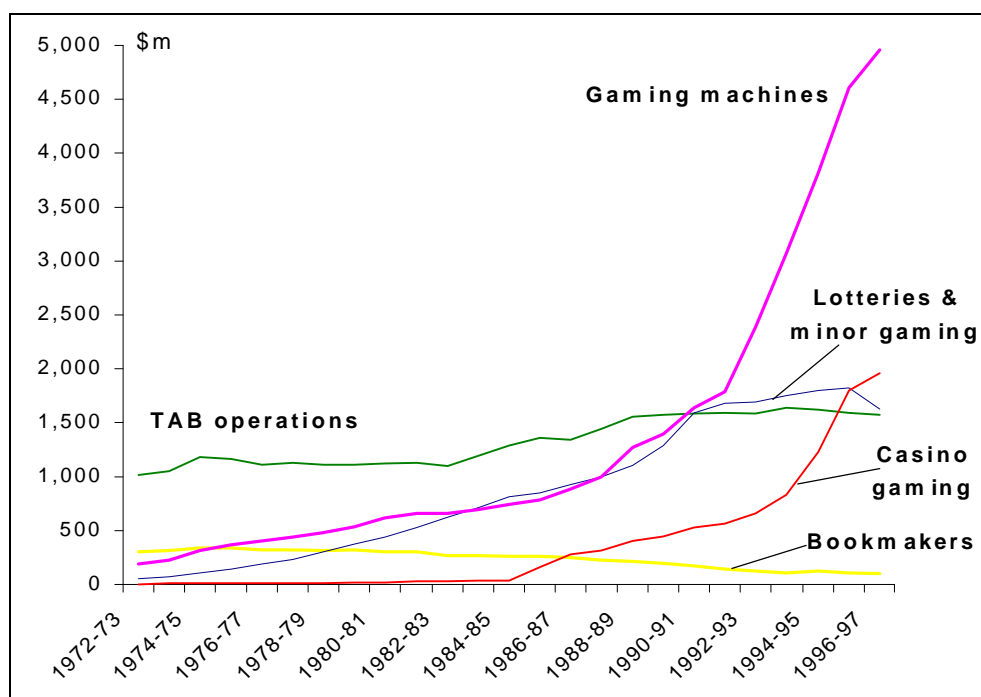
In terms of expenditure the picture is similar. As Chart 6 shows, nearly all of the growth in gambling expenditure has come from gaming, while expenditure on racing has remained fairly stagnant since 1972-73.

The main reason behind the growth in expenditure on gaming is the relaxation of the restrictions on EGM and casino licences in the 1990s.

Consumer expenditure on racing as a proportion of total gambling expenditure fell significantly over the ten years to 1996-97. In 1986-87, racing accounted for 34 per cent of all gambling expenditure, and this fell to only 16 per cent in 1996-97. **In contrast, expenditure on EGMs increased from 28 per cent in 1986-87, to nearly half of all gambling expenditure in 1996-97.** In addition, expenditure on casino gaming increased significantly from 1994-95, while expenditure on lotteries and minor gaming remained at a fairly constant level in the 1990s. This is highlighted in Chart 7.

Chart 6: Expenditure on gaming and racing

Source: Tasmanian Gaming Commission, 1997

Chart 7: Expenditure on gambling, by type

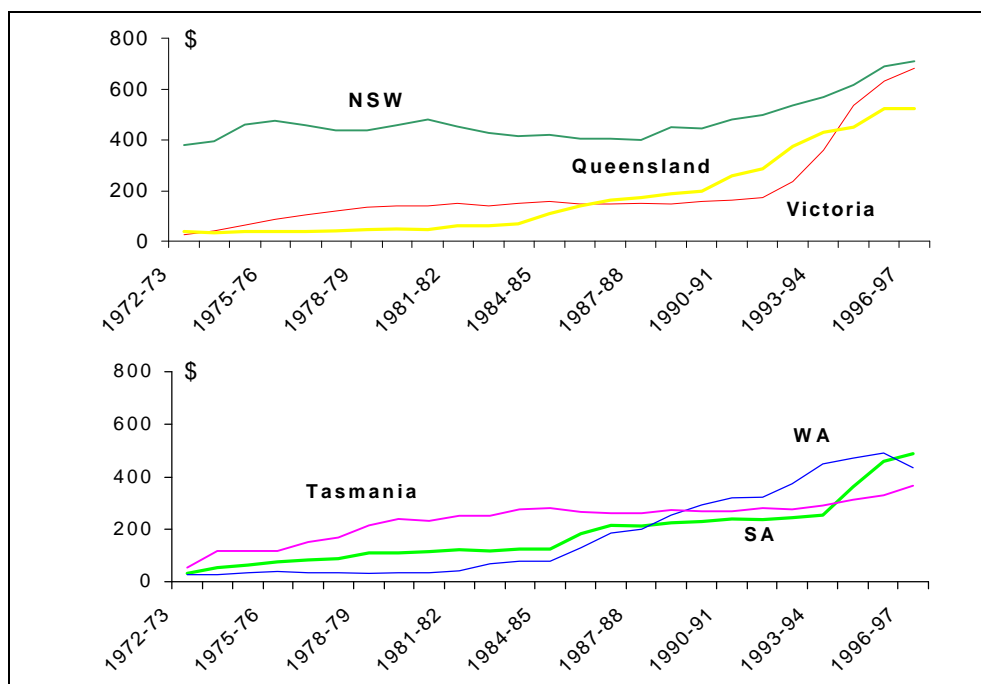
Source: Tasmanian Gaming Commission, 1997

3.3.3 Changes by state

In all states, the growth in gambling expenditure is due to the steady increase in expenditure on gaming, resulting from a loosening of the regulations controlling entry and expansion of EGMs and casinos.

This has more than offset the static growth in racing expenditure in each state, as Chart 8 and Chart 10 illustrates.

Chart 8: Real per capita gaming expenditure by state



Source: Tasmanian Gaming Commission, 1997

Victoria experienced the largest increase in gaming expenditure during the 1990s, due to the introduction of EGM licences and the opening of the casino. Table 7 shows the total number of EGMs in Victoria increased from 2,696 in clubs and hotels by the end of August 1992 to nearly 27,000 by June 1998. The number of venues with EGMs also increased over that period. Consequently, there have been increasingly more opportunities for people to satisfy their gambling preferences.

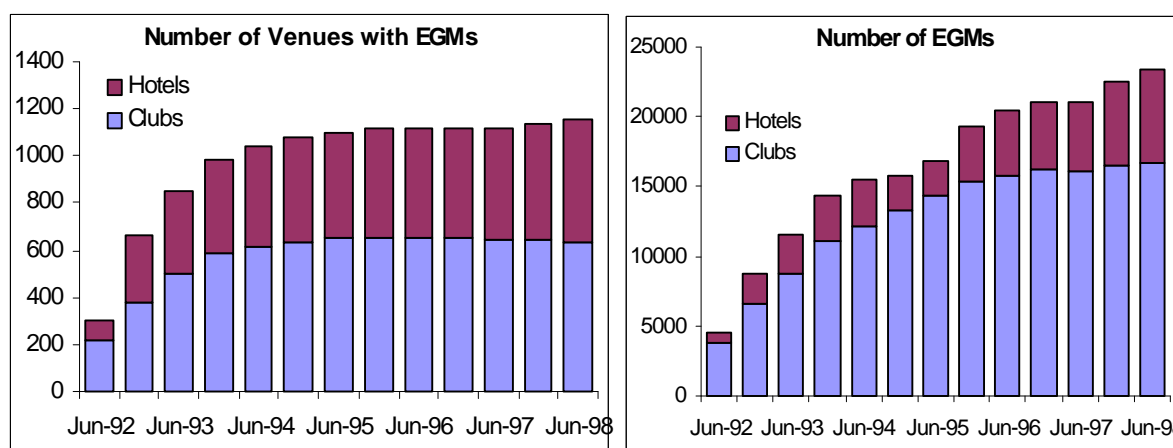
Table 7: Number of EGMs in Victoria

As at:	Number of EGMs			Total number of venues	Max. number of EGMs allowed in the casino
	Clubs	Hotels	Total		
August 1992	n.a	n.a	2,696	41	0
June 1993	n.a	n.a	12,970	238	0
June 1994	n.a	n.a	14,713	344	1,300
June 1995	9,506	1,0371	19,877	465	1,300
June 1996	1,1162	1,2253	23,415	519	1,300
June 1997	1,2329	1,3633	25,962	554	2,500
June 1998	1,3230	1,3755	26,965	561	2,500

Source: Victorian Casino and Gaming Authority

While Queensland has had EGMs for a number of years, the number in clubs and hotels increased notably in 1992 and 1993, in line with an increase in the number of venues with new EGM licences, as Chart 9 shows. Currently, Queensland has over 23,000 EGMs in clubs and hotels, and about 3,100 in the four casinos. Compared to Victoria, Queensland has nearly as many machines, but over twice as many venues.

Chart 9: The number of EGMs and venues with EGMs in Queensland



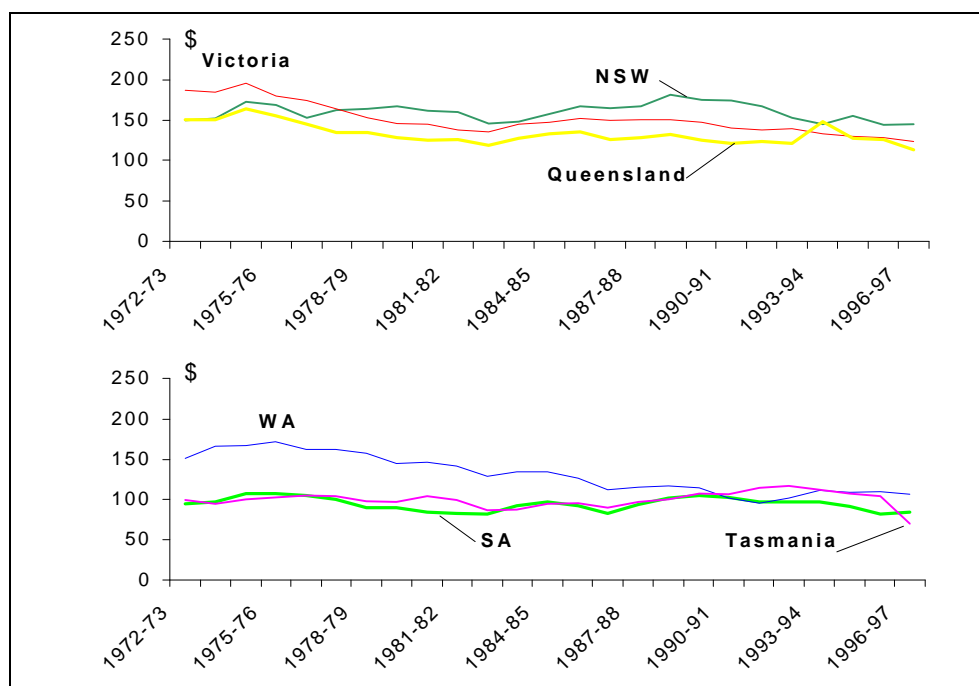
Source: Queensland Office of Gaming Regulation

In contrast to the strong expansion in gaming, per capita expenditure on racing has been fairly steady for a number of years in most states, and in some states has experienced negative growth in recent (Chart 10). Victorians spend about \$50 less per capita on racing now than in the 1970s, while the amount spent in NSW, South Australia and Queensland has remained fairly steady. Expenditure on racing per capita in Western

Australia fell steadily through the late 1980s and early 1990s, but it has stayed fairly constant in the 1990s, at around \$100 per person per year.

Attachment 2 outlines the major changes in the gambling industry in each state over the ten years to 1996-97.

Chart 10: Real per capita racing expenditure by state



Source: Tasmanian Gaming Commission, 1997

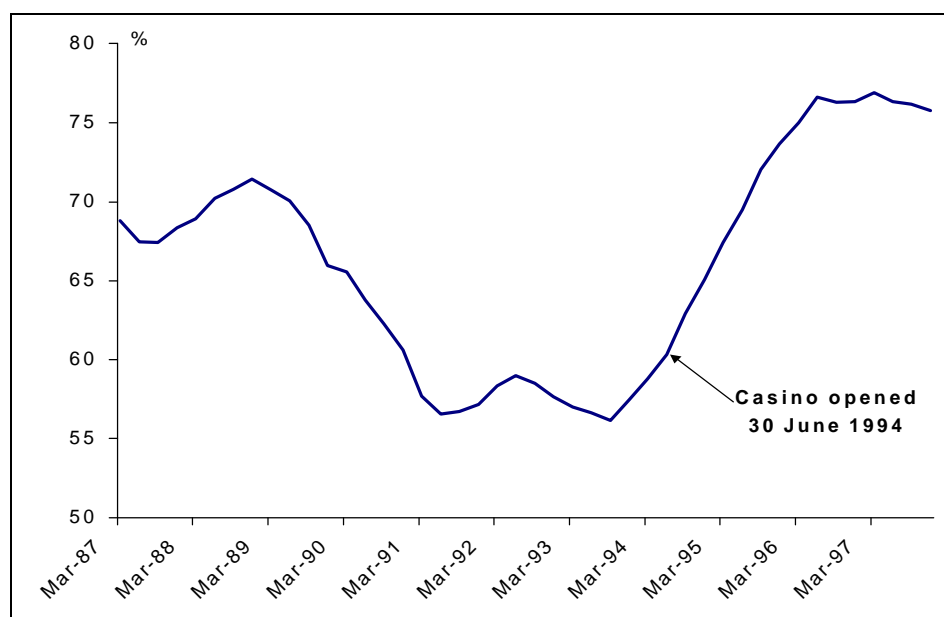
3.4 Gambling's importance to other industries

The introduction of new gambling operations due to the relaxation of restrictions on gambling in many states has had positive flow-on effects on a range of industries. This is especially true for tourism. In addition, there have been more general positive effects of the introduction of new gambling industries, such as the boost to employment in Victoria, following the introduction of EGMs and the opening of the casino (mentioned in Section 3.2.4 above).

The ACA estimates that around one million overseas tourists visit Australian casinos each year. There is little doubt that casinos offer the state, city or region in question with a major tourism opportunity. Indeed, many tour operators include the city's casino as a major attraction in their packages and local tourism agencies use the casinos as a major drawcard to the area for both domestic and international visitors.

Chart 11 shows the room occupancy rates for hotels, motels and guesthouses with 5 or more rooms in Melbourne City. That is, the percentage of rooms in these establishments which are occupied. **Since the opening of the casino in 1994, occupancy rates in Melbourne City increased notably and are now at their highest levels since the mid 1980s.**

Chart 11: Room occupancy rates — Melbourne City



Source: Australian Bureau of Statistics, Cat No 8635.0

In addition, accommodation takings increased by 26 per cent during 1994-95 — the first year of operation of the casino.

Similarly, following the opening of Jupiters Limited casino in late 1985, occupancy rates on the Gold Coast increased from about 55 per cent in 1985 to over 70 per cent by 1988. During this period, the number of new establishments on the Gold Coast increased as well, indicating that the increase in the number of tourists more than offset the growth in the number of establishments.

During 1986, accommodation takings on the Gold Coast increased by 62 per cent. A similar situation occurred in Townsville: takings from accommodations in Townsville increased by 23 per cent in 1987, following a strong rise of 22 per cent the year earlier. The opening of the casino in late 1986 would have influenced both of these figures.

The growth in gambling operations have had positive effects on other industries related to gambling, such as suppliers to the venues, particularly food wholesalers, and manufacturers of gaming products.

The introduction of EGMs in Victoria has had a significant impact on the Victorian economy. The introduction of EGMs in clubs and hotels by both TABCORP and Tattersall's has resulted in a number of significant investment projects. Some of them are listed in Table 8. Generally, the introduction of EGMs has led to:

- an increase in the number of direct employees of the venue, especially for young people and in regional areas;
- a temporary increase in employment relating to the building and renovation of the venues; and
- positive impacts on suppliers of goods to the gaming venues, such as food and services, advertising agencies and printers.

However, the introduction of new gambling operations has had some negative effects on other industries. Indeed, the introduction of casinos and EGMs in most states has seen expenditure on racing gambling decline or remain stagnant over time, as shown in Chart 8 and Chart 10.

In Victoria, some retailers have suggested that consumers are diverting their disposable income away from retailing and towards the new forms of gambling. However, research into household expenditure patterns over the 1990s by the NIAEIR shows that a reduction in household savings, occurred at the same time as an increase in retail, services and gambling expenditure over the period.³⁰ (see Table 9)³¹. Interestingly, expenditure on other entertainment products increased over this period also, a point which will be discussed further in Chapter 4.

Table 8: Case Study — investment in TABCORP and Tattersall's gaming venues

TABCORP venues:	Type of venue	# of EGMs	Renovation cost	Pre gaming venue staff	Current staff
Lunico Bar & Tavern, Clayton	Hotel	35	\$1 million	7	30
Zagame's at Caulfield, Caulfield East	Hotel	100	\$4.5 million	15	50
Club Kilsyth, North Bayswater	Club	100	\$4 million	New venue	50
Tattersall's venues:					
Doncaster Hotel	Hotel	88	\$3.5 million	32	46
Royal Hotel, Ferntree Gully	Hotel	90	\$2.5 million	25	70
Wantirna Club	Club	80	\$4.5 million	New venue	65
Clayton RSL	Club	80	\$1.8 million	32	46

Source: TABCORP and Tattersall's internal marketing research

³⁰ National Institute of Applied Economic and Industry Research, 1997, *The Impact of the Expansion in Gaming on the Victorian Retail Sector*, Report for the VCGA, March.

³¹ Household savings, however, increased between 1994-95 and 1995-96, this being reflected in a reduction in expenditure on non-gambling services.

Table 9 shows the proportion of household income that was spent on gambling in Australia was 3 per cent in 1995-96, while households spent nearly 40 per cent and 55 per cent of their incomes on retail items and services (excluding gambling) respectively. In addition, **spending on gambling over 1989-90 to 1995-96 increased, as did spending on retail items and services, however, at a slower rate. The source of the rise in total spending to be a decline in savings of households.**

Table 9: Percentage share of household outlays to household income

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Retail	38	37.8	38.2	38.4	38.8	39.7	39.7
Services (excl. gambling)	53.4	54.6	55.1	55.8	55.7	55.8	54.8
Gambling	1.9	2.1	2.1	2.2	2.5	2.9	3.0
Savings	6.7	5.6	4.6	3.6	2.9	1.6	2.5

Source: National Institute of Applied Economic and Industry Research, 1997

This effect is more pronounced in Victoria where expenditure on gambling increased from 1.4 per cent of household income in 1989-90 to 3.3 per cent in 1995-96. Expenditure on goods and services has also risen from a share of 88.1 per cent in 1989-90 to 93.2 per cent in 1995-96. Over the same period savings as a percentage of household income has declined from 10.5 per cent to 3.5 per cent (Table 10).

The NIAEIR report cites a number of other factors that may have contributed to the industry's perception of low growth of retail sales, such as an expansion in floor space and increased competition in the retail sector.

Table 10: Percentage share of household outlays to household income — Victoria

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Retail	35.9	34.9	36.0	35.9	37.0	38.8	38.2
Services (excl. gambling)	52.2	53.0	54.8	55.8	56.6	56.5	55.0
Gambling	1.4	1.3	1.3	1.6	2.1	2.9	3.3
Savings	10.5	10.8	7.9	6.7	4.2	1.8	3.5

Source: National Institute of Applied Economic and Industry Research, 199.

A more general point can be made about the expansion of gambling and the impact on other activities. **It should be expected that if consumers have not been allowed to express their preferences for certain activities (in this case gambling) due to regulation and then the regulations are relaxed or removed, consumer spending will shift to**

the previously constrained activity. The shift in spending towards gambling can thus be regarded as a 'correction'.

Changes of this order have been common in the Australian economy. There have been some notable periods of structural change in Australia's economic history, which have seen consumer preferences shift elsewhere, drastically changing pattern of demand and economic activity. Some examples that spring to mind are:

- The replacement of horses and carriages by motor vehicles;
- The market dominance of margarine over butter;
- CDs versus vinyl records;
- Colour television versus black and white television;
- The rapid acceptance by Australian consumers of mobile telephones, video recorders (VHS versus Beta) and Internet services.

There is however, a view held by some of those who oppose gambling that a shift in activity to gambling services is somehow 'bad' because a dollar worth of gambling is of less worth than a dollar of something else (ice creams, going to the movies, a pair of shoes and so on). **This argument downplays the role of consumer choice** in determining what is produced and consumed.

More detailed analysis of the economy-wide impact of the gambling industry on the Australian economy is presented in Attachment 1. That analysis has been undertaken with the use of an economy-wide general equilibrium model that contains inter-linkages between 113 industries. The highlights of this analysis are outlined in Chapter 5 (Section 5.4). The modelling suggests, for example, that for every percentage decrease in gambling output brought about by a gambling tax increase, national GDP could drop by as much as \$300 million in the long run.

4. Consumption of Gambling

In 1996-97, total expenditure on gambling was \$10 billion which represents 3 per cent of household disposable incomes. In that year adults spent on average \$700 on gambling.. Expenditure on gambling has increased from 2.1 per cent of household incomes in 1990-91 and 1.7 per cent in 1980-81, which is in line with the increase in gaming opportunities available to consumers. But this rise has coincided with an increase in expenditure on entertainment and recreation goods and services, which includes gambling.

The profile of consumers who participate in gambling activities differs according to the type of game played. The differences include the sex and income level of the consumer.

The pattern of gambling consumption has changed significantly over the past decade. While the share of expenditure on casino gaming and EGMs increased significantly over the past ten years, it has been at the expense of racing and lotteries.

4.1 Participation in gambling

4.1.1 The general consumption profile

Expenditure on gambling, that is, the amount wagered minus the amount won, is the concept used in this Chapter to represent consumer demand for gambling. While total wagers and bets, or ‘turnover’, might also give some indication of consumer demand for gambling, it is not really a proper indicator of cost³² and in any case, accurate figures for it are not available for casino table games or poker machines. As discussed in Box 1 (Chapter 3), the ‘turnover’ figure from the TGC and ABS measured for casinos is not specifically the total amount bet on each game, but the ‘handle’ — the value of money exchanged for gaming chips. It does not represent the amount wagered at a table game and between tables.

³² This point is made by the ABS, 1997, *Issues to be Considered: 13th Series Consumer Price Index*, ABS Cat. No. 6451.0: “A more sustainable view (of the ‘price’ or ‘cost’ of gambling) is that the benefit to be derived from a gamble is a function of the real value of the expected return”.

Likewise, figures are not available for the amount of money 'put through' (wagered at) poker machines.³³

The profile of consumers participating in gambling activities differs according to the type of game played. According to the Australian Institute for Gambling Research (AIGR)³⁴, while the split between the sexes is fairly even for all gambling, women marginally prefer lotteries and EGMs, while men generally prefer to bet on a sporting event. There are also differences according to the level of income of consumers. The ABS Household Expenditure Survey (HES) shows that households in the lower income quintile spend more on lotto type games than higher income households. Households in the higher income quintile spend more on casino gaming and EGMs than households in the lower income quintile.

In general, Australians play lottery-type games more frequently than other forms of gambling. However, on average, people tend to spend more money per annum on EGMs, casino gaming and on racing. There seems to be a small proportion of players who spend very high amounts and this may distort the average figures.

In 1996-97, Australian adults on average spent \$700 on gambling.³⁵ **Total expenditure on gambling was over \$10 billion in 1996-97.** The HES (a survey of household weekly characteristics and spending patterns) reveals that on average lower income households allocate a higher proportion of their weekly earnings to entertainment and recreation products, which includes gambling, than other households. However, households with higher earnings spend much larger amounts, in absolute dollar terms, than lower income households.

Households allocated 3 per cent of disposable incomes in 1996-97 on gambling activities. Expenditure on gambling increased from 2.1 per cent of household income in 1990-91 and 1.7 per cent in 1980-81, which is in line with the increase in gaming opportunities available to consumers.

³³ See for example, ABS, 1997, *Gambling Industries 1994-95*, Cat. No. 8684.0, February.

³⁴ Cited in Melbourne Institute of Applied Economic and Social Research, Deakin Human Services and National Institute of Economic and Industry Research, 1997, *Impact of Gaming Venues on Inner-City Municipalities*; p. 49.

³⁵ The per capita expenditure on gambling figures published by the TGC indicate that in 1996-97 Australian adults on average spent \$736 on gambling. This figure is misleading as it does not take into account expenditure by foreign players. For example, foreign premium (commission or 'junket') players at casinos account for at least 25 per cent of total casino gambling income (consumer expenditure). In 1996-97 casino income was \$1,951.4 million. 25 per cent of that amounts to \$488 million. Subtracting this from total gambling expenditure of \$10,037.4 million gives a figure of \$9,549.4 million for expenditure by Australian adults in Australia, or \$700 per capita. The per capita figure would be even lower if the foreign component of other gambling activities were taken into account.

This increase has coincided with an increase in expenditure on entertainment and recreation goods, which includes gambling. In 1994-95, entertainment and recreation goods accounted for just over 11 per cent of total consumer expenditure. This increased to 11.7 per cent in 1997-98. Over the same period it appears that consumers have allocated less expenditure to most consumer durables. For example, expenditure on clothing as a proportion of total expenditure fell from 4.4 per cent in 1994-95 to 3.9 per cent in 1997-98, while expenditure on food as a proportion of total expenditure remained fairly steady.

Gambling consumption patterns between gambling products changed significantly over the past decade. While expenditure on casino gaming and EGMs increased significantly over the past ten years, that on race gambling and lotteries has fallen in real dollar terms. The share of expenditure on lotteries halved between 1986-87 and 1996-97, and the share of expenditure on racing fell from 34 per cent to 16 per cent. Over the same period, the share of expenditure on EGMs rose from 28 per cent to 49 per cent and from 9 per cent to 19 per cent for casinos. This is mainly due to the increased availability of EGMs and casinos over this time.

Consumer demand for gambling is somewhat different to most other consumer goods and services. One difference is the amount of money spent per hour. An amount, say, \$12 spent at the cinema buys you about 1½ hours of a movie. By contrast, there is no certainty how much time \$12 spent on an EGM or a casino table game will buy you. **In addition, what is spent per hour differs between gambling products.** Lottery tickets could buy you a week of entertainment waiting for the draw, but this is not true of most other forms of gambling. These differences aside, the \$10 billion spent on gambling each year is no less valid than \$10 billion of expenditure on any other consumables.

4.1.2 Figures on who gambles

Most of Australia's gambling service providers have completed internal research on the profile of their customers. The characteristics of the providers are vastly different — ranging from churches and community groups that provide bingo, totalisator agencies and bookmakers that provide wagering services, to casinos that provide gaming machines, table games and a range of other entertainment, accommodation, food services and other retail. As a result, **the profile of customers differs according to the venue or the operator or both.** A few general comments, however, can be made.

As noted, AIGR has found that 73 per cent of Australians bet at least once a year. In addition, it is estimated that about one half of all Australians bet regularly. Generally, the split between the sexes is fairly even for gambling in total, however, it appears that **men and women have**

different preferences for the type of gambling activity they participate in. For example, on average men prefer to bet on a sporting event while women marginally prefer lotteries and EGMs.

Generally, people have a preferred form of gambling. For example, two studies commissioned by the VCGA³⁶ into the characteristics of EGM users in Victoria found that nearly 90 per cent would not use a TAB or go to the races. In addition, many EGM users who frequent a casino do not play table games, but prefer to play only the EGMs.

The latest HES conducted by the ABS gives a breakdown of average weekly expenditure on gambling products by income quintile. This survey data will not quite match that from the TGC due to under-reporting in the HES (see below) and the absence from the HES of most spending by foreigners.

Moreover, as the ABS has acknowledged in a recent review, conceptually, household expenditure on gambling excludes gambling undertaken as a business (that is, professional gambling). No official figures on the number of professional gamblers or their market share appears to be available.

In addition, the ABS notes that the HES gambling data are

“subject to high relative standard errors and also to significant under reporting, making it necessary to rely on other data to set [CPI] weights.”³⁷

With both these caveats in mind, Table 11 presents ABS's HES estimates of the average weekly household expenditure by income quintiles for different forms of gambling. On average, households are shown to spend about \$5.20 per week on gambling. **Of this, it appears that the largest item of expenditure on gambling is on lotto type games.**³⁸ We note that this form of gambling involves lower odds, but relatively large prizes.

Another interesting indication from the data is the type of gambling products different income groups spend their money on. The weekly expenditure of higher income households tends to be greater on casino gaming, while lower income households spend more on lotto type games. In addition, it is evident that the **higher income households spend more**

³⁶ Melbourne Institute of Applied Economic and Social Research, Deakin Human Services and National Institute of Economic and Industry Research, 1997, *Impact of Gaming Venues on Inner-City Municipalities*, Report for the VCGA, December, and Deakin Human Services Australia and the Melbourne Institute of Applied Economic and Social Research, 1997, *Social and Economic Effects of Electronic Gaming Machines on Non-Metropolitan Communities*, Report for the VCGA, December.

³⁷ ABS, 1997, *Issues to be Considered: 13th Series Consumer Price Index Review*, Cat 6451.0, p. 32.

³⁸ As shown in the next section, the result that consumers spend the largest amount of consumption on gambling products on lotteries is at odds with (more reliable) data from the TGC. Again these results from the HES are subject to a number of caveats, as described above, notably the tendency for under-reporting and the absence of spending by foreigners in the HES.

on poker machines than the lower income households, both in absolute terms and as a proportion of their total weekly expenditure on gambling. This is explored further in Section 4.1.3.

Table 11: Average weekly expenditure on gambling by household income quintiles, 1993-94

	Lowest 20%	2 nd quintile	3 rd quintile	4 th quintile	Highest 20%
Lottery tickets	\$0.26	\$0.26	\$0.27	\$0.35	\$0.48
Lotto type games	\$2.48	\$2.80	\$3.44	\$3.75	\$3.16
TAB, bookmakers etc	\$0.40	-\$0.02	\$0.73	\$1.37	-\$0.74
Poker and ticket machines	\$0.35	\$0.86	\$0.77	\$1.35	\$1.40
Casino gaming and other	\$0.66	\$1.13	\$0.19	-\$1.84	\$2.01
Total gambling	\$4.16	\$5.02	\$5.41	\$4.97	\$6.30

Note: The negative figures in the table imply net wins by households and may reflect defective reporting and/or sample-size.

Source: ABS, 1996, Cat. No. 6535.0

4.1.3 Figures on what games consumers play

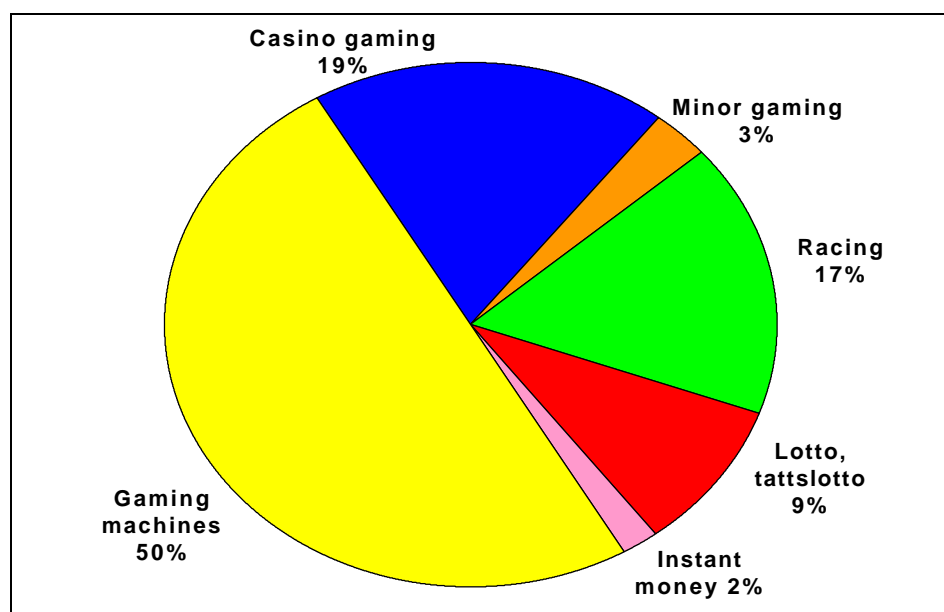
A recent Roy Morgan Survey found that 60 per cent of a random sample of adults interviewed in Australia (by telephone) bought a lottery ticket in the past three months, while the next most popular bet was on gaming machines. In addition, the results suggest that some of those surveyed had played more than one game. The results are outlined in Table 12.

Table 12: Types of gambling activities people play

	% of respondents
Bought a lottery ticket	59.6
Played a poker machine	40.6
Bought a scratch ticket	35.2
Placed a bet	28.7
Casino table games	12.4
Played draw poker machine	9.9

Source: Australian Gaming Magazine, 1997, Vol 2 No.4, December

A comparison of these figures with those from the TGC on expenditure shows that **while a greater number of people play lotteries, more is spent per annum on EGMs, casino gaming and racing** (Chart 12). Clearly average outlays are relatively higher on the latter three.

Chart 12: Proportion of expenditure on gambling, by type, 1996-97

Source: Tasmanian Gaming Commission, 1997

Table 13 shows average weekly household expenditure on gambling products, as a percentage of total gambling expenditure, from the HES. For most households on average, the majority of the expenditure was on lotto type games and lottery tickets. The table also indicates that: **lower income households spend proportionately more on lotto type games per week than households in the highest income quintile; and that, higher income households allocate much more of their weekly gambling expenditure on EGMs and casino gaming than households in the lower income quartiles.** The reliability of the figures remains open to question.

Table 13: Average weekly household gambling expenditure as a per cent of total gambling expenditure, 1993-94

	Lowest 20%	2 nd quintile	3 rd quintile	4 th quintile	Highest 20%
Lottery tickets	6%	5%	5%	7%	8%
Lotto type games	60%	56%	64%	76%	50%
TAB, bookmakers etc	10%	0%	14%	28%	-12%
Poker and ticket machines	8%	17%	14%	27%	22%
Casino gaming and other	16%	23%	4%	-37%	32%

Note: The negative figures in the table imply net wins by households and may reflect defective reporting and/or sample-size.

Source: ABS, 1996, Cat. No. 6535.0

4.1.4 How frequently consumers play

The Roy Morgan survey reports that 25 per cent of people who visit a casino are regular casino players. The survey concludes that many people who have played in a casino have not become regular players. In fact, only 11 per cent of those who played a casino game in a period of three months had played more than 14 times. The majority of people played between 1 and 13 times in those three months.

Consequently, there appears to be only a small proportion of casino gamblers that play a significant amount of times.

4.1.5 How much is gambled

Total consumer expenditure on gambling was \$10.2 billion in 1996-97: \$1.8 billion was spent on racing and \$8.4 billion was spent on gaming.

The TGC reports that on average, adults spent \$736 on gambling in 1996-97, with \$123 spent per capita on racing and \$614 on gaming.

Gambling expenditure accounted for 3 per cent of household incomes in 1996-97: ½ per cent of this was spent on racing and 2½ per cent on gaming. However, **the median adult expenditure on gambling is considerably less than the mean due to a small proportion of high stakes gamblers who increase the mean.** The majority of gamblers would spend much less than \$736 a year on gambling. This could be more prominent in the statistics for casino gaming and racing as high stakes gamblers bet primarily on these forms of gambling.

The average per capita figure of \$736 is also misleading as it includes expenditure by foreigners. The figure is likely to be significantly lower for casino gambling alone, as casino gaming income from foreign premium players' account for at least 25 per cent of casino gambling income.³⁹ Table 14 shows the break down of expenditure by type of gamble.

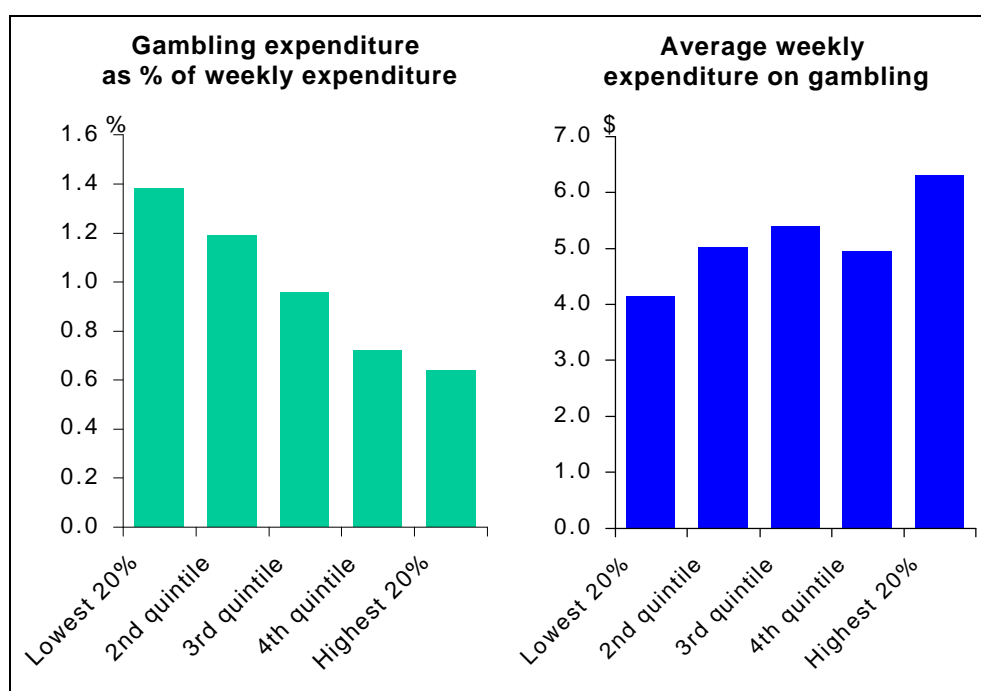
Chart 13 shows the average weekly household expenditure on gambling by income quintile, collected from the HES. **Households in the lowest income quintile allocated the highest proportion of their total weekly expenditure to gambling in 1993-94, even though in dollar terms this group spent the least. Conversely, the highest income earners spent the smallest proportion of their total weekly expenditure on gambling, but the most in dollar terms.** This is due to the fact that the lower income group has less discretionary income to spend.

³⁹ See footnote 35.

Table 14: Consumer expenditure, per capita and as a proportion of incomes on gambling, 1996-97

	Expenditure (\$m)	Per capita expenditure (\$)	Per cent of household disposable incomes
Racing	1,674	122.80	0.50
Lotto, Tattsлото, pools etc	942	69.01	0.28
Instant lottery	213	15.63	0.06
Bingo & minor gaming	173	12.72	0.05
Gaming machines	4,952	363.30	1.49
Casino gaming	1,956	143.51	0.59
Keno	126	9.25	0.04
Total Gaming	8,363	613.52	2.52
Total Gambling	10,037	736.32	3.03

Source: Tasmanian Gaming Commission, 1997

Chart 13: Average weekly household expenditure on gambling, by household income quintiles, 1993-94

Source: ABS, 1995, Cat No 6530.0

While lower income households spend more of their income on gambling than higher income households, Table 13 in Section 4.1.3 shows that lower income households spend a much smaller amount of their weekly gambling expenditures on EGMs and casino gaming than the higher income households.

In the HES, gambling expenditure is a sub-category of 'recreation'. Table 15 compares expenditure on gambling to expenditure on other sub-categories of recreation. The comparison shows that consumers spend most of their recreation dollar on items in the entertainment and recreational services category on average (which includes cinema and other admission charges, and health and sporting club charges) and televisions and other audio-visual equipment. **Generally, the proportion of the average household's recreation spending devoted to gambling is fairly low**, and in fact, has the smallest share of ABS's six categories of recreation-spending in households in the three highest income quintiles.

The figures differ slightly between income groups, possibly reflecting the difference in the cost of these activities. Lower income households spend a larger proportion of their weekly income on gambling and books, newspapers and magazines than the higher income groups who spend a greater amount on more expensive items such as televisions, other audio-visual equipment and entertainment and recreational services.

Table 15: Average weekly expenditure on recreational goods/services categories as a proportion of total expenditure on recreation, by household income quintiles, 1993-94

	Lowest 20%	2nd quintile	3rd quintile	4th quintile	Highest 20%
Television & other AV equip	19%	22%	25%	26%	24%
Books, newspapers, magazines, etc	16%	15%	13%	13%	13%
Other recreational equip.	15%	13%	18%	15%	19%
Gambling	16%	14%	10%	8%	6%
Entertainment/recreational services	23%	25%	23%	29%	29%
Animal charges/expenses	11%	11%	11%	10%	9%

Source: ABS, 1996, Cat No 6535.0

Whereas Table 15 shows that lower income households allocate more of their weekly recreation consumption to gambling than higher income households, Table 16 shows that expenditure on recreation (which includes gambling) as a proportion of total weekly expenditure is smaller in the lowest than in the highest income quintile households. The lowest income group spent 13 per cent of their weekly expenditure on recreation (including gambling), 24 per cent on food and beverages, 13 per cent on transport and 16 per cent on current housing costs. The highest household income quintile spent 15 per cent on recreation, 21 per cent on food and beverages, 16 per cent on transport and 12 per cent on housing costs. This is highlighted in Table 16.

Table 16: Average weekly expenditure as a proportion of total expenditure, by household quintiles, 1993-94

	lowest 20%	2nd quintile	3rd quintile	4th quintile	Highest 20%
Current housing costs	16%	15%	15%	14%	12%
Fuel and power	4%	4%	3%	3%	2%
Food, alcohol & tobacco	24%	26%	24%	23%	21%
Clothing & footwear	5%	4%	5%	6%	7%
Household durables	6%	7%	6%	7%	7%
Household service & operation	7%	6%	5%	5%	5%
Medical care & health expenses	5%	4%	4%	5%	5%
Transport	13%	15%	16%	15%	16%
Recreation	13%	12%	12%	13%	15%
Personal care	2%	2%	2%	2%	2%
Miscellaneous goods & services	6%	5%	7%	8%	8%

Source: ABS, 1996, Cat No 6535.0

Given that the reference period for the data presented from the HES is 1993-94, it would not include the number of important changes in the gambling industry which have occurred since the survey was taken. For example, these results would not include the opening of the casinos in NSW and Victoria, nor the relaxation of restrictions on EGM licences in many states that have occurred since then. Consequently, there may have been some significant changes in patterns of gambling demand. Given this constraint, we have sought to update these figures with more recent information about player profiles from internal research conducted by some of the gambling service providers. This is presented in Box 3.

Box 3: Player profiles

Most of the gambling service providers conduct surveys of their customers on a regular basis. While these are based on a small percentage of the population, they nonetheless give a more up-to-date profile of the gambling consumer than the ABS data presented above does. Examples of such information include:

- A survey of 3,000 Melbournians conducted by Tattersall's estimated that over January to September 1998, 9½ per cent of the greater Melbourne population aged 18 and over played the pokies in the week preceding the survey.
- The average revenue per TABCORP EGMs in 1997 was \$160 per day.
- The average spend per EGM per hour in a TABCORP venue was \$29 between January and November 1998.
- A Tattersall's survey of EGM users taken over the 1997-98 financial year indicated that the average amount spent per person per week on a poker machine in Melbourne was \$37.

The average spend figures shown above are much higher than those presented from the HES. While the amount people spend on EGMs has more than likely increased since 1993-94 when the HES data was collected, these figures are also a lot higher as the HES includes people who do not gamble.

Source: TABCORP and Tattersall's internal marketing research

4.2 Structural changes in demand

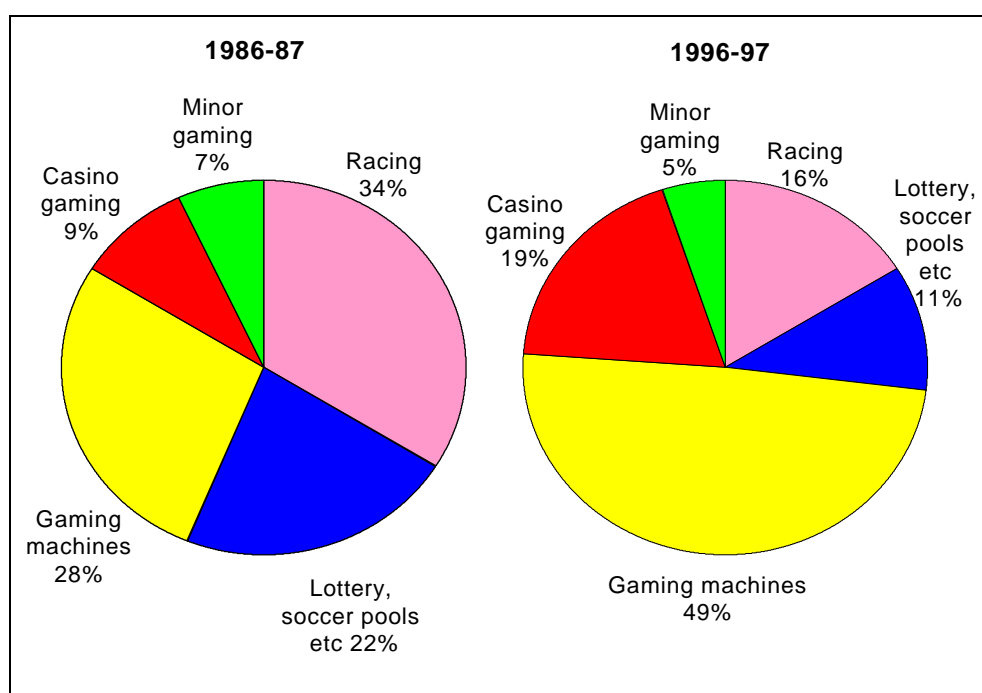
From the expenditure figures presented below, it is evident that consumer demand for gambling products has shifted significantly over the past decade, from lotteries and racing towards EGMs and casino gaming.

The effect on other items of expenditure is hard to determine. Nonetheless, expenditure on all forms of entertainment goods and services has increased, not just on gambling. In any case, the effect on other items of expenditure of the increase in gambling expenditure is likely to have been minimal given that even now expenditure on gambling accounts for only 3 per cent of household disposable incomes.

4.2.1 Changes in participation

Expenditure on EGMs grew significantly from 28 per cent of total gambling expenditure in 1986-87 to 49 per cent in 1996-97. Expenditure on casino gaming grew from 9 per cent of total gambling expenditure in 1986-87 to 19 per cent in 1996-97. This is illustrated in Chart 14.

Chart 14: Share of gambling expenditure, 1986-87 compared to 1996-97⁴⁰



Source: Tasmanian Gaming Commission, 1997

⁴⁰ 'Gaming machines' are those in hotels and clubs only. EGMs in the casino are in the 'Casino' category. 'Minor gaming' includes Keno and bingo, and 'Lottery, soccer pools, etc' includes expenditure on general lottery, Tattslotto, lotto, instant money and pools operations.

This increase in expenditure on EGMs and casino gaming was, in part, at the expense of expenditure on other forms of gambling. The most significant effects were on lotteries, which fell from 22 per cent of gambling expenditure in 1986-87 to 11 per cent in 1996-97, and racing which fell from 34 per cent in 1986-87 to 16 per cent in 1996-97. One of the reasons behind this shift in expenditure patterns is the increase in the number of EGMs and casinos over this period. While the liberalisation of casino and EGM legislation did release much of the constrained demand, there are other factors at play too. Two examples are:

- More vigorous changes in marketing of gambling products; and
- increasing product sophistication.

4.2.2 Gambling's impact on consumption

The ABS measure of consumption expenditure⁴¹ shows that in 1997-98, consumers allocated 11.7 per cent of total expenditure to entertainment and recreation products — the category that includes expenditure on gambling. This increased from 11.4 per cent in 1994-95. It appears that the two sub-categories of entertainment and recreation that have driven most of the growth in expenditure is 'services' (such as admission to cinema, theatre, opera, sporting events, and sporting/health club fees) and 'gambling'.

Table 17 compares proportionate consumer expenditure on selected goods and services in two recent years. Between 1994-95 and 1997-98 consumers increased spending on entertainment and recreation products and communications, and reduced spending on household durables, clothing and footwear and motor vehicles. The increase in the share of expenditures on entertainment and recreation, however, was small. This implies that **while gambling expenditure did increase, it did not have a major impact on other expenditure items. The majority impact was a switch in demand from traditional forms of gambling to EGMs and casino gaming.**

Chart 15 gives a breakdown of the sub-categories of consumption expenditure on entertainment and recreation products. **It is apparent that consumers spent the majority of their entertainment and recreation dollar in 1997-98 on recreational and cultural services**, such as gambling, admission prices to the cinema, concerts, theatre or sporting events. It also includes subscriptions, for example, to the Australian Ballet or theatre companies, and sporting and health club memberships.

⁴¹ National Accounts estimates. This differs to the HES as it is an estimate of total expenditure, not an average amount spent by Australian households. However, the definition of expenditure remains the same — the amount wagered minus the amount won.

The next largest item of expenditure was on durables, such as television sets and stereos.

Chart 15 also shows that **expenditure on all the sub-categories of recreation and culture increased between 1994-95 and 1997-98.**

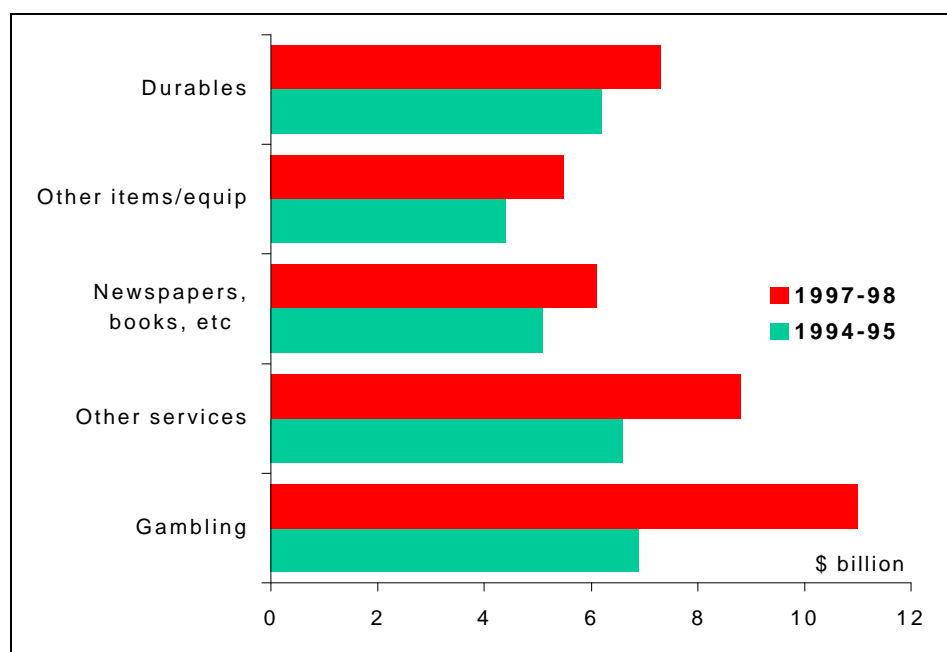
However, the largest percentage increases in net expenditure were for gambling and other services.

Table 17: Consumption expenditure — selected items as a proportion of total net expenditure

	1994-95	1995-96	1996-97	1997-98
Food	12.0%	12.3%	12.2%	12.1%
Motor vehicles	10.4%	10.1%	10.0%	10.0%
Entertainment and recreation	11.4%	11.6%	11.6%	11.7%
Household durables	6.1%	6.0%	5.8%	5.7%
Clothing & footwear	4.4%	4.3%	4.0%	3.9%
Alcoholic drinks	1.3%	1.3%	1.2%	1.2%
Communications	1.9%	2.1%	2.1%	2.2%

Source: ABS, 1998, Cat. No. 5206.0

Chart 15: Consumption expenditure — entertainment and recreation goods and services

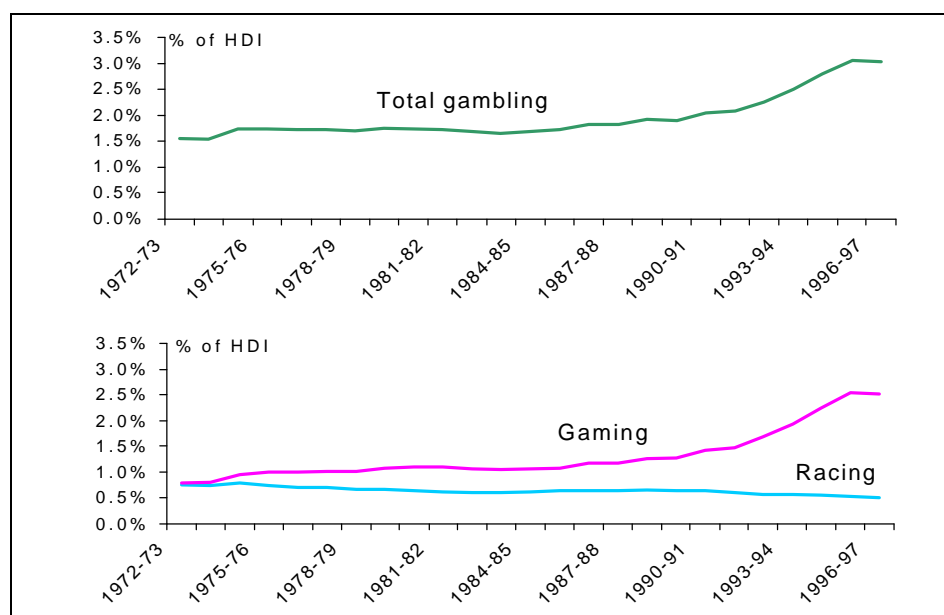


Source: ABS, 1998, Cat. No. 5206.0

4.2.3 The importance of gambling as a proportion of disposable income

On average, Australian households spent 3 per cent of total disposable incomes⁴² on gambling in 1996-97. As Chart 16 below illustrates, this figure has increased notably over recent years. As noted earlier, the majority of the increase has been in gaming-related expenditure, apparently in part at the expense of racing.

Chart 16: Gambling expenditure as a proportion of disposable income



Source: Tasmanian Gaming Commission, 1997

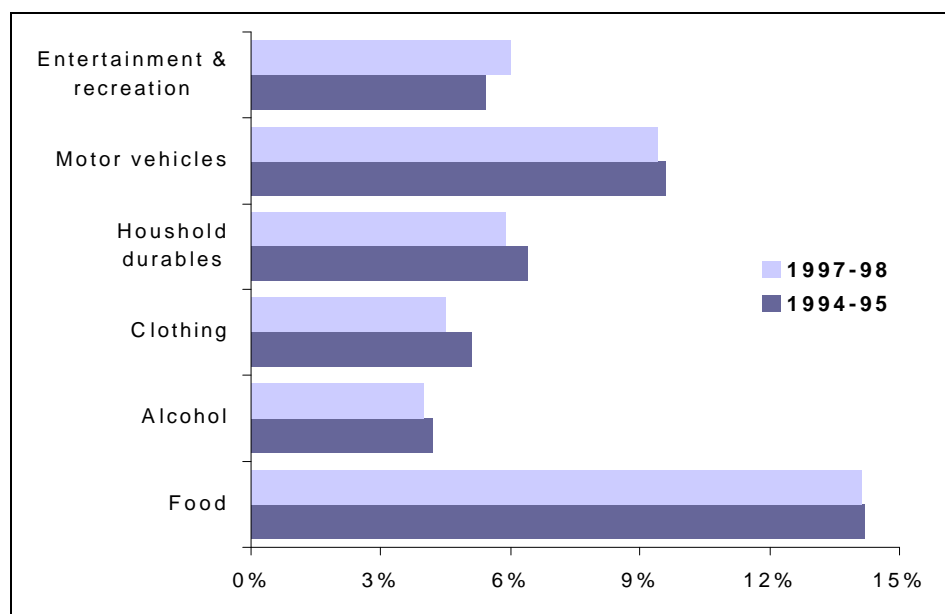
While gambling accounts for 3 per cent of household disposable income, Chart 17 shows that this is a much lower proportion of household income than some other items of expenditure. For example, expenditure on alcohol accounts for nearly 4 per cent of disposable incomes, clothing accounts for 4½ per cent and food, being the largest item of consumption expenditure, at over 14 per cent.

Consumption expenditure on entertainment and recreation was just over 6 per cent of disposable incomes in 1997-98. This increased from 5.4 per cent in 1994-95. It is likely that some of this increase is due to the rise in expenditure on gambling, as shown in Chart 16. Food and recreation and culture are the only categories of consumption expenditure shown in

⁴² Household disposable income is an estimate of the total amount of net income households have to spend, whether in cash or kind, and after the deduction of direct taxes. This is from the National Accounts, not the household sample-based HES which, among other things, would exclude spending by foreign players. The amount Australians spend as a proportion of household disposable incomes is likely to be less than the 3 per cent reported here.

Chart 17 that have increased as a proportion of household disposable incomes between 1994-95 and 1997-98.

Chart 17: Selected items of consumer expenditure as a proportion of disposable incomes



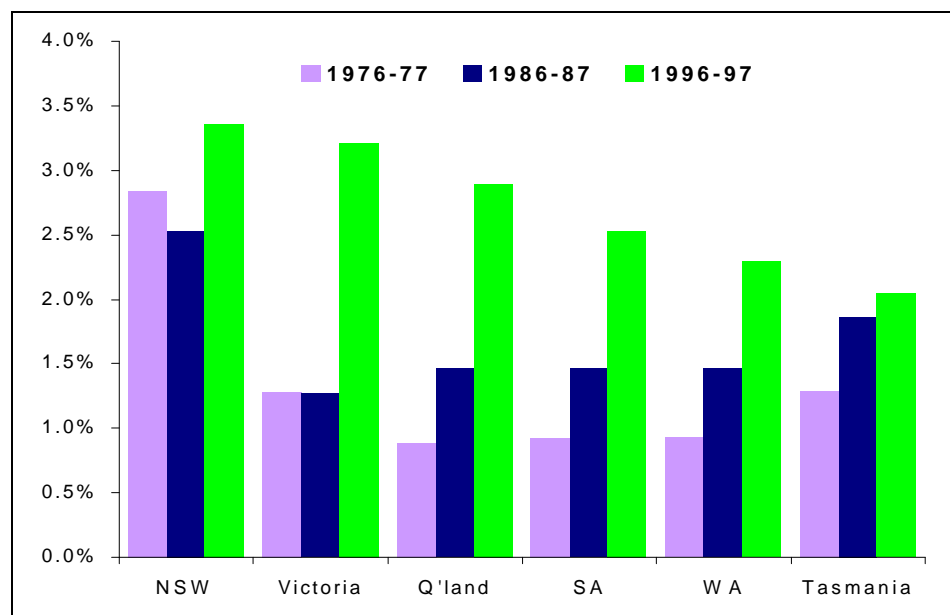
Source: ABS, 1998, Cat. No. 5206.0

Gambling and disposable incomes, by state

Chart 18 shows that the amount of disposable income spent in NSW on gambling, at 3.4 per cent in 1996-97, is the highest of all of the states. The share of income spent on gambling in Victoria and Queensland increased dramatically between 1986-87 and 1996-97: from 1.3 per cent to 3.2 per cent in Victoria and from 1.5 per cent to 2.9 per cent in Queensland. The Tasmanian market experienced only a slight rise in the proportion of income spent on gambling over that period.

As discussed previously, the majority of the income spent on gambling is on gaming, primarily on EGMs. The large increase in spending in Victorian and Queensland over the ten years to 1996-97 was in gaming, however, only a small proportion of expenditure was redirected from racing to gaming.⁴³ This implies that consumer demand for gambling has increased at the expense of other items of expenditure. However, this effect cannot be very significant as gambling only accounts for about 3 per cent of household disposable incomes.

⁴³ This is evident in all states, but it is not as prominent as in Victoria and Queensland.

Chart 18: Gambling expenditure as a proportion of household disposable incomes, by state

Source: Tasmanian Gaming Commission 1997

While as indicated in the above discussion, consumers spent \$10 billion on gambling in 1996-97 and the pattern of gambling consumption has changed significantly over the past decade, it would be useful to know what the actual benefits of gambling derived by the consumer, and the community as a whole, are. A discussion of the issues involved in estimating the benefits of gambling and the results of a model used for this Submission to estimate the impact on the whole economy of lowering regulation on the industry, is contained below, in Chapter 5.

5. Measuring the Benefits from Gambling

To gauge the benefits of gambling to the community, the benefits to both consumers and the providers of gambling services need to be considered, plus the benefits acquired by the state in the form of taxation for general use. An economic concept which can be used to estimate the benefits of a good or service to consumers is consumer surplus. Consumer surplus measures the difference between the amount a consumer is prepared to pay for a good or service, rather than go without it, and the amount actually paid. The economic benefit to providers of gambling services is producer surplus, a similar concept, and the sum of this and gambling taxes is an approximate measure of 'value added', the industry's contribution to GDP (a concept introduced in Chapter 3).

In measuring the benefits of gambling, a number of issues need to be resolved. In particular, estimating the actual amount of consumer surplus and value added of an industry is difficult. While the problems in estimating value added were discussed in Chapter 3, the issues relating to consumer surplus are discussed in this Chapter. In addition, an estimate of the consumer surplus for gambling is presented.

Currently the industry generates annually consumer surplus of at least \$5 billion and GDP of about \$5.5 billion. Together these represent benefits of the industry to the Australian economy.

A discussion of the results of the general equilibrium simulations conducted for this Submission is presented at the end of the Chapter. They show how consumers, the gambling industry and the Australian economy as a whole could all gain from less regulation of the gambling industry.

5.1 The conceptual elements

As we have seen in Chapters 3 and 4, statistics confirming the consumer interest in gambling are plentiful. These include total wagers and bets statistics collected by the TGC and a number of different expenditure figures which attest to the keen interest of consumers in new gambling products when they become available. In addition, other statistics have been presented on the gambling industry that relate to wider economic benefits resulting from gambling activities, such as industry profits and employment. While these statistics present an overview of both the current situation and structural changes that have occurred in the industry,

determining the benefits of gambling to the community as a whole is a more complex matter.

A rigorous analysis of the worth of a particular activity to a country, state or region needs to take into account all the benefits and costs. This is important, but also difficult when estimating the impact at regional level of multifaceted industry regulations such as apply to the gambling industry. This issue is discussed further in Box 4 with reference to recent calls by some municipal councils for 'microstudies'.

Conceptually, the net economic benefits to the economy in general are the sum of the net economic benefit to consumers, which can be measured using the consumer surplus concept, and the net economic benefits on the production side or producer surplus, for which value added will be an approximation.

Consumer surplus is a concept used in economics to describe the net benefits consumers derive from the use of a good or service. Basically, it measures the difference between the amount a consumer is prepared to pay for a good or service rather than go without it, and the amount actually paid.

Value added is the returns to fixed factors such as land, labour and capital employed in the supplying activity, including any taxes paid. It is the value of output, or sales, of these activities, less the cost of outside purchases of goods and services used in the production process, such as raw materials or electricity and payments to the government. The sum of the value added for all individual activities across the economy is GDP.

A discussion of the value added of the gambling industry is presented in Section 3.2.2. There, it is concluded that the gambling industry's value added was more than \$5 billion in 1996-97, accounting for just over 1 per cent of national GDP.⁴⁴

⁴⁴ Care needs to be taken when interpreting this estimate of value added of 'more than \$5 billion'. See Section 3.2.2 for a more detailed discussion.

Box 4: Measuring the benefits and costs of gambling at municipal level

A number of submissions to the Productivity Commission's Inquiry have called for more research into the effects of gambling at a local government area level. In particular, the submissions from the City of Greater Dandenong and Maribyrnong City Council are concerned about the limited knowledge of the social and economic impacts in their communities and call for 'micro-studies' on the impact of EGM gambling on local areas. A related submission by the Victorian Local Governance Association provided a general context for such proposals. It made reference to the populist 1995 critique of gambling by Robert Goodman (a Professor of Environmental Design and Planning at a minor US university) and lamented what it called irresponsible competition between states for the gambling dollar (sub, p5). All three submissions highlight S60B of the Victorian *Planning and Environment Act* (which following the reform of local councils in 1996 narrowed councils' ability to control the introduction of EGMs by local clubs and hotels) and seek a redirection of gambling taxes to their constituent areas.

In relation to micro-studies, the City of Greater Dandenong said it would like to see the VCGA:

"... develop research models to effectively measure the impact of gaming at the local level to inform decisions which affect the individuals, businesses and communities directly impacted by the gaming industry. ... Local research studies should cover comparative and time series, quantitative and qualitative analysis and measure employment benefits, job creation, revenue redistribution, consumer spending patterns and impact on clubs, hotels, retailers and other local traders" (sub p.6).

Likewise, Maribyrnong City Council believes there is a:

"... need for a range of micro-studies of the impact of EGM gambling on local areas ... to develop a methodology to assess the extent of any relationship between EGM gambling expenditures and other local economic activity, particularly consumption expenditure." (sub p.2).

There may be substance to the Councils' complaints that existing taxation arrangements for gambling are inequitable. We consider taxation rates on gambling are excessive and that apart from being generally burdensome, they are probably regressive. Certainly as we say in Chapter 8 on 'Taxation' and in Chapter 9 on 'Regulation', the current rates are out of all proportion with any ill effects which the industry might be having socially and we make the point that the decision to apply such high rates, is linked to the over-reliance of state government s. on gambling taxes. This is reason enough for the taxation and associated regulations to be overhauled and in this Submission it is argued that, provided due regard is paid to seeing out the contractual agreements that have been entered into with existing suppliers, that task should begin as soon as practicable.

Importantly however, our emphasis is on the need to reduce taxation levels on gambling at large, and not, as the Councils appear to have been arguing, on seeking to redistribute existing taxation revenue back to the Councils themselves for spending on local projects which they would select.

While the micro studies suggested by the Councils might be of passing theoretical interest, we consider the task they are wanting to set for the VGCA is both difficult and unnecessary. Particular sources of difficulty are that:

- gambling, like any other activity, impacts negatively on some sections of an economy and positively on others, and people and businesses are not all affected at the same time;
- structural adjustment is always occurring in an economy and distinguishing the effects of particular events from background changes requires sophisticated analysis;
- all methods of taxation cause costs and government revenues from gambling provide at least some benefits to the community by reducing the need to collect revenues by other means; and
- net asset positions, not just incomes, are key components of people's well-being, and that aside, it is notoriously difficult to assess the actual incomes of individuals and households, or to discover what is their true gambling expenditure.

Dealing with these complexities suburb-by-suburb would entail data collection and data manipulation on a huge scale.

In Australia, to support any micro-study, a special survey would need to be undertaken, because even at Statistical Division level, the standard ABS coverage is always incomplete, subject to confidentiality restrictions, inaccurate in parts, and inevitably, out-of-date. The survey would need to cover a number of time periods and would need to provide some credible information about what would have happened in the absence of gambling, presumably via some mixture of historical data on the study area, and current data on a 'control' area of similar demographic and economic make-up (if one could be found). Finally, some means would need to be found of keeping track of people moving into and out of the study area and measuring their circumstances, because the ultimate interest ought to be how the people were affected, not how the piece of Australia where they happened to live for part of their lives had fared. Generally, in cities at least, the smaller the area, the greater the proportion of people moving in and out.

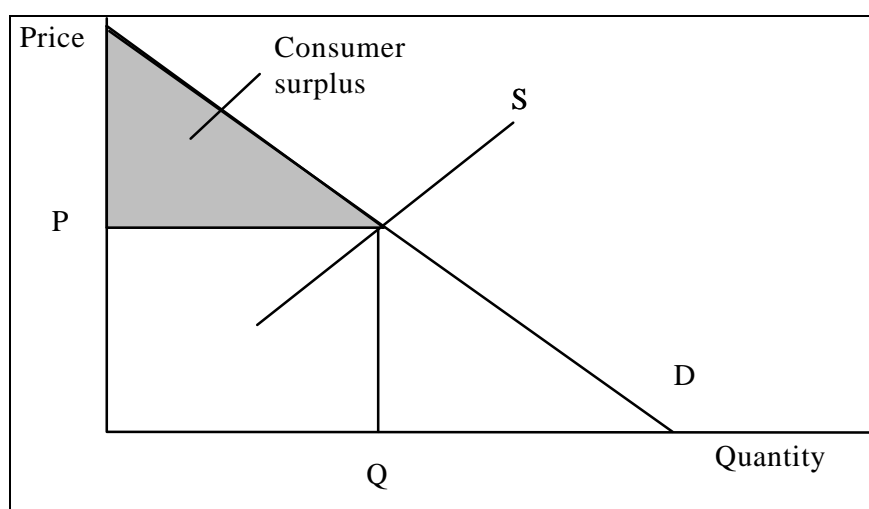
The latter point is often missed by municipal officials because they are inclined to think that whatever is good for them is also good for their citizens. Why that is not always so, can readily be appreciated by reflecting on how developments in one part of the economy can be of benefit to people in others. To take an extreme case, imagine how differently the Victorian Goldrush would have been perceived by the migrants who came to Australia in the 1850s and 1860s and the councillors in the towns in Europe they left behind.

The economy-wide modelling results presented in Section 5.4 of this Submission indicate that there are formulae for eliminating regulation and taxation of gambling that would result in benefits to consumers, the industry and the entire economy. This analysis has been conducted using currently-available data and an already constructed model and it indicates that the more radical strategy of giving consumers-at-large freer access to gambling would produce positive results, an outcome which accords with orthodox precepts of consumer welfare.

5.2 Consumer surplus

Alfred Marshall, a renowned economist of the early 20th Century, originated the concept of consumer surplus. He noted that the price is typically the same for each unit of a commodity that a consumer buys, but that the marginal value of all units purchased previous to the final one leaves the consumer a net benefit. The size of the benefit from the amount purchased equals the difference between the consumer's value of all these units and the amount actually paid for the units. The difference is called the 'consumer surplus'. It is illustrated in Figure 1 in the same way as it could be for any other product.

Figure 1: Diagrammatical exposition of consumer surplus



The term 'surplus' is used in recognition that people are generally willing to pay more for a product than they actually have to pay. It represents in dollar terms the extra utility or value that consumers' expect to derive from a product or service.

While consumer surplus is an important beneficial element of virtually all consumption, there are no official statistics on it for any industry. Hence it needs to be estimated. A very approximate estimation of the consumer surplus derived from gambling in 1996-97 is presented in Box 5.

Box 5: Estimating gambling consumer surplus

Our interest is in using available data on gambling to estimate the dollar value of the shaded triangle in Figure 1 above, that is, the consumer surplus.

The first issue to consider is how to define the units in which Q , the quantity of gambling services, should be measured. It could be 'opportunities' or 'games' or 'races' or 'prospects'. Certainly Q should not be measured in terms of the 'amount wagered' which is a different concept. A practical way of nominating the units of Q could be as 'standard prospect units'. This would be analogous with the use of a term like 'pairs of shoes' which abstracts from the large array of ways in which shoes can differ qualitatively.

The consumer surplus associated with any product or service is a function of the responsiveness of the demand for it to changes in price. If the quantity consumed changes by the same proportion as the change in price, its price elasticity (or price responsiveness) is equal to one. If the elasticity is more than one, demand is said to be elastic (that is, the change in the quantity consumed is greater than the change in price). If it is less than one, demand is inelastic (the change in the quantity consumed is less than the price). Depending upon the nature of demand, the elasticity for a product may vary with the quantity consumed.

In order to side-step the problem of nominating units of gambling service, an approach to take when estimating consumer surplus could be to estimate what different demand elasticities imply for the factor by which net expenditure should be multiplied in order to estimate consumer surplus. That is: "With elasticity 'x', the consumer surplus is 'a' times the cost" and so on.

Using a linear demand curve, three numerical examples have been calculated:

1. If price elasticity of demand equals $-1\frac{1}{2}$, the rule is: "multiply total expenditure by 0.3."
2. If price elasticity of demand equals -1.0 , the rule is: "multiply total expenditure by $\frac{1}{2}$."
3. If price elasticity of demand equals $-\frac{1}{2}$, the rule is: "multiply total expenditure by 1"

Broadly speaking these statements explain the relationship between consumer surplus and total expenditure.

Since we believe price elasticity of demand for gambling as a whole is between $-\frac{1}{2}$ and -1 , but closer to -1 , it seems we can support a general statement along the lines of:

"consumer surplus is likely to be more than half the cash outlay."

On this basis, in 1996-97, when according to the TGC the net outlay on gambling in Australia was \$10,037 million, a gambling consumer surplus estimate of greater than \$5,000 million but less than \$10,000 million seems reasonable.

Our estimate of the consumer surplus of gambling for 1996-97 is "more than \$5,000 million" (or more than half the net cash outlay on gambling in that year).

Quite apart from the very approximate nature of the estimate, it will be noted that we see no need to make any downward adjustment to account for the claim that part of the consumption of gambling is addictive. For reasons discussed in Chapter 6, while some consumers may be addicted, we do not accept the notion that spending on gambling is 'irrational' or 'unworthy'. In our view, there are no credible grounds for doubting that expenditure on gambling reflects the true preferences of consumers. In other words, we contend that the willingness to pay in excess of cost is, in this case as in others, a *genuine* addition to the welfare of the consumers involved.

5.3 Measuring the benefits of lowering regulation on gambling

Measuring the change in benefits to the community as a whole from a change in the economic environment, or an economic 'shock', can be useful in assessing how better or worse off the community would be from such a change. This would involve estimating *the change in* consumer surplus and industry output from the shock, and this could be achieved using an economy-wide (or general equilibrium) model. Such a model can shed more light on the likely impact of changing key government policies and market variables relating to the gambling industry. Work of this type was undertaken for this Submission using the STATE model, and insights from the detailed report (which appears as Attachment 1) are presented in Section 5.4.

A preliminary assessment of issues involved in measuring the change in both consumer surplus and industry output is followed by the presentation and discussion of the estimates derived from the STATE model.

5.3.1 Measuring the change in consumer surplus

The change in consumer surplus can be used to measure the change in consumer welfare due to a change in the consumer's environment. That is, if prices or the amount supplied of a good change, the net impact on consumers' welfare will be the difference in the consumer surplus before the change and after the change. It has long been recognised that price changes have both income and consumption mix effects on consumers and that there is a need to adjust nominal estimates of changes in consumer surplus for this. There are two standard approaches.

The first method, the equivalent variation, uses the initial prices and asks what change in the consumers income is equivalent to the proposed changes in the consumer's utility resulting from, for example, the increase in prices. That is, it is a measure of the consumer's willingness to pay for the good at the new prices. The compensating variation approach, on the other hand, asks at the new prices, what change in income is necessary to compensate for the change in prices. This measure is used when estimating the compensation needed to ensure the consumer is not worse off as a result of the change in prices.

Whichever of these two approaches were favoured, if the estimation of the consumer surplus impact of a change was to be rigorous, it would need to take account of the way in which a reduction (or increase) in expenditure in one area was accompanied, through substitution, with an increase (or decrease) in expenditure in others. These would all have consumer surplus changes associated with them, and have the effect of dampening the overall impact to some extent. Put simply, the interrelationships between activities would need to be recognised. Properly estimated demand elasticities for the product where the initial

change takes place will capture much of the required information, but when the impact of large shocks is being estimated, more complex interactions need to be allowed for. These matters have been widely discussed in the professional literature.⁴⁵

Consumer surplus changes are not measured in currently available inter-industry models of the Australian economy, such as the STATE general equilibrium model that was used to generate the policy impact results reported in Attachment 1. Results of the type reported in Attachment 1 therefore do not offer a complete picture of the consequences of policy changes for the well-being of the community.

Nonetheless, in cases where the shocks being examined are policy changes which would reduce the interference with consumers' free choices, it can be confidently predicted from first principles that the change will result in an increase in consumer surplus and thus a net increase in consumer welfare. On the same basis, as a general rule, **in instances where the STATE model predicts the shock would cause a GDP increase, it can be expected that, if it could be measured, there would also be a consumer surplus increase which could be counted as a benefit of the change.**

5.3.2 Measuring the change in industry output

Taxation

The gambling industry is one of the most highly taxed industries in Australia, as is explained further in Chapter 8. The tax imposed on the gambling industry is ultimately a part of consumer expenditure that the rest of society obtains. It should be included in any measure of net economic benefit to society.⁴⁶

Though it would be wrong to count it twice, the taxation wedge can alternatively be viewed as part of the gambling industry's value added expressed in 'market prices' as distinct from 'factor cost'.

Regulatory outlays

Not only does the gambling industry face high rates of taxation, but it is also highly regulated. This is the subject of Chapter 9. However, there are a number of issues related to gambling regulations that need to be

⁴⁵ A classic reference in this field is Willig, R, 1976, "Consumer's Surplus Without Apology", *American Economic Review*, 66 (4); pp. 589-597.

⁴⁶ In addition, there is a net loss of *both* consumption *and* production welfare, the proportions of each being determined by supply and demand elasticities.

discussed in relation to estimating net economic benefits. Most forms of regulation carry a cost and are arguably part of the industry.

The compulsory contribution the industry makes to dealing with the issue of problem gambling is arguably a piece of industry value added. Certainly, a good case could be made for including it.

The same line of argument can be applied to the TABs' allocations to race clubs and the annual licence fees (and an expensed portion of the initial entry licence outlay) of casinos.

Regulatory oversight, paid from general taxation, is arguably part of the industry, including, on the basis of accrual accounting principles, a portion of the head office costs of the Ministries where the regulatory offices are located.

Multipliers

One thing we consider should not constitute part of the industry's stated output is the so-called 'multiplier' effect of expenditure by the industry and its customers.

Multipliers can give rise to large overstatements of the economic impact of particular industries, sometimes even masking a situation where the true economy-wide impact of the industry is negative. The best known examples are those published by state governments in support of car race events. In 1985, two Adelaide University economists pointed out that a Parliamentary Committee committed such an error in a report on the Adelaide Grand Prix. They cited another study that had made the same mistake in assessing the impact of the 1984 Festival of the Arts.⁴⁷ Ten years later, a Queensland University economist exposed a consultant's study of the Queensland Indy Car Grand Prix as having similar problems.⁴⁸ More recently, a researcher uncovered the same inconsistencies in a consultant's report for the Victorian Government on the 1995 Melbourne Grand Prix.⁴⁹

The main problem with equating multiplier or flow-on effects with true economic benefits is that no regard is paid to the costs involved in generating them. The cost side often goes unnoticed because perceptions of benefits created are sharper than perceptions of benefits sacrificed. The issue was explained recently as the "broken window

⁴⁷ Burns, J and J Mules, 1985, "A Note on the Policy Implications Arising from the Misuse of Input-Output Analysis", *Economic Papers* 4 (4); pp. 73-78.

⁴⁸ Black, T, 1994, "The Queensland Indy Car Grand Prix: Assessing Costs and Benefits", *Agenda*, 1 (2); pp. 259-264.

⁴⁹ Littlewood, D, 1996., "Race Tally Doesn't Add Up", *Australian Financial Review*, 10 August.

fallacy”.⁵⁰ The story goes that a hoodlum tosses a brick through a baker’s window. The baker is furious at having to pay the glazier \$250 for repairs, but observers console themselves that the glazier will then have \$250 to spend on the wares of other merchants, who in turn will have money to buy things they would not otherwise have demanded. Through this kind of thinking the hoodlum can be seen not as a public menace, but a public benefactor. This is because it is easier to notice the benefits of the new window and its flow-ons, than to recognise that the unfortunate baker has been deprived of \$250 to spend on other things (such as a new suit), which also would have produced benefits for third parties.

Whether the issue is benefits or costs, a common misunderstanding is the presumption that flow-on effects always represent costs or benefits above and beyond those that the owner of the facility bears or captures. It is a well-known economic insight that if a facility has ‘spillover’ effects that remain ‘external’ to the economic system, its full national or regional income contribution will not be accurately measured just by looking at what appears in company accounts. This is an important theoretical point, but its practical significance is often overstated.

Unquestionably, the development of a large facility such as a casino creates spillover effects, all of which may, to outsiders, look as if they are genuine externalities. Whether supposedly positive or negative, closer inspection will usually reveal that they are not truly externalities as economists define them. Externality issues are explored further in the discussion of so-called problem gambling in Chapter 6.

5.4 General equilibrium impact of gambling and certain policy reforms

5.4.1 Advantages of economy-wide modelling

The economy-wide modelling of the effects of a change in the environment in which the gambling industry operates on the economy, was undertaken using the STATE general equilibrium model of the Australian economy. STATE is a computable general equilibrium model similar in structure to the well-known ORANI model of the Australian economy.

One of the advantages of this type of model is that it can estimate direct and indirect effects of policy changes on individual industries and then calculate the outcome in terms of national aggregates. For example, key direct effects identified in the simulations with the STATE model are the

⁵⁰ Williams, W, 1996, “The Broken Window Fallacy”, *Fraser Forum*, October; p. 32.

loss of revenue from a reduction in gambling taxes and the adjustments required in other taxes or expenditure to ensure budget balance. Among the possible indirect effects of reduced taxation are increases in industry efficiency as resources move to or from the gambling industries, as supporting industries are affected and as other industries compete for resources and consumer demand.

Unlike simpler input-output models, general equilibrium models incorporate estimates of key elasticities that allow input proportions and consumption baskets to change as policy or market conditions alter.

Four scenarios were analysed in the STATE model:

- *Scenario 1:* a 50 per cent reduction in gambling taxes, with the lost revenue funded via increased income taxes;
- *Scenario 2:* a 50 per cent reduction in gambling taxes, with the revenue forgone offset by a cut in unproductive government administration, assuming sufficient efficiency improvements are made to preserve the public sector output;
- *Scenario 3:* removing all entry restrictions on the gambling industry, with tax rates on gambling (which expands greatly) held constant; and
- *Scenario 4:* removing all entry restrictions with a loss of 50 per cent of gambling tax revenue offset by a cut in government administration. (This was the addition of Scenario's 2 and 3).

Under Scenario 4, the removal of the entry restrictions sees the erosion of the 'economic rent' captured by both the industry and state governments.

For the government, the effect of the removal of entry restrictions results in the loss of 50 per cent of gambling tax revenue. The revenue lost is offset by a cut in government administration. There can be little doubt that gambling taxes capture most, if not all of the economic rent generated by the entry restrictions. Thus the simulations assumed that 50 per cent of gambling tax revenue represents economic rent captured by government. The remainder is interpreted as a conventional tax. It is also assumed that the industry captures as much of the rent generated as the government. Further, it is assumed that 50 per cent of the rent captured by the industry is dissipated in public enquires and lobbying and other rent seeking activities. The remainder of the industry's share of the economic rent was assumed to be taken as pure profit.

Scenario 4 defines a type of policy reform package from which the economy as a whole would benefit: **the removal of entry restrictions would benefit consumers through the cut in prices and the industry would become more competitive. In addition, the government could benefit from a cut to unproductive administration.**

5.4.2 Economy-wide modelling results

Impact of changes in gambling output

The results of the scenarios tested show what might be the effects of changes in key gambling policies, but they also shed light more generally on the importance of the gambling industry in the wider economy.

Examples of the latter type of result can readily be given:

- calculations based on the results of Scenario 1 indicate that, other considerations aside, a 1 per cent fall in gambling output (if caused by a gambling-tax-funded income tax break) would yield no significant GDP benefit, suggesting that, as a tax base, gambling has no more to be said for it, from an economic standpoint than income. Interestingly, this result appears especially true in the long run. Moreover, the result seems not to be very sensitive to the price elasticity of demand; halving the price elasticity of demand for gambling services from 0.6 to 0.3, for example, has no discernible effect; whereas
- the results of Scenario 2 indicate that a 1 per cent fall in gambling output, if brought about by a gambling tax increase that was used to merely fund additional layers of government administration could cause a drop in national GDP of as much as \$300 million.

Each of the results reflects an economic ‘story’ which portrays the long-term ill-effects of any increases in gambling taxes. The difference in the short and long run outcomes of using a gambling tax increase to fund an extra layer of bureaucracy (ie. Scenario 4) is one such story and it can be explained in modelling terms as follows.

In the inflexible labour conditions assumed in the short run, the main impact of an increase in gambling taxes (if used merely to fund an extra layer of government) is to produce a CPI rise, which means that (with fixed money wages) the real wage falls and employment increases. GDP rises, due principally to the employment result.

Extra taxation of gambling becomes a self-defeating strategy in the long run (ie. over a period when wages can adjust to clear the labour market and the capital stock can also adjust). In the long run, the rise in gambling taxes is accompanied by a bigger rise in the CPI which translates into a lower real wage (because the nominal wage does not rise as fast as the CPI), but no employment gain. There is therefore a more pronounced consumption loss, as well as an investment drop.

This causes GDP to be lower than it otherwise would have been.⁵¹

Combined effects of gambling taxes and entry controls

Scenarios 3 and 4 were intended to demonstrate the possible impact on gambling and the rest of the economy of relaxing restrictions on entry into the gambling industry, with consequent reductions in the 'quasi-rents' which currently form the basis of taxation revenue and operating licence values. In the absence of data on the subject, the assumptions made about the impact of the reductions in entry controls were arbitrary, but the results are useful illustrations of what may be possible:

- under Scenario 3 (the removal of entry restrictions) the economy gains from an increase in productive efficiency. However, Scenario 3 is partial in that it only looks at one dimension of the rent issue. The removal of entry restrictions will not only erode the rent captured by industry, but also the rent captured by state governments via gambling taxes. Both sides of the issue are reflected in Scenario 4;
- over the short run⁵² under Scenario 4, consumers benefit from a lower overall price level, but with government consumption falling, there is little net change in GDP. Over the long run the cuts in unproductive government administration and rent-seeking behaviour in the gambling industry are good for the economy and the main macroeconomic aggregates show increases.

Of the four scenarios tested, it is Scenario 4 that has the most impact on GDP in the long run (that is, by halving taxes on the industry while simultaneously removing entry restrictions). As the STATE model under Scenario 4 predicts a cut in gambling service prices, **we can conclude that consumer surplus will also rise by more than \$1.5 billion.**⁵³ Other positive effects include rises in economic indicators such as investment. While we do not pretend to have the magnitudes of the various policy variables modelled exactly right, these results demonstrate that **there may be a lower tax/easier entry conditions/less bureaucratic policy combination that makes consumers, the industry and the economy all better off.** More specifically, the positive results of Scenario 4 include:

⁵¹ It might be possible to get this sort of result in the 'short run' if, as Aristocrat's consultants appear to have assumed, nominal wages are made flexible in the short run (see Aristocrat Submission to Productivity Commission Inquiry, December 1998, chapter 3).

⁵² The 'short run' is normally envisaged as the year following a change or 'shock' to the economy, while the 'long run' is seen as the period ten years or so after a change. For a more detailed explanation, see Section A1.3 of Attachment 1.

⁵³ A lower bound estimate of the change in consumer surplus is the percentage change in product price multiplied by the initial consumption level (ie. 15.5% x \$10 billion for Scenario 4).

- greater competition within the industry, thus greater efficiency, due to the easier entry conditions;
- lower prices to consumers of gambling products; and
- and cuts in government revenue, which is to be offset by cuts in unproductive government administration.

These three events would benefit the industry, consumers, the government and thereby, the economy as a whole.

Elasticity assumptions

Within the model, gambling industries are treated as demand inelastic, consistent with the conclusion of Section 5.2. So a change in the price of gambling, such as resulting from a reduction in, generally speaking, the taxes on gambling, shows up as having relatively little impact on consumer behaviour and the level of industry output. The analysis of the sensitivity of the results to different demand elasticities for the gambling industries is shown in Table 18.

Table 18: A comparison of the effect on GDP under standard and high demand elasticities for gambling

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
	50 per cent cut in gambling taxes offset by higher income taxes	50 per cent cut in gambling taxes offset by cuts in public expenditure	Removal of entry restrictions	Removal of entry restrictions with a 50 per cent cut in gambling taxes
Standard demand elasticities				
Short run	0.02	-0.07	0.10	0.04
Long run	0.00	0.14	0.15	0.28
High demand elasticities				
Short run	0.03	-0.06	0.11	0.05
Long run	0.00	0.14	0.15	0.28

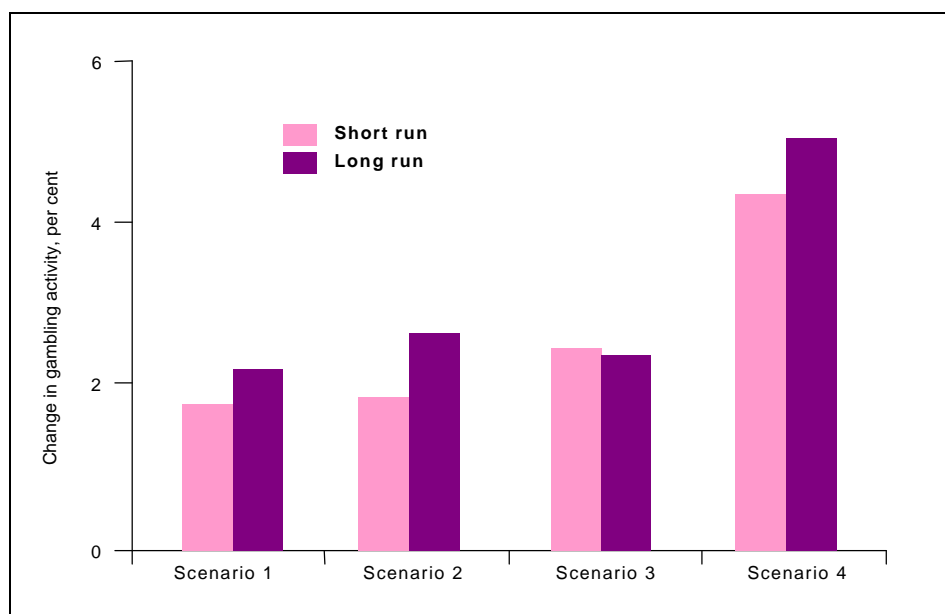
Source: Estimates derived from the STATE model. It is emphasised that a range of simplifying assumptions regarding the nature of the gambling industry have been made in preparing these estimates.

Interestingly, if the price elasticity of demand of gambling is doubled, while the gambling industry and gambling consumers are more strongly affected by a gambling tax cut, the economy as a whole is not much affected. This is because the industry's gains are almost completely offset by reductions in the sizes of other industries that compete with it for resources.

Individual industry results

The composite industries containing gambling activities⁵⁴ expand in all scenarios. Gambling activities are estimated to expand by around 2 to 6 per cent. The impact is greatest under Scenario 4, as this is the scenario with lower tax and a relaxation of entry constraints. The gambling industry category that is effected the most is the 'Gambling and recreational services' part, where output rises by nearly 6 per cent under Scenario 4. The aggregate impact on gambling activities is highlighted in Chart 19.

Chart 19: The estimated aggregate impact on gambling activities



Source: Estimates derived from the STATE model. It is emphasised that a range of simplifying assumptions regarding the nature of the gambling industry has been made in preparing these estimates.

Most other industries expand under scenarios 2, 3 and 4. Despite the overall economic contraction under Scenario 2, most industries increase output. However, there are large contractions in those industries heavily dependent on government demand. Under Scenario 1 a small contraction is seen almost across-the-board, but industries closely associated with gambling tend to expand. It appears however, that these scenarios impact the three industries that contain gambling activities more than any other industry in the long run.

⁵⁴ The three industries are 'Sports clubs', 'Accommodation, cafés and restaurants nec', and 'Gambling and recreational services'. For more information, see Section A1.2 of Attachment 1.

6. The Issue of 'Problem' Gambling

Problem gambling is perceived to be a major social issue and a reason for containing gambling. In this Chapter we explain that:

- *there is a broad consensus that for a very large majority of Australians gambling is an enjoyable and harmless form of entertainment. Moreover, culturally, Australia is more tolerant of gambling, and is less likely to see gambling as immoral or to see gambling habits as problems, than societies such as the United States;*
- *there is also a broad consensus that a small sub-group of people suffer emotional and financial distress as a result of their compulsive gambling activities and that by their actions, some of them impose costs on their families or more generally on society at large. These phenomena constitute 'problem gambling';*
- *it is wrong to blame gambling as an industry for difficulties experienced by a small number of people with deep seated personality disorders. This is not how people with so-called 'problem consumption' of other goods and services such as junk food or 'adventure' sports are treated. It is really quite perverse to be taxing the vast majority of gamblers and the venues in which they responsibly gamble, to support a very small number of those deemed to be 'problem' gamblers;*
- *whether viewed as a personal health issue or as a social impost, the extent of 'problem' gambling is difficult to measure. Casual empiricism and folklore dominate most commentaries, including most of those contained in submissions to the Productivity Commission. Some submissions that have initially expressed an acceptance of Australian traditions of tolerance for gambling have later expressed quite conflicting recommendations for further suppression of the industry;*
- *though they may be well-intentioned, it is clear that many parties have a strong career interest in exaggerating the problem gambling phenomenon and in seeing that the reported incidence is never below some threshold;*
- *by contrast, gambling service suppliers are highly visible and have reputations to protect and have a strong economic incentive to contain problem gambling. Voluntarily they have adopted a range of effective measures for this purpose;*

- *problem gamblers have also been assisted by medical practitioners and traditional safety net organisations and support groups;*
- *economic analysis indicates that there is not a very coherent case for special government intervention to contain problem gambling. The externality argument is unconvincing and compulsive gambling does not fit the usual precepts of irrational behaviour that warrant treating adults as if they are insane;*
- *one of the most influential thinkers on the issue of addiction, Nobel Prize winner Professor Gary Becker, points out that addicts are not made happier if forced to restrict their consumption against their will;*
- *thus it seems, Australian states have been outlaying large sums (probably tens of millions annually) to combat problem gambling without proper grounds for action and the transparency and accountability of that funding is not high; and*
- *equally, the repeated calls by some groups for further regulation of gambling and a greater earmarking of funds to deal with the problem appear baseless.*

Our conclusion is that it may now be time for governments to take steps to de-mystify and de-institutionalise problem gambling as an issue

6.1 Introduction

During the 1990s many parties, including state governments, have shown an increasing interest in combating what is loosely termed 'problem gambling'.

All the definitions of problem gambling are subjective.

For example, problem gambling has recently been defined by the Australian Institute of Gambling Research as:

“... gambling which gives rise to harm to the individual player and/or his or her family and may extend to the community ...”⁵⁵

An odd feature of this definition is that, read literally, it might be considered wide enough to embrace monetary losses suffered by individuals, even though this is a defining feature of virtually all

⁵⁵ This is the definition recommended in a recent study by the Australian Institute for Gambling Research (Dickerson, *et al*), 1997, *Definition and Incidence of Problem Gambling Including the Socio-Economic Distribution of Gamblers*, Report for the VCGA, August; p.2.

gambling activity and is accepted by the ordinary gambler as the price of the game.

More significantly perhaps, the definition covers both the personal (private) consequences of gambling as well as the flow-on consequences for others, particularly the gambler's dependants. As we will note later in this Chapter, whether self harm is a government matter is a moot point, but when people do harm to bystanders policy issues can certainly arise.

Another definition, put forward recently by another expert group, describes problem gambling as:

“...uncontrolled and irrational partaking in gambling activities to the extent that the focus of the problem gambler centres on gambling largely to the exclusion of every other facet of their life.”⁵⁶

The emphasis here is on compulsive or obsessive involvement in gambling. The commentator who offered this definition went on to list the “devastating effects” in terms of: the breakdown of families, the problem gamblers turning to crime and various sorts and fraud, and bankruptcy. Family law and crime are widely accepted as government policy issues.⁵⁷

Medical definitions of problem gambling tend to view it as a mental disorder, similar to that suffered by victims of substance abuse, alcoholism and drug addiction. This too might be a matter for governments, especially if issues such as the patient's sanity and denying them their freedom arose.⁵⁸

Other commentators portray problem gambling as a ‘big picture’ social problem arising from malfunctioning or dysfunctional social and economic institutions. That is to say, they see it as a symptom of other, deeper, problems. For example, in its statement to the Productivity Commission's Inquiry, the Women's Electoral Lobby in Victoria argues that:

“...women gamble because they are bored, because they are lonely and because they are socially isolated. ... We need to focus on those things that make gambling a problem: the social isolation and poverty experienced by many women. On the face of it gambling venues offer women the promise of safe

⁵⁶ Springvale Legal Services presentation to *Inquiry into Australia's Gambling Industries*, 1998, Transcript of Proceedings, Productivity Commission, 23 November, Melbourne; p. 354.

⁵⁷ *Ibid.*; p. 354.

⁵⁸ See, for example, submission by the Committee on Problem Gambling Management from New Zealand, 1998, *Inquiry into Australia's Gambling Industries*, Transcript of Proceedings, Productivity Commission, 24 November, Melbourne; p. 456.

public space where they can escape the stresses of the everyday world, entertain themselves and be with others.”⁵⁹

In short, problem gambling is presented as being a very complex phenomenon where many different issues — medical, social and economic — are intertwined. With such a ‘catch-all’ phenomenon, it is likely to be difficult to demonstrate that policy intervention is desirable, or to target any policy instruments accurately even if the significance of the problem could be agreed.

The intractability of problem gambling as a policy issue is the main theme of the rest of this Chapter.

6.2 Perceptions of the problem

Whether problem gambling is viewed potentially as a personal health issue or as a socio-economic issue, it is still not a clearly articulated phenomenon. The reference lists in reports by the Australian Institute for Gambling Research (eg the one cited above) suggest that the medical literature on problem gambling is mostly about the search for objective evidence about the occurrence or severity of the ‘disease’ (see below). Equally, policy makers seem unclear about the nature of the problem, although, through the earmarking of fixed proportions of gaming revenue they have institutionalised the routine funding of research into the subject.

6.2.1 The medical literature

The definition of problem gambling adopted by the Australian Institute for Gambling Research in 1997 (referred to above) has been devised by social and medical experts. It may be no less subjective, but it is certainly less alarming than the definition typically adopted in the US for ‘pathological gambling’.

Pathological gambling is couched in language which Australian medical experts consider is “not compatible with the Australian attitudes and social perspectives on gambling”.⁶⁰ In particular, it is considered Australians are unlikely to accept the traditional American psychiatrists’ idea that maladaptive gambling behaviour could be identified in someone who regularly enjoys horse racing or blackjack for

⁵⁹ A submission by the Women’s Electoral Lobby in Victoria, 1998, *Inquiry into Australia’s Gambling Industries*, Transcript of Proceedings, Productivity Commission, 24 November, Melbourne, p. 503.

⁶⁰ Dickerson, *et al*, 1997, *op. cit.*; p. 1. The notion of pathological gambling is included in the American Psychiatric Association manual, the latest of which, we understand, is the *Diagnostic and Statistical Manual of Mental Disorders*, Fourth Edition, Washington (American Psychiatric Association, 1994).

excitement and finds the activity alleviates frustration or stress.⁶¹ Nor is the old American idea of problem gambling as an incurable illness from which abstinence provides the only respite (much as alcoholism is viewed by Alcoholics Anonymous) well accepted here.⁶²

Reflecting the cultural acceptance of gambling in Australia, problem gambling is generally considered by medicos to start at a higher level of engagement than indicated by the South Oaks Gambling Screen (SOGS), a widely used US measure of whether a person is a problem gambler or probable pathological gambler.⁶³ According to the original (American) version of this test, a respondent whose preoccupation is reflective of their enjoyment of regular gambling and who is not experiencing harmful impacts could still be classed as a problem or potential pathological gambler. Since 1991-92, Australian users of the SOGS have employed higher cut-offs⁶⁴ and the predictive shortcomings of the test have been openly confessed.⁶⁵

Most significantly, local medical experts make the point that:

“The Australian social context not only is typified by a community acceptance of, and participation in, gaming and wagering, but also by broad based preventative and harm minimisation strategies to address problem gambling. Thus Australian research has not been receptive to the dominant international paradigm of pathological gambling as a mental disorder.”⁶⁶

The New Zealand approach may be different. On the one hand, the main business association in New Zealand in a 1996 submission to a New Zealand inquiry, was fairly dismissive of claims about the social

-
- 61 By way of illustrating the change in fashion in Western societies on this subject, we draw attention to the observation we made in Chapter 2 that in the 1500s gambling was recommended by the famous Renaissance physician, Cardano, as being beneficial “in times of great anxiety and grief.”
- 62 Much of the early American articulation of so-called pathological gambling was by Dr Robert Custer, a medico who had been associated with the treatment of alcoholics. A society known as Gamblers Anonymous has branches in a number of US cities. It offers a 20-question test to determine if a person has a gambling problem (Dickerson, *et al*, 1997, p. 12). A reference was also made in the submission to the Productivity Commission by Relationships Australia Queensland to a Gamblers Anonymous agency in Australia.
- 63 The SOGS appears to have been developed in 1987, see Lesieur, H and S B Blume, 1987, “The South Oaks Gambling Screen” (the SOGS): A New Instrument For The Identification Of Pathological Gamblers, *American Journal of Psychiatry*, 144; pp. 1184-1188).
- 64 Eg. Dickerson, M *et al*, 1996, *Study 2, Report to the Casino Community Benefit Fund Trustees*, NSW Department of Gaming and Racing.
- 65 Dickerson M, 1993, “A Preliminary Exploration Of A 2-Stage Method In The Assessment Of The Extent And Degree Of Gambling Related Problems In The Australian Community” in Eadington W *et al* (eds), *Gambling Behaviour and Problem Gambling* Reno Institute for the Study of Gambling.
- 66 Australian Institute for Gambling Research, *op. cit.*; p. 29.

significance of the phenomenon.⁶⁷ On the other hand, a New Zealand group in a submission to the Productivity Commission's current inquiry says it regards problem gambling as a serious mental health condition, with the standard American Psychiatric Association's pathological gambling test providing relevant diagnostic criteria.⁶⁸

Not surprisingly, the latter submission was critical of the use of a modified SOGS in Australia:

"There needs to be an agreement about what the measure is in Australia. We constantly hear criticism of the SOGS instrument. There is no scientific evidence that homo sapiens in Australia are a subspecies from the rest of the world and require a different scientific device, and therefore the one now applied internationally for about 15 years has no relevance here. Frankly we think that's a lot of bunkum. If the Australians wish to introduce a new measure and want to convince the rest of the world that it's the best one, so be it. there have been 29 major studies done around the world now. The screen has been the subject of very considerable rigorous review. ... I see no scientific information to come from Australia which would compel an alternative scale of measures to be applied."⁶⁹

This is, of course, an assertion that a gambling-specific type of insanity does exist. It is also a direct challenge to the idea that a test of mental fitness should be adjusted to reflect local social mores. Most importantly, it overlooks the inherent subjectivity of the SOGS.

At best, the SOGS test could only be a very *indirect* means of estimating the existence of any problem. Of its nature, it must have less basis than self assessment alternatives such as the numbers of people who seek medical or financial assistance or who present themselves for face-to-face counselling. For both reasons, we would argue Australian experts have been right to downplay the SOGS. More will be said about this later.

⁶⁷ New Zealand Business Roundtable, 1996, *Towards a More Efficient Policy Framework for Gambling*, A Submission to the (NZ) Department of Internal Affairs on the Gaming Review, Wellington, December (see especially pp. 5-10).

⁶⁸ Submission by the Committee on Problem Gambling Management from New Zealand, 1998, to *Inquiry into Australia's Gambling Industries*, Transcript of Proceedings, Productivity Commission, 24 November, Melbourne; pp. 456-7. For example, in 1997, the NZ Compulsive Gambling Society ran an incidents book in which it was recorded there were 411 suicide attempts out of a population of 1,200 pathological gamblers engaged in treatment (p. 457). New Zealand university studies of retrospective profiles of 'presenting' problem gamblers reveal that over 90% of them suffer pathological gambling disorders. Studies also show that 60% of all people with gambling problems will "end up with an alcohol dependency" (because of the nature of gambling venues), 30% will have a lifelong alcohol dependency problem, over 30% have a lifelong mental disorder or mood disorder problems, and 90% are very heavy smokers. There is also a small indication of a predilection in that there is 11-13% chance that a person will become a pathological gambler if that condition existed in their family or if they are an offspring of an alcoholic. (pp. 460-461).

⁶⁹ *Ibid.*; pp. 471-472.

6.2.2 Views expressed by participants at the Productivity Commission's hearings

General acceptance of gambling

While the medical or psychiatric view of problem gambling clearly has a cultural and therefore subjective element, it is also possible to find commentators with views which are more subjective still, and even some who regard all gambling as a problem because it is immoral. Views of the latter type tend to be identified with religious groups.⁷⁰

Most submissions to the Productivity Commission's Inquiry have displayed widespread acceptance of gambling as a legitimate and even desirable social activity. Words of acceptance can be found even in submissions from groups which elsewhere have called for further intrusive regulation of gambling 'to protect people from themselves'. Typically, the (Victorian) Inter Church Gambling Task Force (ICGTF) accepts that gambling has been "a part of the Australian psyche probably since the days of federation and probably before and gambling is not unknown within the churches".⁷¹ It also concedes that:

"... there's been a few churches built on bingo and there's hardly an argument for purity on this issue from the churches."⁷²

The Victorian Local Governance Association, whilst registering its concerns for the spread, magnitude and social impact of gambling, also concedes "that gambling is here and it's not something that we're trying to prohibit, it's not something that's going to go away".⁷³ In another typical statement, Maribyrnong City Council re-affirm that they "are not opposed to people spending their money as they wish and ... are certainly not opposed to gambling as such".⁷⁴ **Often, however, the acceptance has been qualified, if not contradicted, by later exhortations.**

⁷⁰ Historically, besides having a concern for the poverty and dependency effects of gambling, the churches have expressed spiritual concerns such as that life is something of a test of one's worth, and that a preoccupation with quick and unearned wealth which is represented by gambling will defeat (or cheat) that purpose. Another is that gambling is a pleasurable, material indulgence which can preoccupy people, causing them to lose sight of their spiritual duties.

⁷¹ Submission by the Inter Church Gambling Task Force, 1998, to *Inquiry into Australia's Gambling Industries*, Transcript of Proceedings, Productivity Commission, 23 November, Melbourne; p. 370.

⁷² However, while also conceding a definitional uncertainty, it portrayed problem gambling as part of a wider political problem (*Ibid*; p. 374).

⁷³ Submission by the Victorian Local Governance Association, 1998, to *Inquiry into Australia's Gambling Industries*, Transcript of Proceedings, Productivity Commission, 23 November, Melbourne; p. 414.

⁷⁴ Submission by the Maribyrnong City Council, 1998, to *Inquiry into Australia's Gambling Industries*, Transcript of Proceedings, Productivity Commission, 23 November, Melbourne; p. 422.

Representative of a number of submissions was that by the Salvation Army which appears to take a dim view of gambling for a range of practical and ethical reasons. The Salvation Army's submission contains the following position statement:

“The Salvation Army is acutely aware of the suffering and deprivation experienced by many people as the result of this practice. Our social welfare experience indicates that many of those who gamble tend to disregard their primary responsibilities and not infrequently bring embarrassment and hurt to those who depend on them. Often it begins in an apparently harmless way but its continued practice may lead to dependency that undermines the personality and character of the gambler.”⁷⁵

The Army recommends restrictions on outlets and advertising and the earmarking of more gambling levies for welfare support, but stops well short of advocating a total ban.

Link with growth in gambling outlets

While affirming their acceptance of gambling as such, many submissions voiced a concern with the growth of the gambling industry and the widening availability of gambling products. There are concerns that gambling venues and products are too easily accessible. The Victorian Shadow Minister for Gaming mentioned a 1996 report by the Victorian Casino and Gaming Authority which claims that 56 per cent of Victorians considered gambling too easily and widely accessible.⁷⁶ Although anxiety is often focused on the tendency of gambling to compete business away from other activities and its impact on lower socio-economic areas, a correlation between the growth of gambling and the severity of problem gambling has often been implied.

Thus alongside a general tolerance of gambling, there seems also to be wide acceptance that “there would be a percentage of people who have a problem controlling the use of this product”, and that the increased supply of gambling products is likely to result in an increase in problem gambling.⁷⁷

At the same time, it not clear whether people think the *percentage* of problem gamblers (as opposed to their absolute number) will increase as a

⁷⁵ Salvation Army — Australian Eastern Territory, 1998, *Submission to the Productivity Commission's Inquiry into Australia's Gambling Industries*; p. 1.

⁷⁶ Transcript of Proceedings, Productivity Commission, 25 November 1998, Melbourne; pp. 609-625.

⁷⁷ Submission by the Australian Hotels Association, 1998, to *Inquiry into Australia's Gambling Industries*, Transcript of Proceedings, Productivity Commission, 23 November, Melbourne; p. 628.

result of a greater availability of gambling products and or of a greater volume of gambling expenditure. **On the face of it, there is as much reason to believe that the percentage will drop as rise.** People who are pre-disposed to becoming compulsive or problem gamblers may be attracted into gambling, even at low levels of supply. Also, learning may be important — once the novelty of a particular gambling form wears off, the percentage of people who experience problems controlling their use of it may decline. To the best of our knowledge, no submissions to the Productivity Commission's inquiry to date have conveyed any general opinions on these matters.

Concentration in poorer areas

A large number of submissions have drawn attention to the evidence that usage of particular gambling products, especially EGMs, tends to be concentrated in low income, lower socio-economic areas. Various equity and efficiency issues related to this have been voiced in submissions. Although the idea that this might have led to an undue concentration of problem gambling as an illness in poorer areas has not been *explicitly* emphasised, in some submissions there has been an *implicit* argument that the incidence and severity of problem gambling have increased as a result of the supply being concentrated in areas of relative 'social disadvantage'. Underlying this seems to be a view that problem gamblers are more likely to emerge from lower socio-economic groups and that the negative consequences of any such problem for those groups are greater. To our knowledge, though we are concerned also with the way excessive taxation of gambling may be affecting poorer people in society, no robust statistical evidence has been evinced to substantiate such claims. **Many submissions expressing suspicions of a kind of 'targeting' of lower socio-economic areas by the gambling industry have stressed the lack of statistical data and have called for further research.**⁷⁸

An acknowledged benefit of the growth in gambling outlets has been the availability of legal and safe gambling venues for women and ethnic groups in lower socio-economic areas. Some commentators, while critical that only gambling venues were available, see this as a great improvement in areas with otherwise poor social infrastructure, by providing opportunities for such people to develop alternative social networks.⁷⁹

The Productivity Commission has also been reminded in submissions that seeking to limit problem gambling through controls on the number of

⁷⁸ Typical of these is the submission by Springvale Legal Services (Transcript of Proceedings, Productivity Commission, 23 November 1998, Melbourne). A commentary on these proposals was offered in this Submission in a Box 4, Chapter 3.

⁷⁹ See for example, a submission by Women's Electoral Lobby in Victoria *op. cit.*

outlets could backfire by promoting underground activity. If the legal supply of gambling products is severely restricted, actual or potential compulsive gamblers would be the most obvious target for illegal providers.⁸⁰

Occurrence of problem gambling

Many submissions assert that problem gamblers represent 'at least one per cent' of the adult population. Typical of several submissions in this regard is that by the Inter-Church Gambling Task Force, which argues that:

"If we do even accept the very lowest level of 1 per cent of the population, then perhaps in Melbourne we might have at least 30,000 with severe compulsive problem gambling. When we allow for the fact that each one of those people is generally considered to have affected in some way seven other people, either their families or their employers or their social associates, then we are really talking about quite a significant problem."⁸¹

The 'one per cent' estimate is based partly on some heavily qualified SOGS-based studies (which will be discussed later in this Chapter) and partly on folklore and casual empiricism of other kinds. We remain open minded, but see no good reason to accept the assertion of a one per cent rate of occurrence.

Certainly, the general consensus among participants at the Productivity Commission's hearings appeared to be that the proportion of the population represented by problem gamblers, however defined, is very small. Moreover, the claimed complementary indications — severe hardship, other compulsions, suicidal tendencies and low social and self esteem — suggest that those identified as having gambling problems would have problems whether gambling was available to them or not. Thus while a growth in problem gambling is seen to have coincided with the rapid expansion of the availability of legal gambling products, the alleged causal link may be quite spurious.

It remains to be demonstrated to what extent the availability of gambling products *per se* has contributed to a net increase in social problems. As far as we can tell, no submissions to the Productivity Commission so far have shed light on that issue.

⁸⁰ For a particularly lucid comment on these issues, see the submission by the Australian Hotels Association, *op. cit.*

⁸¹ *Ibid.*; p. 376.

Deception as a cause of the problem

Speaking about the causes of problem gambling, several participants at the Productivity Commission's hearings complained that gamblers often have a very poor understanding of the gambling odds of the gambling products they buy. More critically, it was asserted that besides failing to display odds information, gambling product providers seek to lure gamblers into overspending by making cash easily accessible through having ATMs located on premises, making gamblers unaware of the time spent gambling, and so on, all of which increases the likelihood of a gambler becoming addicted. There are suggestions that, as a counter measure, at the very least, the odds associated with various products (or the expected cost per game) should be clearly displayed (especially on EGMs).

In the ordinary course of events, one would expect providers to have a strong incentive to supply, and be seen to supply, quality products at competitive 'prices'. As with other services, the better value products ought to prove more popular and one would expect 'the good to drive out the bad.' Consumers are likely to get value-for-money gambling products if there is competition.

Whether consumers suffer a lack of information is by no means clear.

It is foolish to say that consumers are deprived of the means of keeping track of the time they spend gambling — nearly everybody these days wears a wristwatch. As for information about odds, admittedly there are restrictions on advertising and there are technical problems with showing odds on EGMs.⁸² But, by and large clients are well catered for, especially in regard to the more complex games. Casinos, for example, will eagerly supply brochures explaining the rules of games, plus the odds associated with particular types of bets.⁸³ TABs and bookmakers display odds information continuously. And every Australian jurisdiction already has laws saying what odds lotteries must offer and even how consumers are to be informed about the odds of charity raffles. Providers of lotto-type games publish the odds associated with various games (see for example, Box 6 below). As regards ATMs, our observation is that ATMs are never located on gaming floors and if they are available nearby they are considered a great convenience by the vast majority of visitors.

⁸² At the Productivity Commission's Melbourne hearings in November 1998, an industry representative mentioned technical and legal problems with providing information on gambling odds, especially in relation to EGMs (see presentation by TABCORP Holdings Ltd. (Transcript of Proceedings, Productivity Commission, 24 November 1998, Melbourne; pp. 527-544).

⁸³ See for example, the brochures on blackjack, stud poker, Caribbean stud poker, the wheel, sic bo, craps, baccarat, and two up made available to patrons by Conrad Jupiters Gold Coast casino. Significantly, the brochures also contain contact information for a Queensland program run by the casino in conjunction with Relationships Australia Break Even Program to combat problem gambling. Separate brochures about the program (often in several languages) are also made freely available, as are brochures about other service quality features such as the casino's self exclusion program and its arrangements to police the proper care and supervision of children by visitors.

Box 6: Odds for Tattersall's lotteries

Chances of Winning Tattslotto		Chances of Winning The Pools	
A Tattslotto entry requires a minimum of four games.		A minimum of 2 games is required to play The Pools	
Division 1	1:2,036,265	Division 1	1:1,380,341
Division 2	1:169,689	Division 2	1:230,057
Division 3	1:9,173	Division 3	1:7,422
Division 4	1:184	Division 4	1:186
Division 5	1:75	Division 5	1:149
Any price 1	1:53		
Chances of Winning Division 1 in Tattslotto		Chances of Winning Keno	
System 7 (7 games)	1:1,163,580	Spot 10 – Match 10	1:8,911,711
12-game Quick Pick	1:678,755	Spot 10 – Match 9	1:163,381
18-game Quick Pick	1:452,504	Spot 10 – Match 8	1:7,384
System 8 (28 games)	1:290,895	Spot 10 – Match 7	1:620
Take 5 (40 games)	1:203,627	Spot 10 – Match 6	1:22
System 9 (84 games)	1:96,965	Spot 9 – Match 9	1:1,380,688
System 10 (210 games)	1:38,786	Spot 9 – Match 8	1:30,682
System 15 (5,005 games)	1:628	Spot 9 – Match 7	1:1,690
System 20 (38,760 games)	1:211	Spot 9 – Match 6	1:174
		Spot 8 – Match 8	1:230,115
		Spot 8 – Match 7	1:6,232
		Spot 8 – Match 6	1:422
		Spot 7 – Match 7	1:40,979
		Spot 7 – Match 6	1:1,366
		Spot 7 – Match 5	1:116
		Spot 6 – Match 6	1:7,753
		Spot 6 – Match 5	1:323
		Spot 5 – Match 5	1:1,551
		Spot 5 – Match 4	1:83
		Spot 4 – Match 4	1:326
		Spot 4 – Match 3	1:23
		Spot 3 – Match 3	1:72
		Spot 3 – Match 2	1:7
Chances of Winning OZ Lotto		Chances of Winning Tatts 2	
Division 1	1:8,145,060	Dividend 1	1:4,851
Division 2	1:678,755	Dividend 2	1:25
Division 3	1:36,690		
Division 4	1:733		
Division 5	1:298		
Any price	1:211		
Chances of Winning Super 66			
Division 1	1:1,000,000		
Division 2	1:55,556		
Division 3	1:5,556		
Division 4	1:556		
Division 5	1:56		
Chances of Winning Powerball			
Division 1	1:54,979,155		
Division 2	1:1,249,527		
Division 3	1:274,896		
Division 4	1:7,049		
Division 5	1:6,248		
Division 6	1:557		
Division 7	1:161		

Source: Tattersall's: A Corporate Profile (see also: www.tattersalls.com.au)

As we will discuss later in this Chapter, the bottom line is that there is no basis for thinking that gambling service providers have sinister motives. A representative of the hotel trade made the commercial point at the Productivity Commission's Melbourne hearings that: "the last thing you want on your premises in a gaming venue is a problem gambler. We do not want them. We do not want to take money from them."⁸⁴

The key to ensuring that suppliers display a caring attitude is competition. Competition is always the consumer's strongest ally against

⁸⁴ The AHA submission, *op. cit.*; p.644.

deception and entrapment. Likewise however, the possibility that regulations and taxes which limit the number of gambling venues or the range of products on offer could become a contributor to problem gambling by working in the other direction needs to be considered. To our knowledge, the AHA is the only other participant at the Productivity Commission Inquiry to have expressly raised this possibility.⁸⁵

Reference will be made again later in this Chapter to gambling service providers' efforts to safeguard their customers' welfare.

Proposed remedies

Notwithstanding the current extent of government regulation and self-regulatory initiatives of the industry, many participants at the Productivity Commission's hearings called for further restrictions on the availability of gambling products and on the location of gambling, especially EGM venues. There are also many who say that self exclusion measures need to be better policed and enforced. These calls for further restrictions have come from certain churches and religious organisations, local government bodies, welfare organisations and some parts of industry (eg. NSW clubs).⁸⁶

Behind these suggestions is an assumption that problems such as socially harmful compulsive gambling could be remedied by regulating supply even further and particularly through measures to divert demand from lower socio-economic areas to better-off parts of country. Contradictory outcomes that would be likely to accompany several of these 'remedies' are well addressed in the submission prepared by the Australian Hotel Association.⁸⁷

Some of the calls by Productivity Commission Inquiry participants for further intervention to control gambling look like special pleading. This is particularly true of the repeated calls heard at the hearings for the extra earmarking of gambling industry levy funds for 'social' and 'research' and 'local use' purposes.

Good public policy is about the search for measures that will promote society's general interest, not special interests.

Many organisations, and not just the churches, include a kind of an 'evangelical' purpose amongst their objectives — to spread the word and convince others of certain views — and with regard to gambling as with other things, advice is always being offered by well-meaning people

⁸⁵ AHA submission, *op. cit.*

⁸⁶ See, for example, the previously quoted submissions by the Inter-Church Gambling Task Force and Springvale Legal Service.

⁸⁷ Transcript of Proceedings, Productivity Commission, 25 November 1998, Melbourne; pp. 626-644.

about how others should behave. For those who see progress arising from the competition of ideas, the contest amongst religions and other voluntary movements for adherents to their ideas is no bad thing. A certain tolerance of others' views is required if there is to be genuine competition, of course, and regrettably, this is not always shown. There are some who feel their own powers of persuasion should be backed by the coercive powers of the state. This is where zealots and ordinary Australians are likely to part company.

6.3 Statistics on the impact of problem gambling

6.3.1 Problems posed by the absence of a clear definition

A particular difficulty posed by the diverse range of definitions of problem gambling that are in use and their subjectivity is the absence of agreed parameters by which the extent and severity of the problem can be described. How are 'harmful' or 'obsessive' gambling activities to be measured, for example?

In practice, problem gambling tends to be quantified in terms of either the number of people/percentage of population who achieve particular scores when subjected to standard, questionnaire-based tests (who are then variously described as 'pathological gamblers' or 'people at risk of becoming problem gamblers') or the number of people who present themselves for assistance with their addiction (self-referrals) or who are reported as 'problem gamblers' by their families, employers, medical practitioners or social workers.

It is not clear how the test-based measures of the population 'at risk' correlate with the data on self-referrals and people described as compulsive/problem gamblers by others. Statistics on the latter appear not to be publicly available, or are (as we discuss later) incomplete. There are however some figures from surveys using standard questionnaires and these are outlined below.

6.3.2 SOGS studies in Australia and the US

Seven studies using SOGS, the problem gambling detection device mentioned earlier, have been completed in Australia since 1994. Adelaide, Brisbane, Melbourne and Sydney were surveyed in 1996. Tasmania, WA, NSW and SA were surveyed in 1994, 1994, 1996 and 1996 respectively. A Queensland study (to examine the relationship between the introduction of poker machines and problem gambling) was undertaken in 1995.

In general the studies have found SOGS scores of 5 or more (said to indicate in the Australian setting a "potential problem") in 0.5 per cent

(Western Australia 1994) to 2.8 per cent (Tasmania 1996) of the total population.

A rather similar geographic range of results is reported across states in the US, with fewer potential problem gamblers as defined by SOGS in heavily rural, and ethnically homogeneous populations that have little access to legal gambling (such as was the case in Minnesota and North Dakota), rather than in the likes of Connecticut, Massachusetts, Mississippi and Louisiana which traditionally had many outlets.

In low rate states in the US, potential problem gambling has been found to be 1 per cent or less of the population (eg Texas, Georgia 1995), while in high rate states, findings of up to 2.1 per cent (Mississippi early 1990s) have been recorded. These one-off findings have been supplemented by repeat surveys to calculate so-called “lifetime problem” rates — the idea apparently being that, if the gambler scores a positive count in the first *or* the second survey, they are recorded as having a lifetime problem.

Lifetime problem rates defined in this way typically have been found to be 50 to 100 per cent higher than one-off figures (eg 2.1 per cent one-off and 3.1 per cent lifetime for Mississippi), indicating some, but a variable, “recovery” rate by victims between one period and the next.

New Zealand one-off SOGS 5-plus score findings of 1.2 per cent (1991); Canadian findings of 0.75 per cent (Saskatchewan 1994) to 1.4 per cent (Alberta 1993); and Spanish findings of 1 to 2 per cent (1993) may indicate that the gambling problem phenomenon is fairly universal, although it would also be expected that cultural factors would determine how seriously the 5 score cut-off was taken as an indicator.

Other studies undertaken have included so-called replication studies, where the point of interest has been changes in the incidence of problem gambling following the introduction of additional gambling products. A well-known US example is the study of Minnesota, a state which was surveyed in 1990 and again in 1994. In 1990 Minnesota had a state lottery, pull tabs sold by charitable organisations in public bars and private clubs and high stakes bingo run by Native Americans on reservation lands. By 1994 Native American gaming had expanded to include video games and blackjack as well as bingo and there were 17 full-scale tribal casinos in operation around the state. Interestingly, in 1994 the survey found *no* increase in SOGS 5-plus score ratings.

A recent Harvard study synthesised information from 120 different studies. It claimed that about 1.29 per cent of adults could be classified as having ‘serious pathological problems with gambling’⁸⁸. Nonetheless, the

⁸⁸ Shaffer, H J, 1998, *Estimating the Prevalence of Disordered Gambling Behaviour in the United States and Canada: A Met-analysis*, Harvard Medical School, Division on Addictions.

inherently subjective nature of the findings was conceded and must be a serious challenge to such 'findings'.

6.3.3 Self referral data

In a supplement to its main submission to the Productivity Commission Inquiry, Relationships Australia of Queensland (RAQ) included detailed data concerning people who had presented themselves to the Gold Coast Client Service Unit of Break Even since its inception in May 1993. This is of its nature different from survey information, where so much depends on what position the interviewers start from. In a sense they can be said to represent the self-diagnosis of the people involved, arguably a more objective test. **Unfortunately the RAQ figures are not readily interpreted in a statistical sense, and indeed, even with the help of a supplementary RAQ document entitled *Explanatory Notes Accompanying Data Reports*, the material cannot be generalised to the population-at-large.**⁸⁹ This is because the people presenting themselves are not a known sample and the questionnaires they were asked to complete were again subjective and seemed likely to yield 'facts' of dubious relevance.⁹⁰

Presumably on the basis of its experience, elsewhere in its submission, RAQ offered the view that extreme addiction to gambling may be limited to "one per cent or perhaps less of the population", but also said that there was "a larger group of excessive or problem gamblers". Without naming a source it said "Estimates have placed the percentage of this group of excessive gamblers in the range of 5 per cent to 8 per cent depending on the criteria used to describe the problem" (Submission p.1).

These figures are several times larger than the usual 1 to 3 per cent cited on the basis of SOGS-type surveys for those who suffer from problem gambling or are "at risk". It would be interesting to know where the figures came from.

The Springvale Legal Services Inc (SLS) submission to the Productivity Commission's inquiry put at 3 per cent the proportion of gamblers for whom "gambling is a diabolical curse ... [which] ... they cannot afford in any sense, that may destroy their relationships, financial services or lead

⁸⁹ An example of the way the absence of sampling information diminishes the relevance of the data presented by RAQ is the information it presents on the gender of Break Even Gold Coast clients. RAQ says (Submission p.5) that of the 682 clients the service has had since 1993 some 322 (ie. slightly less than half) were females. This is potentially of scientific interest, given the recent findings by the ABS that, although the numbers of men and women classified as having a "mental disorder" were much the same, women were 45 per cent *more* likely than men to use the services of a psychiatrist or a psychologist. (See: ABS, 1998, *Mental Health and Wellbeing: Profile of Australian Adults, 1997*, March; p.37.) However, in the absence of more statistical information about the Break Even figures, readers of the RAQ submission are unable to tell whether the facts it presents are consistent with the ABS findings or not.

⁹⁰ The figures include responses to subjective and time independent questions of the type contained in the SOGS, referred to earlier.

them to suicide”.⁹¹ This was said to be a conservative figure based on gamblers who seek treatment. It cited a 1997 article in the *Alternative Law Journal* to support its view that “as many as 85 per cent” of these people “may” commit crimes to finance their gambling. Again the statistical basis of the estimates cannot be established from the material submitted.

6.3.4 Impacts on youths and other subgroups

While all so-called problem gambling findings must be heavily qualified, even less appears to be known about the incidence of the problem amongst youths and other subgroups than amongst the population as a whole.⁹² It is said that extensive research has yielded ‘indications’ that city living, access to legal gambling and especially access to ‘continuous’ forms of gambling (such as EGMs, betting and casino gaming), and being single and less than 30 years of age are correlated with ‘problem gambling’. However, medical experts in Australia have still concluded that:

“There are, however, no clearly substantiated processes or circumstances that have been shown to account for problem gambling”.⁹³

There is a similarly inconclusive flavour about the alleged links between problem gambling and other phenomena. Among the alleged health effects of gambling, for example, are anxiety, depression and even suicide, but the cited evidence is not compelling. In recent months, for instance, claims that gambling has raised suicide rates have been examined in a US-wide study and shown to be without foundation.⁹⁴

It is remarkable that in this context Australian states are allocating large sums to provide support, education and counselling to problem gamblers. By end-January 1997, for example, the Victorian government alone had allocated \$33 million to spend on the problem.⁹⁵ Many qualifications apply to such figures, however, and these are discussed further in Section 6.4.3 below.

⁹¹ Springvale Legal Service, 1998, *Extension and Monitoring of Pressures and Limit the Consequences of Problem Gambling in Australia*, Submission to Productivity Inquiry into Australia’s Gambling Industries; p. 4.

⁹² For example, see the submission by the Victorian Women’s Electoral Lobby *op. cit.*

⁹³ Australian Institute for Gambling Research 1997, *op cit.*; p. 59.

⁹⁴ McLeary, R and K Chew, 1998, “Suicide and Gambling: An Analysis of Suicide Rates in US Counties and Metropolitan Areas”, *Report to the American Gaming Association*, University of California at Irvine, 24 September.

⁹⁵ *Ibid.*; pp. 74-75.

6.4 “Public choice” view of the problem

Over the past two centuries, economists have studied the role of individual rights, interest groups and collective action by governments in some depth. The current field of study specialising in this subject area, known as ‘public choice theory’, offers a number of useful policy insights concerning problem gambling.

For economists, the key question about problem gambling is what should governments do about it? Do voluntary market processes have the capacity to deliver socially preferred outcomes? If not, what rules might be introduced? These issues are considered below.

6.4.1 Consumer sovereignty, externalities, and paternalism

From an economic policy point of view, the question of whether, and if so how, governments might deal with problem gambling turns on whether there is a case for denying (or overriding) consumer sovereignty. As will be explained, the standard ‘market failure’ argument for doing so (externalities, etc.) is not convincing in the problem gambling case. Nor can much analytical support be found for the paternalistic idea, popular in some circles, that governments should intervene in some way to combat so-called ‘irrational’ or ‘self-damaging’ behaviour by gamblers.

Consumer sovereignty

The term ‘consumer sovereignty’ captures the idea that consumers are the best judges of their own welfare and are truly better off only if they are better off in their own estimation. This tolerant and seemingly innocent concept turns out to be surprisingly controversial when pushed to the limit, but it is one of the pillars of standard economic analysis. (Presumably some people say they support the principle without realising its implications).⁹⁶ It is a kind of axiom which underlies the conventional economic theory of consumer behaviour and demand and, through it, much of the analysis which public choice specialists undertake.

As a recipe for determining what is good for society as a whole, allowing consumers to be sovereign when choosing what and how much to consume will produce efficient outcomes (that is, results that are most useful from the point of view of the whole of society) most of the time.

⁹⁶ For example, in its submission to the Productivity Commission’s inquiry, Springvale Legal Services (SLS) criticised the involuntary exclusion of people from gambling venues as being “... anachronistic because it assumes that others know what is best for the gambler.” Yet in the same breath, SLS suggested that the idea that the gambler should have no input to their own treatment was worthy of serious research, and even mentioned compulsory counselling as a possible alternative. (SLS, 1998, *op cit*; p. 4).

But it has some well known limitations as well. The economics textbooks identify a number of situations, of the type introduced in a general way in the discussion of policy objectives in Chapter 1 of this Submission, when some modification of voluntary ‘market’ outcomes through government intervention may be socially beneficial.

Market failure and market imperfections

Leaving aside cases when governments choose to modify market outcomes for re-distributive (or so-called ‘equity’) reasons, if ‘market failure’ is thought likely to be occurring, or if some immovable policy intervention is thought to be creating production or consumption distortions (termed ‘market imperfections’), carefully designed interventions may serve to raise national income and/or consumption efficiency, leaving the community as a whole better-off.

Inoculation campaigns are standard examples of sensible interventions for market failure reasons. The logic is especially strong for an easily transmittable, but deadly disease, such as tuberculosis. The basic market failure being combated in this case is the fact that any infectious person is a hazard who imposes costs on not-yet-infected people without their knowledge or agreement. The ‘interference’ being imposed is not subject to any contractual agreement. While in theory there is nothing to stop safety-minded people ‘bribing’ their neighbours to accept inoculation, in practice, the complex array of multilateral contracts that would be needed to control a disease that way would be too costly to arrange.

Externalities

‘Externalities’ or ‘uncompensated spillovers’ (otherwise known as ‘external effects’, ‘external economies and diseconomies’ or ‘neighbourhood effects’), are the best known forms of market failure which may warrant corrective intervention on the part of government.⁹⁷ The epidemic control example given above, is a classic example.

Externalities would not give rise to a misallocation of resources if there were no transactions costs (costs of all the supporting activities that enable transactions to take place - for example, broking and legal services) and if property rights were well defined and enforceable. In such a case, the parties to spillover effects would face no obstacle to resolving the issue through a mutually beneficial trade that would

⁹⁷ Theoretically, market failure is quite common, since knowledge (especially foreknowledge) is costly and property rights are often expensive to define and enforce. Ordinary courtesies and voluntary codes of behaviour will fill many gaps, but some (generally minor) effects are bound to remain outside the contracting framework which characterises market behaviour. In market economies, institutions to enable more efficient contracting are continually evolving and it will be difficult for governments to improve on this process.

‘internalise’ the externality, that is, enable it to be a good or service traded at a market price.

Few disagree that government efforts to contain negative externalities (and encourage the activities that generate positive externalities) are desirable. However, it needs to be demonstrated, on a case-by-case basis, whether government intervention is capable of improving on market performance. It will be more economical to put up with market distortions if it would cost too much to put the matter right, or if the ‘remedy’ would be worse than the ‘disease’.

Bearing all these considerations in mind, we think it is difficult to identify any externalities demanding corrective action by governments in relation to problem gambling.

For example, the diversionary impact of gambling on other types of consumer spending is not a genuine externality. It is simply the result of competition in the market place, where the outcome is the result after the consumer has weighed the alternatives. The principle is the same as applies when a consumer decides to switch expenditures between department stores, or hairdressers or holiday destinations.⁹⁸

Another externality candidate which is not altogether convincing is when gambling causes budget problems within the gambler’s household and disadvantages some family members relative to some prior position or norm. The difficulty here is that, viewed strictly from an economic standpoint, the spillovers between members of a household are usually covered by a web of ‘implicit contracts’ (and indeed, this may be a useful economic definition of a household). Admittedly there is room for different points of view on this, but we do not think it should automatically be accepted that the state has a role in household management.

A more convincing externality possibility would seem to be where compulsive gamblers become insolvent with the result that they and their dependants end up being supported by the taxpayer. The temptation here is to rush in and say, in the name of protecting national income, that something should be done to prevent this free riding on the state. Perhaps governments should try to ‘internalise’ the problem, by transferring responsibility for the welfare of gambling victims to the industry itself, through a special fund. But every such ‘solution’ breeds its own problems. How would claims of gambling problems be assessed? Who would decide the correct size of each claim? How would a gambling problem be distinguished from a general problem? Would the gambling

⁹⁸ They are what were termed in the early market failure literature ‘pecuniary externalities’ (as distinct from ‘technological externalities’).

excuse come to be used by everyone in trouble? Would these matters have to be settled laboriously in the courts? And so on.

Certainly the scale of problem gambling would not seem to be one which warrants a wholesale redesign of the social security system. As we have already discussed, it would seem that very few people are at risk of becoming 'problem gamblers'. More importantly, as we will repeat in the final section of this Chapter, gambling service providers have a strong interest in seeing that no harm comes to their customers.

Merit goods

A less-well-accepted challenge to relying upon consumer sovereignty is that people are poor judges of what is good for them. This seems to be the reasoning behind the observed tendency of governments to override the expressed wishes of consumers and promote the consumption of some goods and services on the grounds that such products are simply 'good' or 'worthy'. These are so-called 'merit goods'.

Government subsidies for operas and symphony orchestras and the provision of university courses for which there is no market demand are usually considered to be examples of merit goods. Sometimes the terminology is changed to 'merit bads' to refer to the equivalent cases when governments seek to prevent people from consuming certain goods and services which they (the governments) regard as bad for them (for example, addictive substances such as heroin). In some people's minds, compulsive gambling could qualify as a merit bad, requiring paternalistic intervention.

Leaving aside the possibility that they merely reflect caving-in to special interests, the supply of merit goods (or containment of merit bads) by governments is certainly paternalistic. As the originator of the concept, Richard Musgrave once conceded the merit goods concept cuts across the traditional distinction between public and private goods.⁹⁹ Their legitimacy is inherently controversial and is flatly rejected by many analysts.

6.4.2 Rival explanations of compulsive behaviour

One possible justification for merit goods in the form of bans and restrictions might be that they are intended to counter the incidence of irrational, self-destructive behaviour by consumers.

⁹⁹ Musgrave, R, 1990, "Merit Goods", Chapter V in Brennan, G and C Walsh eds., 1990, *Rationality, Individualism and Public Policy*, Centre for Research on Federal Financial Relations, Australian National University, Canberra.

Economists' views on whether compulsiveness and self-destructiveness are truly irrational differ - and, as will be explained below, we are sceptical of the irrationality view. However, the issue warrants brief discussion in the present context.

As noted in a recent contribution by Orphanides and Zervos,

“... economics is predicated on the desire of individuals to pursue happiness and studies their actions toward that end. But in everyday life, we encounter situations in which individuals apparently inflict harm on themselves by pursuing activities described as compulsive, attributed to strong destructive habits or harmful addictions...”¹⁰⁰ (p739).

Two contrasting conceptual frameworks have been applied to apparently self-harmful activities.

What may be termed the ‘irrational addiction’ or ‘shifting tastes’ framework, attributes the possibility of compulsive gambling behaviour to individual characteristics such as the inherently addictive tendency of some individuals, myopia, the shifting of individual preferences over time, time inconsistent discounting, and ignorance. It is observed that heavily addicted and often self destructive individuals tend to be myopic or shiftless people who are naturally prone to compulsive and harmful behaviour.

To the extent that they are myopic or that their preferences change over time in a capricious manner, they may be described as ‘irrational’. This approach is summarised in Box 7 below.

Adherents of the ‘rational’ analytic approach to problems such as compulsive gambling believe they can demonstrate that harmful forms of addiction or habitual behaviour can be reconciled with a regime of stable tastes. They consider that a rational conceptual framework (termed ‘the hypothesis of stable tastes’) can yield more useful predictions about observable behaviour.¹⁰¹

The notion that different compulsions merely reflect differences in natural propensities or vulnerabilities which bear little further analysis, is regarded by the stable tastes hypothesisers as premature.

As Stigler and Becker have despaired:

“... an explanation of economic phenomena that reaches a difference in tastes between people or times is

¹⁰⁰ Orphanides, A and D Zervos, 1995, “Rational Addiction with Learning and Regret”, *Journal of Political Economy*, 103 (41); pp. 739-758.

¹⁰¹ Stigler, G and G Becker, 1977, “De Gustibus Non Est Disputandum”, *American Economic Review*, 67, March; pp. 76-90.

the terminus of the argument: the problem is abandoned at this point to whoever studies and explains tastes (psychologists? anthropologists? phrenologists? sociobiologists?).”(p76).

Box 7: The 'shifting tastes' hypothesis of compulsive behaviour

The explanation for compulsive self destructive behaviour which is favoured by some analysts is that people merely have differences in tastes for addictive products, such as cigarettes, or activities, such as gambling. According to this way of seeing things, almost as a matter of genetic make-up some people are more likely to become addicted, while others, who engage in similar activities, never become addicted. They may gamble happily without ever becoming 'hooked' on it. Still others abstain from potentially addictive products or activities altogether. They are abstemious either because they have no taste for potentially addictive activities or because they prefer to abstain in the belief that experiments with addictive substances and activities (*for example*, smoking or gambling) could easily lead them to addiction. When tastes (individual preferences) differ widely between individuals, people who willingly engage in and later regret activities that are potentially harmful to them, may be regarded as 'irrational'.

An allied view is that an otherwise rational person may engage in (irrational) compulsive and harmful gambling because "a person is not always his usual self."¹⁰² That is individual preferences may change over time, or even flip-flop between different preference states.¹⁰³

The 'schizophrenic' nature of some individuals has also been used to explain the apparent contradiction between their willingness to engage in rational lifetime planning to maximise their economic well being whilst also being willingly involved in activities that are potentially very damaging to their long term interests. Thus, for some people, the present moment may define myopic preferences¹⁰⁴ or an individual may be both a planner, concerned with his/her lifetime utility, and a 'doer', who is completely myopic in the short term, that is, "... exists only for one period and is completely selfish."¹⁰⁵ Such myopia would almost universally be regarded as irrational. Ainslie (1975) attributes shifting preferences to time-inconsistent discounting¹⁰⁶. Self ignorance, another explanation, is addressed by Akerloff (1991), who argues that when preferences change over time, individuals may fail to fully foresee their changing preferences or even recognise with hindsight that such changes have occurred.¹⁰⁷

Their alternative approach, known as the hypothesis of stable tastes or the rational addiction hypothesis is summarised in Box 8 below.

Stigler and Becker are very critical of the 'different tastes/unstable tastes' school. They argue that:

"... no significant behaviour has been illuminated by assumptions of differences in tastes. Instead, they, along with assumptions of unstable tastes, have been a convenient crutch to lean on when the analysis has

¹⁰² Schelling, T, 1984, "Self-command in Practice, in Policy, and in a Theory of Rational Choice", *American Economic Review Papers and Proceedings*, 74, May; p. 6.

¹⁰³ Winston, G, 1980, "Addiction and Backsliding: A Theory of Compulsive Consumption", *Journal of Economic Behaviour and Organisation*, 1, December; pp. 303-304.

¹⁰⁴ *Ibid.*; pp. 295-324.

¹⁰⁵ Thaler, R and H Sherfrin., 1981, "An Economic Theory of Self-control", *Journal of Political Economy*, 89, April; p. 394.

¹⁰⁶ Ainslie, G, 1975, "Specious Reward: A Behavioural Theory of Impulsiveness and Impulse Control", *Psychological Bulletin*, 82, July; pp. 463-96.

¹⁰⁷ Akerloff, G, 1991, "Procrastination and Obedience", *American Economic Review Papers and Proceedings*, 81, May; pp. 1-19.

bogged down. They give the appearance of considered judgement, yet really have only been ad hoc arguments that disguise analytical failures ..." (p89).

Box 8: The 'stable tastes' hypothesis of compulsive behaviour

The 'rational' or 'stable tastes' addiction literature stems from Stigler and Becker's seminal work in 1997. These two Economics Nobel Prize laureates from the University of Chicago pioneered the development of a conceptual framework that allows the investigation of phenomena such as addiction or habitual behaviour without making *ad hoc* assertions regarding differences in, or stability of, tastes.

Their view is that to understand habitual behaviour, one must understand complementarities arising in consumption of goods and services over time. The intertemporal aspects of consumption have long been noted but are not always well understood. We cannot do all things at once or having done something in particular, for example, having watched a movie, we would not willingly do it again. As Becker observes: "... all goods are substitutes if time intervals are sufficiently close and the quantities consumed are big enough."¹⁰⁸ However, for many goods and services, especially if the time periods are not very close, greater consumption earlier induces greater, rather than lesser, consumption later.

Becker (1992) defines 'habitual behaviour' as displaying intertemporal complementarity in that there is a positive relation between past and current consumption. It is commonly observed that people vary in their habituation to the same activity, for example, as a very large number of people engage in gambling without ever becoming addicted to it. Becker defines 'addiction' as a strong habit. To become an addict, a stock of past consumption (experience) must reach some critical level. Once that critical level is reached, further consumption follows an unstable accumulation path and addiction may result. Otherwise, a habit becomes an addiction when the effects of past consumption on present consumption are sufficiently strong to be destabilising. This means that a shock to an individual, such as bereavement, may lead for to an ever-increasing consumption of addictive goods. Yet habits also help to economise on the cost of searching for information and people obtain a degree of reassurance from the continuation of many of their past activities.

Habits and addictions may be 'harmful' or 'bad' if greater present consumption lowers future welfare (utility) of consumers, for example, if a gambling binge leaves a gambler penniless. They may also be 'beneficial' if increased present consumption increases the utility of future consumption. As it is often the case, 'one man's meat is another man's poison' — similar habits and addictions may be harmful to some people, but beneficial to others. As Becker observes, "it is natural that bad habits get more attention than good ones, but "...rational behaviour also implies that the observed strong habits are more likely to be harmful than beneficial."¹⁰⁹ (our emphasis)

Rational consumers are those who consider the impact of increased current consumption on the utility of their future consumption. The precise nature of this process of contemplation has been the subject of close study. In the late 1980s, Becker and Murphy provided a necessary and sufficient condition for a rational (forward-looking) consumer to develop a habit¹¹⁰. They showed that for a habit to develop, it would be necessary for greater past consumption to raise the marginal utility from present consumption, that is, for the past consumption to 'reinforce' the current consumption. Also, the rate at which the future (or past) consumption (of a good with a given amount of reinforcement) would need to be discounted by a sufficiently large degree. Refinements of these theorems have continued to appear.¹¹¹ Examples also exist of some recent Australian work on the role of the discount rate in such decisions¹¹².

¹⁰⁸ Becker 1992, *op. cit.*; p. 328.

¹⁰⁹ Becker 1992, *op. cit.*; pp. 328-329.

¹¹⁰ Becker, G and K Murphy, 1988, "A Theory of Rational Addiction", *Journal of Political Economy*, 96, August; pp. 675-700.

¹¹¹ Becker, G, M Grossman and K Murphy, 1991, "Rational Addiction and the Effect of Price on Consumption", *American Economic Review Papers and Proceedings*, 81, May; pp. 237-41.

Becker, G, M Grossman and K Murphy, 1994, "An Empirical Analysis of Cigarette Addiction", *American Economic Review*, 84, June; pp. 396-418.

Olekalns, N and P Bardsley, 1996, "Rational Addiction to Caffeine, An Analysis of Coffee Consumption", *Journal of Political Economy*, 104 (5); pp. 1100-1104.

¹¹² Levy-Livemore, A, 1998, "Life-expectancy Augmented Rational Addiction: a Note", Department of Economics, University of Wollongong, Working Paper Series, WP 98-1.

The approach Becker *et al* have taken is the more persuasive one. We are convinced that they have shown that harmful forms of addiction or habitual behaviour can be reconciled with a regime of stable tastes and that this way of looking at the issue yields more useful *predictions about observable behaviour*. As Becker himself puts it, the increased predictive power of the stable tastes model not only allows "a few more wiggles in the data to be explained" but also "more profound understanding of those social phenomena where the past influences present preferences".¹¹³

A criticism sometimes levelled at the rational addiction approach, especially by the 'irrational addiction' advocates cited earlier, is the allegation that it is fully deterministic, with people knowing for sure their own predisposition to become addicts and the habit-inducing nature of various consumption activities. Thus, the 'Stigler-Becker addict' is said to have no regrets as he/she walks into a strong habit, be it harmful or beneficial, with his/her eyes fully open. For example, Winston (1980) argues that the Stigler-Becker addict is a 'happy addict', who rationally and carefully enters into his/her addiction and has no subsequent doubts or regrets. Akerlof (1991) also argues that, within the new framework, people develop strong habits and become addicted 'knowingly' and are therefore are never hooked on an unwanted addiction.

The claim that the validity of his model depends on 'perfect knowledge' is denied by Becker (1992) who explains:

"Nothing in the analysis of forward-looking utility-maximising behaviour presumes that people know for sure whether they will become habituated or addicted to a substance or activity, although that is sometimes claimed by critics of this approach. ... Since these and other choices are made under considerable uncertainty, some persons become addicted simply because events turn out to be less favourable than was reasonable to anticipate — the good job never rescued the drug user. Persons who become addicted because of bad luck may regret their addictions, but that is no more a sign of irrational behaviour than is any regret voiced by big losers at a race track that they bet so heavily."¹¹⁴

There have been further developments of this theme in recent years. In their recent re-expression of the Becker *et al* model, Orphanides and Zervos (1995) consider a rational addiction framework whereby: consumption of addictive goods is not equally harmful to all individuals;

¹¹³ Becker 1992, *op. cit.*; p 341.

¹¹⁴ Becker 1992, *op. cit.*; p. 330.

each person possesses a subjective belief structure concerning his/her potential to become addicted; and this structure of beliefs is optimally updated with information gained through consumption (learning by doing).¹¹⁵ A fraction of potential addicts become addicted, and they coexist with casual consumers and complete abstainers. This may be a reasonable description of gambling consumption, and indeed, perhaps of the consumption of every other item as well.

If addiction is defined, after Orphanides and Zervos, as:

"... the unintended occasional outcome of experimenting with an addictive good known to provide certain instant pleasure and only probabilistic future harm."(p741),

it is clear some rational addicts will end up unhappy. They will regret having acted upon misleading information, having ignored other available information, or having been influenced by their peers.

Yet it is fanciful to think in terms of a public program to head off all instances of 'unhappy addiction', whether in regard to gambling or anything else. And most certainly **since compulsions of various kinds are readily explainable as behaviour within rational bounds, we believe governments are not entitled to treat compulsive gamblers as insane people whose habits warrant paternalistic intervention to force them to desist.**

We believe these conclusions are strengthened by the practical issues considered in remaining sections of this Chapter.

6.4.3 Self interest explanations of the problem

Public choice specialists are aware that policy processes can become distorted through capture by interested parties. To some extent, policy making can become a contest amongst vested interests vying to gain the right to turn the powers of the state to their own ends. Sometimes regulatory systems, funding boards and licensing processes serve to entrench the interests of incumbents at the expense of would-be new entrants.

The possibility that governments could be wrongly advised by individuals and groups with vested interests in the existence of certain social problems, or in enumerating the 'innocent victims' of freedoms recently granted, is not difficult to accept. An accompanying risk for the community at large is that governments themselves will become drawn into the misinformation business, perhaps in order to

¹¹⁵ Orphanides and Zervos 1995, *op. cit.*

create opportunities for patronage or pretexts for statesmanship. Such possibilities are commonplace preoccupations of the media. Much of the popular debate about government in Australia, and most other countries for that matter, centres around such issues.

Without saying that it is necessarily occurring at present, deliberate misinformation is a danger for governments and the general public with so-called problem gambling. Among those with a vested interest in the exaggeration of the issue are the sellers of alternative recreational services and other competitors for consumers' disposable income. Some professional groups undoubtedly have a career interest in creating fears about problem gambling also. Finally, if problem gambling becomes a rallying point for government officials and industry representatives, it could become a kind of bureaucratic obstacle to new entrants as well.

The Productivity Commission's charter requires it to weigh the various claims being put and to advise the Commonwealth Government accordingly. We believe it should be open-minded about this. As with crime, **there may tend to be a 'natural rate' of so-called problem gambling. To some extent those charged with managing it may also be its nurturers.**

6.4.4 Possible perverse effects of risk mitigation

A question which always needs to be asked about regulations and government expenditure programs, including any programs to address problem gambling, is whether adverse incentive effects associated with the interventions will undermine their objectives. This is a very wide issue in policy making, embracing such matters as keeping the costs of policing and compliance in proportion to the purpose of the measure and ensuring that administrative staff do not run away with their own agendas, but rather remain motivated to serve client interests. Another concern in the same vein is ensuring that the measure in question does not simply crowd-out voluntary activity which would have been directed to similar ends, and would have met those ends at lower overall cost.

The possibility of crowding out arises poignantly in relation to expenditures to support so-called problem gamblers. For example, we note that in 1995/96, Victoria allocated \$2.5 million over three years from the Community Support Fund in support of a community education strategy which included a media component said to be accessible to all Victorians. It was accompanied by the following positioning statement:

“Most Victorians like to gamble occasionally for pleasure but for some the gambling gets out of control often with dire consequences for them and their families. If you have a problem or you think someone

close to you does, then be reassured because help is available.”¹¹⁶

This statement could be interpreted as an invitation to at-risk gamblers to throw caution to the wind and to the spouses and friends of at-risk gamblers to wait for outside counsellors to do what they themselves would otherwise have done. Certainly this has been the experience in other industries, such as in agriculture where the repeated provision of fodder subsidies in droughts is known to have encouraged farm managers to take more risks.

How much activity of this type is being displaced by a government program is, of course, quite difficult to measure. In part this is because the officials running the program are unlikely to see any career interest in collecting the required facts. **The risk that voluntary checks and balances would be disturbed by public intervention is, arguably, fairly significant in the Australian setting where, by reputation our relative tolerance of gambling and the widespread acceptance that people should be allowed to enjoy the activity is backed by long-standing customs and other arrangements for containing the social consequences.** It may be no accident, for example, that in Australia defaulting on gambling debts is considered socially very dishonourable and is not accepted by the courts as grounds for bankruptcy.¹¹⁷

As the Institute for Gambling Research has pointed out, the local norms are much different to the American pathological gambling model and its domination by the incurable illness paradigm. In particular, as the Institute notes, there is a long tradition in Australia of taking the harm minimisation approach to such matters.¹¹⁸ Integral to this has been the active support for programs by the gaming industry itself through such instruments as *Responsible Gaming: An Industry Code of Practice for Victoria*. The recognition that government outlays may displace voluntary private sector initiatives that are more cost-effective and sensitively targeted is as crucial in gambling policy as in any other policy field.

Another displacement possibility is that discouraging or barring allegedly problem gamblers from gambling could cause them to substitute some other risky activity which is more expensive and more damaging. The real social issue may have more to do with the type of person involved than that they happen to be gambling. The behavioural complexities involved remain clouded in uncertainty. There is evidence

¹¹⁶ Cited in Australian Institute for Gambling Research, 1997, *op. cit.*; p. 78.

¹¹⁷ As Springvale Legal Service Inc said in its submission, s271 of the *Bankruptcy Act 1996* (Cth) provides that a person who declares themselves bankrupt due to gambling is guilty of an offence punishable by up to one year's imprisonment (SLS sub; p. 10)

¹¹⁸ Australian Institute for Gambling Research, 1997, *op. cit.*; pp. 17.

that people with more deep-seated problems are included in the problem gambler ‘count’. For example RAQ said in its submission to the Productivity Commission inquiry:

“Among problem gamblers there is a percentage of people who have been placed on sickness benefits for psychiatric disorders.”¹¹⁹

The strong incentives and expertise of gambling service providers to protect their clients from harm are discussed further in Section 6.5 below.

It is important to ask what gambling consumers would do if they were denied access to commercial gambling opportunities. Would risk-seekers choose other more expensive, or more dangerous outlets? The answers to such questions are important if restrictions on commercial gambling are being contemplated to combat problem gambling.

6.5 Practical containment

6.5.1 Instruments and objectives — the principles

Even if it is accepted that governments should play some role in ameliorating the ill effects of obsessive gambling by some consumers of gambling services, the instruments that might be employed deserve careful thought. Currently, controls on gambling service providers are dominated by heavy taxation, up-front licence fees, restrictions on the number of operating licences and rules governing the proportions of different types of ‘games’ in particular venues. Accompanying regulations selectively earmark a proportion of gambling tax revenue in hotels and casinos for contributions to so-called ‘community funds’ a relatively small proportion of which is spent on research on problem gambling and counselling services and other safety-net-type activities to support victims identified as having a gambling problem.

Whether the present array of controls are the correct instruments and even if so, whether the current mix of measures is even remotely like the most appropriate mix to ameliorate any problem gambling which may exist, is open to question.

Instruments and targets

The simple notion that, ideally, policy measures should be pitched as directly as possible at their policy targets is a useful point of departure

¹¹⁹ Relationships Australia (Queensland) 1998, *Submission to Productivity Commission Inquiry*, November; p. 3.

when addressing this type of issue.¹²⁰ A corollary to this, and indeed one which has a strong academic pedigree, is the rule that each policy target be addressed with its own instrument — that is, that the number of instruments and targets should be the same. Among the intentions of a rule of this type is to provide some discipline in the articulation of policy targets, which, given the imprecisions and uncertainties surrounding problem gambling outlined earlier in this Chapter, would seem particularly relevant in the present case.

It seems likely that behind policies to address problem gambling there would be at least two, and probably three, objectives. Presumably *prevention* of the problem and *providing support* for those already afflicted would be two objectives. A third, in all likelihood, would be for governments to be *seen* to be addressing fears that such problems might exist — at least for some transitional period following the introduction of new freedoms in the supply of gambling services.

The latter, ‘cosmetic,’ objective may be relevant in the modern gambling environment because there has recently been a fairly rapid change in gambling industry rules in the three largest Australian states — NSW, Victoria and Queensland. In each case, the ‘goal posts’ have been shifted, as it were, with consequent threats both directly to traditional gambling businesses and indirectly to charity fund-raisers, retailers and a wide range of input suppliers. The Productivity Commission has received submissions from a number of such parties, including representatives of the charity sector in Queensland, upon whom the recent policy shifts have imposed new structural pressures.

Although the scale of changes wrought by the policy shifts relative to ongoing commercial developments would be a matter of some argument, and although the policy shifts could be quite readily foreseen some years beforehand, governments nonetheless appear to have found themselves bearing some onus for whatever pressures these sectors are now under. Maintaining a close watching brief on the social outcomes of their new policy measures is one way the complaints and charges of irresponsibility by these groups can be managed.

Assignment of instruments

The choice of instruments to meet well-expressed objectives is another policy administration field which has received high profile academic attention. Authors such as the well-known Canadian economist, Mundell, have written extensively (mostly in a macroeconomic management context) about the instrument-choice or so-called ‘assignment’ problem.

¹²⁰ This now orthodox principle of policy administration is usually attributed to the famous Dutch economist and joint-1969 Nobel laureate, Jan Tinbergen.

The key insight, perhaps, is that the assigning of instruments needs to be undertaken in the light of a rigorous understanding of the system of relationships which link the candidate variables. In macroeconomic management, agreement on this can be elusive, but opinions are converging.¹²¹

The task of matching instruments to problem-gambling targets would be made more tractable if more were known about the nature of the problem gambling phenomenon and where it fits into behaviour more generally. Among other things, it might help if the answers to the following questions were known:

- To what extent will amelioration of the personal ill effects of apparently excessive gambling create a tendency in the victims to raise their risk-taking behaviour beyond pre-amelioration levels in a ‘compensatory’ way?
- Are people who appear to gamble excessively likely to choose less preferred and potentially more damaging outlets for risk-taking if commercial gambling outlets are denied to them?
- More specifically, are the risk-taking appetites of so-called problem gamblers and their apparent taste for gambling in particular, stimulated or depressed by rules which mean gambling (or certain forms of it) can only be accessed by clandestine means?

The answers to all of these questions are relevant to the choice of instruments to address at least two of the three possible problem gambling objectives identified a few paragraphs above.

6.5.2 The imprecision of taxation and licensing as control instruments

Even without knowing the answers to the questions posed in the previous section, it is possible to be quite disparaging about the suitability of current taxation and licensing provisions as means of combating any so-called problem gambling which may exist. The principal reason is that, as elusive as condition appears to be, **even popularisers of the concept of problem gambling seem prepared to concede that it is confined to a very small minority of gamblers and an even smaller minority of the Australian population as a whole. On this basis alone, blanket taxation or blanket entry licensing are very blunt instruments.**

The unsuitability of these instruments as control measures extends to their possible use in a discriminatory way to different degrees for different

¹²¹ The assignment problem can be looked upon as a special case of the ‘Theory of Second Best’ which highlights the enormous informational challenges faced by policy makers if they try to meet policy objectives with instruments which seek to offset the distortions caused by others. The superiority of precise assignment rests on avoiding such imbroglios.

gambling types, or for different gambling venues. None of the evidence about personal trauma associated with gambling convincingly indicates that it is more or less attributable to particular types or venues. Earlier in this Chapter, the absence of robust statistical evidence of any kind on this matter was mentioned, and it appears that counterfactual anecdotal evidence can readily be found to match the anecdotal evidence which lies behind the claimed increased severity of the excesses observed with EGMs in particular. Among other things, the need for any statistics on such problems to be corrected for 'access' variables (eg the number of such facilities available) will be obvious.

It is difficult not to conclude that the problem gambling pretext for the existing taxation of and entry controls on the gambling industry is a sham. Our belief that revenue raising is the primary objective of existing intervention is a theme developed in Chapters 8 and 9 below.

6.5.3 Current safety-net outlays by government agencies

The cost of public and certain other services for problem gamblers and their families in NSW in 1996-97 was recently estimated to be \$3.2 million.¹²² The figures underlying this estimate were from an earlier study, undertaken in 1995. Some of the identified funds outlayed were for 'research'. Given the shallowness of the data cited, the estimate seems impressionistic.

We understand that the New South Wales Casino Benefit Fund has had almost \$28 million to spend over the last three years but there have been insufficient problem gambling projects to absorb much more than half of these funds.

A summary of the findings of research sponsored by the Victorian Casino and Gaming Authority to 1996-97 was prepared for the Authority in December 1997 by the consulting firm, Arthur Andersen.¹²³ In addition to reporting general findings such as that negative community perceptions of gaming "appear to have been exaggerated when compared with actual social impacts" (p.1), the Summary says, enigmatically, that according to research over the period 1992-96:

"Some public and community services claim to have experienced increased workloads. However, there were areas where no increase in demand for community services has occurred." (p.4)

¹²² Dickerson, Mark, *et al*, 1998, *A Repeat of the 1995 Study 2: An Examination of the Social Economic Effects of Gambling on Individual, Families and the Community, Including Research on the Costs of Problem Gambling in New South Wales*, A report by the Australian Institute for Gambling Research for the (NSW) Casino Community Benefit Fund, June.

¹²³ Arthur Andersen, 1997, *Summary of Findings, 1996-97 Research Program*, Report prepared for the VCGA, Champion Press, Melbourne, December.

The impression given is that, despite some claims to the contrary, there has been little if any net increase in demand for community support in Victoria since the increase in gaming activity. As noted earlier in this Chapter, the record shows that up until January 1997 the Victorian Government has spent \$33 million through its Community Support Fund, on support for problem gamblers¹²⁴ (the period over which the outlay has been, or is to be distributed, has not been reported in this source). (Total Community Support Fund payouts, for all purposes, over the period 1992 to end August 1998, were more than 10 times as great, some \$361.8 million.¹²⁵) The array of available services in Victoria is impressive — for example, a 24-hour telephone counselling and referral service was established with public funds and extended in 1995 to allow 7-days-a-week 24-hour operation with a team of 45 counsellors. It was said (in August 1997) that since December 1995 the service had averaged over 1000 calls per month.¹²⁶ Although the Australia-wide figures do not seem to have been collated, it seems reasonable to guess that public outlays on services for problem gamblers are running at well in excess of \$10m per annum across Australia.

Among the great many qualifications which should be added to any such estimates are the following:

- Expenditures on services officially recorded as having a problem gambling link may exaggerate the outlays that were truly of that origin. Whether the clients serviced were genuinely problem gamblers, or were merely people seeking assistance for whatever reason does not appear to have been carefully considered in the reports cited.
- Equally, the value of public expenditures on services which have not officially been linked to problem gambling but truly were so linked, is not known. Given the notorious tendency of Australians to understate in surveys their levels of gambling expenditure, one might expect this to be a significant statistical aberration.
- Quite apart from the above two qualifications, given that **available figures appear to be outlays which to a significant (and perhaps predominant) degree are supplier-cost figures with no necessary final consumer-demand link**, they cannot be interpreted as indications of the extent of problem gambling.

¹²⁴ Dickerson *et al*, 1997, *op. cit.*; pp. 74-77.

¹²⁵ The Victorian *Gaming Machine Control (Community Support Fund) Act 1996* places an 8.33% levy on hotel-based EGMs for remittance to the Community Support Fund. This is administered by the Department of Premier and Cabinet and is to be used primarily for Research and Development which in turn is established and maintained by the Victorian Casino and Gaming Authority (VGCA). The Fund yields more than \$1/2 million per week.

¹²⁶ Arthur Andersen, 1996, *op. cit.*; p. 76.

6.5.4 Operators' private incentives to manage the problem

Official figures on the public sector outlay on services to support problem gamblers appear not to be credible measures either of the true outlays, or of the true demand for such services, for a number of reasons.

More importantly, they could not, even in the best of circumstances, be said to provide a very useful picture of the activity undertaken to contain gambling consumer problems because they do not cover the outlays internally committed by gambling service providers themselves. There is every reason to think that this is the most carefully targeted and most successfully preventive outlay on problem gambling. Indeed we would venture that the **private sector providers' commercial incentives align almost precisely with those of the interests of their customers and offer the community the greatest safeguard against problem gambling of all.**

The general public is probably not very aware of the efforts which gambling service providers voluntarily make to assist their clients to manage their outlays and avoid unwanted exposure to gambling forms they find threatening. A useful summary of existing programs is contained in Chapter 3 of the June 1998 Review and Evaluation report by the Victorian Gambling industry.¹²⁷

The most effective seem to be the self-exclusion schemes, which in Victoria's case, so far only as regards casinos, is backed by legislation (via section 72(2A) of the Casino Control Act). These schemes allow gamblers to elect to be denied access to specified gambling venues.¹²⁸ Other measures include the provision of information on the addictive nature of gambling, information on the available assistance for problem gamblers and their families, and facilities for dispute resolution.

The effectiveness of self-exclusion programs was questioned by Springvale Legal Service. Since August 1997, Springvale has itself produced a kit for people interested in self-exclusion, some three or four hundred of which, it seems, are being implemented by Crown. At the Productivity Commission's Melbourne hearings, Springvale's representative said that although the law provides for a fine of up to \$2,000 if an exclusion order is breached, monitoring should be improved.

The Springvale representative also noted that the effectiveness of such measures was influenced by how far a venue's duty of care extends. No cases involving that duty in regard to gambling appear to have arisen yet.

¹²⁷ A Working Group of the Victorian Gaming Machine Industry, *Review and Evaluation Report on Victorian Gaming Machine Industry Codes of Practice*, Melbourne, June 1998, especially pp. 11-14 and Appendices A (Codes of Practice) and B (Independent Complaints Resolution Process).

¹²⁸ For details see submissions by the Springvale Legal Service and the Australian Hotels Association, *op. cit.*

But if the courts (or legislation) were to insist that venues' duty of care is extensive, insurance companies might come to insist that their gambling service provider clients become more pro-active.¹²⁹

The main gambling providers are already very pro-active, as the examples in Attachment 3 attest. Crown casino for example funds a project known as the 'Crown Assistance Scheme' — a professionally-staffed referral service to help people seeking assistance with gambling problems. Equally, the lottery and EGM suppliers, Tattersall's and TABCORP have made major commitments to promote responsible gaming as is also outlined in Attachment 3.

Another measure of how seriously the industry takes its role in this area is the existence of industry codes whereby protocols for responsible gaming are laid down for industry participants. The public commitment of businesses to such protocols and implicitly their readiness to be tested against the standards they have signed, are important commercial considerations and social safeguards.

The Victorian Review mentioned above contains a copy of one multi-faceted industry code relating to gaming machine advertising and other matters. The code includes a commitment to support an independent complaints service and the self-exclusion program.

Obligations to standardise the handling of management problems, whether industry body or legislative in origin, can have both positive and negative effects on aggregate economic welfare. They may have the unforeseen effect of diminishing the incentive of rival firms to compete. The code discussed above is not of that type. Client care remains a frontier of intense competition amongst rival firms in the gambling industry and this is a plus for consumers.

¹²⁹ Productivity Commission Inquiry into Australia's Gambling Industries, Melbourne Transcripts, 23 November; p. 358.

7. Crime and Gambling

This Chapter looks briefly at the alleged link between crime and gambling. Some people seem to think that local disturbances, money laundering by mobsters and race or game fixing are natural accompaniments of gambling. In Australia, as elsewhere the fear of such a link is sometimes cited as a reason for restricting the industry.

As is explained, there is no statistical evidence that gambling attracts crime. Criminal involvement in gambling appears to be a thing of the past in the US and in Australia (which in any case has a different history). The legalisation of casinos and poker machines appears to have diminished crime rather than encouraged it. Police reports indicate that the districts surrounding casinos, for example, have below-average crime rates. This is in line with a recent US survey which points to a number of cases where both crime rates and actual numbers of crimes have fallen in districts where gaming establishments have commenced.

The Chapter concludes that while it may not be wise to do away altogether with prudential controls on gambling service providers or supervision of draws and venues to ensure fair dealing, the community's best defence in the long run will be to promote further competition amongst suppliers and avoid the types of entry controls or taxation levels which push gambling activity underground.

An unfortunate link between crime and the official promotion of problem gambling is noted at the end of the Chapter .

7.1 The issue

The idea that gambling attracts crime is one of the reasons given for why gambling should be overseen by government. There appear to be two main types of concerns: one that gambling facilities will result in increased crime rates in the form of thefts and assaults in their neighbourhoods, and the other that gambling venues, whether race tracks or casinos, will be used, or perhaps controlled, by crime syndicates to assist them with the 'laundering' of money and the fixing of races and games. Both concerns, but the latter in particular, have been among the reasons for the earlier bans, and more recently the extended licensing procedures, for entrants into the service supplier side of the gambling industry.

Many people assume the basis for these concerns are self-evident. There appears to be a widespread view amongst Australians that in the US gambling has long been associated with crime. Often these impressions are underscored by some awareness of the pre-1950s escapades of Melbourne off-course tote operator Mr John Wren (popularised in Mr Frank Hardy's famous novel *Power Without Glory*, the subsequent defamation trial and a recent ABC TV series) and intense media interest in the findings of various committees of inquiry into corruption over the last few decades. In any case, there seems to be an enduring image of corruption associated with the history betting and racing, and this is one of reasons for the controls in place today.

Though the various gambling supervisory agencies may be in possession of a great deal of information, we are not aware of any formal studies in Australia of the issue. However, one recent survey from the US has come to our notice and it bears reporting.

7.2 Contrary evidence from the US

The US report referred to above was published in December 1997. It examined the professional literature and police records concerning the alleged links between casino gambling and crime. Prepared for the American Gaming Association, it concluded that

“...organised crime is no longer a factor in the modern, regulated gaming entertainment industry.”¹³⁰

In particular, it observed

“...the combination of strong state regulatory action and the involvement of public companies in gaming in the late 1970s drove out the last vestiges of direct organised crime influence on the industry.”¹³¹

The pertinence of these findings for the Australian gambling industry is that the commonly-supposed negative North American experience is shown not to be an inevitable consequence of allowing commercial gambling houses to exist, nor to have been an experience which was unresponsive to parallel preventive action by governments. In other words, it is a contradiction of the assumption made by some critics that crime and gambling are natural partners, and that bans on gambling ought to be introduced for public safety reasons.

¹³⁰ Margolis, J (Anthemia & Gray), 1997, *Casinos and Crime: An Analysis of the Evidence*, Report prepared for the American Gaming Association, December; p. 3.

¹³¹ Margolis, 1997, *ibid.*; p.3.

The report admits that it has almost become a tenet of American folklore that figures such as Bugsy Siegel were involved in the 1920s in questionable activities that led to Las Vegas becoming the capital of gambling world wide.¹³² But the report answers this folklore with counterfactual evidence of the modern experience in centres such as Atlantic City and New Jersey which launched themselves from scratch over the last 20 years. In those cities, and in all others known to have witnessed a boom in gambling in recent times, the hard figures show that there was tremendous local development with very little fanfare about crime.

Among the information presented in the report was the following:

- there has been a general absence of peer-reviewed, professional studies until the last 15 years of whether there is a causal relationship between casinos and crime;
- both in terms of calculations of crime rates and in reports by law enforcement officials concerning gambling, there appear to have been reductions rather than increases in population based rates of violent burglaries, traffic offences, simple thefts and other crimes in cities that have introduced casinos over the last few years;
- most of any of the absolute increases in numbers of city crimes associated with the advent of casinos have been “misdemeanours or violations of a minor nature”¹³³;
- among police uniform crime reports (UCRs), “casino gambling is not listed as a crime factor and, in fact, the 1990s nationwide proliferation of land based and riverboat casino gambling goes without mention in *any* of the UCR reports”;
- although recorded crime increased in several small towns in Colorado and South Dakota following the introduction of gaming, the increase is easily explained by the vast increases in the base population (30,000 daily increase in population from a base of 100 in one case) and most offences were quickly solved petty theft. There is some prospect also that the increase in police numbers caused an increase in recordings, a point attributed to Albanese, a criminology professor who in 1985 published the first scholarly study testing the existence of a relationship between casino gambling and crime;¹³⁴

¹³² The authors note a study of examples of campaigns in the US in the 1970s and 1980s of opponents of gambling raising the crime spectre (Margolis, 1997, *op. cit.*; p. 6).

¹³³ Margolis, 1997, *op. cit.*; p. 18.

¹³⁴ Albanese, J, 1985, *The Effect of Casino Gambling on Crime*, Federal Probation, (cited by Margolis, 1997, p. 36).

- another of the often quoted cases of a crime/gambling link which do not stand up to closer inspection is the coastal town of Gulfport, Mississippi. A New York State Task Force, for example, cited Gulfport as an extreme case, having experienced

“... substantial increases in felony indictments and lower court filings since casinos began operating in 1992 ... the cases prosecuted include thefts, robberies, stolen cars and drunk driving vehicular homicides at or near casinos, as well as embezzlements and fraud larcenies often involving casino employees.”¹³⁵

Yet as a Mississippi Police Department spokesman pointed out

“... the impact has been much like any large scale development that throws hundreds of visitors and millions of dollars into a previously bucolic environment.”¹³⁶

It is now also known that much of the oft-quoted increase in Gulfport crime in the first half year of gaming in 1993 can be attributed to the annexation of 33 square miles of Orange Grove, Mississippi, which added 22,000 people to the population base;¹³⁷

- in a number of centres where gambling centres have opened, absolute crime rates are down, such as in the rustbelt centre of Joliet, Illinois (where all key city officials attest that the crime has fallen since four riverboat venues commenced in Joliet in the early 1990s).¹³⁸ The probable reason is the parallel impact of gambling venues on economic prosperity, employment and night time pedestrian traffic;
- the historical reputation of organised crime involvement in Las Vegas gambling may be warranted,¹³⁹ but all the evidence indicates that the “combination of strong state regulatory action and the involvement of public companies in gaming in the late 1970s drove out the last vestiges of direct organised crime influence on the industry”; and
- extreme opponents of the gambling industry such as Ryan of ‘Casino Factor’ fame, can be readily refuted. Ryan, a New Orleans academic who with two colleagues wrote a predictive equation for crime in any city in the US which includes the casino floor area and other such

¹³⁵ New York State Task Force on Casino Gambling, 1996, *Report to the Governor*, August; p. 217 (cited by Margolis, 1997, *op. cit.*; p.19).

¹³⁶ Markopoulos, W, 1994, *Correspondence with Margolis*, August (cited by Margolis, 1997, *op. cit.*; p. 40).

¹³⁷ Margolis, 1997, *op. cit.*; p. 35.

¹³⁸ Margolis, 1997, *op. cit.*; p. 37.

¹³⁹ Cited for example, are Bugsy Siegel’s exploits in the late 1940s, the skimmming and Teamster Union involvement uncovered by wiretaps in the late 1970s (Margolis, 1997, *op. cit.*; p. 43).

variables as supposed explanatory factors, has been a vocal opponent of gambling in the US. His equation structure is theoretically flawed and its predictions, in any case, are contradicted by the actual 1980 to 1990 empirical data.¹⁴⁰

Having reviewed a large number of such claims, the study's final paragraph reads as follows:

“This study has found that the debate over the crime issue has too often been marked by the use of anecdotal research, statistical sleight-of-hand and statistical distortions. Much of this has led to sweeping conclusions about entire populations, industries and cultural patterns. Such behaviour is not only intellectually dishonest, it is irresponsible. The American public, and most importantly, the nation's policy-makers deserve comprehensive, honest information with which to make decisions about the future. This study aims to contribute to a more reasoned and honest review of the gaming-entertainment industry.”¹⁴¹

7.3 Australia's experience

None of the above-cited findings about casinos and crime by Margolis *et al* in North America are inconsistent with the experience in Australia, as far as we can tell. Certainly, no contrary findings are presented in the submission to the Productivity Commission's gambling inquiry by the Australian Institute of Criminology (which describes itself, reasonably enough, as “Australia's premier criminal justice policy research organisation”).¹⁴² The Commission may wish to pursue the matter directly with the Institute, especially to verify our impression that the legalisation of casinos has *diminished* the gambling-related crime rate in Australia's cities.

Understandably perhaps, given the US experience, the Margolis study focussed on allegations about a link between crime and casinos. The allegations about crime/gambling links in Australia have historically focused more on other gambling types. Certainly casinos have figured in the Australian crime statistics over this century, but largely through the operation of illegal casinos. In the public mind, illegal gambling and criminal associations with gambling are probably more commonly held to

¹⁴⁰ Cited by Margolis, 1997, *op. cit.*; pp. 43-44.

¹⁴¹ Margolis, 1997, *op. cit.*; p. 60.

¹⁴² Australia Institute of Criminology, 1998, *Submission to the Productivity Commission Inquiry on Australia's Gambling Industries*.

occur in relation to the more traditional Australian pastimes of race gambling and two-up.

The degree of government control of such activities currently observed can be traced back to the periods immediately before and after World War II, when criminal involvement and the need to protect people from dishonest tricksters were commonly advanced as reasons for why a strong government presence was required.

The clamp down on off-course SP bookmakers and the emergence of single state-run off-course totalisator businesses are two of the most obvious control actions governments have taken. Less well appreciated but equally potent have been the longer standing laws granting the Principal Race Clubs (and their trotting and greyhound equivalents) the sole rights to run race meetings where gambling is allowed.¹⁴³ The limitations on poker machine numbers and on the types of venues that may have them has been another key control.

Looking back on this regulatory history from the vantage point of the 1990s, the promise that criminal activity would be contained through greater government involvement in gambling now seems rather empty. The public parts of the reports of recent crime inquiries and popular accounts in the press and elsewhere of corruption (such as Mr Bob Bottom's account of Mr John Hattan's persistent efforts to uncover official rackets in NSW) indicate that a significant proportion of the worst crime in recent years has been associated with the unlawful administration and policing of gambling restrictions. Such an outcome suggests that the crime-fighting improvements offered as reasons for the restrictions in the first place were false or at least greatly exaggerated. We would expect research to support to this view, and by implication to support the inference that **the 1990s trend towards legalising a greater variety of gambling forms and opening the supply of gambling services to greater competition has probably served to nullify the crime/gambling link.**

The Summary of Victorian Casino and Gaming Authority research projects prepared by Arthur Andersen in December 1997 indicates that there is no hard evidence of any increase in crime in Victoria since EGMs were introduced in 1992. The Summary states that:

“In general the introduction of EGMs appears to have caused little increase in crime and there are no statistics available on gambling related crime. Police have reported that crime at gaming venues was not a problem and that at some venues crime levels have fallen. This

¹⁴³ In recent years proposals to set up proprietary racing outside the aegis of the Principal Clubs framework have emerged, but none have proceeded.

is in contrast to other findings where it was stated that problem gamblers who attended designated problem gambling services reported that they had committed illegal acts to finance their gambling.”¹⁴⁴

Likewise, we understand that police reports indicate that the advent of the Star City casino has had no noticeable effects on crime rates in the Pyrmont district. We have also heard reports suggesting the Crown casino’s car parks are among those least affected by crime in the Melbourne metropolitan area.

7.4 A possible link to ‘problem’ gambling

A particularly interesting possibility in relation to the subject of the previous Chapter which the Institute of Criminology raises in its submission to the Inquiry concerns linkages between problem gambling and crime. In the Institute’s words:

“There may well be persons who, having committed a criminal act and not suffering any disability may invoke problem gambling as an excuse. Whilst some criminal activity no doubt does arise from problem gambling, it may be unwise to accept defences without some form of verification.”¹⁴⁵

Two implications that it may be possible to draw from this observation are that:

- the use of baseless excuses by culprits will soon become commonplace if the popularisation and institutionalisation of the notion of problem gambling as an illness continues; and
- sooner or later the courts are likely to have to come to grips with the question of whether there is such an illness as problem gambling and if so, the extent to which sufferers of it will be absolved of responsibility for any damages they cause. Whether or not the courts will recognise the perverse incentive effects of accepting the illness or the diminished-responsibility arguments is not clear.

We have been told that already in Melbourne accused thieves have been offering problem gambling (or as it is termed locally, the ‘Crown defence’) as an excuse for their actions, although to date the courts have not accepted such claims as a reason for leniency.

¹⁴⁴ Arthur Andersen, *op. cit.*; p. 4.

¹⁴⁵ Australia Institute of Criminology, *op. cit.*; p. 1.

In anticipation of continued claims of this type and the other risks noted in the previous Chapter , this Submission will urge that steps be taken to de-institutionalise problem gambling as a state issue.

8. Taxes, Fees and Charges

Australia's gambling industry is highly taxed. The various tax regimes are very complex, distortionary, and combined with the heavy regulations in place, produce inefficient outcomes.

In each jurisdiction the rates of tax vary across, and even within, gambling products. The rates of tax on other goods and services as well as other forms of entertainment are generally much lower than those on gambling. These characteristics are unlikely to be altered by the proposed introduction of the goods and services tax unless one of the main causes of the problem — federal fiscal imbalance — is squarely addressed at the same time.

Gambling taxes can be assessed using traditional and widely accepted economic criteria that have been applied to arguments for reforming the taxation system. They are 'economic efficiency', 'administrative efficiency' or simplicity, and 'equity'. Gambling taxes do not hold up well under these criteria.

The taxation treatment of gambling has distorted consumer spending patterns as well as decisions affecting the provision of gambling services in each state and territory. The end result is that consumers are being discouraged from spending their income on services they value more highly and providers of gambling services are being discouraged from servicing their needs. In many cases individual service providers are being discouraged from providing the combination of services that consumers value most highly.

Reducing the rates of gambling taxation and simplifying the tax regimes in the states and territories would reduce the losses that the community suffers as a result of these distortions.

The introduction and expansion of Internet gambling provides a further reason for reviewing gambling taxes. Increased competition for the gambling dollar from Internet suppliers could be a factor that forces Australian governments to reduce and simplify taxes on traditional gambling forms.

8.1 Nature and extent of gambling taxation

Taxation is a form of regulation. Australia's gambling industry is highly taxed relative to most other activities. Gambling taxes are distortionary

and inefficient: more so when considered in the context of other non-taxation forms of regulation. Taxation affects both investment and consumption decisions. In the case of gambling, where it is sometimes difficult for taxes to be passed on to consumers in the form of a 'price' change, suppliers of gambling services are forced to restrict the services they offer to consumers. This, as well as any price effects of regulation, must diminish consumer choice and welfare.

Assessing the impact of gambling taxation is made more difficult by the complex interaction between taxation and other forms of (heavy) gambling regulation. For example, it is difficult to establish what level of investment and consumer services might be resulting from a particular tax regime because there are other regulations which specify the allowable number of machines, floor layout, the mix between products and so on. These issues are discussed in more detail below.

The gambling industry in Australia is taxed at a state and territory government level. This has resulted in different tax regimes operating across states and territories. Tables 19 to 22 list the different taxation structures each state imposes on different forms of gambling. They highlight the significant differences in the level and scope of taxes imposed on the industry in and across states and for different forms of gambling. They also illustrate the sizeable degree of taxation and the complexity of the tax structures the industry faces.

8.1.1 Racing taxation

Table 19 shows that differences in taxation on racing within each state are primarily between the rates imposed on the totalisator agency and bookmakers. Generally, bookmakers, which offer fixed odds bets, are subjected to a much lower tax rate than the totalisators. Small variations aside, however, unlike other gambling activities, the rate of tax imposed on racing is broadly similar across different jurisdictions.

8.1.2 EGM taxation

The taxation rates imposed on EGMs are shown in Table 20. **EGMs are taxed differently across states, but also, across locations within a state.** Generally, EGMs in hotels are faced with a higher tax rate than those in clubs, as hotels with EGMs are required to contribute to some kind of 'community support fund'. It appears that the justification offered for this is that as non-profit organisations, clubs will automatically put their additional revenue back into facilities for the wider community. In many, and perhaps most, cases we doubt this excuse would stand up. Among other things, their exemption from income tax is already supposed to account for this.

The differential tax treatment of clubs and hotels exists in all states, either through additional contributions to the community benefit fund levied on hotels, and/or as higher tax rates. In Victoria, only hotels contribute to the Community Support Fund (CSF), although in Queensland, Tasmania and the ACT, clubs and hotels both contribute to a community fund, yet, in NSW, Queensland, South Australia and the ACT, EGMs in hotels are taxed at a higher rate than EGMs in clubs. Moreover, hotels have to pay a higher community support levy in Tasmania and the Northern Territory.

It is difficult to compare the amount total of taxation levied on EGMs between the states. Often, tax rates are based on different levels of return from the machines. For example, EGMs in clubs in Victoria pay tax of 33 $\frac{1}{3}$ per cent of the gross profit. Meanwhile, in NSW small clubs pay no tax at all. The highest rate imposed on clubs is 47 per cent of gross profit levied on EGMs in clubs in the Northern Territory.

A similar situation exists for hotels, although the tax rates are generally higher. For example;

- in Victoria, the tax is 33 $\frac{1}{3}$ per cent of gross profit for clubs and 41.67 per cent for hotels. The difference is largely accounted for by the extra payment drawn from hotels for the CSF;
- in NSW, the tax is based on a sliding scale from 15 to 40 per cent;
- in Queensland, the rate is 50 per cent of the metered win;
- the tax levied on EGMs in South Australian clubs and pubs is based on annual revenue and includes a lump sum payment plus a rate of tax; and
- in the Northern Territory, there is a Community Benefit Levy of 25 per cent of gross profit — the highest of all of the states — while only Draw Card machines in clubs attract a 3 per cent Community Benefit Levy.

Also as noted, if designated as ‘non-profit’ organisations, clubs pay no income tax.

8.1.3 Casino taxation

Table 21 sets out the casino tax rates for each state. **The disparity between the tax rates levied on casinos across the states is very marked.**

Each casino in Australia, except for those in the Northern Territory, is required to pay a licence fee. However while the casinos in Queensland, Western Australia, South Australia and Tasmania pay a regular fee, Star City paid a once off lump sum and Crown pay a fixed amount over a limited time period.

Star City and Crown are faced with a sliding tax scale on table games that ranges from 22 per cent to 47 per cent for Star City, and 22¼ per cent and 42¼ per cent for Crown. The tax rates on the other casinos appear to be lower. For example, Burswood pays a rate of 16 per cent of gross revenue on all casino gaming (including EGMs). The casinos in Queensland are levied differently from place to place. For example, the tax on regular players is 10 per cent of gross gaming revenue in the Townsville and Cairns casinos, but it is 20 per cent for the Brisbane and Gold Coast casinos.

Some casinos have different table game tax rates for 'regular' players and 'commission' (sometimes known as 'junket' players), with lower rates generally for commission players. Presumably this is because this segment of the market is highly competitive, both within Australia and globally, and exclusive locational casino licences do not confer any exclusivity in this market segment.

Tax rates on EGMs in casinos are generally in line with the rate levied on machines in hotels in that state, with some variations. However, EGMs in the Northern Territory casinos are taxed at a much lower rate — of 17½ per cent of gross profit — than EGMs in clubs and hotels.

8.1.4 Lotteries and other gambling taxation

The various taxation regimes for lotteries and other forms of gambling are shown in Table 22. **In both nominal and effective tax rate terms, it appears that lotteries are the highest taxed gambling activities in Australia.** They are also the forms of gambling that give consumers a relatively low chance of winning, although from a consumer's viewpoint there may be some compensation for this in the very high payouts that can be achieved for a very small outlay.

Tasmania and the Northern Territory Tattersall's run a 'state' lottery under a licence from the relevant government. However, the lottery is conducted from Victoria and therefore, they are subject to Victorian taxation arrangements. The Tasmanian and Northern Territory governments then receive a share of the duty paid to the Victorian Government for subscriptions made in Tasmania and the Northern Territory. The ACT is another jurisdiction which does not have a home-based lottery, but citizens are able to participate in NSW and Victorian lotteries. As is the case in Tasmania and the Northern Territory, the ACT government receives a share of the duty paid to NSW and Victorian governments for subscriptions made in the ACT.

Sports betting taxes vary greatly between those levied on bookmakers (relatively low) and on totalisator agencies (relatively high). The main reason given (albeit strangely) for the difference is that bookmakers offer fixed odds betting, as opposed to the pool bets of the totalisators. The

revenue gained from most of the products offered by the totalisators is subject to some kind of community or sport and recreation fund.

The tax rate imposed on Keno in different states appears fairly disparate. However, even though Keno is played in casinos, clubs and hotels in some states (such as Queensland and Tasmania), the tax rate does not differ according to the venue in which it is played. This is in contrast to the tax treatment of EGMs. In Queensland, the tax rates on Keno differ between the casinos, as with taxes on table games.

Table 19: Racing taxation by state

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
ON-COURSE TOTALISATOR								
Gross deduction from investments	Maximum of 16% over the year	Maximum of 16% over the year	Win/place, quinella, forecast, 60/40, stakes return – 15% Doubles, trifecta, trebles, trio – 18%	Win/place: Supertab – 14.25%; non Supertab – 15.6% Favourite numbers – 25% Others – 20%.	Win/place – 14.25% Quinella – 14.5% Doubles – 16.5% Others – 20%	Win/place combined with Vic TAB – 15% Quinella – 15% Doubles, trifecta – 17% Quadrella – 19%	All pools combined with NSW TAB Win/Place – 14.25% Quinella – 15%; Exacta, Doubles, Trifecta – 17%; Superfecta – 20%	Win/Place linked to Super TAB – 14.25% Trifecta – 17.00% Other – 15.00% Approximately 60% to 70% of Win/Place pools are Super TAB pools (ACT, NT, Vic, Tas, WA, SA).
Net % received by government	28.2% of player loss (minimum of 84% returned to players over the course of one year)	28.2% of player loss (minimum of 84% returned to players)	Win/place, quinella, forecast, 60/40, stakes return – 3%; Other pools – 6%	Abolished 28/6/96	Sliding scale, depending on the amount of bets placed. Range from 1% - 5.25%	Win/place: \$10001-\$50000 – 2.1%; >\$50000 – 4.2% Quadrella – 6.5% Others – 4.5%	50% of TAB profits	All pools – 5.75% In addition clubs receive 3.5% and RDF 0.5%.
OFF-COURSE TOTALISATOR TAX								
Gross deduction from investments	As for on-course totalisators	As for on-course totalisators	Win/place, quinella – 15% Double, trifectas – 18% First four, trebles – 20% Others – 25%	As for on-course totalisators	As for on-course totalisators	As for on-course totalisators, except for win/place – 14.25%.	As for on-course totalisators	As for on-course totalisators
Net % received by government	As for on-course totalisators	As for on-course totalisators	Win/place, quinella – 6% Others – 7%	All pools – 5%	45% of TAB profits on racing investments.	Win/place – 4.2%, others as for on-course totalisators.	As for on-course pools	As for on-course pools
BOOKMAKER'S TURNOVER TAX – Net % received by government:								
Racing	All courses – 1%	Metro – 2% of turnover. Country – 1.5% of turnover	All courses – 1%	All courses – 1%	Metro: SA – 1.57%, interstate – 2.17% Country: SA – 1.4%, interstate – 1.97%.	On-course: state events – 1.15%, interstate events – 0.3%.	All courses 1.55% for bets within Aus. Bets from overseas – 0.5%	All courses – 1.25%

Table 20: EGM taxation by state

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
(Referred to in some states as "Gaming Machine" tax.)		Tattersall's is required to pay annually for the duration of its licence (ending April 2012) 30% of its net profit or \$35m, whichever is higher.				Federal Hotels Ltd has exclusive rights to conduct casino operations and operate EGMs. Tax is based on total gross profit of the financial year.		
Clubs:	From 1.2.98: Levied on annual profits derived from EGMs: 0-\$100,000: 0% \$100,001-\$200,000: 1% \$200,001-\$1m: 20% >\$1m: 26.25%	33.33% of gross profit (net cash balance).	Based on metered win: \$0-\$10,000: 10% \$10,001-\$75,000: 27% \$75,001-\$150,000: 30% \$150,001-\$300,000: 33% \$300,001-\$1.4m: 35% over \$1.4m: 45% Includes Sports and Recreation Levy, Charities and Rehab. Levy and EGM Community Benefit Levy.	No gaming machines	Tax based on annual net gambling revenue in a financial year: \$0-\$399,000: 30%; \$399,001-\$945,000: \$119,700 + 35% of excess; >\$945,000: \$310,800 + 40% of excess. In addition, a 0.5% surcharge is imposed on each of the above percentage tax rates.	From 1.1.97: <\$30m: 25% \$30m - <\$35m: 30% of excess \$35m: 35% of excess. In addition, a community support levy of 2% of gross profit is levied.	47% of gross profit. Draw Card Machine Community Benefit Levy of 3% of turnover.	1% of first \$8,000 gross monthly club gaming machine revenue. 22.5% of revenue from \$8,000 to \$25,000 and 23.5% thereafter.
Hotels:	Levied on annual profits derived from EGMs. \$1-\$25,000: 15% \$25,001-\$400,000: 25% \$400,001-\$1m: 35% >\$1m: 40% (Limits apply to number of EGMs hotels can operate on their premises)	41.67% of gross profit (net cash balance), of which 8.33% is allocated to a CSF.	50% of metered win (Includes Sports and Recreation Levy, Charities and Rehabilitation Levy and Gaming Machine Community Benefit Levy).	No gaming machines	Tax based on annual net gambling revenue in a financial year: \$0-\$399,000: 35% \$399,001-\$945,000: \$139,650 + 43.5% of excess >\$945,000: \$377,160 + 50% of excess In addition, a 0.5% surcharge is imposed on each of the above tax rates.	As for clubs In addition, a community support levy of 4% of gross profit is levied.	47% of gross profit and a Community Benefit Levy of 25% of gross profit. Draw Card Machine – 6% of turnover (of which 3% is paid to charities and sporting clubs).	35% monthly gaming machine revenue.
Reference Period:	Quarterly payments relating to the previous 3 months' transactions.	Weekly payments relating to the transaction of 2 weeks prior.	Monthly payments relating to previous months turnover.		Monthly payments relating to previous month's activity.	Payments relate to previous month's gross profit.	Quarterly payments relating to the previous 3 month's transactions.	Monthly payments related to transactions in the previous month.

Table 21: Casino taxation by state

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Licence fee:	A once only non-refundable lump sum payment of \$376m.	Upfront payment of \$200m, plus an additional tax of \$57.6m in '95 and '96. Crown agreed to pay a further \$100.8 million beginning Jan 1996 over 3 years, as an additional licence fee payment in return for the Government agreeing to increase the number of tables, lower rates of tax on Commission players and approval for expansions to the development proposals.	\$125,000 per quarter for each of the four casinos.	\$1.74 million p.a (indexed to CPI).	\$5,000 per month	\$6,800 per month, indexed to annual CPI changes.	Not imposed	\$540,000
Tax Rate:	<p>Regular Players: 20% of gross revenue from table gaming and 22.5% of gross revenue from slots plus super tax on table revenue above \$222.6m pa at 1% per each \$5.565m to a maximum of 45%.</p> <p>Commission Players: 10% of gross commission revenue</p>	<p>Regular Players: 21.25% of gross gaming revenue plus super tax of 1% for each \$20m of gross gaming revenue above \$500m (CPI adjusted from 1994) up to a maximum of 20% on gross gaming revenue over \$880m. The maximum total tax on marginal revenue is 41.25%.</p> <p>Commission Players: 9% plus a super tax (extra 1% for every \$20m) on gross gaming revenue above \$160m (CPI adjusted from 1994). The max tax on marginal revenue is 21.25%.</p>	<p>Regular Players: 20% of gross revenue for Gold Coast and Brisbane casinos and 10% of gross revenue for Townsville and Cairns casinos.</p> <p>Commission Players: 10% of gross gaming revenue for Gold Coast and Brisbane casinos and 8% for Cairns and Townsville casinos.</p>	15% of gross revenue.	Table games at 10% of net gambling revenue, and gaming machines taxed at a single rate of 43.5% (equivalent to hotel EGM rate).	<p>Federal Hotels Ltd has exclusive rights to conduct casino operations and operate EGMs in Tasmania. The tax is based on Federal Hotels' total gross profit earned in a financial year.</p> <p>Poker machines: <\$30m – 25%; \$30m-\$35m – 30% of excess; >\$35m – 35% of excess.</p> <p>Other gaming – 15% of gross revenue.</p>	<p>General casino tax of 8% of gross profit derived from all gaming other than EGMs.</p> <p>EGM tax from July 97 to Jun 99 at the rate of 17.5% on gross profit.</p>	<p>Regular Players: 20% of gross revenue</p> <p>Commission Players: 10% of gross revenue</p>
Other state Charges:	Community benefit levy of 2% of gross non-commission gaming revenue.	1% of gross revenue (Community Benefit Levy).	1% of gross revenue to Community Benefit Fund.	1% of gross revenue for upkeep of Burswood Park.				

Table 22: Lottery and other gambling taxation by state

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
LOTTERY TAXES								
(Unless otherwise indicated, the balance of subscriptions, after prizes is transferred to Consolidated revenue)	15% of subscriptions plus a fixed fee based on 14.7% of subscriptions in 1996-97 with the amount thereafter indexed to CPI.	35.55% on turnover (revenue paid from Consolidated Fund to Hospitals and Charities Fund and Mental Hospitals Fund.) Ticket Levy: 10c per card transaction (excl. instant lotto, Tatts 2, Super 66 and Soccer Pools).	62% of gross revenue for declared lotteries. 55% of gross revenue for Instant Scratch-its. 45% of gross revenue for Golden Casket lotteries.	State Lottery, Lotto, Oz Lotto, Powerball and Instants: 16% of sales income to Hospitals, 2% to the arts, 2% to sport and 5% to charities. Up to 2% in total to Festival of Perth and Aus commercial film industry (@ 25% at minimum per product but closer to 30% overall.)	Lotto, Powerball and Super 66: Net operating surplus (@ 33% of gross sales) is paid to Hospitals Fund. Instant Scratchies: Net operating surplus (@ 19% of gross sales) is paid to Hospitals Fund.	No state lotteries. Tas. Receives a share of duty paid to the Vic. Gvt for Tas subscriptions to Tattersall's lotteries: Lotto - 100% of duty received from Tas subscriptions; TattsKeno - 90%; other - 75%.	No state lotteries. Subscriptions to Tattersall's Consultations made in NT payable by the Vic Government: Lotto – 35% of sale; instants – 75% of 35% of sales (as well as Super 66).	No state lotteries, participate in NSW and Vic lotteries: VIC: Tattslotto/Tatts extra/Oz Lotto/ Powerball – 32.5% of subscriptions; Super 66/Tatts 2/Instant: 24.375%; Vic Keno: 29.95% NSW: Lotto/Oz Lotto/Lotto Strike/ Powerball – 31.7%; draw lotteries – 26.7%; instant lotteries – 28.7%
Soccer Pools:	15% of subscriptions plus a fixed fee based, indexed to CPI	34% of turnover.	59% of gross revenue	All surplus paid to hospitals (@ 30-35% of turnover)	35% of net sales transferred to Dept of Recreation and Sport	34% of sales from Tas subscriptions.	Subscriptions to Tattersall's payable by the Vic gvt.	34% from both Victorian and NSW collections.
OTHER GAMBLING TAXES								
Sports betting	FootyTAB, Soccer TAB, SportsTAB – 28.2% of player loss (All of this to Sport and Recreation Fund). Sydney SportsTAB – 20% of gross win Head-to-head – 2% Off-course bookmakers – 1%	Totalisator sports betting – 28% of player loss. Fixed odds sports betting – 20% of player loss.	Bookmakers: 1%, with athletic betting exempt. FootyTAB investments combined with NSW pools. Gross commission of 25% deducted on QLD pools and paid as follows: 10% to QLD Govt; 14% to QLD TAB and 1% to NSW Sport and Recreation Fund.	AFL and cricket TAB betting gross commission – 25%. Tax to gvt-5%. 75% of sport betting receipts are dividends and the Minister makes the remainder (ie. net of the sports betting tax and after admin. expenses) available for allocation for Sport and Recreation. Bookmakers – 1%, Prof. foot racing – 2%	AFL & other sporting events – 20%. TAB admin. costs paid first, then 0.5% to Capital Fund and 0.5% to RIDA and the balance divided between the Rec and Sport Fund (RSF) and the SA. Football League, or to the body conducting the event and the RSF. Bookmakers: 1.75%	Footypunt – 17%, of which: - 10% to TAB - 4.5% to Govt. - 2.5% to Controlling Authority. Bookmakers: Telephone on-course – 0%, off-course Aus & NZ – 0.3%	0.5% bets from Australia and NZ. 0.25% bets from overseas	1.25% of which 0.25% distributed to clubs.
Keno:	Club Keno: Taxed at 18% on player loss of <\$86.5 m; 24% on player loss >\$86.5m.	Club Keno: 33.33% of player loss subject to a minimum player return of 75%	Jupiters Keno – 20% of gross revenue + 50% tax on profit. Brisbane and Gold Coast receive 25% commission on Jupiters Keno & pay 21% tax, incl. 1% CBL. Townsville & Cairns pay 11%, incl. 1% CBL		(operated by Lotteries Commission). Of total gross sales, 9% commission to agent, 72.8% return in prize money, 4.2% for operating costs, remainder (@ 14%) transferred to the Hospital Fund.	Refer to TattsKeno under Lotteries		

8.1.5 The relative importance of gambling tax revenue

Table 23 gives the amount of gambling revenue collected as a percentage of the total amount of wagers and bets (sourced from the TGC) by state and gambling activity. This table highlights the disparity of taxation between different forms of gambling, and also of the same gambling activity between locations.

Across all states, lotteries are the most heavily taxed gambling activity as a proportion of total wagers and bets. Meanwhile it appears that EGMs and casino gaming are the least heavily taxed in terms of total wagers and bets. However, care needs to be taken when assessing the total wagers and bets with these gambling forms (see below).

There are some notable differences in the treatment of gambling activities between states. As a proportion of total wagers and bets, there is a significant difference in taxation on lotteries in Western Australia, which is 20 per cent, and South Australia, which is 40 per cent. Similarly, casino taxes in South Australia are 7 per cent of the handle, while in Victoria and the Northern Territory the rate is much lower, at 2 per cent. Also of note is the low rate of taxation on gaming machines as a proportion of total wagers and bets in the ACT and NSW compared to Queensland, Victoria and South Australia. Overall it appears that **gambling activities in South Australia and Queensland generate the largest amount of revenue as a proportion of total wagers and bets, while the Northern Territory and ACT have the lowest rates.**

Table 23: Gambling taxation revenue as a percentage of total wagers and bets, 1996-97

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aus Avg
Lotteries & lotto	29%	38%	31%	40%	20%	33%	29%	32%	31%
Gaming machines	2%	4%	5%	4%	-	-	-	2%	3%
Casino	4%	2%	3%	7%	3%	3%	2%	5%	3%
Race betting	7%	4%	6%	8%	4%	4%	3%	5%	6%
TOTAL	4%	4%	6%	6%	5%	4%	3%	3%	4%

Source: ABS 1998 Cat No 5506.0 and Tasmanian Gaming Commission 1997

Considerable care needs to be taken when interpreting the ‘total wagers and bets’ measure used by the TGC as a basis for comparing gambling taxes. As discussed in Box 1 in Chapter 3, the total wagers and bets (referred to as turnover by the TGC) measure for casino table games is flawed. Total wagers and bets for casino table games is taken to be the casino ‘handle’, that is the amount of money exchanged for playing chips. But the amount wagered or bet must be significantly higher than the

handle, as winnings are commonly used to fund further bets — something handle does not include.

A parameter representing the volume of business which is more readily comparable across gambling products is expenditure (consumer losses or house win).

Another important issue in assessing the relative importance or ‘burden’ of tax between states and between gambling products is the treatment of EGMs. In some states the level and proportion of tax revenue from EGMs is shown as zero as the EGMs in those states are either all in a casino (Burswood in WA for example) or are owned by casinos even though they are located elsewhere (Tasmania for example). Also, tax revenue from EGMs located in casinos is counted as casino revenue (combination of table games and EGMs). **The net effect is that tax revenue from EGMs will be understated by the official statistics.** This applies to both total wagers and bets and expenditure measures of gambling activity.

Gambling taxation revenue as a proportion of expenditure is presented in Table 24. These figures highlight the taxation burden on consumers of gambling products as a proportion of their expenditure. **Again, consumers of lotteries face the highest taxation burden, while casino taxation, as a proportion of expenditure, is the lowest of all forms of gambling activity.** Of all of the gambling activities, lotteries have the lowest chance of winning and the highest tax rates.

Table 24: Gambling taxation revenue as a percentage of expenditure, 1996-97

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Aus Avg
Lotteries & lotto	74%	95%	78%	98%	48%	100%	72%	75%	79%
Gaming machines	21%	43%	37%	37%	-	-	-	22%	30%
Casino	24%	22%	19%	25%	16%	42%	22%	22%	21%
Race betting	49%	28%	33%	54%	25%	45%	28%	37%	39%
TOTAL	31%	42%	35%	43%	24%	41%	28%	29%	35%

Source: ABS 1998 Cat No 5506.0 and Tasmanian Gaming Commission 1997

8.1.6 Community benefit taxes

The legislation covering gaming in most states incorporates provisions allowing some of the revenues from gaming to be specifically directed to community purposes. **Community benefit levies are simply an extra tax on the industry and consumers.** The intention is to ensure that the wider community benefits through the funding of works and programs of ‘lasting value’. The various levies are set out in Table 25.

Table 25: Community benefit levies on gambling

State	Type of gaming	Rate	Type of benefit funded
NSW	Casino gaming	2% of gross gaming revenue	Community Benefit Levy
	Sports TAB	28.2% of player loss	Sport & Recreation Fund
VIC	EGMs in hotels	8.33% of gross profit	Community Support Fund
	Casino gaming	1% of gross gaming revenue	Community Benefit Levy
		5 payments of \$1m	Tourism Victoria
QLD	EGMs in clubs & hotels	Varies, based on metered win	Sports & Recreation Levy, Charities and Rehabilitation Levy and Gaming Machine Community Benefit Levy
	Casino gaming	1% of gross gaming revenue	Community Benefit Fund
	Footy TAB, (combined with NSW)	1% of gross commission of 25% of Qld pool	NSW Sport & Recreation Fund
WA	Casino gaming	1% of gross gaming revenue	For upkeep of Burswood Island
	Soccer Pools	30-35% of turnover	Hospitals Fund
	Sports Betting	20-25% of net sales	Allocated by the Minister for Sport and Recreation
SA	Soccer Pools	35% of net sales	Allocated by the Department of Recreation and Sport
	Sports Betting	0.5% of net sales	RIDA
		15-18% of net sales	Recreation and Sports Fund and the body conducting the event
	Keno	14% of subscriptions	Hospitals Fund
TAS	EGMs in clubs	2% of gross profit	Community Support Levy
	EGMs in hotels	4% of gross profit	Community Support Levy
NT	Draw Card machines (clubs & hotels)	3% of turnover	Community Benefit Levy
	EGMs in hotels	25% of gross profit	Community Benefit Levy
ACT	Totalisators	4% (of the net % received by Government)	Clubs and Racing Development Fund
	Sports betting	0.25% of 1.25% taxes	Distributed to Clubs

Source: NSW Treasury

The money paid into the various community funds is used for programs for the benefit of sport, recreation or the arts and the promotion of tourism, research and programs for problem gamblers including prevention counselling, education, financial counselling and rehabilitation.

In Victoria, to 1996-97 a total of \$300 million of projects had been funded via the CSF. These projects ranged in dollar value and location, and included projects in the areas of arts, sport and recreation, tourism, community services, youth affairs and drug rehabilitation and education.

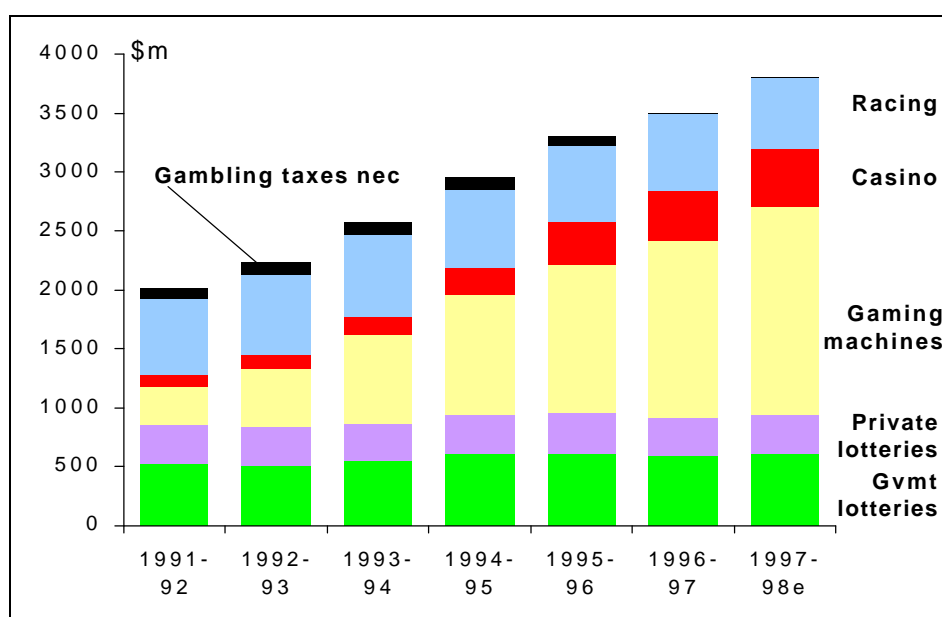
Community benefit taxes, like other gambling taxes, are distortionary. In some cases contributions to community funds are dominated by one form of gambling. For example, in NSW the casino pays a 2 per cent community levy but clubs and hotels do not. In effect, consumers of casino services are paying for support facilities and for research into, so-called problem gambling on behalf of everybody else.

8.2 The level of gambling taxation

8.2.1 Total revenue

Revenue from taxes on gambling in 1997-98 from all state, territory and local government budgets was \$3.8 billion. This was up on \$2 billion in 1991-92 and \$3.3 billion in 1995-96. As Chart 20 shows, the majority of the rise can be attributed to increased expenditure on the 'new' forms of gambling, such as casino gaming and EGMs.¹⁴⁶

Chart 20: Incidence of gambling taxation revenue, all states and territories of Australia



Source: ABS 1998 Cat No 5506.0

¹⁴⁶ Again, care must be taken in comparing revenue across types of gambling, as EGMs in casinos are included in casino revenue figures.

Table 26 shows the source of gambling revenue collected in 1997-98, by state. **The largest share of gambling revenue collected in NSW, Victoria, Queensland, South Australia and the ACT was from EGMs.**

Table 26: Gambling taxation revenue, \$ million, 1997-98

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	AUS Total
Lotteries & lotto	290	286	166	77	79	19	11	11	939
Gaming machines	672	704	197	158	-	-	-	28	1,759
Casino	110	175	87	19	55	35	12	4	497
Race betting	265	127	92	58	36	9	8	5	600
Other	1	4	-	-	-	1	-	-	6
TOTAL	1,338	1,296	543	313	171	65	31	48	3,805

Source: ABS 1998 Cat No 5506.0

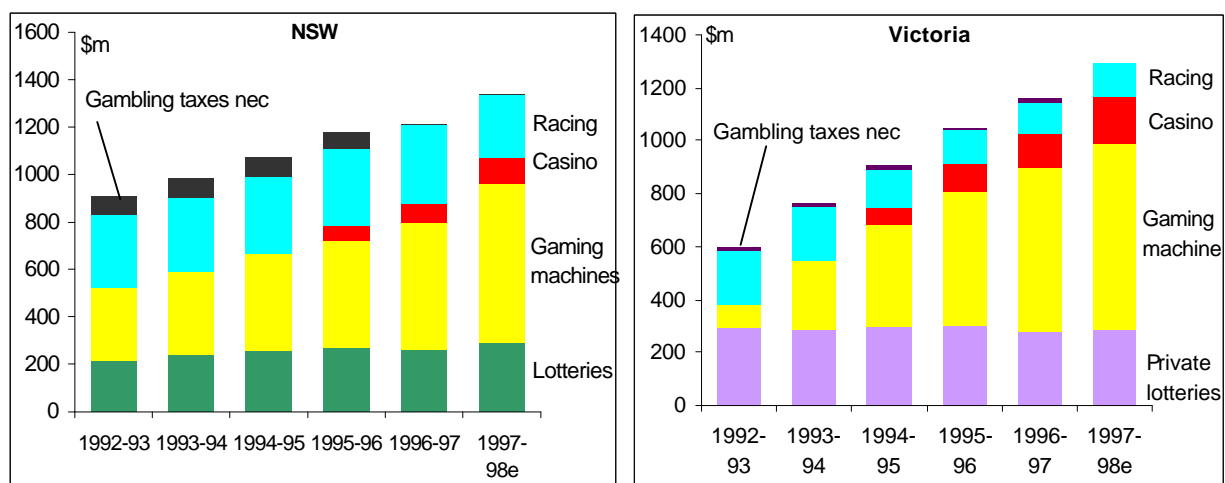
8.2.2 Gambling taxation by state

In NSW, gambling revenue has increased from \$0.9 billion in 1992-93 to \$1¹/₃ billion in 1997-98, as Chart 21 illustrates. Increased revenue from EGMs is the main reason behind the rise, while revenue from lotteries and race betting have remained fairly constant. Revenue from EGMs is expected to rise further in 1998-99 due to, among other things, the extra revenue that will flow from permits for an additional 2,300 machines in NSW hotels.

Casino taxes, while still a small proportion of total gambling taxes, increased notably in 1997-98 to \$110 million due to the full year impact of the operation of the permanent casino.

Victorian government revenue from gambling has more than doubled over the last 5 years, from \$0.6 billion in 1992-93 to \$1.3 billion in 1997-98. This is primarily the result of the opening of the casino and the introduction of EGMs.

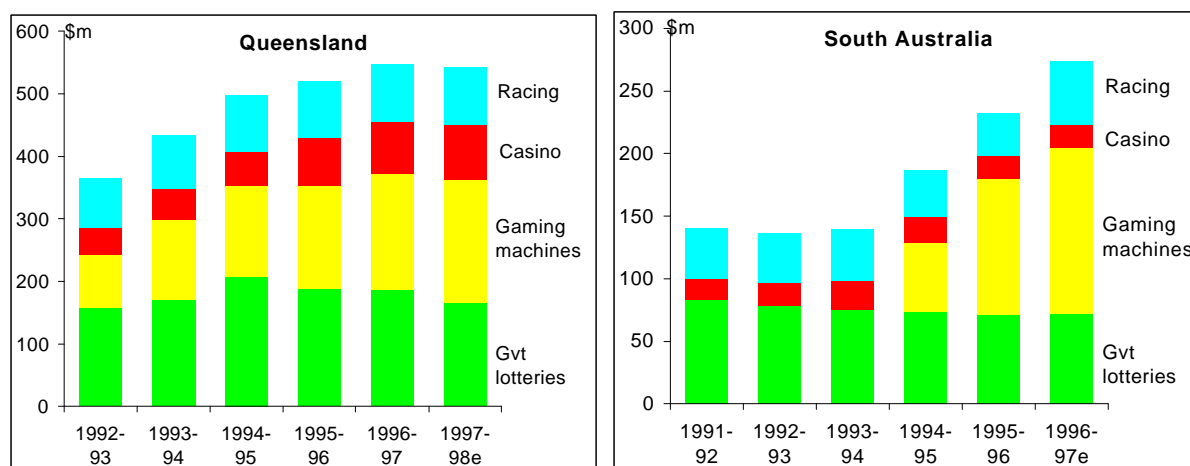
While total gambling revenue in Victoria has been rising, revenue collected from traditional forms of gambling (such as lotteries and racing) has declined, indicating that the rise in gambling revenue has been the result of new gambling activities.

Chart 21: Gambling taxation revenues, NSW and Victoria

Source: ABS 1998 Cat No 5506.0

The introduction of EGM licences outside the casinos in Queensland in 1992-93 boosted government revenues by \$80 million in that year, and has since been the main stimulus to gambling revenue growth. However in South Australia, the boost to revenues from the introduction of EGMs in 1995 was more significant, as Chart 22 illustrates.

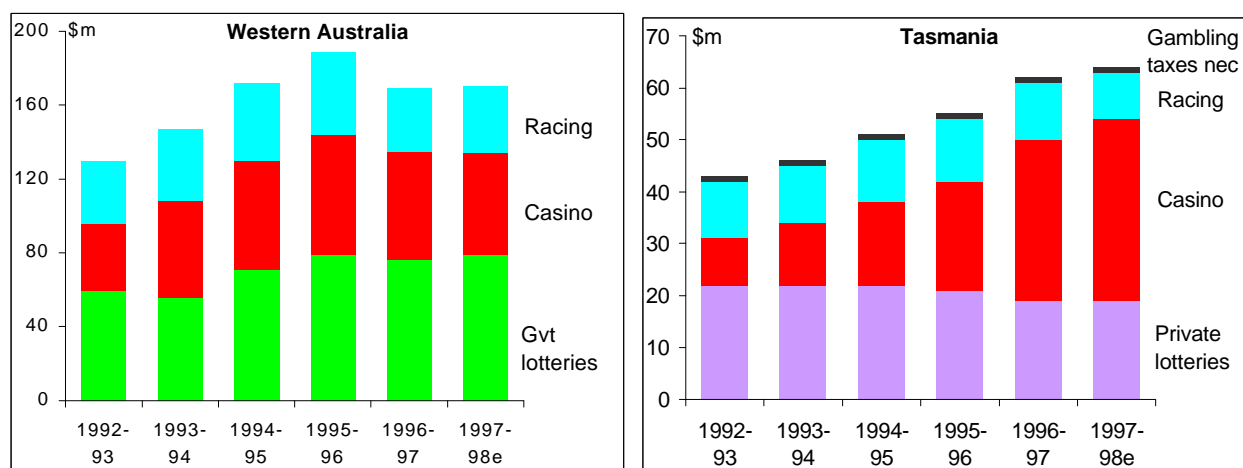
A significant drop in revenues from Queensland lotteries, while revenues from other sources remained constant, is the main reason for the fall in total revenues collected from gambling industries in 1997-98. Meanwhile an increase in the number of EGMs in South Australia and a rise in revenues from racing boosted total gambling revenues in that state from \$274 million in 1996-97 to \$313 million in 1997-98.

Chart 22: Gambling taxation revenues, Queensland and South Australia

Source: ABS 1998 Cat No 5506.0

Unlike the other states, the majority of gambling revenue collected by the Western Australian government is from lotteries (Chart 23). In Tasmania the recent growth in gambling revenues has been sourced from casino gaming, and is now the largest source of gambling revenue, where previously, lotteries had been the largest source of revenues.

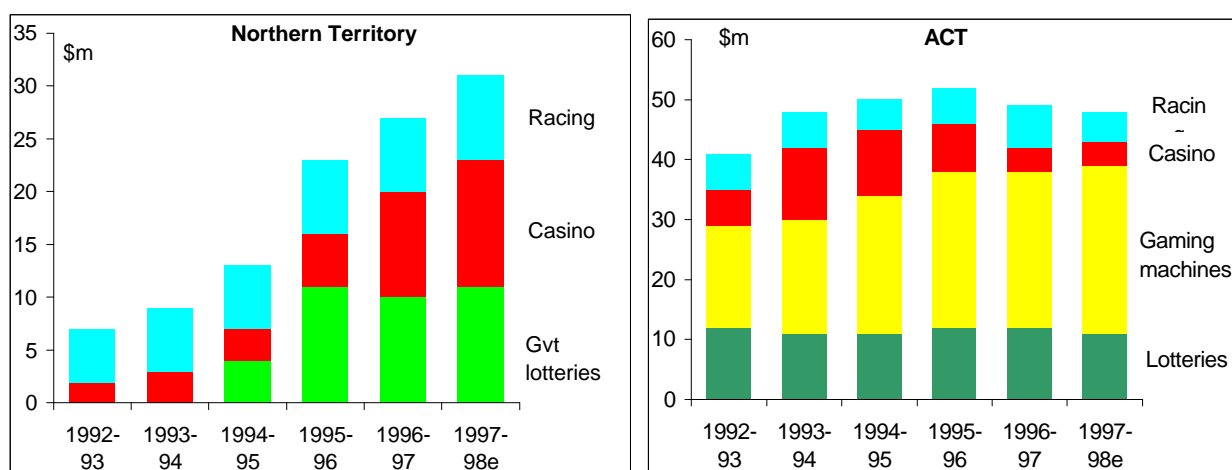
Chart 23: Gambling taxation revenues, Western Australia and Tasmania



Source: ABS 1998 Cat No 5506.0

As Chart 24 shows, since Tattersall's began providing a lottery in the Northern Territory in 1994-95, gambling revenues have increased significantly. Meanwhile, there has also been a large rise in revenues from casino taxes in 1996-97 and 1997-98.

Chart 24: Gambling taxation revenues, the Northern Territory and ACT



Source: ABS 1998 Cat No 5506.0

Gaming machines have traditionally been the largest source of gambling taxation revenue in the ACT. Unlike other states with casinos, taxation revenue from Casino Canberra has declined noticeably since 1994-95 and indeed, the ACT is the only state to have experienced a successive decline in total taxation revenue from gambling activities over the last two years.

8.3 The impact of gambling on government budgets

Revenue from taxes on gambling accounted for 10 per cent of state, territory and local government revenues from total taxes in 1997-98.

This rose from 7.4 per cent in 1991-92 and 8.8 per cent in 1994-95. Table 27 shows gambling revenue for each state and territory. In 1997-98, the Victorian government collected the largest amount of revenue from gambling as a proportion of total state taxes, at 15.2 per cent. This has increased in each of the last 3 years, most significantly in 1997-98. Meanwhile, Western Australia collected the smallest amount of gambling receipts as a proportion of total state taxes, at 5.7 per cent.

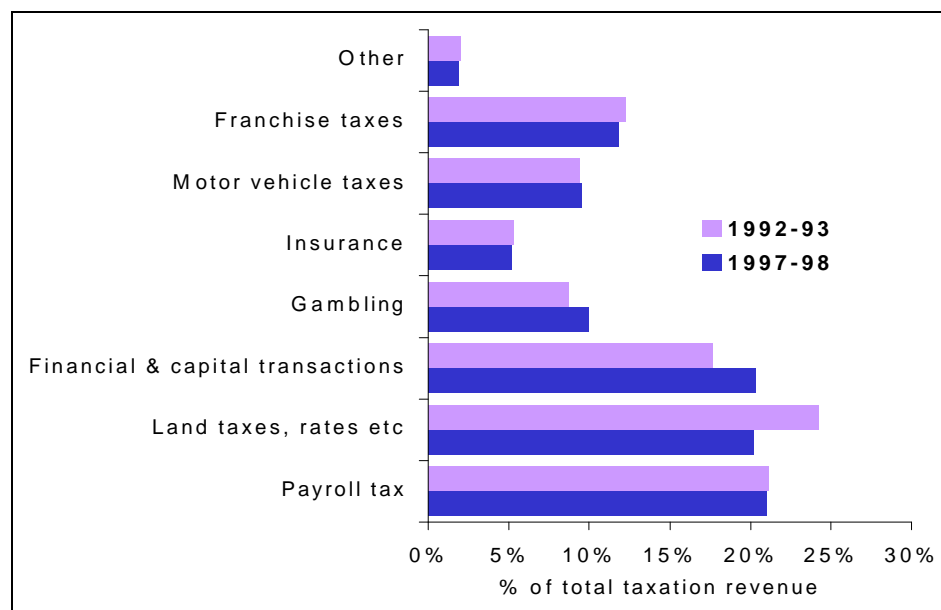
Gambling taxation revenue (in dollar terms) has increased in all states except Queensland and the ACT. Despite the rise in gambling revenue collected in Western Australia, the amount of gambling revenue collected as a proportion of total taxes has actually declined from 6.4 per cent in 1996-97 to 5.7 per cent in 1997-98.

Table 27: Taxation revenue from gambling activities compared to total state taxation revenue

		NSW	Vic	Qld	SA	WA	Tas	NT	ACT	AUS total
Gambling revenue, \$m	1995-96	1,178	1,051	520	232	189	55	23	52	3,300
	1996-97	1,209	1,157	547	274	170	62	28	49	3,497
	1997-98	1,338	1,296	543	313	171	65	31	48	3,805
Gambling revenue as a per cent of total taxes	1995-96	10.9%	12.6%	13.1%	11.5%	7.4%	8.8%	8.4%	10.1%	9.7%
	1996-97	10.2%	13.0%	12.8%	13.0%	6.4%	9.8%	9.4%	8.6%	9.5%
	1997-98	10.4%	15.2%	12.5%	13.8%	5.7%	10.3%	9.6%	8.3%	10.0%

Source: ABS 1998 Cat No 5506.0

Chart 25 shows the broad categories of taxes imposed by the state, territory and local governments as a proportion of total taxes in 1992-93 compared with 1997-98. This chart highlights that between 1992-93 and 1997-98 state, territory and local governments have increased their reliance on taxes on financial and capital transactions and gambling, and to a lesser extent, taxes on motor vehicles.

Chart 25: Sources of state, territory and local government taxation revenues

Source: ABS 1998 Cat No 5506.0

8.4 General assessment of gambling taxation

8.4.1 The general picture

Section 8.1 illustrated the vast range of different taxes imposed on Australia's gambling industry. The complexity of the gambling tax system and the unequal taxation of different forms of gambling were highlighted. In addition, it was argued that the differences in the taxes imposed on gambling activities appear unjustifiable. The high rates of taxation are also a concern, especially when compared to other forms of entertainment activities. Section 8.2 highlighted the level of gambling taxation in general and between types of gambling. The extent of government reliance on gambling taxes was illustrated in Section 8.3. Using the information presented in those three sections, this section provides an analysis of gambling taxation issues and points to areas that require attention by policy makers.

That gambling taxes are high and complex can hardly be a point of disagreement in the Australian debate. **The key issues are, however, whether taxes are too high and the significant divergence between rates between jurisdictions and within jurisdictions for different types of gambling should be tolerated.** Various reasons have been put forward for the high and complex tax regimes currently in place. Reasons given include:

- *to address unpriced spillovers, such as problem gambling and crime;*

- *to extract economic rents* (or super profits) arising from the monopolies associated with exclusivity provisions in licensing arrangements; and
- *to take advantage of gambling being an easy target for taxation*, like petrol, alcohol and cigarettes.

Analysis presented earlier in this report shows that the negative externality case associated with problem gambling or crime cannot support the high rates of tax in place. Moreover, whether there might be a case for such high taxes to extract economic rents is not as clear cut as it might first appear: a thoughtful analysis of the interaction between the tax regime and licence fee arrangements needs to be undertaken. In some market segments, for example casino commission play, the market is highly competitive and this will ensure that economic rents are practically non-existent. In other markets, the question should be asked as to what extent licence fee arrangements already deal with economic rents.

Whether gambling presents an opportunistic tax base for the states is a question best addressed in the context of the overall taxation system in each jurisdiction. Australia has just been through (another) intensive debate about the nature of taxation, the conclusion being that complex tax arrangements and high rates of tax for some products and services and not for others is distortionary, inefficient and costly to business and consumers. A simpler tax system with a flat rate of tax on all goods and services in each jurisdiction playing some role in revenue raising is seen as the desired (and most appropriate) outcome. **Proponents of the currently high and complex tax arrangements for the gambling industry ought to be asked to demonstrate why gambling should be treated differently to other activities.**

8.4.2 Assessment criteria

The traditional and widely accepted economic criteria for evaluating tax regimes are economic efficiency, administrative efficiency and simplicity, and equity.

These principles are further discussed below in relation to the gambling taxation system. Given the complexity, inefficiencies and inequity of the gambling taxes there is a strong argument for reform.

Economic efficiency

Virtually all taxes distort economic decisions by reducing, for example, the consumption of a particular good compared to others, or the incentives to work relative to taking leisure. A tax on a good or service, such as on gambling activities, drives a wedge between what people are willing to pay for a product and what producers are willing to supply it at.

This wedge has two effects. First, it will result in transfers between taxpayers and governments — the revenue burden on taxpayers. Second, it creates an excess burden (also known as the ‘deadweight loss’) — caused by the distortion of the behaviour of both consumers and producers. It is this latter type of loss that is of most concern since it means consumer welfare is lower than otherwise and producers are not doing the things that they are best at doing. These deadweight losses mean that the impact of taxation is rarely activity-neutral. **The aim of taxation should be to raise the required revenue with the least overall excess burden or deadweight loss.** That is, in efficiency terms the aim ought to be to minimise changes in resource allocation.

The tax system should interfere with private decisions as little as possible and not favour or discriminate against particular activities. A possible exception is when activities have ‘external’ effects. In that case, corrective taxes (or subsidies) may form part of the attempt to overcome the economic distortion involved.

Level of the taxes

The taxes levied on gambling are amongst the highest of all goods and services, although not as high on average as those for other ‘sin’ activities. Estimates of the effective consumption tax on different goods and services show that the rate ranges from about 1-2 per cent on community services and food, around 30 per cent for gambling, 89 per cent for beer, 130 per cent for petrol and 210 per cent for tobacco.¹⁴⁷ These taxes do not reflect user costs or externalities accurately. Moreover, **even if it is accepted that externalities of some kind are generated by the gambling industry, it is very doubtful that simple minded output taxes would be the answer.**

Not only are the gambling taxes much higher than those on goods and services in general, but when compared to other forms of entertainment and recreation, gambling is very over-taxed. Most entertainment services are not currently taxed at all by any level of government. Of the goods and services that are classified as ‘entertainment and recreation’ by the ABS in its HES, only televisions and AV equipment are subject to the wholesale sales tax. Those goods are currently taxed at a rate of 32 per cent. The introduction of a broadly based goods and services tax will not significantly reduce the disparity in the tax treatment of gambling. Indeed by lowering taxation of televisions and AV equipment it might even slightly aggravate it. **This uneven pattern of taxation also distorts the choice of form of gambling and must involve efficiency losses.**

¹⁴⁷ See Abelson, Peter, ed, 1998, *The Tax Reform Debate: The Economics of the Options*.

The different rates between gambling products were highlighted in Table 23 and Table 24. The most notable difference is the relatively harsh treatment of lotteries, which are faced with much higher taxes than other forms of gambling. Race gambling also faces high tax burdens compared to casino gaming and EGMs. Could this be why lotteries and racing have experienced significant declines in their share of turnover and expenditure while the demand for casino gaming and EGMs has increased significantly?

One argument that might warrant differential tax treatment of gambling products is that the elasticity of demand differs between them.¹⁴⁸ The stagnation of lotteries and race gambling during the recent rapid rise in casino and EGM gambling points to intense competition between forms: quite the opposite of what would be expected if their demand characteristics were very different. Indeed it could be argued there is as much difference in the elasticity of demand within products as there is between gambling forms. Consider racing. There are people who are regular consumers, placing bets on races every week (or more often in some cases). Such consumers' demand is likely to be more inelastic than those who visit the track or TAB only during the Spring Racing Carnival. A similar observation could be made about segments of the demand for casino gaming and EGMs.

Certainly we cannot accept that differences in elasticities constitute a satisfactory explanation for the significant difference in treatment between markets of EGMs. Table 20 displayed the lower tax placed on EGMs in clubs compared to EGMs in hotels. In some cases, the difference is huge. For example, the rate on EGMs for clubs in NSW ranges from zero to 26¼ per cent, while the rate ranges from 15 per cent to 40 per cent for EGMs in hotels. A similar situation exists in Victoria, Queensland and South Australia.

The price elasticity of gambling in general is discussed in Chapter 5, where it is concluded that the aggregate demand for gambling is slightly price inelastic. That is to say, a relaxation of gambling taxes in general is likely to increase the demand for gambling, but by less than the change in tax rates. However, **in the absence of definitive evidence on the elasticity for different gambling products, there seems little justification for differential tax treatment across gambling products.** It is no accident that an important outcome of the tax reform debate in Australia has been that a uniform rate of tax on all goods and services

¹⁴⁸ 'Elasticity of demand' is a measure of the responsiveness of demand to a change in the price of a good or service. Goods and services may face different degrees of elasticity, ranging from inelastic (ie; demand does not vary with changes in the price of the good or service) to elastic (demand changes in line with the change in the price of the good or service, that is, a 10 per cent increase in prices is followed by a corresponding 10 per cent decrease in demand). See Section 5.2 for a discussion of the elasticity of demand for gambling.

within a jurisdiction is preferable to a host of different rates where the demand and supply characteristics are imperfectly known. The risk of getting the tax rate wrong is high and different rates of tax encourage wasteful lobbying by those seeking the same treatment for themselves (or maintaining favourable rates).

Administrative efficiency and simplicity

Collecting taxes uses resources that could have been used more efficiently elsewhere in the economy. The aim should be to raise a given amount of revenue with the least collection and compliance costs. Collection and compliance costs are closely related to simplicity and the number of collection points. With simple taxes, it is easier and cheaper for taxpayers to pay the correct amount of tax owing and for the Government to collect the revenue owed.

Collection and consumption costs are also related to the severity of taxes — the higher a tax rate, the more energy taxpayers are likely to devote to avoiding it or lobbying to have the taxes lowered or removed, and it is likely to be more difficult to collect taxes. Similarly, those enjoying a tax advantage will have a strong incentive to expend valuable resources in lobbying to maintain the *status quo*. While new taxes will often have high set up costs, these need to be recognised as just that and considered against any net savings in ongoing costs.

The structure of gambling taxes is complex. It is rare that a single rate of tax applies to a particular form of gambling, and in some cases, gambling providers must pay a lump sum plus a rate of tax. For example, the tax rates levied on EGMs (in all states except Victoria) differ according to the amount of revenue of the establishment. EGMs in South Australia and lotteries in NSW face a lump sum payment as well as a tax. **Due to this complexity, compliance and collection costs associated with gambling taxes are likely to be fairly substantial.**

Equity or fairness

Tax economists usually approach the equity issue from the perspective of horizontal equity (equal treatment of equals) and vertical equity (progression rather than regression in the tax burden across similar products). Taxation affects the distribution of income in the community. In that context, the impact of public expenditures intended to modify the distribution of income should be considered. It is the end result of taxes and expenditure combined that is important.

This broad consideration of equity is more often applied to general changes to taxation systems than to a particular activity. But it can be applied at a more micro level to gambling taxes in relation to those on other products (vertical equity) and to the taxes on different gambling activities (horizontal equity).

In terms of vertical equity, it can be argued that **consumers of gambling products are treated unfairly relative to those of other forms of entertainment, mainly due to the high rates of gambling taxes**, as discussed previously.

The structure of **gambling taxation also results in horizontal inequity, both between different forms of gambling and for the same product in different markets**. This is highlighted by the information presented in Section 8.1.5. For example,

- *The differential treatment of EGMs in clubs and hotels.* There is little, if any, justification for treating consumers of EGMs in clubs more favourably than those who use EGMs in hotels.
- *The range of casino taxes between and within states for the same products.* The most obvious difference is the single rate imposed on casinos in Western Australia and South Australia, while the other casinos have lower tax rates on revenue from commission players. In Queensland, the Cairns and Townsville casinos face a lower rate than the Brisbane and Gold Coast casinos. There appears to be no good reasons why casino tax rates are not more even.
- *The high rate of tax on lotteries compared with most other forms of gambling.* The higher taxation burden lotteries face compared to other forms of gambling raises equity concerns.

There are also equity (and efficiency) considerations concerning the community benefit funds. Consumers of some types of gambling bear a significantly higher burden in this regard than others.

In addition, **consumers in some areas pay more gambling taxes than others on average, yet receive proportionally less from the CSF**. A number of local councils in Victoria¹⁴⁹ have expressed concern that some suburbs in Melbourne which have relatively high numbers of EGMs per head of population are not seeing the benefit of the taxes and levies they contribute to state coffers.

Figures presented by both of these councils show that the three areas with the highest recorded percentage of low income earners¹⁵⁰ and unemployment rates — Maribyrnong, Greater Dandenong and Darebin — have the highest number of EGMs per resident in metropolitan Melbourne (Table 28). The concern is that the benefits from the taxes are not re-directed into the local community in the same proportion as the amount paid, especially as these are allegedly ‘poorer’ areas. In their submission, the City of Greater Dandenong raised the concern that:

¹⁴⁹ See submissions to the Inquiry by the City of Greater Dandenong and Maribyrnong City Council.

¹⁵⁰ ‘Low income’ earners are defined as someone who earns less than \$300 per week

“Due to the high density of gaming machines in Greater Dandenong, the community is contributing a substantial and disproportionately high level of taxes and charges via gaming ... Greater Dandenong should receive an appropriate level of benefit and return for these taxes and charges.”¹⁵¹

Table 28: EGM density, low income earners and unemployment in selected Cities of metropolitan Melbourne

City	# of EGMs per adult population (29/9/98)	% low income earners	Unemployment rate %
Maribyrnong	17.3	55.7	15.9
Greater Dandenong	12.3	52.1	12.7
Darebin	10.7	53.0	12.2
Stonnington	5.7	36.2	4.5
Nilumbik	4.0	38.7	3.3
Boroondara	2.3	39.3	5.8

Source: Maribyrnong City Council Submission to the Inquiry into Australia's Gambling Industry

The Councils say this is an argument to reform the system in a way that sees more benefits flow to the communities from which they originated, thereby reducing the disproportionate burden on low income areas. As we explained earlier (in Box 4 in Chapter 5), tracking incomes and taxes suburb by suburb is a complex statistical task and there are a number of other factors, such as net asset positions, age, and movements in and out by people over time, which need to be looked at to gain an accurate picture of the circumstances that a suburb is really in. **However, the prospect that relatively disadvantaged people are contributing proportionately more to taxes than they see in return certainly adds weight to the call for gambling tax reform.**

8.4.3 Vertical fiscal imbalance

One of the great ironies in the debate about taxation of gambling in Australia is that the ‘over reliance’ of state governments on gambling tax revenue has become an argument put forward by some people not for lowering the tax rates, but for imposing further constraints on the industry.

Opponents of gambling often argue that state governments are too reliant on gambling taxes and this is ‘bad’ as it encourages governments to

¹⁵¹ City of Greater Dandenong, 1998, *Submission to the Productivity Commission's Inquiry into Australia's Gambling Industry*, p. 7.

promote gambling rather than restrict it. It is almost as if the burden that existing taxes place on the gambling industry's expansion has escaped their notice.

As discussed earlier, in Australia gambling taxes represent only about 9 per cent of state and territory revenue on average and this places gambling as the fifth largest source of state and territory revenue (Chart 25). **If this reliance represents a problem then it is not with gambling taxes *per se* but with the limited and (in recent years) shrinking tax base available to the states and territories.**

The states and territories are responsible for the majority of public spending but account for a considerably smaller proportion of the tax take than the Commonwealth. This is known as 'vertical fiscal imbalance'. The problem is severe in Australia as the tax instruments available are mostly in the hands of the Commonwealth. Among other things, vertical fiscal imbalance weakens the lines of responsibility between taxing and spending, because it presents different levels of government with greater opportunity to pass the buck for poor tax or spending policies back and forth to each other. **Both in the sense that it is overtaxed and in the sense that political responsibility for the taxation of it is not properly sheeted home, gambling is a 'casualty' of vertical fiscal imbalance.**

The Commonwealth's proposal to reform the taxation system has the potential to ameliorate the negative effects of vertical fiscal imbalance, including very high tax rates for some products such as gambling, by giving the states and territories access to a large and more certain tax base. This is to be achieved by giving all the GST revenue to the states and territories. Earmarking GST revenue in this way would make the states and territories less reliant on gambling and other taxes, and put them in a better position to reduce gambling taxes. They will be facing mounting pressures from another direction also, as indicated below.

8.4.4 Internet gambling and taxation

As discussed in Chapter 10, Internet gambling is already a fact of life in many countries. Australian consumers can access Internet gambling sites in a number of countries and can enjoy sports betting by Internet via at least one Australian provider.¹⁵² Some states and territories have already enacted legislation allowing Australian providers to establish Internet gambling facilities and others are actively considering it. The advent and expansion of Internet gambling has implications for gambling taxation.

¹⁵² TAB Limited (NSW) has offered Internet betting on racing for some 12 months.

As current gambling taxes are intended to extract large economic rents arising from exclusive licensing arrangements, **it is likely that if they are not to kill off their domestic gambling industries, states will need to lower existing gambling taxes as competition from the Internet emerges.**

9. Regulation of Gambling

As well as being heavily taxed, the gambling industry is highly regulated and because they are intertwined, both forms of intervention should really be considered together. Regulations exist in the form of licensing of operators; limits on type, size, number and distribution of outlets; controls on payouts; controls on the kind of gambling activity and number of EGMs and gaming tables; and restrictions on advertising. Also there are staffing regulations and stringent day-to-day supervision of suppliers' contracts. Many of these measures are linked to a taxation purpose.

The main pretext for the current stringent regulation of the gambling industry is to limit the social impacts associated with gambling, notably problem gambling and crime. As noted, there are doubts about the gravity of these problems, indicating that the current regulatory structure is far in excess of what would be efficient, or fair.

The case for reform is overwhelming. The current regulations limit the benefits to consumers per dollar spent on gambling. In addition, the regulations constrain individual operators and discourage operators from offering the product mix that consumers value most highly. Productivity is compromised.

In many jurisdictions, the regulatory treatment of gambling is less restrictive for clubs with gambling facilities than for hotels and casinos. This gives clubs an unfair advantage and distorts competition, thereby reducing economic welfare. The freedom of many clubs from income tax is another privilege that is distortionary and ought to be reformed.

The highest reform priority is for governments to begin applying the same policy paradigm to gambling regulation as they apply to other industries. Federal fiscal imbalance, the mismatch of taxation and spending responsibilities, is the main reason for the over-taxation of gambling and indirectly, for its over-regulation too. That problem should be tackled at source by devolving taxation powers. The states and territories should accept responsibility for deregulation, but will need to ensure that the contractual arrangements they have entered into with existing providers are not repudiated. Emerging competition from unregulated Internet gambling increases the urgency of getting on with deregulation of the domestic industry.

9.1 General picture

9.1.1 The complex regulatory web

Regulation of gambling in Australia, like taxation, is an accretion resulting from historical attitudes and events (especially periods in which gambling was illegal) that bear no relation either to current reality or to an overall and properly considered policy framework. Moreover, as the National Competition Council said recently:

“Traditionally, gambling has been far more heavily regulated than most other industries, and free competition has not been an objective of governments’ policies. The approach of governments has reflected their views that there is significant community concern about the potential economic and social costs associated with a more competitive gambling market.”¹⁵³

In addition to the many and complex gambling-specific regulations in force in the states and territories, there are other regulations which impact importantly on gambling providers and their customers. For example, the *Financial Transactions Reports Act 1988* (FTR Act) and the associated work of the Australian Transaction Reports and Analysis Centre (AUSTRAC) are part of the Commonwealth Government’s armoury for dealing with money laundering, organised crime and serious tax evasion. The role of AUSTRAC is outlined in Box 9.

In the context of gambling, AUSTRAC focuses on casinos, TABs and bookmakers — that is, activities where large sums of money change hands. Procedures in place to comply with the FTR Act and AUSTRAC requirements mean that the chance of laundering money and other fraudulent activity at gambling venues are virtually nil.

Despite this, some state governments are of the view that additional ‘crime prevention’ regulations are required. This is especially the case in relation to the foreign commission (also known as ‘junket’ and ‘premium’) player market in casinos. **Layers of additional regulation which seem intended to do much the same thing as AUSTRAC are in place in all jurisdictions.**

¹⁵³ National Competition Council, 1998, *Annual Report 1997-98*, August; p. 123.

Box 9: Australian Transaction Reports and Analysis Centre (AUSTRAC)

The Australian Transaction Reports and Analysis Centre (AUSTRAC) was established under section 35 of the *Financial Transaction Reports Act 1988* (FTR Act). It was set up as part of the Commonwealth's response to money laundering, organised crime and serious tax evasion. The FTR Act focuses on industry groups that, by the nature of their business, deal in large amounts of cash. Included in this category are banks, building societies, credit unions, insurance companies, securities dealers, futures brokers and bureaux de change. Also included are casinos, totaliser boards and bookmakers. Under the provisions of the FTR Act, these entities are classed as cash dealers.

A report must be completed by a cash dealer where the cash dealer is a party to a transaction and the cash dealer has reasonable grounds to suspect that information that the cash dealer has concerning the transaction may be:

- Relevant to investigation of an evasion, or attempted evasion, of a taxation law;
- Relevant to investigation of, or prosecution of a person for, an offence against a law of the Commonwealth or of a state or territory;
- Of assistance in the enforcement of the *Proceeds of Crime Act 1987* or the regulations made under that Act; or
- Relevant to investigation of, or prosecution of a person for, an offence against the *Corporations Act 1989*.

AUSTRAC has established a Compliance Audit Program to review cash dealer compliance with the reporting requirements of the FTR Act. Reports received from cash dealers are combined into a pool of financial transaction report information which is placed on the AUSTRAC database and made available to AUSTRAC's partner agencies:

- Australian Customs Service;
- Australian Bureau of Criminal Investigation;
- Australian Federal Police;
- Australian Security and Investments Commission;
- Australian Taxation Office;
- Criminal Justice Commission of Queensland;
- Independent Commission Against Corruption (NSW);
- National Crime Authority;
- NSW Crime Commission;
- Police Integrity Commission (NSW);
- state and territory Police Forces of Australia (7); and
- state and territory revenue authorities (8).

Source: AUSTRAC, Submission to the Productivity Commission's Inquiry into Australia's Gambling Industries, 1998, and AUSTRAC Guideline No.5: Suspect Transaction Reporting — Casinos, September 1997.

Besides AUSTRAC, parts of the police forces and social security administrations at both state/territory and Commonwealth level are routinely involved with gambling issues. Reference will be made to several of these non-gambling-specific regulatory agencies in subsequent sections of this Chapter .

9.1.2 Policy 'gridlock'

The regulation of gambling in Australia is primarily a state and territory responsibility and there is no good reason why this should not remain the case. However, it must be said that in recent years the various state and territory jurisdictions have found it difficult to undertake very searching reviews of their gambling laws. As the NCC has observed, by and large the recent reviews of gambling in the states and territories

have supported the licence arrangements, the taxation revenue objectives and the administrative structures now found in the gambling industry.¹⁵⁴ Signalling that it considers the reviews have been less complete than they should have been, the Council has supported the review of these complex matters through a different process, and named the Productivity Commission's current inquiry as a suitable mechanism.¹⁵⁵

Besides the Council, we would guess that the gambling industry and its many clients are hoping that the Productivity Commission inquiry will succeed where previous inquiries have failed. A broad, economy-wide approach is needed to address the policy gridlock which appears to characterise this industry in all jurisdictions.

Throughout Australia, the two main pretexts for regulation of the gambling industry are fears of adverse criminal and social side-effects. These are exaggerated. There may be some criminals who gamble but there is no evidence that they are more prevalent in this area than any other. Likewise individuals can, and in some cases do, become addicted to gambling, but compulsiveness is observed in many legal activities and is rarely regarded as a public policy problem. These two issues are discussed in Chapters 6 and 7 and the general conclusion reached is that both of those alleged reasons for regulating gambling have been overplayed.

Taxation revenue is a third reason, and really the main reason, for the heavy regulation of gambling. As indicated in Chapter 7, the burden which taxation and associated entry controls place on consumers, and the net economic costs of the resulting distortion of activities and lost production, are high prices to pay. As we have already stated and will repeat again, our view is that the gambling industry has become a victim of the narrow taxation bases available to state and territory government s. Even in the context of the wider taxation debate in recent years, the industry has found it difficult to have the issues surrounding its heavy taxation treated on their merits. Governments appear to have been content to apply a different kind of policy paradigm to gambling than to other activities and in a policy sense this is probably the main regulatory problem that needs to be addressed.

9.1.3 General diagnosis

As indicated in the first Chapter of this Submission, we believe the most appropriate approach to the analysis of regulation of the gambling

¹⁵⁴ National Competition Council, 1998, *op. cit.*; p. 124.

¹⁵⁵ National Competition Council, 1998, *op. cit.*; p. 125.

industry is to consider it within the well-established and widely accepted *economic* policy framework for analysing industries and consumption activities. This approach, already outlined, sees industries competing on broadly equal terms, with consumers free to choose which products they will consume, in what quantities and when. As indicated in Chapter 6, arguments for paternalistic intervention, beyond the support measures made available through the standard social security system, are not convincing.

Intervention by governments distorts market behaviour (by both consumers and investors) to some extent, and nearly always imposes an economic cost on the community. The only exceptions to this are where the intervention has the effect of correcting for a market failure, or for a market imperfection caused by some other (immovable) measure. **But it is clear that the regulations imposed on this industry are out of all proportion with what might be required for corrective purposes.**

This conclusion is reinforced by the fact that regulations always have their own costs. First, there are the costs of running the various regulatory agencies. In the gambling industry, this amounts to tens of millions of dollars each year and hundreds of government staff. Second, there is the cost to the regulated industries or individuals of complying with regulations (compliance costs). These can be considerable depending on the complexity of the regulations, the degree of restrictiveness, the manner in which compliance is enforced and monitored, and the number of regulations. Compliance with regulations can occupy management resources which would be better employed on more genuine commercial matters. Given the extent of regulation of the gambling industry, compliance costs are likely to be much higher than for most other industries. Finally, and this is a point often forgotten by proponents of government action, interventions themselves can become distorted by ‘principal-agent’ problems and other forms of ‘government failure’. The imperfect translation of policies into administration is a fact of life.

None of these concerns is allayed by any distributional advantages of gambling regulation. As explained, it seems likely that gambling restrictions and taxation are both regressive and there may well be merit in arguments made by a number of municipal governments that geographically the burden falls inequitably on ‘poorer’ suburbs.

Overall then, it is difficult to escape the conclusion that the current array of regulations in Australia’s gambling industry requires a major overhaul.

9.2 The nature of the regulatory regimes

The gambling industry in each state is controlled by a number of different Acts that are mostly independent of activities in other states. In addition, most gambling activities are governed by more than one Act. The

principal legislation governing the gambling industry in each state is outlined in Table 29.

9.2.1 Licencing of operators

Operators of gambling activities include casinos, clubs and hotels with gaming facilities such as EGMs and Keno, totalisator agencies, bookmakers and organisations conducting lottery operations. The conditions of the licences of the operators of gambling activities differ notably not only by type of activity, but by state.

Casinos

Each state government, through its particular gaming authority, regulates the casinos in its jurisdiction and sets the licence fees and rates of taxation. Casino licences provide regional exclusivity (whether over an entire state or region within a state) for a specified period. For example, Star City in Sydney has paid a substantial licence fee that gives it the right to be the only operational casino in NSW until 2006. Crown has a 40 year licence, providing it with the exclusive right to operate a casino in Victoria for six years from November 1993 and for a further six years within a 150 kilometre radius of the Southbank Complex. Burswood Casino has an exclusive licence to operate in WA until 2001. Regional exclusivity for some casinos has expired (for example Jupiters on the Gold Coast) and for others the expiry date is close.

The licence structure of casinos in different states is set out in Table 30. This table highlights the differences in licence fees and conditions across the states. While Crown casino and Star City have paid up-front licence fees, interestingly hardly any of the licence fees are based on measures of the volume of business such as gross gaming revenue.

Arguably, casinos are the most heavily regulated gambling providers and face a bewildering array of controls on their operations. They include the requirement that all suppliers of inputs to their business above a certain dollar limit be government approved and that all employees obtain police clearance and be registered. (In NSW, for example, the relevant legislation requires aspiring employees to fill in tens of pages of forms to apply for approval.) In addition, there are a number of regulations governing surveillance, including provision for on-site attendance by officers of the law. (In Crown casino a squad of 30 police detectives supplements Crown's own extensive security force.)

Table 29: Principal legislation governing the gambling industry, by state

State	Racing	Gaming machines	Casinos	Lotteries & other gaming	General
NSW	Racing Administration Act, 1998 Totalisator Act 1997 TAB Privatisation Act 1997 Racing Taxation (Betting Tax) Act 1952 Bookmakers (Taxation) Act 1917	There is no specific gaming machine legislation in NSW. Gaming machines are regulated under the Liquor Act 1982, the Registered Clubs Act 1976. (as amended by the Liquor and Registered Clubs Legislation Amendment (Community Partnership) Act, 1998)	Casino Control Act 1992	Lotteries and Art Unions Act 1901 NSW Lotteries Corporatisation Act 1996 Public Lotteries Act 1996	Unlawful Gambling Act, 1998 Innkeepers Act 1968 Registered Clubs Act 1976
VIC	Racing Act 1958 Stamps Act 1958	Gaming Machine Control Act 1991 Trans-Tasman Line Gaming Act 1993	Casino Control Act 1991 Casino (Management Agreement) Act 1993	Club Keno Act 1993 Tattersall Consultations Act 1958	Gaming and Betting Act 1994 Lotteries, Gaming and Betting Act 1966
QLD	Wagering Act 1998 Racing and Betting Act 1980	Gaming Machine Act 1991	Casino Control Act 1982 Breakwater Island Casino Agreement Act 1982 Jupiters Casino Agreement Act 1983 Brisbane Casino Agreement Act 1992 Cairns Casino Agreement Act 1996	Keno Act 1996 Lotteries Act 1997	Interactive Gaming (Player Protection Act 1998
SA	Racing Act 1976	Gaming Machines Act 1992	Casino Act 1983	Lottery & Gaming Act 1936	
WA	Western Australian Turf Club Act 1892 Western Australian Trotting Association Act 1946 Betting Control Act 1954 Bookmakers Betting Levy Act 1954-70 Totalisator Agency Board Betting Act 1960 Western Australian Greyhound Racing Authority Act 1981 Racing Restriction Act 1917-27(2) Totalisator Agency Board Betting Tax Act 1960	Gaming Commission Act 1987	Casino (Burswood Island) Agreement Act 1985 Casino Control Act 1984	Lotteries Commission Act 1990	Gaming and Betting Act 1985

State	Racing	Gaming machines	Casinos	Lotteries & other gaming	General
TAS	Racing Act 1983	Gaming Control Act 1993 Trans-Tasman Line Gaming Act 1993	Casino Company Control Act 1973		Racing & Gaming Act 1983
NT	Racing and Betting Act 1998	Gaming Machine Act 1987			Gaming Control Act 1998 Racing and Gaming Authority Act 1995
ACT	Racecourses Act 1935 Betting (ACTTAB Limited) Act 1964 Betting (Corporatisation) Act 1996 Pool Betting Act 1964 Bookmakers Act 1985	Gaming Machine Act 1987	Casino Control Act 1988	Lotteries Act 1964	Interactive Gambling Act 1998 Gaming and Betting Act 1968 Games, Wagers and Betting Houses Act 1982

Source: Various State Government Gambling Control Authorities

Table 30: Licence structure of casinos 1997-98

State	Details and licence fee
NSW	A once only non refundable lump sum payment of \$376m, plus a Casino Duty, which is paid weekly to the Government, based on a percentage of the gross gaming revenue for the week.
VIC	On being awarded the casino licence, Crown made a fixed payment of \$200 million to the Government in 1993-94 and further payments of \$57.6 million in 24 monthly instalments. As a further condition of its licence, Crown has been required to pay \$100.8 million to the Government in 36 monthly instalments of \$2.8 million each beginning in January 1996. In parallel, there is to be an increase in the allowed number of tables and EGMs in the casino
QLD	\$125,000 per quarter for each of the four casinos.
SA	\$5,000 per month.
WA	\$1.74 million p.a. (indexed to CPI).
TAS	\$60,800 per month, indexed annually.
NT	Not imposed.
ACT	Up-front fee of \$19m and ongoing annual payments of \$540,000

Source: NSW Treasury

Clubs and hotels with gaming machines

EGM licences are restricted in a number of different ways across states and territories.

Western Australia does not have any EGMs outside Burswood Casino. The Tasmanian government has recently granted EGM licences to hotels

and clubs. In NSW, there are over 1,500 registered clubs that have no restrictions on the number of EGMs on their premises, while NSW hotels have only recently been given approvals to operate EGMs and limits apply. A further 2,800 were granted to hoteliers in September 1998.

In NSW, the clubs and hotels own their EGMs and pay (different) fees to the Government for the licence to operate them; the details were changed in 1998 when the TAB was privatised. A similar situation exists in Queensland. This differs from Victoria where hotels and clubs obtain a share of the revenue from the machines placed in their premises by TABCORP or Tattersall's.

EGM licences are most stringent in Victoria. Controls on the operators include:

- a limit is imposed on the numbers of EGM licences of 27,500 until 2000 (this includes EGMs in clubs, hotels and the casino). This is the only state that has such a formal provision for the number of EGM licences granted;
- the number of EGMs in clubs and hotels must be split evenly between the two owners, Tattersall's and TABCORP, and both operators are to have 50 per cent of their machines in clubs and 50 per cent in hotels; and
- there is also an additional 80/20 rule for EGMs in metropolitan and rural areas.

In 1995 the Victorian Government negotiated a licence fee payment agreement with Tattersall's. Every year for the duration of the licence, Tattersall's is required to pay the Government 30 per cent of its net profit, or \$35 million, whichever is the greater. The \$35 million is indexed to the CPI from June 1996 to maintain its real value.

TABCORP's arrangements are different. It paid a lump sum of \$597m for its licence fee and its gambling taxes averaged 35 per cent of revenue.

Other conditions apply also. For example, in Victoria as in most states, in order to operate gaming machines, the club's operator or hotel/tavern licensee must first obtain a gaming machine licence. Also, as is usually the case elsewhere, employees of establishments with EGMs must be licensed.

Bookmakers and totalisator agencies

TABs have exclusive, or nearly exclusive, off-course betting licences in all states. Bookmakers must be licensed, and some can take off-course wagers under certain conditions that differ between the states. Moreover, the regulations regarding sports betting differ for bookmakers and totalisator agencies. In some states, off-course wagering with bookmakers is illegal and only TABs are allowed to conduct off-course sports betting of any kind.

In NSW, any operator can run a totalisator at a race meeting provided the proceeds are added to the TAB Limited pool. TAB Limited has a 15-year exclusive licence on off-course race betting. Bookmakers may also take off-course bets via telephone, but only when fielding at a race course or betting auditorium. Currently, there are two operators that conduct on-course totalisators in NSW on behalf of TAB Limited. Further information about the TAB Limited is included in a box in Attachment 2.

In Victoria, TABCORP has an 18-year exclusive right to run betting off-course and competition in the market for wages on racing is restricted to on-course and certain telephone betting with bookmakers.

In Queensland three types of wagering licences are issued, namely: Race Wagering Licences; Sports Wagering Licences; and On-course Wagering Permits. The Race Wagering Licence, which the TAB has exclusively at present, allows the licensee to conduct on and off course totalisator and fixed odds wagering on any activity held at any race meeting on any racecourse worldwide. The Sports Wagering Licence allows the licensee to conduct totalisator and fixed odds wagering on any sporting activity which is not a racing event and it also permits wagering on other activities approved by the Minister, for example betting on the “best actor award” at the Oscars. An On-course Wagering Permit allows a race club to conduct wagering by means of a totalisator on races held at the race meeting conducted by the club. A race club is only able to apply for a permit if an agency arrangement cannot be made with the holder of the Race Wagering Licence.

The regulations concerning wagering in Queensland provide for the initial issuing of licences, on exclusive terms, to the TAB. Licensees are able to appoint agents to assist in conducting wagering activities. Provision is also made for a manager to be appointed to conduct wagering activities.

The exclusive rights of the TABs need to be seen in the context of restrictions which also exist on what organisations may run race meetings where wagering occurs. In general, the position is that TABs may not turn to suppliers of race events other than the (non-proprietary) clubs registered by the controlling racing board. This is a point we return to when discussing possible reform strategies later in this Chapter.

Lotteries

There are a number of different lotteries conducted in Australia, by both state governments and by private firms. Each lottery must be licensed and supervised by the state gaming authority. For example, Tattersall's, a private company, has the exclusive right to run lotteries in Victoria. There are also national lotteries, such as Oz Lotto and Powerball.

Tattersall's also has a licence to run government lotteries in Tasmania, Northern Territory and the ACT.

The ACT also allows retailers to carry NSW State lottery products.

Australians also have postal access to lotteries throughout Australia and internationally and they can access Internet products.

9.2.2 Limits on type, size, number and distribution of outlets

Casinos

As discussed above, casino licenses provide for various kinds of geographical exclusivity. The exclusivity conditions of some licenses have expired, while with others programmed phasing-out of exclusive geographic regions has begun.

The EGMs in casinos are generally restricted to a certain number of table games. For example, Crown casino is restricted to a limit of about 7 EGMs to every table game. Currently, Crown casino has 2,500 EGMs and 350 table games. In Star City, the restriction is similar to Crown, with 200 tables and 1,500 EGMs. However, both casinos report that consumer demand for EGMs is much higher than the limit the regulations impose. In the US industry, where such restrictions do not exist, the ratio of EGMs to table games is thus consumer driven and is much higher, at about 25 EGMs to every table game.

Each state casino regulator grants licences for each type of table game that can be played in the casino. This has resulted in some casinos offering a wider variety of table games than other casinos.

Gaming machines

As noted in Section 9.2.1, the toughest restrictions on gaming machines are in Victoria. The restrictions concern not only the total number of machines in Victoria, but there are also restrictions on:

- the number within a particular venue (the gaming area cannot exceed 25 per cent of the floor space of a hotel);
- the 50/50 rule between hotels and club and 80/20 rule between metropolitan and country areas, and
- the 50/50 ownership rule between the two operators.

In addition, across states regulations concerning EGMs differ according to the venue the machine is in, especially concerning rates of taxation, as set out in Chapter 8. This is discussed further in Section 9.2.5.

Racing

All state TABs have a monopoly licence to run off-course totalisator betting. For example, TAB Limited has a 15-year monopoly licence to

conduct off-course totalisator betting in NSW. Similarly, TABCORP has an 18-year monopoly licence for off-course wagering.

Bookmakers must be licensed and most are restricted to taking wagers on-course (or in betting auditoriums) only. Bookmakers in country areas generally pay less turnover tax than city bookmakers and for the most part, in the face of declining bookmaker takings, the number of bookmakers who may operate on different courses has been frozen.

9.2.3 Controls on payouts

Legislation determines that at least 85 per cent of turnover of EGMs is returned to the player in most states.

In Queensland variable player returns between 85 per cent and 92 per cent will be phased in over the next two years. In practice, operators of EGMs set the minimum player returns well in excess of the statutory minima.

In Victoria, EGMs are legislated to return 87 per cent, although, in practice the average setting is 90 per cent.

With casino games, the minimum returns to the player differ from game to game. However, what really sets the limits for payouts to casino customers and revenue for casinos is the theoretical house advantage on the games available in each casino. These theoretical limits can marginally vary depending on specific rules (approved by governments) applying in each state and territory. The house advantages for some of the more popular casino games are:

- Roulette: 2.7 per cent;
- Blackjack: 1-2.5 per cent;
- Baccarat: 1.2 per cent, and
- The money wheel: 7.7 per cent.

From these margins, the casinos need to pay the expenses of running their operations.

The TABs in NSW and Victoria (which between them run the wager pools for all the state and territory TABs, except Queensland) must return a minimum 84 per cent of turnover to the players over a one year period. Bookmakers' payouts are not controlled at all due to the nature of fixed odds wagering.

9.2.4 Restrictions on advertising

There are some government restrictions on the advertising of gambling products and the industry restricts itself to an adult audience through joint codes of practice which forbid advertising directed at minors. Some of

these restrictions are thought to be not too stringent, as they generally reflect commercial realities.¹⁵⁶ Television advertising of gambling activities is generally denied in certain time slots, for example, when children's programs are aired. In addition, all marketing and promotional material is required to be targeted at an over-18 years audience. These are not onerous conditions given that people under the age of 18 are not gambling service providers' target audience.¹⁵⁷

Even if, for the sake of argument, a case could be made for some regulations prohibiting the targeting of gambling advertising to groups such as children and teenagers under the age of 18, it does not follow that there should be tight controls on gambling advertising and promotion more generally. Recently, there have been calls for further regulation of gambling related advertising and promotion. For example, in its submission to the Productivity Commission the Salvation Army said:

“... government has an important role to play in setting limits on the promotion and advertising of gambling. For example, television advertising needs to be confined to adult viewing hours. Legislation should be enacted for all advertising to carry a warning of the negative effects of gambling.”¹⁵⁸

Simplistic approaches to the regulation of gambling advertising fail to recognise the important positive economic role advertising can play. Restricting advertising can be costly for consumers and society. Restrictions on gambling advertising do not address so-called problem gambling concerns. A more detailed explanation of the economics of advertising is presented in Box 10.

¹⁵⁶ This raises a further issue – if regulations just reflect market outcomes, why have them?

¹⁵⁷ Even with no regulations over, say, the targeting of certain age groups, it is extremely unlikely that gambling providers would waste their money trying to attract those under the age of 18 as they are legally not allowed to play or even enter certain venues such as casinos or gaming areas in clubs and hotels.

¹⁵⁸ Salvation Army – Australian Eastern Territory, 1998, *Submission to the Productivity Inquiry into Australia's Gambling Industries*.

Box 10: The economic case for gambling advertising

Industry-specific controls on the advertising of gaming might be advocated because advertising encourages consumption that is harmful to society, including that by vulnerable members of society such as young people and problem gamblers. An economic perspective of advertising provides a contrary view:

- Advertising is associated with freedom of speech, a right which is fundamental to the freedom and dignity of members of a free society. The preservation of freedom of speech, subject to some limits, is normally seen as a key function of democratic governments.
- Advertising reduces costs to consumers of identifying sellers, obtaining information on alternative products and other goods and services that are available, and on their relative prices. Because advertising facilitates competition, it also generally results in lower quality-adjusted prices. These benefits of advertising enhance the welfare of consumers.
- There are no compelling grounds for believing that advertising can have a large impact on aggregate consumption of gaming or other products because relative prices and income largely explain demand. Advertising expenditures are generally believed to have a limited impact on aggregate demand and a more significant impact on the distribution of sales among competitors.
- If a reduction in the price of products were worth more to consumers than advertising expenditure, consumers would voluntarily demand less advertising and lower-priced brands, and producers would also exploit this opportunity. (The supply of 'no frills' products in supermarkets is a partial example of this response.) This proposition illustrates the point that advertising conveys information relating to the quality of products – for instance information on the reliability of the product, such as the odds offered – and does not just reduce search costs.
- Controls on advertising reduce the marginal efficiency of advertising expenditure and thereby impose a deadweight cost on the community. Restrictions on the style of advertising (over and above valid ones that apply to all industries on matters such as misleading or deceptive advertising), the medium which may be used and the time at which advertisements may be broadcast also impose deadweight losses for similar reasons.
- Brand advertising promotes reputation of producers and distributors. They have incentives to enhance their reputations and their long term interests are damaged by the association of their products with misuse such as pathological gambling. To the extent that restrictions on advertising inhibit the promotion of the reputations of producers and distributors, they impair the incentive to discourage the misuse of their products.
- Advertising bans by lowering the non-quality adjusted price of the product, may increase consumption of the product concerned by a small amount, thereby biasing consumer choice. In addition, bans may prohibit the promotion of responsible gaming, thereby contributing to higher demand than otherwise for less desirable forms.

Source: New Zealand Business Roundtable, Toward a More Efficient Policy Framework for Gaming. A Submission to the Department of Internal Affairs on the Gaming Review, December, 1996, pp 20-21.

There is one area where restrictions on advertising may have an important economic purpose, at least given the current nature of the racing industry. This is the state legislation found commonly across Australia which has banned interstate TABs from advertising for business locally in the traditional media. The intention has been to protect the exclusive franchise agreements which each state's TAB has had with its racing industry to run races on which totalisator bets are placed. Admittedly, in all states, interstate TABs have some local telephone account customers and there is a tacit agreement between the state racing industries that interstate races should be made available to local punters to place wagers on. However, by and large the advertising legislation has, we understand, succeeded in providing the local TABs with some security against the poaching of clients by interstate counterparts and has provided support for the substantial payments which TABs make each year to their local racing industries for the use of their races as wagering opportunities. The magnitude of these payments is generally enshrined in legislation, although in Victoria and NSW at the time of privatisation they were

arrived at by commercial negotiation between the TABs and the racing industry.

As indicated in Chapter 10 which follows, the commercial support which the ban on traditional media advertising has provided is being threatened by Internet advertising and odds displays by operators located in the Northern Territory who pay the racing industry elsewhere nothing and who can also save costs by operating a selective and low-overhead service. Their products can be priced very competitively (and it is said they already have 50 per cent of the Australian fixed odds market).

This development raises issues akin to those concerning the protection of copyright. In NSW at least, the TAB has responded by creating its own Internet services. Other TABs are considering their options. Ultimately the breakdown of the geographic boundaries to the flow of information could upset the distribution agreements between the TABs and their local racing boards, and it might even lead to legal actions by local racing boards intended to recover 'royalties' from interstate operators.

9.2.5 The mutuality principle and other advantages for clubs

One of the most important concerns regarding the current regulatory structure is the favourable treatment of clubs over hotels. In the context of regulatory and tax reform it is imperative that this be addressed, since mutual associations such as licensed clubs have become a substantial sector of the gambling and entertainment industry, especially in NSW.

The regulatory advantages clubs have over hotels were outlined in Sections 9.2.1 and 9.2.2 above, and the taxation differences were outlined in Chapter 7. **The discriminatory tax arrangements for clubs and hotels are summarised in Table 31 below.**

Table 31: Government taxation and restrictions on gaming machines

		NSW	Vic	Qld	SA	Tas	ACT	NT
Clubs	Maximum tax	26.25%	33.3%	45%	45%	35%	23.5%	47%
	Minimum tax	0%	33.3%	10%	35%	25%	1.0%	47%
	Maximum # of machines	No limit	105	270	40	25	No limit	No limit
Hotels	Maximum tax	40%	41.67%	45%	45%	35%	35%	47%
	Minimum tax	15%	41.67%	10%	35%	25%	35%	47%
	Maximum # of machines	30	105	25	40	15	Variable	6

Source: Australian Gaming Machine Manufacturers Association submission to the Productivity Commission inquiry into Australia's Gambling Industries.

The difference between the regulatory and taxation structure imposed on clubs and hotels is most significant in NSW. Not only do the tax rates differ substantially (rate of between 0-26.25 per cent for clubs to 15-40 per cent for hotels), but there are no limits imposed on the number of machines in clubs while hotels face a maximum of 30 per venue. In Queensland, there are no differences in the taxation rates, but the number of machines allowed per hotel is fixed at 25 compared to the 270 allowed in clubs.

An association satisfies the 'mutuality' condition which qualifies it for lower rates of tax and fewer restrictions if it is a non-profit organisation. Such associations also enjoy the advantage of zero income tax and this is another feature which the other gambling service providers believe is often arbitrarily applied and unjustified. Many, perhaps most, so-called non-profit associations with EGMs are run as businesses providing benefits to their members and staff without much evidence that they provide any wider social gains that might justify their privileged treatment. The state and federal offices of the AHA have argued these points well in their submissions to the Productivity Commission.

Suffice to say, the regulations as they currently stand are giving clubs an unfair advantage over their competitors and are creating distortions in the mix of gambling expenditure amongst outlets which are inefficient and therefore costly from a community-wide standpoint. They should be reformed.

9.3 The reform agenda

9.3.1 Understanding the problem

As the outline above makes clear, gambling is subjected to extensive and very restrictive regulations. While there are legitimate concerns which means that a degree of oversight is warranted, it is obvious that the current regulatory structure is far in excess of what could ever be justified to counter any negative externalities that might be associated with gambling activities. Moreover, the degree of regulation is arguably greatest with the kinds of products that are consumed relatively more by the poorest sections of the community, and in that sense the impact is regressive.

Not only are gambling regulations stringent in general, but also the vast range of regulations imposed is uneven and inconsistent between forms of gambling. For example, the restriction on the kinds of games that can be played in a casino, and the restriction on the number of EGMs allowed in a casino compared to table games are both repressive and uncompetitive.

In short the regulations imposed on the gambling industry result in costs to both producers and consumers of gambling products. The

regulations create an uneven playing field both within the industry and between competing industries and they are a drag on productivity.

The plainest evidence that something is wrong is the observation that the regulatory controls imposed on the gambling industry are so much more intrusive than those applied to products which are no less 'risky' to the consumer, such as junk food and 'adventure' sports. Such products are not regulated to anywhere near the extent of gambling. **Nobody would tolerate a level of interference in those activities equivalent to that currently applied to gambling.**

9.3.2 The normalisation imperative

As noted at the beginning of this Chapter, probably the greatest policy reform priority is that governments begin applying the same policy paradigm to gambling as they apply to other legitimate activities.

The well-established and widely accepted principles that are applied to public policy on the conduct and enjoyment of economic activities were outlined in Chapter 1. These policy principles have formed the basis for much of the reform of public policy since the beginning of the 1980s, and they underlie the NCP Agreements adopted by all Australian governments in mid-1995.

9.3.3 The taxation link

A key to breaking the policy impasse or gridlock which seems to have characterised gambling regulation in recent years is economy-wide taxation reform. Much of the blame for the widely resented, and economically inefficient, dependence of state and territory governments on gambling taxation rests with the federal fiscal imbalance which characterises the Australian taxation system. As noted in the previous Chapter, federal fiscal imbalance, the mismatch of taxing and spending powers between levels of government, weakens responsibilities at both ends. In an arguably less serious but more obvious way, in the Australian case it has caused an overdependence by state and territory governments on the narrow tax bases which their pre-World War Two agreements with the Commonwealth left them with. state spending responsibilities have continued to grow, and their Treasuries have been complicit in schemes which use entry controls and other regulations to create in their confined taxation areas what economists call 'quasi-rents' which can be readily taxed. This has been the general story with gambling at state and territory level.

As part of the process, spurious pretexts for the entry controls have been promoted. Meanwhile, the control of illegal activity and the discretionary

allocation of new licences have become highly politicised areas in which numerous elected officials have broken or made their reputations.

Undoing Australia's federal fiscal imbalance is a high level policy task which must involve state/territory *and* Commonwealth government s.

A number of initiatives which would address the problem have been canvassed in the wider taxation debate over the last decade or so. We are confident that steps will ultimately be taken and, moreover, that they will involve, primarily, the devolution of taxing powers to the states (or equivalently, the reservation or earmarking for them of the revenues from certain tax instruments).

Certainly we would not wish to see the federal fiscal imbalance problem become an excuse for the centralisation of taxation and/or other policy making with regard to gambling. **It is not the rights of states and territories to regulate their own gambling industries that is the problem, but rather the fiscal context in which that responsibility is exercised.**

9.3.4 Designing a reform program

While lower taxation and deregulation is the approach which we believe the states and territories should adopt towards their gambling industries, it is important that the contractual agreements which governments have reached with incumbent suppliers not be repudiated. Some licences have several years to run and they and certain other agreements were entered into in the reasonable expectation that governments would honour them. One implication is that the dismantling of existing regulation will take time. Another is that, if ultimately the gambling industry is to be expected to move into a less regulated and more competitive world, so should the gambling industry's suppliers and the other segments of the entertainment industry, such as the clubs, which compete for the gambling dollar. **If it is to unambiguously improve economic welfare, deregulation will need to occur on a broad front.**

A particular example of interconnections which will need to be considered in the design of any deregulatory program are those affecting the TABs. As already mentioned, whereas the TABs all have exclusive rights to off-course totalisator wagering in their jurisdictions, they in turn depend for their racing events on board-registered non-proprietary racing clubs whose right to conduct (and timetable) race meetings where wagering occurs is also exclusive. There are a large number of reasons offered by established racing interests for why this situation should not change. However, equally, there are a number of sporting groups (eg. the Quarterhorse and Arab horse associations) which wish they could have the advantage of TAB coverage for their events and a number of competing plans have surfaced in recent years involving individual clubs whose economic case for inclusion in the TAB system would seem

strong. The regulatory arrangements for TABs and racing should be reviewed together.

As far as the TABs alone are concerned, there are some public interest arguments for exclusivity, related to economies of scale, which need to be considered. It seems doubtful that deregulation would lead to the ‘degeneration’ of totalisators into smaller pools and less keenly-priced wagers at some resulting social cost, but the question deserves examination.

These propositions are likely to be tested in forthcoming National Competition Policy reviews of TAB legislation by state and territory governments, but the Productivity Commission should also address them.

9.3.5 Internet pressure

Pressure to act is also mounting for other reasons. **With the advent of the Internet, the external environment for gambling is changing in such a way that the old ‘repudiate and regulate’ recipe for this industry is likely to become progressively less effective as a taxation revenue-raising device.** As is explained in the following Chapter , it will be impractical to tax foreign suppliers of Internet gambling products at the rates which currently apply to domestic suppliers and if the domestic industry is not to be overtaken by international competition (and if state Treasury gambling revenues are not to start drying up), domestic taxation rates on gambling will need to come down. Clearly the imperative for lower taxation will be stronger with some products than with others, but Internet developments do seem likely to be an important influence on the timetable which governments will need to set themselves for tackling the gambling taxation issue and by implication, on the federal fiscal imbalance issues which lie behind it.

As mentioned, the Internet is addressed in the following Chapter .

10. Internet Gambling

This Chapter describes and analyses the nature of Internet gambling. The main considerations are as follows:

- *there is a huge range of actual and possible gambling products available on the Internet;*
- *Internet gambling is already established in a number of countries;*
- *currently, Australian interest in Internet gambling is low, but could change;*
- *attempts to regulate Internet gambling are at odds with policies in many countries to keep e-commerce as a free trade zone;*
- *there is a move in the US to ban Internet gambling but this is likely to be difficult to enforce, especially in other countries;*
- *Australia has taken a more positive approach by establishing a framework (and legislation) for legal Internet gambling, although many of the observations we have made in Chapter 9 about the needless intrusiveness of the regulations also apply in this case;*
- *the advent of Internet gambling means that existing (high) tax and stringent regulatory regimes should be reviewed;*
- *crime and problem gambling concerns are overplayed; and*
- *given the technology involved, it is very difficult for children to access gambling on the Internet.*

10.1 The nature of Internet gambling

The policy challenge presented by the advent of Internet gambling is captured well in recent statements by two observers, one American and one Australian.

“The greatest danger posed by Internet gambling is that there is no way to control it and no way to regulate it. The Internet has enormous potential to promote both educational opportunities and business expansion in this country. At the same time, the Internet is fast becoming a place where inappropriate activities and consumer fraud thrives. Gaming should be a regulated adult recreational activity. It is physically impossible for any state to regulate gaming on the Internet and the

only responsible choice is simply to prohibit it.”

Richard Bryan (1998), US Senator for Nevada.

“I think prohibition is a nonsense, it’s going to occur, but I think we’ve really got to put a concerted effort into dealing with the technology ... I think we can come up with a (regulatory) model that is the best that’s possible at the moment, and we can learn from the experience.” *Professor Jan McMillan (1998), Executive Director, Australian Institute of Gambling, University of Sydney.*

The term ‘Internet gambling’ is something of a misnomer as the Internet is only one, albeit a very important, aspect of rapidly growing and developing telecommunications technologies which are used to convey gambling information. To focus exclusively on Internet gambling would be to exclude newer forms of technology (such as the potentially widespread home access to interactive television) and forms of technology yet to emerge. **Perhaps a more appropriate term is ‘interactive gambling’ which encompasses a wider net of telecommunications and computer technologies than just accessing Web pages via the Internet.** That said, at the present time interactive gambling in many countries is dominated by the Internet.¹⁵⁹ A formal definition of interactive gambling is presented in the extract from recent ACT legislation set out in Box 11.

Box 11: Formal definition of interactive gambling

“game” includes a scheme or arrangement;

“interactive gambling” means gambling by means of interactive games accessible from the player’s home in which a player participates by means of the Internet or any other telecommunication medium;

“interactive game” means a game in which —

- (a) a prize consisting of money or anything else of value is offered or can be won under the rules of the game;
- (b) a player —
 - (i) enters the game or takes any step in the game by means of a telecommunication device; and
 - (ii) gives, or undertakes to give, a monetary payment or other valuable consideration to enter, in the course of, or for, the game; and
- (c) the winner of the prize is decided —
 - (i) wholly or partly by chance; or
 - (ii) by a competition or other activity in which the outcome is wholly or partly dependent on the skill of the player or another person.

Source: Australian Capital Territory, Interactive Gambling Act 1998.

There is a view that betting on racing, for example, over the telephone or Internet, is somewhat different to interactive gambling more generally

¹⁵⁹ In the US the placing of bets over the telephone is illegal, while in Australia telephone betting on racing has a long history.

because, say, a TAB does not conduct the race but merely offers the means to bet on an event at arms length from it. In contrast, a cyber casino or lottery takes bets and conducts the game. The distinction is somewhat illusory because all require the use of telecommunications networks and technologies. But it does seem the degree of competition will differ from product to product. For example it is argued by some in the Australian gambling industry that the Internet competes more for wagering than gaming (and perhaps lotteries) because the results of the wagering events can be readily verified. By comparison with the ready verifiability of race results, people may not be as confident that overseas blackjack games really use 52 cards, for example.

The most straightforward approach to interactive gambling is to regard it as gambling which makes use of existing and emerging telecommunications and computer technologies where the player is 'remote' (for example at home) from the provider. **The physical separation of provider and customer is one of the key factors distinguishing interactive from traditional location based gambling** — that distinction has both positives and negatives (Box 12).

Box 12: Gamblers log on to deal in

Winners ...

It's the convenience of it that Kurn Wheeler appreciates: no long flights to Las Vegas, no expensive hotel stays, no cheesy Elvis impersonators. Instead, the roulette wheel is right there on his computer screen, whenever he cares to place a bet.

Wheeler, 31, of St. Augustine, Fla., said he plays almost every day for two or three hours, his bets flying across the Internet to a computer in Antigua. It contains his account and those of thousands of other gambling enthusiasts, and with some nifty graphics, brings them together in a "virtual casino".

"It's great. I don't have to leave the house", said Wheeler, who used to visit Vegas every few months. "It's very private. There are no distractions, no dirty looks from the casino people if you win. I can just relax and concentrate on what I'm doing".

... and Losers

Caribbean officials say their region doesn't deserve its reputation as a place where anything goes; they regulate. "We treat everybody just the same. If Jesus came down here, we'd still screen him to death", said Gwyneth McAllister, who deals with licensing of Internet gambling companies in Antigua and estimates that the Government will collect about \$3 million from them in the next few years. She said the services are regulated by Antigua's government to assure their honesty.

Nevertheless, some customers have reported problems. Bruno Paniccia, a 25-year-old insurance claims evaluator from southern California, said he learned the hard way that these companies may not be entirely on the up and up.

Last April, at the advice of a friend, Paniccia sent \$500 to the Sports International sportsbook operated by IGC (Interactive Gaming and Communications Corp.). His almost daily wagers on various baseball games met with great success; within three weeks his winnings had grown to more than \$1,000. Not wanting to push his luck, he asked the company to send him his winnings.

No dice, Paniccia says he found out. Four months later, after numerous conversations with IGC employees, Paniccia still hasn't gotten his check. "I'd say there's about a fifty-fifty chance that I'll ever see any of my money back", he said.

According to spokesman Erb, the delay was caused by a temporary glitch with the bank the service used. The company has since switched to a system that provides customers with offshore debit card accounts, allowing for easy deposits and withdrawals. Paniccia will be paid any day now, Erb said.

Source: Beth Berselli, 1997, 'Gamblers Log on to Deal in', *Washington Post*, August 19, p. A09.

The range of actual and possible products available via the Internet or some other means of communications is huge. In some cases new products will only emerge as new technologies become available for commercial purposes. Some possibilities are:

- Internet casino gambling where players use personal computers via the Internet and World Wide Web to access a virtual or cyber casino. Games available include virtually the full range on offer at 'bricks and mortar' casinos including roulette, poker, Keno, baccarat, various slots, blackjack and so on;
- networked computer games that are played for money or prizes;
- interactive TV quiz and game shows where players can take part at home, either by betting on themselves or other contestants;
- gambling products available on interactive TV or personal computer assessed through a 'click here to enter' basis;
- gambling via telephone using handset buttons to bet interactively by way of a remote computer; and
- telephone contests (including raffles and quizzes) using time charged telephone calls and where part of the call cost is allocated to the prize on offer.

10.2 State of play

10.2.1 International availability

Official statistics on the availability and use of the Internet (and other technologies and communications systems) for gambling services are not available. However, **there appears to be a consensus that around 35-40 sites are currently available world wide and most of those are offering casino-style games.** Many of them are located in the Caribbean and some can be found in Europe. Most of them appear/claim to be government licensed and provide various checks and balances aimed at player protection (Box 13).

In addition to claims of government control, some Internet gambling providers advertise links with charitable organisations. A lottery site in Liechtenstein is linked to the Red Cross and Red Crescent and advertises that it is audited by one of the major international accounting firms.

It appears that the industry has developed from virtually nothing just two years ago to around 40 providers world wide. The dollar value of the industry is more problematic. Industry analysts suggest that Internet gambling is a business worth about \$US200 million. It is not clear what this means — money bet or the income from Internet gambling. There is agreement however that the industry is set to significantly grow in the

near future, especially as some Australian states and territories have passed legislation allowing licensed providers to enter the market.

Australia already has one of the leading Internet gambling operators

— **Centrebet based in Alice Springs.** Centrebet specialises in sport wagering. Speaking on the ABC's *Law Report* program on 19 May 1998, Centrebet Director Terry Lillis noted that Centrebet has 21,000 customers and 30 per cent of its business is now carried out over the Internet.

Around 50 per cent of Centrebet customers are overseas. Moreover, Lillis stated that after 12 months of operation, Centrebet's turnover was about \$1 million. Now, turnover is around \$3 million per week, with a third of the amount coming from overseas.

Box 13: Case study — Caribbean Cyber Casino

The operators of Caribbean Cyber Casino (CCC) claim it is one of the most trusted casinos on the Internet. The casino operates under a licence granted by the Sovereign Nation of Grenada. Its Internet address is www.ccasino.com. CCC has been in operation for three years, has thousands of customers (according to CCC) and offers one of the largest selections of casino games on the Internet. Although people can play the various casino games for free, CCC is very much a serious gambling site — accepting large deposits from customers.

Games on offer are: blackjack, single 0 roulette, cyberstud poker, craps, 3D baccarat, scratch cards, sic bo, Keno, poker (jacks or better, deuces wild, 3D pal gow, 3D red dog), slots (reels royce, winning wizards, double magic, jackpot express, fantastic sevens) and progressive cash splash.

To play for real money an account must be opened and credit must be registered with the casino. All funds, credits and/or debits are in US dollars. To obtain credit from the casino, any of the following means can be used:

- A valid credit card to purchase e-cash;
- Wire transfer funds to the CCC bank;
- Western Union money orders;
- Bank drafts, cashiers cheques or certified cheques;
- Personal cheques; and
- Cash can be sent but is not recommended;
 - CCC stresses that it is a legitimate business and does not wish to be involved in any money laundering activities and no more than \$US5,000 in cash will be accepted at any one time. Amounts in excess of \$US5,000 will be returned.

No credit is issued by CCC until all funds are received and verified in its bank accounts.

CCC strictly adheres to the Code of Conduct established by the Interactive Gaming Council. Players are cautioned to not make passwords and other access material available to minors. CCC provides a problem gambling link.

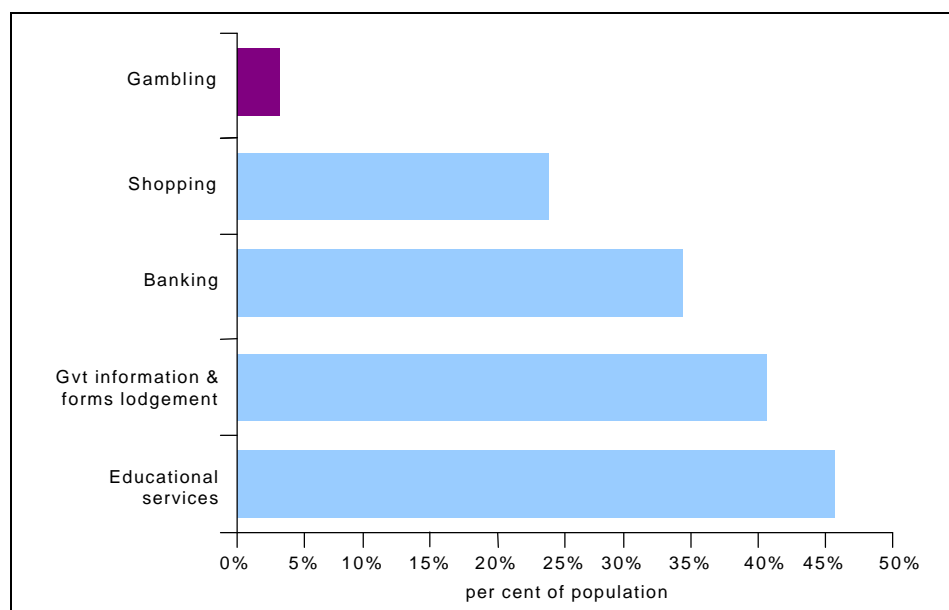
The CCC software system was designed by MicroGaming Systems (MGS). The random number generators in the software were tested by a member of the Royal Actuarial Society and found to be 100 per cent random, in line with licence requirements. Security infrastructure restricts access to customer accounts and the latest encryption standards are used for security.

10.2.2 Australian consumer interest in Internet gambling

There are many gambling sites available on the Internet, and more to come including from Australian operators. **Australians have been quick to utilise the Internet for a range of activities involving financial transactions, but Internet gambling has not yet become a major area**

of interest.¹⁶⁰ In February 1998 just 3.4 per cent of adult Australians had an interest in accessing the Internet for gambling purposes.¹⁶¹ Chart 26 shows that this was well below interest in other activities such as shopping (24 per cent), banking (34 per cent), government services (40 per cent) and educational services (46 per cent).

Chart 26: Interest in accessing on-line services from home by persons aged 18+, February 1998



Source: Australian Bureau of Statistics, 1998, Cat. No.8128.0

By comparison with the expenditures on conventional gambling products, interest in Internet gambling by adult Australians seems to be low and apparently has fallen considerably in recent years. In the two years to February 1998, interest in Internet gambling fell by 36 per cent (Chart 27). This is in contrast to interest in banking and shopping which rose by 16 per cent and 13 per cent over the same period. What is interesting about gambling is the uniform drop in interest by both males and females. With banking and shopping the shifts in interest have been diverse. For example, interest in Internet shopping by males rose by 30 per cent in the two years to February 1998, yet fell by 4 per cent for females.

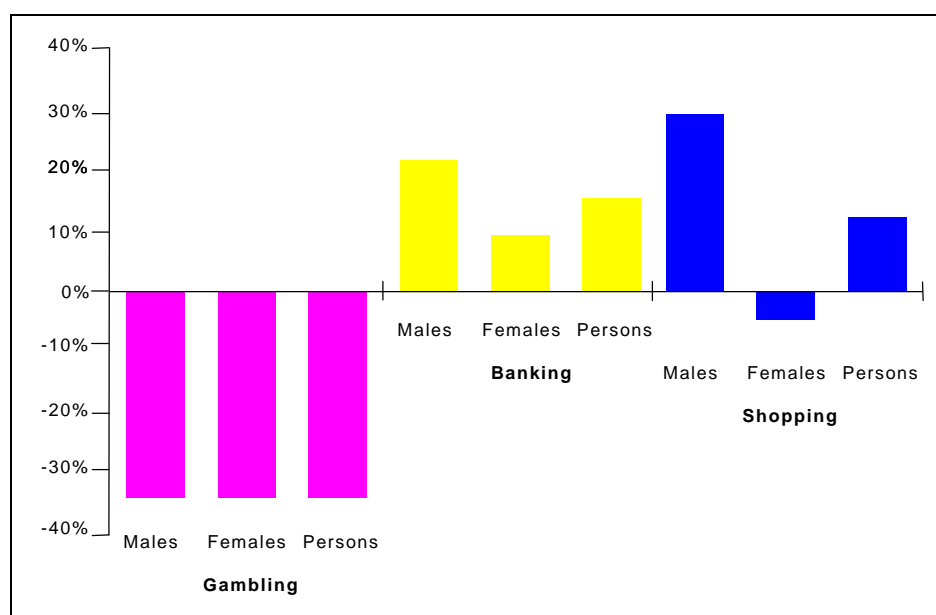
Interest in Internet gambling is not high at the moment but experience shows that when Australians become comfortable with new technology

¹⁶⁰ According to the ABS, 1998, *Use of Internet by Householders, Australia*, August (Cat. No. 8147.0), 1.245 million (or 18 per cent) of all households had access to the Internet. In the 12 months to August 1998 almost 4.2 million adults (32 per cent of the adult population) accessed the Internet. A total of 425,000 adults used the Internet to buy goods and services over the year to August 1998. These adults engaged in around 1.3 million transactions (orders or purchases) for private use.

¹⁶¹ Recently available unpublished data shows that in August 1998, interest in Internet gambling by adult Australians was 4 per cent.

they rapidly adopt it. There are many examples of this including mobile telephones, VCRs, CD players and the Internet itself. It is virtually impossible to predict what the level of acceptance and use by Australians might be in the future. **The current low level of interest might be a reflection of underlying demand characteristics where consumers prefer 'live' casino games and other forms of gambling rather than interactive games** because of the atmosphere and excitement, opportunities for socialising (visiting the local club or hotel with friends), or enjoying the other facilities on offer at various gambling venues (having a meal, a drink or going to a show of some kind). Also, the availability of Internet gambling may not be generally known to consumers and consumers may have concerns over security and being paid. In addition, as mentioned earlier, there may be some suspicions amongst consumers that they cannot easily verify the 'fairness' of the products offered by offshore operators. Conversely, there will be a group of people who will prefer to gamble in the privacy of their own homes and Internet gambling might become an attractive option once real and perceived difficulties are overcome.

Chart 27: Per cent change in interest in on-line services by persons aged 18+, February 1996 to February 1998



Source: Australian Bureau of Statistics 1998, Cat. No. 8128.0

These concerns may be overcome with the entry of Australian operators to the market, particularly by those operators with a well-established and trusted brand name (for example one or more of the Australian casinos, lottery operators and so on). The move by Australian operators into the market has been facilitated by the passing of legislation allowing and regulating Internet gambling in a number of Australian jurisdictions (further discussed below).

10.3 Key issues in Internet gambling

The debate in Australia (which is relatively new) and elsewhere about Internet gambling has tended to be about perceived difficulties such as problem gambling and crime. While these might be important, there are several other issues which relate more generally to Internet commerce that need to be considered.

10.3.1 Regulation of Internet commerce

The rise of Internet commerce in general is considered to be of sufficient importance to occupy the minds of governments world wide. Much of the debate has been about the extent the Internet should be kept as 'a free trade zone' and related tax issues (further discussed below).

Interestingly, the US has been one of the strongest advocates for keeping Internet commerce open (this is in contrast to emerging congressional views about Internet gambling). In July 1997 US President Clinton proposed that the Internet be declared a free trade zone. Since 1996 an official US working group on electronic commerce has been considering issues to do with global electronic commerce. Draft material emphasises the Clinton Administration's preference for a regulatory, market-oriented approach to the use of the Internet.¹⁶²

Soon after President Clinton's 1997 statement, Ministers of the European Union (EU) countries issued a general statement of support for the widespread commercial use of the Internet while at the July 1997 conference in Bonn on Global Information Networks.¹⁶³ The EU material stressed the future importance of international agreements, the efficiency benefits of Internet activity and the desirability of equitable access to global networks across age and language groups.

The US and the EU have been at the forefront of the debate on keeping the Internet open but other countries, including Australia, have also been actively examining the issue. In Australia the Federal Government has been promoting the use of the Internet for commerce.¹⁶⁴ Further, state and territory governments have recognised the important role the Internet can play in delivering gambling services (and perhaps the futility of trying to ban it) and have enacted legislation to enable Australian operators to provide such services.

¹⁶² US Department of Treasury, 1996, *Selected Tax Policy Implications of Global Electronic Commerce*, Washington, November.

¹⁶³ EU, 1997, "Europe Paves the Way for Rapid Growth of Global Information Networks", *Press Release, Ministerial Conference*, Bonn, July.

¹⁶⁴ One important issue for consideration in the context of policy towards e-commerce is the distinction between regulations designed to stop or restrict Internet transactions (and which will probably not succeed) and regulation designed to protect against fraud.

Keeping the Internet as an open facility for commerce is an important issue for Internet gambling. Moves to ban this form of gambling will run counter to the emerging international consensus on global electronic trade. Moreover, banning Internet gambling in one country is likely to do little to stop the use of it more broadly and will put legitimate operators at a commercial disadvantage.

More recently, on 1 December 1998 the Minister for Communications, Information Technology and the Arts, Senator the Hon Richard Alston, announced that Australia and the United States have agreed to a joint approach to e-commerce. Among other things, Senator Alston said:

“Australia agreed with the US — the acknowledged world leader in electronic commerce — on key policy principles of private sector leadership, minimal government intervention and self regulation where possible.”¹⁶⁵

How the Agreement will sit with divergent approaches to Internet gambling being developed in each country remains to be seen.

In the spirit of competitive neutrality, regulation of Internet commercial activities should not favour or penalise Internet commerce over ‘real world’ activities (for identical products). It is another, equally important, issue as to whether the degree of regulation of both types of activities is warranted.

The widespread adoption of Internet commerce raises two other important and related issues:

- taxation; and
- encryption and security.

Both of these are also of major importance in the context of Internet gambling

10.3.2 Taxation

The EU Theme Paper¹⁶⁶ prepared for the EU Ministerial conference noted above, stresses that, to allow electronic commerce to develop, it is important for tax systems to be clear, transparent and predictable, that is, certain. **The EU approach (generally supported by the US and other countries) is for existing taxes, including broadly based consumption taxes, to clearly apply to electronic commerce as they do to other forms of commercial activity.** It follows (says the EU) that there is no

¹⁶⁵ Alston, Senator the Hon Richard, 1998, *Clinton Recognises Australia’s Leading E-Commerce Role*, Media Release, 1 December.

¹⁶⁶ EU, 1996, *Theme Paper for the Ministerial Conference*.

need to introduce new taxes such as 'bit' or 'click' taxes. A bit tax is like a turnover tax — every time a transaction is made over the Internet, a tax is collected. Even at a low rate this could be a severe tax for the gambling industry because what is bet 'across the table' is likely to be considerably larger than actual income from gambling (the net win).

The EU Theme Paper highlights two important tax issues:

- the potential speed, untraceability and anonymity of Internet transactions may create new possibilities for tax avoidance and evasion; and
- the territorial concepts which underlie direct taxation systems (residence and source of income) must be reassessed in light of commercial and technological developments.

For tax purposes, the speed and anonymity of electronic transactions makes it difficult for tax authorities to keep track of income and who is earning it. This is made more difficult by encryption and security devices put in place by providers of goods and services on the Internet. In the case of gambling, the focus might be more on the provider than the customer. In Australia, personal winnings from gambling are generally not taxed¹⁶⁷ and income from gambling is (for the most part) heavily taxed in the hands of gambling providers. The identification of tax liabilities of licensed providers is relatively straightforward. **Collecting tax from Internet based providers may prove to be more difficult, especially if they are located in non-Australian jurisdictions.**

The advent of e-cash or e-money is another important issue for taxation of electronic commerce generally. The use of e-money introduces a third party between the consumer and the supplier. The consumer purchases e-money (credits in a digital form) which can be used to buy from suppliers. The providers of e-money could be audited but where the money comes from and where it goes may be more difficult to trace. **An important difference between e-money and traditional currency and credit systems is the potential for e-money to become unaccounted.**

In the Internet world it is often difficult, if not impossible, to apply traditional source concepts to link income with a particular geographic location. The latest thinking on the issue indicates that the growth of electronic commerce will lead to more reliance by taxation authorities on the concept of residency as a basis for taxation rather than the source of the income. In the extreme, source based taxation could lose its rationale and be made obsolete by the spread of electronic commerce.

¹⁶⁷ One reason for this is just common sense - over time gamblers as a whole will be net losers from gambling. Rather than having complex and costly arrangements in place for assessing net winnings from gambling by individuals, it is simpler and more efficient to leave it out of the tax base.

The spread of Internet gambling also has implications for taxation regimes. The Australian response is discussed below.

10.3.3 Encryption and security

The issue of encryption and security is something of a two-edged sword: the rise of electronic commerce poses difficulties for taxation and regulatory regimes and authorities but at the same time, advances in encryption and security systems provide added safety for consumers and providers. It is a particularly important issue for Internet gambling as potentially large sums of money are involved. Users of Internet gambling systems typically are required to deposit money in an account before playing. Money can be deposited by cheque, wire service or other form of money order, electronic money or credit card. Consumers will want to feel confident that deposits (including winnings) and credit card details are safe.

Security systems have been in place for a range of Internet transactions (particularly the purchase of books and CDs) for some time and security systems have been improved and are continually being improved. Consumers are obviously becoming more comfortable with the idea of making purchases over the Internet and dealing with reputable companies, but it may take longer for more general acceptance of security arrangements for Internet gambling.

10.4 US developments and implications

In the United States there is an ongoing debate about Internet gambling. Attempts have been made, and continue, at both federal and state levels to ban Internet gambling. Currently a 1960s Federal law, the *Wire Communications Act*, makes it illegal to call a bookmaker on a telephone to place bets. In some states gambling is prohibited and recently there have been attempts by state Attorneys General to prosecute on-line gambling operators. In March 1998 the US Attorney of New York indicted 14 individuals for operating illegal sports gambling enterprises over the Internet — the first prosecutions related to this new crime. Resistance to Internet gambling is also coming from traditional casino states and some mainstream casinos. However, as reported in the *National Law Journal*:

“Traditional casino owners appear to be laying low until the legal landscape is more settled, so as not to jeopardise their existing licenses. It is hardly likely, however, that they and other businesses with strong branding capability in the entertainment industry are not testing the waters and developing appropriate

software, in hopes of entering the gambling market in force, if, when and where conditions appear favourable.”¹⁶⁸

At the Federal level, the push for prohibiting Internet gambling has been led by Senator Jon Kyl, Republican-Arizona. He is the sponsor of the *Internet Gambling Prohibition Act (S.474)* which seeks to update the *Wire Communications Act* to prohibit on-line Internet gambling. The reasons put forward by Senator Kyl and his supporters (including Senator Richard Bryan, Republican-Nevada — see quote at the start of this Chapter) for seeking to ban Internet gambling are best summarised by the following quote from Senator Kyl:

“Internet gambling is unregulated, accessible by minors, addictive, subject to abuse for fraudulent purposes like money laundering, evasive of state gambling laws — and already illegal at the federal level in many cases.”¹⁶⁹

On 23 July 1998 the US Senate endorsed the efforts of Senator John Kyl to prohibit Internet gambling. The Senate voted 90-10 to add his bill to a ‘must pass’ spending bill (the Commerce, State and Justice Appropriations bill).¹⁷⁰ It must be noted however, that this is just the first step in a process to give the ban the force of law. There are still a number of steps to go including, if it gets that far, the assent of President Clinton. It will be interesting to note the Administration’s attitude towards the bill given the US support for free and open trade on the Internet.

It is useful to examine some of the key aspects of Senator Kyl’s bill, particularly as it appears to have reaching consequences and is out of step with recent developments elsewhere, especially in Australia. A summary of the main features is presented in Box 14.

The intent of the bill is quite clear: an outright ban is proposed. There is no halfway house. Penalties (including imprisonment) will be imposed on both providers and customers. The co-operation of foreign governments will be sought to help enforce the US laws. This is an interesting approach given that Internet gambling was already legal in some countries before the Kyl bill was introduced into the Senate and since then, additional jurisdictions, notably some states in Australia, have passed legislation legalising Internet gambling, albeit within a heavily regulated framework.

¹⁶⁸ McGuigan, P, 1997, “Stakes are High in Battle to Bar Internet Gambling”, *National Law Journal*, November 3.

¹⁶⁹ Kyl, Senator Jon, 1998, *Senate Endorses Kyl Bill Prohibiting Internet Gambling With 90-10 Vote*, Media Release, July 23.

¹⁷⁰ Apparently, the Kyl proposals have been dropped from the Appropriations bill, because they have not been considered by the House of Representatives.

It seems to be clear that penalties will be applied to providers and users, not Internet Service Providers (ISPs). However, in practice it seems that the ISP will be required to bear part, or all, of the cost of enforcement rather than the ‘guilty’ parties. In his press statement of July 23 1998 announcing the passage of his bill through the Senate, Senator Kyl said that the bill

“... will likely be enforced by law enforcement identifying a Web site which provides illegal gambling and seeking a court order to enjoining the activity, requiring the Internet Service Provider to ‘pull the plug’. The ISP will have the opportunity to argue the technical feasibility and cost burden imposed by the enjoinder before the court.”

Where the line will be drawn on enforcement — will ISPs who are providing a gateway for customers rather than the location for the Web site be liable for the same action? What if the ISP hosting the Web site is in a non-US jurisdiction? How are users to be identified? One approach would be to require ISPs to monitor who is connected to what. This would be very expensive and could run counter to privacy laws (this is certainly a possibility in Australia). These issues are more than just of passing interest as they may establish precedents for activities (including those that are lawful) in other countries and keep legitimate operators out of the market place.

There is an underlying inconsistency in the US approach. The Kyl bill and prohibition is based on a view that it is not possible to regulate Internet gambling, so it should be banned. Banning is the ultimate form of regulation — if it cannot be regulated how can it be effectively banned, especially worldwide? Legitimate and credible operators might respond to the ban in order to protect their brand and image as responsible corporate citizens (for example licensed and well-known ‘bricks and mortar’ casinos) but this would leave the field open to other, perhaps less responsible operators who are free to move wherever they choose to stay in business — the Internet provides the basis for complete mobility of business location.

Box 14: The *Internet Gambling Prohibition Bill* — the 'Kyl bill'

The purpose of the *Internet Gambling Prohibition Bill* is to amend the US Federal criminal code to prohibit and set penalties for:

- Placing, receiving, or otherwise making a bet or wager via the Internet or any other interactive computer service in any state; and
- Engaging in the business of betting or wagering through the Internet or any such service.

BETS OR WAGERS

The term 'bets or wagers':

- Means the staking or risking by any person of something of value (other than a de minimis amount) upon the outcome of a contest, sporting event, or game of chance, upon an agreement or understanding that the person or another person will receive something of value in the event of a certain outcome;
- Includes the purchase of a chance or opportunity to win a lottery or other prize (which opportunity to win is predominantly subject to chance and which purchase requires consideration in an amount exceeding a de minimis amount).

GAMBLING

It shall be unlawful for a person to place, receive, or otherwise make a bet or wager, via the Internet or any other interactive computer service in any state. The penalties for a person who violates the provisions will be:

- Fined an amount that is not more than the greater of;
 - The amount that the person is found to have wagered via the Internet; or
 - \$2,500;
- imprisoned not more than 6 months; or
- both.

GAMBLING INFORMATION

It shall be unlawful for a person engaged in the business of betting or wagering to engage in that business through the Internet or through any other interactive computer service in any state. A person engaged in the business of betting or wagering in violation of the provisions will be:

- fined an amount that is not more than the greater of;
 - the amount that such person is found to have received in bets or wagers as a result of engaging in that business in violation of the above; or
 - \$20,000;
- imprisoned not more than 4 years; or
- both.

MULTILATERAL NEGOTIATIONS

The bill directs the Secretary of State to:

- negotiate with foreign countries to conclude international agreements that would enable the United States to enforce specified provisions of the Act with respect to persons engaged in violations from outside the United States; and
- report on the progress of such negotiations to specified congressional officials.

The cost of enforcing Internet prohibitions may be very high. A more measured approach to the issue is advocated by some commentators. Writing in the November 3 1997 issue of the (US) *National Law Journal*, Philip McGuigan makes the following point:

“Because governments have no way to eradicate Internet gambling completely, the better approach may be regulation and certification. At the very least, this would let players choose whether to gamble at certified sites rather than at those that have not submitted to regulation. By and large, however, federal and state

officials have been capturing headlines by pressing for prohibition.”

Feelings are running high on both sides of the US debate. According to a Mr Rodgers of Granite Gate Resorts:

“You’ll need the KGB to enforce something like Kyl’s bill,” Rodgers of Granite Gate said. And ultimately, he contended, such laws would create a less-than-welcome- environment for citizens. “People are going to end up living in fear that Senator Kyl’s storm troopers will invade your house, take your computer and fine you thousands of dollars – all because you bet \$100 on whether Mike Tyson would bite the ears off of Evander Holyfield.”¹⁷¹

Rodgers’ views might be regarded as somewhat intemperate by some but he nonetheless highlights some important issues of concern in prohibition of interactive gambling. The first relates to the restriction of activities that many adults enjoy and find acceptable behaviour and second, the difficulties in policing something like the Kyl bill without excessive intrusion in the lives of ordinary citizens.

The extra-territorial reach of any legislation would likely be very limited. Most countries, including Australia, would not wish to enforce US bans on particular forms of e-commerce.

Prohibiting participation in activities which many people regard as acceptable behaviour reduces consumer welfare, distorts the allocation of resources and can be associated with very high compliance and enforcement costs. **Moreover, prohibition puts in place market structures that encourage criminal behaviour:** the very thing that **prohibition is supposedly designed to counteract.** The US experience with alcohol prohibition during the 1920s should sound warning bells about the consequences of pursuing that policy option again. Two of Australia’s leading gambling researchers argue that:

“And while a regime of (Internet gambling) prohibition will not suppress gambling entirely, it would certainly dissuade legitimate gaming operators who would be loath to jeopardise their land-based casino licences through involvement in prohibited activity. Prohibition might thus be expected to result in laws which are unenforceable, and to create a black market in on-line gambling services.”¹⁷²

¹⁷¹ Berselli, B, 1997, “Gamblers Log on to Deal in”, *Washington Post*, August 19.

¹⁷² McMillen, J and P Grabosky, 1998, *Internet Gambling*, Trends and Issues in Crime and Criminal Justice No. 68, Australian Institute of Criminology, June.

Essentially, supporters of the Kyl bill have ‘their heads in the sand’ when it comes to the development of Internet gambling.

10.5 Australian developments

10.5.1 Background

The Australian approach to Internet gambling has, in-principle, been quite different to that of the US. **Regulators in Australia see Internet gambling as another form of e-commerce and not something which should be prohibited.** In fact, there is a strong body of opinion in Australia that prohibition would be ineffective (and perhaps naïve given the extent of Internet gambling already), even counter-productive, and a better approach is to at least regulate ‘authorised’ providers in Australia.

“It is neither technologically nor politically feasible for Australian authorities to stop non-Australian jurisdictions offering gambling products which do not meet Australian standards. It might be possible, however, to co-operate with other nations to discourage unfair or otherwise undesirable practices much as the Australian Competition and Consumer Commission works with its counterpart agencies overseas to discourage questionable electronic commerce.”¹⁷³

There is of course another, but very relevant, issue about the degree of regulation required given the potential for regulations to distort investment and consumption choices thereby resulting in an inefficient allocation of resources and a reduction in consumer welfare.

Australian states and territories have taken the initiative and developed a regulatory framework which would allow (subject to legislation in Australian states and territories) for licensed operators to conduct Internet gambling — the *Draft Regulatory Control Model for New Forms of Interactive Gambling* (the ‘Draft Model Code’).

Queensland and the ACT have already passed special legislation to deal with interactive gambling while the Northern Territory has amended its *Gaming Control Act* to allow interactive gambling. It is understood that other Australian states are seriously considering the introduction of interactive gambling legislation. Interestingly, the Australian approach is viewed elsewhere as a better way to go than outright prohibition. In commenting on the US Kyl bill, Ms Sue Schneider, chairwoman of the (US-based) 55-member Interactive Gaming Council noted that other countries have found that regulation of Internet gambling can work and

¹⁷³ Australian Institute of Criminology, 1998, *Submission to the Productivity Commission Inquiry on Australia's Gambling Industries*.

“all prohibition does is build up a criminal infrastructure”. She went on to say that “the United States could become the odd man out” and supporters of the Kyl bill “should talk with their colleagues in Australia and New Zealand who have figured out how to do this”.¹⁷⁴

10.5.2 The Australian Model Code

On 3 May 1996 Australian state and territory racing and gaming Ministers agreed on a set of principles for a draft National Regulatory Model for interactive gambling products.¹⁷⁵ The Model Code sets down a series of principles which establishes the agreed framework in which authorised Australian Internet gambling providers will operate:

- the licensing of gambling service providers subject to stringent probity and integrity checks, including financial capacity to pay out winnings;
- stringent requirements for player identification and authentication which, among other things, are designed to stop children from taking part in Internet gambling;
- taxation regimes based on residency of ‘participating jurisdictions’ (effectively Australian states and territories);
- an industry Code of Conduct (to be developed by the industry);
- privacy of player information;
- player protection measures which will enable self-exclusion (including by others with a close personal relationship to the excluded player) and limits on bets;
- a ban on the advertising of unlicensed products;
- no credit betting;
- contact information to be provided for help with problem gambling;
- compulsory reporting of specified transactions to AUSTRAC; and
- licensed providers to be subject to periodic audits by regulators of accounts and gaming software.

The Draft Model Code does not propose action by the Federal Government to block the entry of overseas gambling products delivered over the Internet or by foreign satellites. The Draft Model Code, and legislation based on it, is only designed to “provide effective

¹⁷⁴ Burrell, 1998, *Senate votes 90-10 to ban Internet gambling*, Associated Press syndicated news release.

¹⁷⁵ The *Draft Regulatory Control Model for New Forms of Interactive Home Gambling* is available on the Queensland Government Web site.

regulation of interactive home gambling products sourced from within Australia”.

The Draft Model Code essentially takes as given that Internet gambling by Australian providers must be heavily regulated in order to protect players, guard against problem gambling and so on but no analysis justifying the degree of regulation is presented. In this regard, the Draft Model Code differs little if any from the philosophy which underpins the regulatory framework for ‘bricks and mortar’ gambling facilities and providers. That said, there remains the important issue of the extent to which the degree of regulation differs for each type of gambling — Internet versus location based gambling. Some of these issues are further discussed below.

The scope of the Draft Model Code does not include all gambling products currently on offer in Australia. Excluded products are:

- telecommunications enabled products currently offered by TABs under relevant state and territory legislation (where players place bets by telephone, Internet or direct link to a TAB);
- betting products currently offered by licensed bookmakers;
- authorised/permitted trade promotions offered for participation via telecommunications systems; and
- any game run on a closed network of commercial sites, authorised under other legislation and not offered into the home (club Keno and so on).

The Draft Model Code does not have an explicit role for the Federal Government in the direct regulation of Internet gambling. The Model Code states that it is important that the Federal Government does not pass laws which invalidate relevant state laws. However, Professor Jan McMillen and Dr Peter Grabosky¹⁷⁶ argue that the Australian Constitution provides for three areas that would allow a Commonwealth role. These are:

- the power over telecommunications and therefore the control of telecommunications technology;
- the power over banking and cross-jurisdictional financial transfers;
- the external affairs power — Internet gambling will no doubt generate disagreements between countries on standards and legislation.

¹⁷⁶ McMillen, J and P Grabosky, 1998, *op. cit.*

The issue of federal/state responsibilities requires more consideration and is something the Productivity Commission could usefully analyse.

10.5.3 Developments in Queensland

In 1998 the Queensland parliament approved the *Interactive Gambling (Player Protection) Act 1998* which authorises the provision in Queensland of interactive gambling products by licensed operators. The Act emphasises consumer protection rather than technical controls. The Queensland Act closely follows the Draft Model Code. It is a detailed piece of legislation covering more than 150 pages with an additional 20 pages of regulations. A summary of the Act is presented in Box 15.

One important aspect of the Queensland legislation is the treatment of gambling taxes. The philosophy behind the treatment of taxation is in line with the principles of residency outlined above. The Act does not apply the residency criteria universally, but applies it to ‘participating jurisdictions’. Participating jurisdictions are essentially other Australian jurisdictions.

Box 15: Overview of Queensland's *Interactive Gambling (Player Protection) Act 1998*

The Act has been developed as a means of protecting consumers wishing to participate in games offered through the Internet and other such forms of interactive gambling and has been developed in recognition of the incredible pace of technological innovation and in particular, the rise in access to, and use of, the Internet.

The Act is designed to regulate existing gambling activities in conjunction with existing Gaming Acts, or, to stand alone as a regulatory mechanism for new or previously unregulated gambling activities which may be accessible in private residences via interactive means. It is important to note that the Act does not, and is not intended to, expand the range of gaming products available through commercial venues such as casinos, clubs and hotels.

The Act has been developed in acknowledgment of the principles of a national regulatory framework, which was co-operatively prepared by Gaming Ministers from jurisdictions throughout Australia. The national approach provides for the recognition of compatible legislation of other jurisdictions wishing to participate in the national model.

The Queensland Office of Gaming Regulation (QOGR) will administer the Act to ensure that interactive gambling is conducted in accordance with a consistently high level of probity and integrity.

A primary aim of the Act is to provide player protection mechanisms to ensure that those wishing to participate in interactive gambling can do so confidently and in a secure regulatory environment. The Act requires that all players are to be registered subject to providing satisfactory proof of identity, residence and age. Participation by minors will be controlled by requiring that adequate proof of age is to be supplied to a licensed provider prior to allowing a person to register as a player.

The Act will enable a player to set limits on the amount of individual and cumulative bets. Such limits may apply to a bet on a particular game or state a maximum amount that can be wagered by a player over a period of time. Alternatively, a player may set a limit of zero which would exclude them from participating in the gambling activity.

In addition, if a person is concerned about their own or another player's welfare and believes that the gambling habits pose a threat to the player or the player's family, an application may be made to have the player banned from participating in any form of licensed interactive gaming activity. Such a ban would prevent the player from participating in interactive gambling which is licensed in Queensland or in any other participating jurisdiction.

The legislation will also control advertising and marketing of interactive gambling. These provisions ensure that any advertising of interactive gambling products is conducted responsibly and in an appropriate manner. An advertising code of conduct will be developed by the industry.

In line with all other gaming legislation in Queensland, credit betting will be prohibited and strict controls over the privacy of personal information have also been included in the Act.

Source: Queensland Office of Gaming Regulation

Taxation revenue from interactive gambling via licensed Queensland providers consists of three components: Queensland, participating jurisdictions and non-participating jurisdictions. The Queensland component refers to tax revenue derived from the gambling of Queensland residents. The tax rate applicable is that rate which applies to a game approved under a gaming Act (presumably this means that the same game, for example roulette, will be taxed the same whether played at a virtual or real casino). If the game is not played under any other Act (that is a new game to Queensland), the tax rate will be 50 per cent. The treatment of taxation for participating jurisdictions is the same in-principle. However, the tax rate will be the rate applicable in the jurisdiction in which the player is a resident. The 50 per cent condition also applies. The revenue from participating jurisdictions will be rebated to that jurisdiction. Non-participating jurisdiction tax will be calculated in the same way but using the Queensland rate of tax.

In February 1999, staff from the Royal Melbourne Institute of Technology (RMIT) announced a plan to develop and operate a cyber-casino. It is planned to operate the cyber-casino out of Queensland rather than Victoria because of the legal regime already in place in Queensland. A Victorian government spokesperson indicated that similar legislation to that in Queensland would soon be considered by the Victorian Parliament. There are some important issues to resolve in Victoria including the applicability of Crown casino's exclusive licence to cyber-casinos rather than just to physical casinos.

10.5.4 Developments in the ACT

The ACT has also passed interactive gambling legislation: the *Interactive Gambling Act 1998*. The ACT Act also closely conforms to the principles (including taxation) set down in the Draft Model Code but the Act is considerably shorter on detail (60 pages) than Queensland's. Nonetheless, for some of the key aspects of the Act, the wording is almost identical, or very similar, to that set down in the Queensland Act.

The ACT Act illustrates the stringent identification requirements to become a registered player. Section 5 of the ACT *Interactive Gambling Regulations* sets out the required evidence for registration as a player (Box 16). Note that the licensed provider or agent must not allow a registered player to participate in an authorised game "until the player's identity has been authenticated under the licensed providers approved control system" (Section 17 of the Act).

Early in 1999 the ACT government announced that a US-based sports wagering company has been granted a licence to operate Internet sports betting out of the ACT. A number of other potential Internet gambling operators are contemplating the ACT as a base for their activities.

10.5.5 Developments in the Northern Territory

The Northern Territory has adopted a different approach to interactive gambling compared to Queensland, the ACT and the Draft Model Code. The Northern Territory has chosen to amend its *Gaming Control Act* to allow interactive gambling rather than passing special legislation. Interactive gambling is covered under Division 5 of the *Gaming Control Act*. In contrast to both Queensland and the ACT, the relevant part of the Act only covers 3½ pages. However, it needs to be borne in mind that Internet gambling is also governed by other relevant parts of the Act. The Northern Territory Act does not conform to the Draft Model Code (there are no special provisions for handling taxation across jurisdictions for example) but there appears to be considerable scope for the Minister to specify how various arrangements might be put in place. It may be that the agreements struck under the auspices of the Act will move more into line with the Draft Model Code and other state legislation.

Box 16: Evidence for registration of players – ACT

For purposes of subsection 16(2) of the Act the following kinds of evidence for player registration are prescribed:

- a document, or a certified copy of a document, of the following kind that shows the person's identity and age;
 - a birth certificate;
 - a citizenship certificate;
 - a passport;
 - if evidence of a kind mentioned above is unavailable, then a document issued to a person by a government department, authority or agency of a country of which the person is a national or resident;
- a document or a certified copy of a document, of the following kind that shows a person's residential address:
 - a current driving licence;
 - a document that acknowledges enrolment to vote in government elections;
 - a rates assessment notice or account, a telephone account or an electricity account, being a notice or account that is dated no earlier than 6 months before the date of the application for registration;
 - a current lease agreement that is dated no earlier than 12 months before the date of application for registration;
 - a current appliance rental agreement that is dated no earlier than 6 months before the date of the application for registration;
 - if evidence of a kind mentioned above is unavailable, then a document issued by a government department, authority or agency, a financial institution or credit card agency or a document relating to the supply of services by a public utility, being a document that is dated no earlier than 6 months before the date of the application for registration.

Source: Australian Capital Territory Interactive Gambling Regulations: Subordinate Law No. 31 of 1998

It should also be noted that the Northern Territory has had a remote sports betting business, Centrebet, in operation since the early 1990s. While this was initially based on the telephone, it has moved in part on to the Internet. As discussed above, about 30 per cent of transactions now take place over the Internet. Centrebet has been a successful operation and operates under strict probity principles. US citizens are not permitted to be registered customers. This is in keeping with the US Federal law that prohibits the placing of bets with a bookmaker over the telephone. Centrebet is an example of how a well run commercial Internet gambling facility can operate. Presumably, if customers were not happy with the way the business operates, including the payment of winnings, the business would not have continued to grow.

10.6 Some implications of legal Internet gambling

10.6.1 Tax, regulation, competition and other issues

Internet gambling is already a fact and available in Australia, although apart from betting there do not appear to be any casino-style or lottery games available from Australian providers. This could change in the very near future. The advent and growth of Internet gambling raises a number of important issues to do with competition, regulation and taxation.

The key issue is that current licensed providers will no longer be the only domestic providers of gambling products (Australian consumers can already consume Internet gambling products sourced offshore).

This means that providers with sole location based licences ('bricks and mortar' providers) do and increasingly will, face competition. Little is known about the substitutability of cyber gambling for 'real' location based gambling but if Internet providers offer real competition then regulatory and tax regimes will need to be looked at by governments. Current and regulatory and tax regimes are based on monopolies and other supply restrictions through licensing in certain areas (ranging from areas within a state or territory to the entire state).

As noted in Chapter 9, the advent of Internet gambling means that the long established 'repudiate and regulate' approach to the gambling industry will become a less effective means of raising taxation revenue. It will be impractical for Australian jurisdictions to tax foreign suppliers of Internet gambling products at the same high rates as apply to domestic providers. If local providers are not to be overtaken by international competition, it will be necessary to reduce domestic gambling tax rates.

Bans on traditional media advertising of gambling products provides some commercial support to Australian operators. This commercial support is threatened by Internet advertising and odds displayed by operators in the Northern Territory. They pay nothing to the racing industry elsewhere and are able to make cost savings by operating a selective and low-overhead service.

Another important issue is that of enforcement of Internet gambling regulations. Both the Queensland and ACT interactive gambling legislation provide for penalties for unlicensed operators offering gambling products from within the respective jurisdictions, and for players using unlicensed products. The relevant provisions are set out in Box 17. In this respect, the Australian legislation is similar to the Kyl bill in the US.

The important question is: how will the Acts be enforced? Senator Kyl has indicated that the ISPs will be an important target for practical enforcement. It will be important to ensure that ISPs are not required to bear the cost of enforcement in Australia. Generally, ISPs do not as a matter of course monitor who is logged on to what, they just provide the gateway. Monitoring is technically feasible but very costly. Also, there are issues of breach of privacy if ISPs make information available on who is doing what. Discussions with officials overseeing the Australian legislation and ISPs indicate that the intent of the legislation is not to focus on the ISPs. The key to this is the use of words like "conduct" and "knowingly" in the legislation.

Holding ISPs responsible for someone (player or provider) engaging in unauthorised Internet gambling is akin to attributing responsibility to an airline taking Australian citizens to another country to take part in illegal sex tours or, 'shooting the messenger'. Australia does regulate the content

of telecoms to some degree but, nonetheless, practical enforcement of legislation does pose some important questions, especially in regard to detecting and prosecuting players of unauthorised games.

Box 17: Bans on conduct of, or participation in, unauthorised interactive gambling

QUEENSLAND

A person must not conduct an interactive game wholly or partly in Queensland, or allow a person who is in Queensland to participate in an interactive game, unless:

- the game is an authorised game; and
- the person is authorised under the Act or a corresponding law to conduct the game.

A person in Queensland must not participate in, or encourage or facilitate participation by another in, an interactive game knowing that the game is not an authorised game.

AUSTRALIAN CAPITAL TERRITORY

A person other than an authorised provider shall not:

- conduct an interactive game wholly or partly in the Territory; or
- knowingly allow another person who is in the Territory to participate in an interactive game;

unless the game is an authorised game.

A person in the Territory shall not:

- participate in an interactive game; or
- aid or abet the participation by another person in an interactive game;

knowing that the game is not an authorised game.

Source: Queensland Interactive Gambling (Player Protection) Act 1998 and ACT Interactive Gambling Act 1998

10.6.2 Crime

As discussed elsewhere in this report, concerns over the infiltration of gambling industries by criminal interests and the use of gambling facilities to launder money has been one of the major reasons advanced for heavy regulation of the industry. The concerns seem to be mainly aimed at the casino industry. One of the features of Internet gambling is the apparent popularity of casino-style facilities. As argued in Chapter 7, crime and gambling is largely overstated in the context of 'bricks and mortar' gambling. Opponents of Internet gambling argue that gambling on-line will encourage crime. Concern over crime is one of the driving forces behind the Kyl bill in the US.

Particularly in the context of the framework developed for Internet gambling in Australia, given force in recent legislation, it is difficult to see how criminal elements could gain a foothold in the legal Internet gambling industry. Strict rules of identification will mean that the identity of every account holder will be known. Even if e-money is used, a process which generally is associated with anonymity on the Internet,

account holders will be required to establish their identity with the approved provider.

Even if persons associated with crime have gone to the trouble of establishing elaborate false identities (this would have to be done prior to applying for an on-line account and be done for passport, drivers licence and so on), it is difficult to see what negative influence could be exerted on gambling providers. Money laundering has not proven to be a serious concern with traditional forms of gambling and it might be even more difficult by way of responsible, approved Internet providers. A simple way of preventing attempts to launder money is to prohibit the depositing of cash in player accounts or limiting the amount and frequency that it can be deposited. This is already in operation by some overseas cyber-casinos. In any case, even if persons with criminal connections were able to open accounts with Internet gambling providers, what adverse consequences might there be? If they play by the rules like any other player (and what other options would there be?) there should not be any significant problems. There are no laws prohibiting people with criminal records or suspected associations with criminals from eating in a restaurant, buying a car and so on.

On the other side of the coin, the Australian legislation provides for extremely strict provisions for granting a licence to Internet gambling providers. It is arguable as to whether the degree of regulation is necessary. However, given that providers of traditional gambling services are subject to strict licensing criteria, there is an argument in favour of treating new entrants the same. The important point is that it would be extremely unlikely that persons with criminal associations would be able to obtain a licence. Even if gambling Web sites with criminal interests existed in other countries,¹⁷⁷ Australian consumers will be able to choose between those and more responsible providers here in the event that local providers enter the market.

A more general point to note is that responsible providers of Internet gambling services who are interested in establishing a strong client base and a reliable brand (or current traditional providers who wish to capitalise on, and protect, their current brand and image), will have powerful commercial incentives to make sure that crime is not associated with their operations, irrespective of the degree of regulation.

¹⁷⁷ It is not clear that there is, or will be, a large number of such sites in other countries. Even now it appears that most of the sites operating around the world are licensed and regulated to some degree by the national governments of concern.

10.6.3 Problem gambling and children

Problem gambling

Like crime, problem gambling and a concern about minors gaining access to Internet gambling sites are issues for those opposed to Internet gambling. Problem gambling is discussed in detail in Chapter 6 and the same general arguments apply to Internet gambling – the ‘problem’ is largely overplayed. Setting aside the issue of to what extent gambling is a ‘problem’ for some, a few specific observations can be made about Internet gambling.

It could be argued that ‘problem’ gambling might be less of an issue on the Internet, especially under Australian legislation. As for physical gambling locations, gamblers can self-exclude from gambling Web sites. In the case of the Internet, a thorough technical ‘lockout’ can be achieved. It will be very difficult for someone to circumvent self-exclusion given the requirements to establish an account. In a physical gambling facility it is possible that a self-excluded gambler might try and enter using a disguise. On the Internet, at least in Australian jurisdictions where Internet gambling has been authorised, it would be very difficult to open an account in another name — it would require an elaborate and costly scheme to develop a false identity, along with supporting documents like a passport and/or drivers licence.

Australian legislation also provides for a third party to seek exclusion for a ‘problem’ gambler. For example, the *ACT Interactive Gambling Act 1998* specifies that an application may be made to prohibit a person taking part in an authorised game by “a person who satisfies the Commissioner of a close personal interest in the welfare of the person against whom a prohibition is sought”. Many will see this as an important safeguard, but there is a risk that paternalism could be a factor with third parties making unwarranted decisions about the behaviour of others. This is an unusual measure that has not been taken with other forms of gambling — it has significant civil liberties implications.

Children

The stringent requirements under Australian legislation for player identification and place of residence will make it extremely difficult, if not virtually impossible, for children to open an account by themselves. However, the concerns about children by US Senator Kyl and others seem to be about children getting access to an existing account and say a credit card belonging to parents. The concern with access by children is also in part a concern about how well children are supervised at home. For a start, even if the child acquires the relevant password (credit betting will not be allowed by authorised providers), funds would have to be deposited (which can be achieved by credit card) and verified before gambling could occur. Even then, the amount deposited by credit

card could be no more than the available credit on that card. It would be far simpler for children to obtain a parent's card and order goods over the telephone. Adults have some responsibility to protect passwords, credit cards and so on as they do in relation to keeping details of bank accounts away from children (and other adults), or not giving the keys of the car to a 14 year old — to give just a few examples.

Finally, parents and teachers will also be able to make use of software to block access to gambling sites, just as they can now in relation to other adult material available on the Internet.

Attachment 1: Modelling the Impact of Selected Gambling Reforms

A1.1 Introduction

This Attachment contains the results of illustrative economy-wide modelling undertaken to gain a broader understanding of the likely impact of changes in key government policies and market variables relating to the gambling industry. The model work supports the analysis in several parts of the text of this Submission.

The economy-wide modelling was undertaken using the STATE model of the Australian economy. STATE is a computable general equilibrium model similar in structure to the well-known ORANI model of the Australian economy. A simulation with STATE can provide estimates of the impact of a policy change or a project on a range of economic variables including industry output and price, employment and investment, trade flows, government revenue and expenditure, gross national product and regional income.

One of the advantages of a general equilibrium model is that it can provide important insights into direct and indirect effects and put these into perspective. For example, key direct effects identified in the simulations with the STATE model are the loss of revenue from a reduction in gambling taxes and the adjustments required in other taxes or expenditure to ensure budget balance. Important indirect effects can arise as reduced taxation increases industry efficiency, as resources move to or from the gambling industries, as supporting industries are affected and as other industries compete for resources and consumer demand.

Unlike simpler input-output models, general equilibrium models incorporate estimates of key elasticities in the economy. These help explain how the economy responds to changes in government policy or market conditions. When combined with a more detailed explanation of key economic variables (such as private investment and the government budget), the result is a much richer analysis than possible with input-output models.

A1.2 The STATE Model

STATE is an economy-wide model identifying 119 industries designed to examine the macroeconomic and sectoral impact of economic policies and development projects. It is normally operated as a multi-state model,

but it can also be used as a national model as in this application. When set-up in this way, the STATE model is best thought of as a simplified version of the ORANI model.¹⁷⁸

The core of the STATE model's database is a 1992-93 input-output table prepared by the ABS. The table identifies sales between Australian industries, each industry's use of inputs to production, the level of indirect taxes and the sales by each industry to the different final demands (eg exports and consumption). The model also includes a series of parameters that help explain the responsiveness of industries, households, etc to changes in economic conditions. These parameters are largely drawn from the ORANI database.

The standard ABS input-output tables identify 113 industries. These tables have been expanded to create a 119 database that identifies three industries containing gambling activities:

- 'Sport clubs'. This industry covers associations with a link to sport which operate as clubs that are engaged in providing meals, entertainment and other social facilities to members. Clubs with and without gambling facilities are included.
- 'Accommodation, cafes and restaurants nec', which is the input-output industry 5701 'Accommodation, cafes and restaurants' after the removal of sport clubs. Most of the gambling component of this industry is included in 'Pubs, taverns and bars', which comprises hotels, bars or similar businesses (except licensed clubs) mainly engaged in selling alcoholic beverages for consumption mainly on the premises. There is also a significant level of gambling in the non-sport 'Clubs (hospitality)' industry that includes businesses mainly engaged in providing hospitality services (gambling, meals, entertainment and other social facilities) to members.¹⁷⁹
- 'Gambling and recreational services', which is the input-output industry 9301 'Sport, gambling and recreation' after the removal of the sport component. The gambling component relates to lotteries (which includes the operation of lotteries and lottery agencies), casinos and gambling services nec (which includes bookmaker/

¹⁷⁸ The main simplifications relate to the tax structure, the explanation of margin flows and the absence of any occupational breakdown of the labour market. The STATE model is documented in Economic Insights and Tasman Asia Pacific, 1998, *Queensland Dairy Industry Act 1993: Public Benefit Test of Restrictions on Competition, Final Report Prepared for the Queensland Dairy Legislation Review Committee*, May and Tasman Asia Pacific, 1998, *Assessing the Economic Impact of Sport*, January.

¹⁷⁹ 'Pubs, taverns and bars' is industry 5720 under the ANZSIC while 'Clubs (hospitality)' is industry 5740 under the ANZSIC. The ABS, 1996, Cat. No. 8687.0 publication provides details on the revenue and expenditure of the gambling component of these industries.

betting shop operation, TAB and totalisator operation and TAB/totalisator agencies).¹⁸⁰

The estimated gambling component of these three composite industries is summarised in Chart 1-1 to Chart 1-3 and Table 1-1.¹⁸¹

The gambling industries of the STATE model incorporate an economic rent assumed to result from regulated entry restrictions. In a normal competitive industry, economic rent, or above-normal profit, cannot be earned over the long run because its presence would attract new competitors or perhaps encourage existing players to expand. This would push product prices down and/or raise the cost of inputs and erode economic rent. But government regulations prevent the free entry of new players into the gambling industry and block its expansion. The result is that economic rent or above normal profits may be sustained over a long period of time. The nature of the entry restrictions is discussed in the body of this report.

There can be little doubt that state government gambling taxes capture part of the economic rent generated by the entry restrictions, and indeed that is probably their main purpose. In order to prepare illustrative simulations, it was assumed that 50 per cent of gambling tax revenue represents economic rent captured by the state governments. The remainder of the gambling revenue is interpreted as a conventional tax. It is also assumed, for the purposes of illustration, that the industry captures as much of the rent generated as the state governments. Further, it is assumed, again solely for illustration, that 50 per cent of the rent captured by the industry is dissipated in public enquires and lobbying and other rent seeking activities.¹⁸² The remainder of the industry's share of the economic rent is assumed to be taken as pure profit.

¹⁸⁰ These three gambling industries comprise ANZSIC group 932. ABS, 1997, Cat. No. 8684.0 and ABS, 1998, Cat. No. 8683.0 publications provide details on their revenue and expenditure.

¹⁸¹ The model database used in this application is documented in Tasman Asia Pacific and Ernst and Young, 1998, *The Economic Impact Study of Sport*, Prepared for the Confederation for Australian Sport, February.

¹⁸² It is assumed that this is reflected in the over-employment of labour within the gambling industry and an excess use of external advisers by the industry.

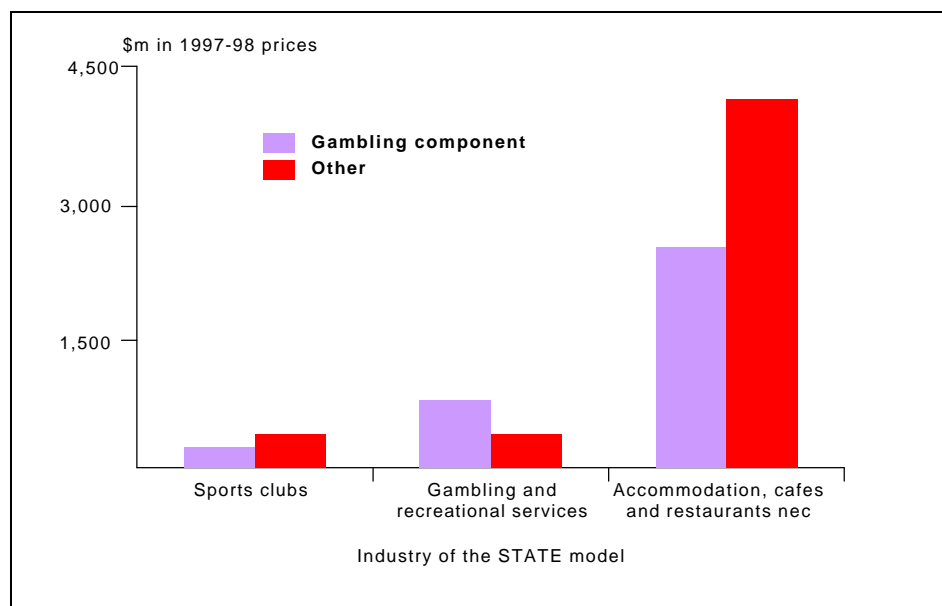
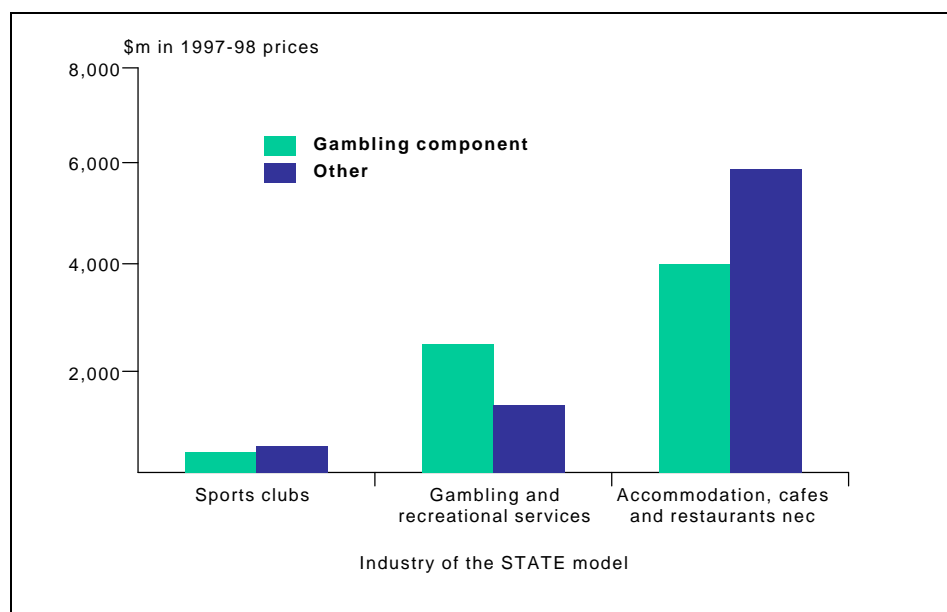
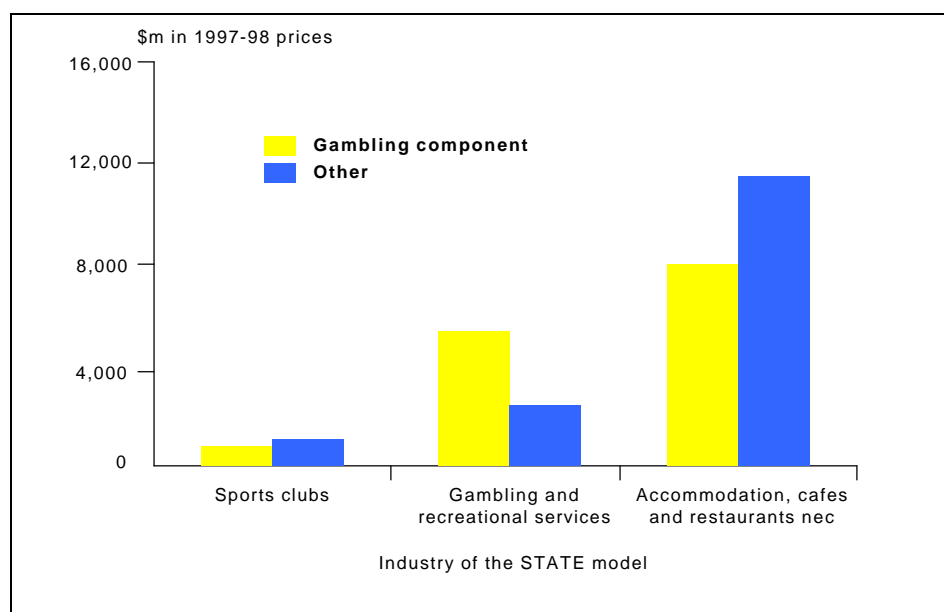
Chart 1-1: The wage bill of the gambling industries of the STATE model**Chart 1-2:** Value added generated by the gambling industries of the STATE model

Chart 1-3: Output of the gambling industries of the STATE model**Table 1-1:** The gambling component of the STATE model

STATE industry	\$m in 1997-98 prices			
	Labour costs	Value added	Output (before gambling taxes)	Gambling taxes
Sports clubs	221	356	805	73
Gambling and recreational services	774	2,498	5,329	1,632
Accommodation, cafes and restaurants nec	2,565	4,070	8,047	582
Total gambling component	3,560	6,924	14,181	2,288

Source: (For Chart 1-1, Chart 1-2, Chart 1-3 and Table 1-1) Estimates derived from the STATE model. It is emphasised that a range of simplifying assumptions regarding the nature of the gambling industry have been made in preparing these estimates.

A1.3 Conducting the model simulation

In conducting a model simulation, the economic environment needs to be defined to explain how the economy adjusts to a change in conditions. The modelling involves what are termed short and long run environments. The short run is normally envisaged as the year following a change or ‘shock’ to the economy, while the long run is seen as the period ten years or so after change. It is important that both periods are considered, as the response of an economy to change varies over time.

The short run economic environment is characterised by a high degree of rigidity in the economy, mainly because industry capital stocks are held

fixed. This places tight constraints on producer behaviour and results in changes to industry rates of return as demand and cost conditions change. The model assumes that initially labour supply is greater than labour demand (*ie*: there is unemployment) and the resulting pool of labour can be readily hired at a given wage rate. Wages are either indexed to the consumer price index or the nominal wage is fixed. For this analysis, the nominal wage was held fixed. Given this depiction of the labour market, the rate of unemployment adjusts to reflect movements in the demand for labour rather than overall wage rates. The ratio of household savings to income is also held fixed in the short run, as are tax rates so that the size of the government deficit reflects all of the change in budgetary pressure.

The long run economic environment is characterised by a more flexible economy than the short run, mainly because it is known that eventually industry capital stocks respond to changes in profitability. Like capital and land, labour is freely mobile across industries. This is reflected in the standard assumption that wages adjust to “clear” the labour market, but this may also be taken to mean that there is a constant level of frictional unemployment. The assumption is important because it means that the level of employment is unchanged over the long run, with any change in the demand for labour reflected in the wage rate. The assumption reflects the view that in Australia the long run unemployment rate is not determined by the level of economic activity. Rather, it is widely seen to be a result of structural features of the economy such as the industrial relations system, the behaviour of unions and the effect of the social security system on the incentive to work.

Other important features of the long run relate to the determination of savings and the funding of investment. The household average propensity to save (which defines the change in savings as income changes) is held fixed in the standard environment and net capital inflow is left free to adjust to any savings-investment gap.

The standard long-run environment also assumes that government budget balances are held fixed as a fraction of GDP. Under such an environment, tax rates are altered to ensure the budget balances.

In interpreting analysis with the STATE model, it is important to understand what the model results imply. The STATE model is a comparative static model that compares two different environments at the same point in time. This means that the results should be seen to represent the effects that relate purely to the change being examined. In other words they relate to the difference between the *without change state* and the *with change state*.

A1.4 The scenarios tested

To explore the potential impact of key changes in government policy, four illustrative scenarios are analysed in the STATE model. These are:

- *Scenario 1*, being a 50 per cent reduction in gambling taxes. It is assumed that as part of negotiations on national tax reform, the state and Commonwealth Governments arrange for the lost revenue to be funded via increased income taxes.
- *Scenario 2*, being a 50 per cent reduction in gambling taxes, with the revenue forgone offset by a cut in government administration. Education, health and transport services are assumed to be insulated from the cut. Instead, the government use of labour, capital and materials outside these sectors is reduced by 4 per cent nation-wide.¹⁸³ It is also assumed that sufficient efficiency improvements are made to preserve the output of the public sector despite the fall in expenditure.
- *Scenario 3*, that looks at the effect of removing all entry restrictions on the gambling industry. It is assumed that this leads to the loss of all the economic rent or above-normal profit captured by the gambling industry. Tax rates on gambling are held constant in the scenario. With gambling expanding in the scenario, governments receive a revenue windfall. This windfall is part of the story that conditions the short and long run model results.
- *Scenario 4*, in which the removal of the entry restrictions sees the erosion of the economic rent captured by both the industry and the state governments. For the state governments this results in the loss of 50 per cent of gambling tax revenue, with the revenue lost offset by a cut in government administration. Scenario 4 is effectively the addition of Scenarios 2 and 3.

A1.5 The macroeconomic impact

The short and long run macroeconomic results are summarised in Table 1-2 and Table 1-3. The replacement of gambling tax revenue by income tax revenue under Scenario 1 is estimated to have little net macroeconomic impact. This result holds in the short and long run, and is largely attributable to special features of gambling and income taxes.

Within the STATE model gambling industries are treated as demand inelastic, an assumption thought to fit fairly well the experience of the last few decades. That is, the demand for gambling appears to have been fairly insensitive to changes in its price. So a change in the price of gambling, such as resulting from a reduction in the taxes on gambling, is taken to have relatively little impact on consumer behaviour and the level of industry output. Taxes generally impose secondary costs on an economy because they impair an industry's expansion, distort consumer

¹⁸³ The shock is modelled as a reduction in government consumption of STATE industry 108, 'Government administration'

decisions or otherwise impede the efficient flow of resources. But when demand is inelastic, such effects are not strong and the secondary costs imposed by taxation are small. It follows, if this assumption is correct, that the secondary gains from removing gambling taxes will be small. Like the gambling tax, the income tax of the STATE model has few adverse secondary effects.

With the secondary effects of taxation small, the simulation results are largely determined by the direct effects. With a positive effect on the industry through gambling taxation cuts, and negative effects on the economy through income tax increases, the direct effects almost completely cancel each other out. The reduction in the gambling tax initially gives consumers more money, but this is taken back by government as income taxes are raised in order to balance the budget. In effect the simulation looks at the impact of the government giving with one hand and taking with another. In net terms there is little impact on consumers and the economy as a whole in both the short and long run.

Table 1-2: Key short run national impacts of certain gambling reforms

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
	50 per cent cut in gambling taxes offset by higher income taxes	50 per cent cut in gambling taxes offset by cuts in public expenditure	Removal of entry restrictions	Removal of entry restrictions with a 50 per cent cut in gambling taxes
<i>Percentage change</i>				
Real GDP	0.02	-0.07	0.10	0.04
Real household consumption	0.02	0.15	0.20	0.33
Real investment	0.00	0.00	0.00	0.00
Real total exports	0.01	0.04	-0.03	0.00
Real wage rate	0.33	0.33	0.32	0.61
CPI	-0.33	-0.33	-0.32	-0.61
Export price index	0.00	0.00	0.00	0.00
Employment	0.03	-0.19	-0.06	-0.23
Level of gambling activity	1.77	1.88	2.49	4.38
Price of gambling to the consumer	-7.08	-6.66	-8.70	-15.45
<i>Shocks (as a per cent of GDP)</i>				
- change in gambling taxes	-0.21	-0.21	0.00	-0.21
- change in rent captured by the industry	0.00	0.00	-0.21	-0.21

Table 1-3: Key long run national impacts of certain gambling reforms

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
	50 per cent cut in gambling taxes offset by higher income taxes	50 per cent cut in gambling taxes offset by cuts in public expenditure	Removal of entry Restrictions	Removal of entry restrictions with a 50 per cent cut in gambling taxes
<i>Percentage change</i>				
Real GDP	0.00	0.14	0.15	0.28
Real household consumption	0.03	0.48	0.25	0.69
Real investment	-0.02	0.23	0.04	0.25
Real total exports	-0.11	0.26	0.08	0.33
Real wage rate	0.36	0.32	0.38	0.65
CPI	-0.14	-0.73	-0.19	-0.87
Export price index	-0.14	-0.73	-0.19	-0.87
Employment	0.00	0.00	0.00	0.00
Level of gambling activity	2.17	2.66	2.39	5.00
Price of gambling to the consumer	-8.50	-8.63	-8.29	-16.19
<i>Shocks (as a per cent of GDP)</i>				
- change in gambling taxes	-0.21	-0.21	0.00	-0.21
- change in rent captured by the industry	0.00	0.00	-0.21	-0.21

Source: Estimates derived from the STATE model. It is emphasised that a range of simplifying assumptions regarding the nature of the gambling industry have been made in preparing these estimates.

There is a noticeable macroeconomic effect when the cut in gambling taxes is funded by a reduction in government administration. The cut in taxes reduces the cost of gambling and allows households to spend more on other goods. This is positive for the economy. However, in the short run the fall in public expenditure dominates the macro-economy and reduces aggregate demand. Both employment and GDP fall. Over the long run the ex-public servants and relevant industry officials move to new industries and add to the economy's productive capacity. Although nominal wages fall in order to increase labour demand (a result of the assumption that employment must be unchanged in the long run), a large fall in prices provides an increase in the real wage, supporting a significant increase in real consumption. The increase in GDP is also significant.

An important simplifying assumption made in preparing this scenario is that the surplus public servants, committees and boards were unproductive. Thus moving them to new productive employment

provides important long run gains. If instead as a result there is a cut in the output of the public sector following the cuts in government expenditure, over the long run the economy would expand by less, and could contract.

Under Scenario 3 the economy also gains from an increase in productive efficiency. The removal of entry restrictions is assumed to reduce rent seeking behaviour that adds to industry costs. Labour costs are reduced along with the use of external advisers.¹⁸⁴ In the short run the cuts in demand add to unemployment, but consumers still benefit because of the increased purchasing power provided by the fall in the price of gambling. The model assumes this allows increased expenditure on the normal basket of consumer purchases. Consumers also benefit as the rent or above normal profit retained by the industry is eroded, further reducing the price of gambling.¹⁸⁵ The net result in the short run is an increase in GDP, although there is an overall decline in employment.

Over the long run the now more productive economy expands even further. By assumption employment is held fixed, but GDP and most macroeconomic aggregates show an increase.

Scenario 3 is partial in that it only looks at one dimension of the rent issue. The removal of entry restrictions will not only erode the rent captured by industry, but also the rent captured by state governments via gambling taxes. Scenario 4 assumes that following the removal of entry restrictions, state governments agree to remove the gambling taxes 'capturing' their share.

There is little net macroeconomic impact over the short run under Scenario 4. Consumers benefit from a lower overall price level, but with government consumption/demand falling, there is little net change in GDP. Over the long run the cuts in unproductive government administration and rent-seeking behaviour in the gambling industry are good for the economy and the main macroeconomic aggregates improve.

A1.6 The impact on industry

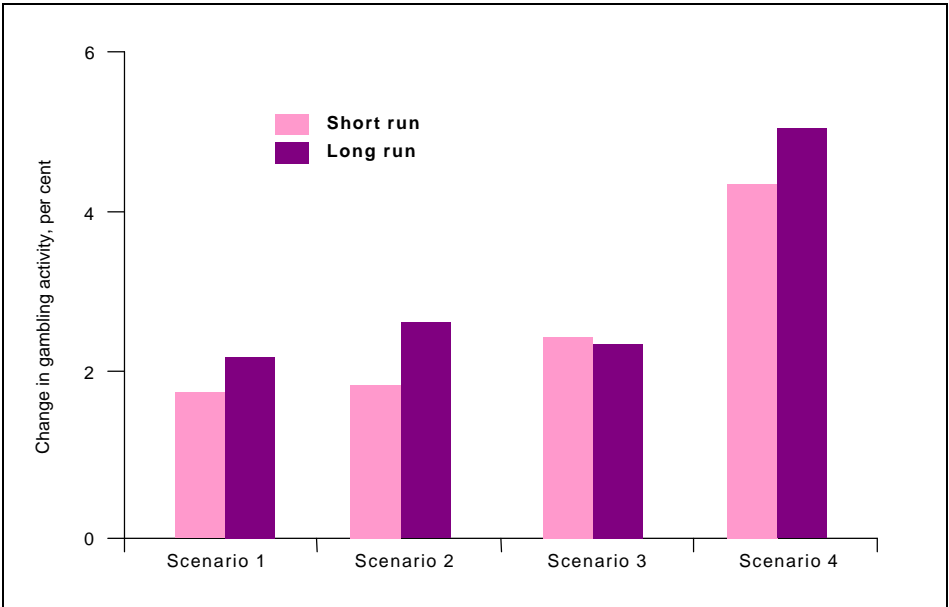
The composite industries containing gambling activities expand in all scenarios. As summarised in Chart 1-4, gambling activities are estimated to expand by around 2 to 5 per cent (also see Table 1-2 and Table 1-3). The impact is greatest under Scenario 4 because this is the scenario with

¹⁸⁴ The external advisers are found in the 'Legal, accounting, marketing, business management' and 'Other business services' industries of the STATE model as listed below.

¹⁸⁵ The reduction in above-normal profit is treated as a fall in the other costs of the gambling industries. This treatment prevents any direct impact on the rate of return on capital and hence investment behaviour, in keeping with the above-normal nature of the profit.

the largest change (being the removal of the economic rent captured by both the industry and the state government s).

Chart 1-4: The estimated aggregate impact on gambling activities



Source: Estimates derived from the STATE model. It is emphasised that a range of simplifying assumptions regarding the nature of the gambling industry have been made in preparing these estimates.

The impact on other industries is summarised in Table 1-4 and Table 1-5. Most other industries expand under scenarios 2, 3 and 4 in both the short and the long run. Despite the overall economic contraction in the short run under Scenario 2, most industries increase output. However, there are large contractions in those industries heavily dependent on government demand. Under Scenario 1 a small contraction is seen almost across-the-board, but with industries closely associated with gambling tending to expand.

Analysis has been conducted of the sensitivity of the above results to different demand elasticities for the gambling industries. The own price demand elasticities, which show the change in demand for gambling as its price changes, are around $-1/3$ for the simulations reported above. The effect of doubling these elasticities is summarised at Table 1-6. The higher demand elasticity tends to increase the expansion of the gambling industries but, given other reactions, leaves the macroeconomic impacts largely unchanged.

Table 1-4: The short run impact on industry activity levels of certain gambling reforms (percentage change)

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
	50 per cent cut in gambling taxes offset by higher income taxes	50 per cent cut in gambling taxes offset by cuts in public expenditure	Removal of entry Restrictions	Removal of entry restrictions with a 50 per cent cut in gambling taxes
1 Sheep	0.00	-0.02	-0.04	-0.06
2 Grains	0.00	-0.04	-0.07	-0.11
3 Beef cattle	-0.01	0.05	0.01	0.06
4 Dairy cattle	0.01	0.03	0.03	0.06
5 Pigs	-0.08	0.09	0.11	0.19
6 Poultry	0.00	0.04	0.02	0.06
7 Other agriculture	0.00	0.04	0.07	0.11
8 Services to agriculture; hunting and trapping	-0.02	0.04	0.05	0.09
9 Forestry and logging	-0.01	0.09	0.03	0.14
10 Commercial fishing	0.09	0.14	0.15	0.29
11 Coal; oil and gas	0.00	0.01	0.00	0.01
12 Iron ores	0.00	0.03	0.00	0.03
13 Non-ferrous metal ores	0.00	0.07	0.01	0.07
14 Other mining	0.01	-0.04	0.01	-0.03
15 Services to mining	0.00	0.08	0.02	0.10
16 Meat and meat products	0.00	0.05	0.01	0.06
17 Dairy products	0.01	0.03	0.03	0.06
18 Fruit and vegetable products	-0.02	0.05	0.07	0.11
19 Oils and fats	-0.01	0.06	0.08	0.14
20 Flour mill products and cereal foods	0.03	0.05	0.07	0.11
21 Bakery products	0.01	0.01	0.05	0.07
22 Confectionery	-0.05	0.06	0.08	0.14
23 Other food products	-0.01	0.06	0.01	0.07
24 Soft drinks, cordials and syrups	-0.04	0.03	0.06	0.08
25 Beer and malt	-0.05	0.03	0.07	0.09
26 Wine and spirits	-0.06	0.00	0.08	0.08
27 Tobacco products	-0.04	0.03	0.08	0.10
28 Wool scouring	-0.01	0.03	0.00	0.02
29 Textile fibres, yarns and woven fabrics	-0.05	0.10	0.14	0.22

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
30 Textile products	-0.01	0.04	0.08	0.12
31 Knitting mill products	-0.04	0.03	0.09	0.12
32 Clothing	-0.05	0.05	0.09	0.14
33 Footwear	-0.07	0.13	0.14	0.27
34 Leather and leather products	-0.02	0.05	0.05	0.10
35 Sawmill products	-0.01	0.07	0.02	0.08
36 Plywood, veneer and fabricated wood	-0.04	0.17	0.10	0.26
37 Other wood products	-0.01	0.01	0.08	0.08
38 Pulp, paper and paperboard	0.00	-0.08	0.01	-0.08
39 Paperboard containers; paper bags and sacks	-0.01	-0.02	0.06	0.03
40 Other paper products	0.00	-0.27	0.07	-0.19
41 Printing and services to printing	0.01	-0.42	0.02	-0.39
42 Publishing; recorded media and publishing	0.02	-0.08	0.07	-0.01
43 Petroleum and coal products	-0.04	0.02	0.07	0.09
44 Fertilisers	0.05	0.08	0.09	0.17
45 Other basic chemicals	-0.01	0.03	0.04	0.06
46 Paints	0.01	0.08	0.08	0.16
47 Medicinal and pharmaceutical products; pesticides	-0.04	0.11	0.15	0.26
48 Soap and other detergents	-0.02	0.01	0.08	0.09
49 Cosmetics and toiletry preparations	-0.04	0.06	0.09	0.15
50 Other chemical products	-0.01	-0.06	0.01	-0.05
51 Rubber products	-0.02	0.10	0.11	0.21
52 Plastic products	-0.01	0.01	0.07	0.08
53 Glass and glass products	-0.02	0.02	0.07	0.09
54 Ceramic products	-0.02	0.14	0.08	0.22
55 Cement and lime	0.00	-0.04	-0.01	-0.04
56 Concrete slurry	0.02	-0.12	-0.06	-0.17
57 Plaster and other concrete products	0.00	-0.02	0.02	0.00
58 Other non-metallic mineral products	-0.01	0.04	0.04	0.08
59 Iron and steel	-0.02	0.05	0.05	0.10
60 Basic non-ferrous metal and products	0.00	0.05	0.00	0.05
61 Structural metal products	0.02	-0.10	-0.03	-0.12

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
62 Sheet metal products	-0.04	0.16	0.11	0.26
63 Fabricated metal products	0.00	0.00	0.08	0.08
64 Motor vehicles and parts; other transport equipment	-0.05	0.20	0.12	0.31
65 Ships and boats	-0.03	0.19	0.12	0.33
66 Railway equipment	0.26	-1.58	-0.65	-2.22
67 Aircraft	0.03	-0.16	-0.03	-0.19
68 Photographic and scientific equipment	0.02	0.10	0.10	0.20
69 Electronic equipment	0.03	-0.07	0.04	-0.02
70 Household appliances	-0.10	0.21	0.21	0.40
71 Other electrical equipment	0.01	-0.07	0.03	-0.04
72 Agricultural machinery	-0.02	0.22	0.10	0.32
73 Mining and construction machinery; lifting and material handling equipment	0.01	-0.09	-0.02	-0.11
74 Other machinery and equipment	-0.03	0.22	0.11	0.32
75 Prefabricated buildings	-0.02	0.21	0.12	0.33
76 Furniture	-0.15	0.23	0.25	0.47
77 Toy and Sports equipment mfg	-0.02	0.02	0.07	0.09
78 Other manufacturing	-0.02	0.04	0.08	0.12
79 Electricity supply	-0.01	-0.10	0.04	-0.06
80 Gas supply	-0.02	0.00	0.07	0.07
81 Water supply; sewerage and drainage services	0.02	-0.06	-0.03	-0.08
82 Residential building construction	-0.03	0.24	0.12	0.35
83 Other construction	0.05	-0.36	-0.17	-0.51
84 Wholesale trade	0.01	0.00	0.05	0.05
85 Sports related retail	0.00	0.00	0.01	0.01
86 Retail trade	0.00	0.01	0.01	0.02
87 Mechanical repairs	-0.02	0.03	0.07	0.09
88 Other repairs	-0.01	0.00	0.05	0.05
89 Sports clubs	0.53	0.63	0.73	1.35
90 Accommodation, cafes and restaurants nec	0.38	0.42	0.45	0.87
91 Road transport	0.01	-0.01	0.05	0.04
92 Rail, pipeline and other transport	-0.01	0.01	0.02	0.03

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
93 Water transport	-0.01	-0.02	0.02	0.01
94 Air and space transport	-0.01	0.01	0.07	0.08
95 Services to transport; storage	0.00	0.00	0.02	0.04
96 Communication services	-0.01	-0.14	0.04	-0.09
97 Banking	-0.02	-0.02	0.05	0.03
98 Non-bank finance	-0.03	-0.06	0.07	0.01
99 Financial asset investors	0.00	-0.07	-0.14	-0.20
100 Insurance	-0.02	0.10	0.07	0.17
101 Services to finance, investment and insurance	-0.01	-0.53	0.04	-0.48
102 Ownership of dwellings	0.00	0.00	0.00	0.00
103 Other property services	0.03	0.07	0.12	0.20
104 Scientific research, technical and computer services	0.01	-0.45	-0.02	-0.45
105 Legal, accounting, marketing, business management services	0.03	-0.07	-0.71	-0.78
106 Other business services	0.03	-0.10	-0.84	-0.95
107 Govt sports admin & services	-0.04	0.18	0.08	0.31
108 Government administration	0.00	-3.32	0.01	-3.25
109 Defence	0.00	0.20	0.00	0.28
110 Education	-0.02	0.15	0.03	0.24
111 Health services	-0.05	0.12	0.09	0.24
112 Community services	-0.11	0.17	0.18	0.37
113 Motion picture, radio and television services	0.13	0.07	0.30	0.38
114 Libraries, museums and the arts	-0.03	0.13	0.31	0.47
115 Organised sport	-0.20	0.16	0.39	0.53
116 Active recreation	-0.25	0.12	0.69	0.79
117 Gambling and recreational services	2.09	2.17	3.18	5.38
118 Personal services	-0.04	0.04	0.08	0.12
119 Other services	-0.01	0.09	0.02	0.16

Source: Estimates derived from the STATE model. It is emphasised that a range of simplifying assumptions regarding the nature of the gambling industry have been made in preparing these estimates.

Table 1-5: The long run impact on industry activity levels of certain gambling reforms (percentage change)

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
	50 per cent cut in gambling taxes offset by higher income taxes	50 per cent cut in gambling taxes offset by cuts in public expenditure	Removal of Entry Restrictions	Removal of entry restrictions with a 50 per cent cut in gambling taxes
1 Sheep	-0.05	0.04	0.00	0.04
2 Grains	-0.05	-0.05	-0.07	-0.11
3 Beef cattle	-0.04	0.27	0.08	0.35
4 Dairy cattle	0.02	0.08	0.04	0.11
5 Pigs	-0.10	0.59	0.20	0.75
6 Poultry	-0.02	0.21	0.07	0.27
7 Other agriculture	-0.01	0.25	0.12	0.36
8 Services to agriculture; hunting and trapping	-0.04	0.23	0.09	0.31
9 Forestry and logging	-0.06	0.17	0.06	0.24
10 Commercial fishing	0.10	0.32	0.18	0.49
11 Coal; oil and gas	-0.20	0.56	0.10	0.64
12 Iron ores	-0.14	0.38	0.07	0.43
13 Non-ferrous metal ores	-0.12	0.32	0.09	0.40
14 Other mining	-0.01	0.16	0.07	0.22
15 Services to mining	-0.14	0.39	0.08	0.46
16 Meat and meat products	-0.04	0.28	0.08	0.35
17 Dairy products	0.02	0.08	0.04	0.11
18 Fruit and vegetable products	-0.01	0.18	0.08	0.25
19 Oils and fats	-0.02	0.29	0.12	0.39
20 Flour mill products and cereal foods	0.03	0.13	0.08	0.20
21 Bakery products	0.01	0.09	0.06	0.14
22 Confectionery	-0.05	0.26	0.10	0.34
23 Other food products	-0.12	0.39	0.10	0.47
24 Soft drinks, cordials and syrups	-0.03	0.16	0.06	0.22
25 Beer and malt	-0.09	0.50	0.19	0.65
26 Wine and spirits	-0.13	0.52	0.26	0.74
27 Tobacco products	-0.03	0.17	0.09	0.24
28 Wool scouring	-0.03	0.09	0.02	0.11
29 Textile fibres, yarns and woven fabrics	-0.10	0.50	0.19	0.66

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
30 Textile products	-0.01	0.26	0.11	0.36
31 Knitting mill products	-0.04	0.26	0.12	0.37
32 Clothing	-0.05	0.26	0.10	0.34
33 Footwear	-0.13	0.60	0.21	0.77
34 Leather and leather products	-0.04	0.20	0.07	0.26
35 Sawmill products	-0.12	0.46	0.10	0.53
36 Plywood, veneer and fabricated wood	-0.10	0.53	0.17	0.67
37 Other wood products	-0.02	0.16	0.08	0.22
38 Pulp, paper and paperboard	-0.04	-0.23	0.07	-0.16
39 Paperboard containers; paper bags and sacks	-0.03	0.14	0.11	0.24
40 Other paper products	0.00	-0.30	0.11	-0.20
41 Printing and services to printing	0.01	-0.34	0.04	-0.31
42 Publishing; recorded media and publishing	0.04	0.03	0.09	0.12
43 Petroleum and coal products	-0.06	0.31	0.15	0.44
44 Fertilisers	0.04	0.26	0.15	0.40
45 Other basic chemicals	-0.04	0.21	0.10	0.30
46 Paints	-0.01	0.31	0.12	0.42
47 Medicinal and pharmaceutical products; pesticides	-0.05	0.50	0.21	0.68
48 Soap and other detergents	-0.01	0.25	0.11	0.34
49 Cosmetics and toiletry preparations	-0.04	0.35	0.15	0.48
50 Other chemical products	-0.06	0.12	0.05	0.16
51 Rubber products	-0.05	0.28	0.12	0.38
52 Plastic products	-0.03	0.23	0.13	0.35
53 Glass and glass products	-0.05	0.36	0.15	0.48
54 Ceramic products	-0.04	0.33	0.08	0.38
55 Cement and lime	-0.04	0.24	0.07	0.30
56 Concrete slurry	-0.02	0.21	0.04	0.24
57 Plaster and other concrete products	-0.03	0.18	0.05	0.21
58 Other non-metallic mineral products	-0.04	0.28	0.09	0.35
59 Iron and steel	-0.04	0.24	0.08	0.30
60 Basic non-ferrous metal and products	-0.12	0.34	0.06	0.38
61 Structural metal products	-0.02	0.22	0.06	0.27

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
62 Sheet metal products	-0.04	0.29	0.10	0.37
63 Fabricated metal products	-0.02	0.22	0.12	0.32
64 Motor vehicles and parts; other transport equipment	-0.07	0.37	0.12	0.46
65 Ships and boats	-0.02	0.19	0.09	0.28
66 Railway equipment	0.00	0.03	0.03	0.05
67 Aircraft	-0.08	0.26	0.31	0.56
68 Photographic and scientific equipment	0.04	0.25	0.12	0.36
69 Electronic equipment	0.03	0.21	0.14	0.33
70 Household appliances	-0.10	0.65	0.22	0.82
71 Other electrical equipment	-0.01	0.25	0.11	0.34
72 Agricultural machinery	-0.01	0.19	0.03	0.21
73 Mining and construction machinery; lifting and material handling equipment	-0.04	0.19	0.04	0.22
74 Other machinery and equipment	-0.03	0.24	0.05	0.27
75 Prefabricated buildings	-0.01	0.24	0.07	0.29
76 Furniture	-0.13	0.74	0.24	0.93
77 Toy and Sports equipment mfg	-0.03	0.23	0.11	0.33
78 Other manufacturing	-0.02	0.19	0.10	0.28
79 Electricity supply	-0.03	0.02	0.09	0.10
80 Gas supply	-0.03	0.23	0.10	0.32
81 Water supply; sewerage and drainage services	-0.03	0.28	0.08	0.34
82 Residential building construction	-0.03	0.28	0.05	0.30
83 Other construction	-0.01	0.17	0.04	0.20
84 Wholesale trade	0.00	0.13	0.07	0.19
85 Sports related retail	0.00	0.02	0.01	0.02
86 Retail trade	0.00	0.02	0.01	0.03
87 Mechanical repairs	-0.01	0.24	0.11	0.33
88 Other repairs	-0.02	0.16	0.08	0.23
89 Sports clubs	0.63	0.91	0.74	1.61
90 Accommodation, cafes and restaurants nec	0.44	0.67	0.47	1.12
91 Road transport	0.00	0.12	0.07	0.19
92 Rail, pipeline and other transport	-0.01	0.07	0.03	0.10
93 Water transport	-0.02	0.05	0.04	0.08

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
94 Air and space transport	-0.16	0.47	0.59	1.02
95 Services to transport; storage	-0.02	0.05	0.05	0.11
96 Communication services	0.00	0.02	0.07	0.08
97 Banking	-0.05	0.25	0.13	0.36
98 Non-bank finance	-0.05	0.19	0.14	0.31
99 Financial asset investors	-0.01	0.11	-0.10	-0.01
100 Insurance	-0.03	0.22	0.09	0.30
101 Services to finance, investment and insurance	-0.03	-0.45	0.09	-0.36
102 Ownership of dwellings	-0.11	0.58	0.21	0.74
103 Other property services	0.03	0.26	0.14	0.38
104 Scientific research, technical and computer services	0.01	-0.35	0.01	-0.34
105 Legal, accounting, marketing, business management services	0.04	0.06	-0.71	-0.68
106 Other business services	0.04	0.02	-0.83	-0.83
107 Govt sports admin & services	-0.03	0.21	0.09	0.33
108 Government administration	0.00	-3.43	0.01	-3.37
109 Defence	0.00	0.05	0.00	0.11
110 Education	-0.01	0.12	0.03	0.18
111 Health services	-0.04	0.27	0.08	0.37
112 Community services	-0.08	0.46	0.18	0.64
113 Motion picture, radio and television services	0.21	0.31	0.31	0.60
114 Libraries, museums and the arts	0.03	0.43	0.35	0.77
115 Organised sport	-0.15	0.99	0.47	1.38
116 Active recreation	-0.15	0.89	0.77	1.57
117 Gambling and recreational services	2.66	2.89	2.95	5.80
118 Personal services	-0.04	0.24	0.09	0.31
119 Other services	-0.01	0.08	0.03	0.14

Source: Estimates derived from the STATE model. It is emphasised that a range of simplifying assumptions regarding the nature of the gambling industry have been made in preparing these estimates.

Table 1-6: A comparison of key model estimates under standard and high demand elasticities for gambling

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>	<i>Scenario 4</i>
	50 per cent cut in gambling taxes offset by higher income taxes	50 per cent cut in gambling taxes offset by cuts in public expenditure	Removal of entry restrictions	Removal of entry restrictions with a 50 per cent cut in gambling taxes
Percentage change in real GDP				
<i>Standard demand elasticities</i>				
Short run	0.02	-0.07	0.10	0.04
Long run	0.00	0.14	0.15	0.28
<i>High demand elasticities</i>				
Short run	0.03	-0.06	0.11	0.05
Long run	0.00	0.14	0.15	0.28
Percentage change in activity of the 'Sports club' industry				
<i>Standard demand elasticities</i>				
Short run	0.53	0.63	0.73	1.35
Long run	0.63	0.91	0.74	1.61
<i>High demand elasticities</i>				
Short run	0.50	0.58	0.67	1.24
Long run	0.60	0.87	0.70	1.53
Percentage change in activity of the 'Accommodation, cafes and restaurants nec' industry				
<i>Standard demand elasticities</i>				
Short run	0.38	0.42	0.45	0.87
Long run	0.44	0.67	0.47	1.12
<i>High demand elasticities</i>				
Short run	0.59	0.68	0.65	1.34
Long run	0.70	1.11	0.74	1.82
Percentage change in activity of the 'Gambling and recreational services' industry				
<i>Standard demand elasticities</i>				
Short run	2.09	2.17	3.18	5.38
Long run	2.66	2.89	2.95	5.80
<i>High demand elasticities</i>				
Short run	3.62	3.75	4.98	8.34
Long run	5.73	6.22	5.20	10.55

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Percentage change in the level of gambling activity				
<i>Standard demand elasticities</i>				
Short run	1.77	1.88	2.49	4.38
Long run	2.17	2.66	2.39	5.00
<i>High demand elasticities</i>				
Short run	2.90	3.11	3.76	6.66
Long run	4.23	5.11	4.01	8.60
Percentage change in the consumer price of gambling				
<i>Standard demand elasticities</i>				
Short run	-7.08	-6.66	-8.70	-15.45
Long run	-8.50	-8.63	-8.29	-16.19
<i>High demand elasticities</i>				
Short run	-6.04	-5.36	-6.97	-12.46
Long run	-8.49	-8.62	-7.29	-14.68

Source: Estimates derived from the STATE model. It is emphasised that a range of simplifying assumptions regarding the nature of the gambling industry have been made in preparing these estimates.

Attachment 2: Major Changes in the Gambling Industry by State

A2.1 New South Wales

EGMs dominate the gambling industry in NSW (Table 2-1). Expenditure on gaming machines was \$2½ billion in 1996-97, which accounted for 63 per cent of total gambling expenditure in NSW. The dominance of EGMs is more pronounced than in the other states. While gaming machines have been in NSW clubs since 1956, licences for hotels were only granted in 1984. Currently, there are about 95,000 EGMs in NSW—the highest number of any state or territory.

Box 2-1 outlines the results of the privatisation of the NSW TAB. The major change to the TAB resulting from the privatisation was the granting of the exclusive licence to provide gaming services (in particular, monitoring of EGMs) to clubs and hotels in NSW.

Box 2-1: The privatisation of the NSW TAB

The Totalisator Agency Board of NSW was corporatised to TAB Limited on 25 February 1998. TAB Limited was then floated on the stock market on 22 June 1998. As a result of the privatisation, TAB Limited now not only provides racing and sports wagering services, but also provides gaming services. The major changes resulting from the privatisation are outlined below.

- TAB Limited was granted a 99-year licence to operate both an off-course and on-course totalisators in NSW (for which a \$308 million fee was paid to the NSW Government), and:
 - TAB Limited became the controlling totalisator for all on-course and off-course wagering in NSW;
 - NSW Government tax reduced to 28.2 per cent of wagering revenue from approximately 54 per cent of wagering revenue;
 - TAB Limited authorised to set wagering take-out rates subject to an overall return to customers of 84 per cent and an upper take-out rate in any pool of 25 per cent; and
 - TAB Limited revenue includes dividend fractions and betting returns not claimed after expiration of 12 months.

Under the Totalisator Act 1997 (NSW), no other off-course totalisator licence may be granted until 2013. The licence authorises TAB Limited to conduct off-course totalisators in NSW on thoroughbred, harness or greyhound races held anywhere in the world and on specified sports wagering events.
- An exclusive licence was granted to TAB Limited to provide gaming services (in particular, monitoring of EGMs) to clubs and hotels in NSW through the Central Monitoring System and Links gaming licences (a \$30 million fee was paid for this licence to the NSW Government). TAB's new gaming business initially consists of:
 - a linked jackpot system for gaming machines in hotels and registered clubs in NSW ('Links');
 - a Central Monitoring Systems for gaming machines in hotels and registered clubs in NSW; and
 - owning, supplying and financing of gaming machines in hotels in NSW and gaming machines connected to Links in NSW registered clubs.

Source: TAB Limited Annual Report 1998.

The recent opening of the permanent casino is likely to take some of consumer expenditure away from other forms of gambling. Indeed expenditure on casino gaming has risen from 7 per cent of total expenditure in 1995-96 when the temporary casino was opened to just under 10 per cent in 1996-97.

While total expenditure on racing increased to \$0.7 billion in 1996-97 from \$0.4 billion in 1986-87 and \$0.65 billion in 1991-92, racing expenditure as a proportion of total gambling expenditure declined from 27.2 per cent in 1986-87 to 16.9 per cent in 1996-97.

The NSW TAB generated the highest level of wagers and bets (as distinct from expenditure) of all the states in 1996-97 at \$3.6 billion. While total wagers and bets from totalisators increased from \$2.9 billion in 1986-87 in real terms, total wagers and bets of on-course bookmakers fell over the same period: from \$2.0 billion in 1986-87 to \$0.6 billion in 1996-97.

These changes are also reflected in the expenditure figures for NSW shown in Table 2-1. Over the ten years to 1996-97 TAB expenditure increased but fell for bookmakers. The decline in spending on bookmakers and on-course TABs in the same period suggests that less people are going to the race track to place bets, preferring to bet at the local TAB, the pub with TAB facilities or to use TAB's phone betting facilities.

Table 2-1: Expenditure on gambling by type, NSW, \$ million

	1986-87	1991-92	1996-97
TAB	303.9	510.3	576.4
On-course totalisator	61.5	82.3	60.2
Bookmakers	73.2	58.3	33.6
Total Racing	438.6	651.0	670.2
State lottery	29.0	44.9	46.4
Lotto	132.5	155.4	241.1
Instant lottery	54.2	58.3	60.8
Pools	5.5	2.5	3.5
Gaming machines	853.7	1,647.6	2,484.3
Keno	-	20.0	90.2
Casino gaming	-	-	361.5
Total Gaming	1,074.9	1,928.8	3,287.7
Total Gambling	1,513.5	2,579.8	3,957.9

Source: Tasmanian Gaming Commission, 1997

A2.2 Victoria

The ban on poker machines in Victoria was lifted in 1990. As of June 1998, Victoria had nearly 27,000 gaming machines. The casino owns and operates 2,500 EGMs. Ownership of the remainder is split evenly between TABCORP and Tattersall's (as required by legislation). The regulatory framework also specifies that the number of licences granted to hotels and clubs must also be split 50/50 and there must be 80 per cent of machines in Melbourne and 20 per cent in regional Victoria.

The first EGMs were introduced in hotels and clubs in July 1992. 500 EGMs were permitted in the temporary casino in 1994. The opening of the permanent casino in 1997 resulted in a further 2,000 EGMs.

The amount that Victorians spend on gambling has increased from just under \$0.6 billion in 1986-87 to nearly \$2.8 billion in 1996-97 (Table 2-2). This was mainly a result of the introduction of the EGM licences and the opening of Crown casino over this period.

Table 2-2: Expenditure on gambling by type, Victoria, \$ million

	1986-87	1991-92	1996-97
TAB	216.0	330.7	366.8
On-course totalisator	44.0	46.3	35.7
Bookmakers	40.4	27.2	22.3
Total Racing	300.4	404.2	424.8
Tattersall's lottery	9.4	5.0	4.9
Tattslotto	190.0	277.9	257.6
Instant lottery	19.0	40.5	24.2
Pools	10.1	2.1	1.3
Bingo	55.8	83.7	-
Raffles and lucky envelopes	9.8	58.4	2.0
Gaming machines	-	32.5	1,455.8
Keno	-	-	7.2
Casino gaming	-	-	579.0
Total Gaming	293.9	500.0	2,331.9
Total Gambling	594.3	904.2	2,755.7

Source: Tasmanian Gaming Commission, 1997

Expenditure on EGMs, casino gaming and racing together accounted for nearly 90 per cent of total expenditure on gambling in 1996-97. Of this,

expenditure on EGMs was over half of total gambling expenditure, while casino and racing expenditure accounted for around 20 per cent each.

The growth in expenditure on EGMs and casino gaming has been at the expense of other gambling expenditure. As Table 2-2 shows, expenditure on lotteries, pools, instant money and bingo gambling has declined from \$478 million in 1991-92 to \$290 million in 1996-97.

Expenditure on racing in Victoria as a proportion of total gambling expenditure has declined from more than 50 per cent in 1986-87 to only 15 per cent in 1996-97. The decline is probably due in part to the new forms of gambling introduced in the state since the early 1990s. As with the NSW racing industry, expenditure on bookmakers and on-course totalisator has declined over the ten years to 1996-97, suggesting fewer punters go to the track to place bets.

A2.3 Queensland

The Queensland gambling market is a more mature than Victoria's. Jupiters Limited casino on the Gold Coast, the first casino in Queensland, was opened in November 1985, primarily to attract tourists to the area. Indeed, much of the growth in gambling has been a result of increased tourist numbers to the Gold Coast, both domestic and international.

Table 2-3: Expenditure on gambling by type, Queensland, \$ million

	1986-87	1991-92	1996-97
TAB	109.5	186.2	235.6
On-course totalisator	20.6	27.9	28.6
Bookmakers	25.8	21.8	14.7
Total Racing	155.9	235.9	278.9
State lottery	11.1	6.0	2.3
Gold lotto	47.9	119.5	150.1
Instant casket	40.4	101.1	82.9
Pools	5.6	3.2	1.7
Casino gaming	93.3	186.6	432.0
Gaming machines	-	28.0	508.2
Minor gaming	-	96.3	105.3
Total Gaming	198.3	540.6	1,282.5
Total Gambling	354.2	776.5	1,561.4

Source: Tasmanian Gaming Commission, 1997

The Breakwater Casino in Townsville opened in May 1986, the Treasury Casino opened in Brisbane in April 1995 and the Reef Casino in Cairns in January 1996.

EGMs were first introduced to hotels and clubs in Queensland in 1991. Expenditure on EGMs increased from \$239 million in 1992-93 to \$391 million in 1994-95 (Table 2-3). Casinos have always had EGMs: currently there are just over 3,100 EGMs in the four Queensland casinos and about 23,000 in clubs and hotels.

Over 60 per cent of gambling expenditure in 1996-97 was on casino gaming and EGMs, with the split nearly even. Expenditure on racing fell from 44 per cent of total gambling expenditure in 1986-87 to 18 per cent of total gambling expenditure in 1996-97.

A2.4 South Australia

Adelaide Casino opened in 1985-86 and since then, expenditure on casino gaming rose on average 10 per cent per year to 1993-94. EGMs were introduced in hotels and clubs in 1994-95 and had a dramatic impact on the casino: in 1994-95, expenditure at the casino declined by 28 per cent to \$84 million while expenditure on EGMs was \$223 million.

Table 2-4: Expenditure on gambling by type, South Australia, \$ million

	1986-87	1991-92	1996-97
TAB	39.0	77.7	81.8
On-course totalisator	8.2	9.2	7.8
Bookmakers on-course	8.5	6.0	3.8
Bookmakers off-course	0.7	0.5	0.3
Total Racing	56.3	93.5	93.6
Lotteries	0.4	-	-
X-lotto	35.8	80.8	62.4
Instant lottery	14.0	16.2	8.2
Pools	1.1	0.6	0.3
Casino gaming	54.7	88.6	70.7
Bingo & small lotteries	40.1	44.2	25.7
Club Keno	-	-	13.1
Gaming machines	-	-	364.3
Total Gaming	146.1	230.2	544.6
Total Gambling	202.4	323.7	638.2

Source: Tasmanian Gaming Commission, 1997

Currently, expenditure on EGMs accounts for 57 per cent of total expenditure on gambling in SA, while casino gambling only accounts for 11 per cent. Gambling games, such as lotto, account for a significant proportion of expenditure in South Australia compared to other states (Table 2-4).

South Australia has the largest legalised off-course bookmaker (that is, bookmakers do not have to be at the track to take bets on a race) industry in Australia. Yet expenditure on both on and off-course bookmakers declined significantly over the ten years to 1996-97, from 16 per cent of total racing expenditure in 1986-87 to just over 4 per cent in 1996-97. In addition, the share of racing expenditure at TAB outlets increased from \$39 million in 1986-87 to nearly \$82 million in 1996-97.

A2.5 Western Australia

Burswood Casino opened in Perth in 1985-86. From 1986-87 to 1996-97, casino gaming expenditure grew by 27 per cent per year, while expenditure on gambling in total rose by 21 per cent per year. In 1996-97, expenditure on casino gaming accounted for 54 per cent of total gambling expenditure, with the rest of gambling expenditure split between lotteries and other 'soft' gambling (22 per cent), racing (20 per cent) and minor gambling (4 per cent). There are no EGMs in hotels or clubs in Western Australia. The casino is the sole location for EGMs in Western Australia but there is a campaign underway to allow EGMs in hotels and clubs.

Table 2-5: Expenditure on gambling by type, Western Australia, \$ million

	1986-87	1991-92	1996-97
TAB	61.6	84.7	117.8
On-course totalisator	6.9	9.2	11.4
Bookmakers	9.1	7.2	9.1
Total Racing	77.6	101.0	138.3
Lotteries	2.1	0.3	-
Lotto	36.7	91.6	127.1
Instant lottery	16.2	28.4	30.2
Pools	1.3	1.1	0.9
Casino gaming	72.9	202.3	375.3
Minor gaming	-	15.7	27.7
Total Gaming	129.2	339.4	561.3
Total Gambling	206.8	440.4	699.6

Source: Tasmanian Gaming Commission, 1997

As with the other states, the share of racing expenditure as a proportion of total expenditure on gambling declined in the 10 years to 1996-97. However, on-course betting through bookmakers and the on-course totalisator has actually risen over this period, unlike in NSW, Victoria, Queensland and South Australia.

A2.6 Tasmania

Unlike most of the other states, gambling expenditure per person has increased only slightly in Tasmania, from \$353 per person in 1986-87 to \$436 in 1996-97. This is the lowest level of expenditure in Australia.

Casino gaming accounted for around 50 per cent of expenditure on gambling in Tasmania in 1996-97. The first casino in Australia was the Wrest Point Casino in Hobart, which opened in the early 1970s.

Keno was introduced in 1994-95 and currently accounts for 10 per cent of total gambling expenditure: the highest proportion of Keno gambling expenditure in Australia. In comparison, Keno accounts for 0.2 per cent of total gambling expenditure in NSW, 0.3 per cent in Victoria and 2.0 per cent in South Australia.

Expenditure on EGMs is expected to rise due to the introduction of EGMs into hotels and clubs in early 1997.

Table 2-6: Expenditure on gambling by type, Tasmania, \$ million

	1986-87	1991-92	1996-97
TAB	14.9	30.6	21.9
On-course totalisator	1.4	1.8	1.4
Bookmakers on-course	2.7	2.1	0.9
Total Racing	18.9	34.5	24.2
Tattersall's lottery	0.7	0.4	0.3
Tattslotto	14.1	21.2	16.3
Instant lottery	2.9	5.2	2.4
Pools	1.6	0.3	0.1
Casino gaming	28.9	48.1	74.2
Minor gaming	7.3	9.3	12.7
Gaming machines	-	-	5.5
Keno	-	-	15.7
Total Gaming	55.5	84.5	127.3
Total Gambling	74.4	119.0	151.5

Source: Tasmanian Gaming Commission, 1997

A2.7 Australian Capital Territory

ACT has a well-established EGM market, as gaming machines were introduced in the ACT in the mid-1970s. Since then expenditure on EGMs grew by 20 per cent per year to \$119 million in 1996-97.

Casino Canberra opened in 1992-93 and contributed a further \$40 million in gaming expenditure in 1994-95. However, casino gaming expenditure more than halved in 1996-97, to just \$18 million.

While expenditure on racing increased over the 10 years to 1996-97, its share of total expenditure on gambling declined significantly from 23 per cent in 1986-87, 15 per cent in 1991-92 to 11 per cent in 1996-97.

Table 2-7: Expenditure on gambling by type, ACT, \$ million

	1986-87	1991-92	1996-97
TAB	7.8	12.9	16.9
On-course totalisator	0.7	1.0	0.8
Bookmakers	2.9	2.1	1.1
Total Racing	11.4	16.0	18.8
Lotteries	0.5	1.0	1.0
Tattslotto lotto	6.7	9.6	11.7
Instant lottery	1.2	2.4	3.4
Soccer Pools	0.1	0.1	0.1
Poker machines	28.7	74.9	118.9
Casino gaming	-	-	17.8
Total Gaming	37.3	87.9	152.8
Total Gambling	48.7	103.9	171.6

Source: Tasmanian Gaming Commission, 1997

A2.8 Northern Territory

The Darwin casino (MGM Grand) opened in late 1979. Gaming expenditure at the casino grew steadily in the 1980s, at around 55 per cent per year on average. Casino gaming expenditure was given a further boost in the late 1980s from the opening of the Northern Territory's second casino at Alice Springs (Lasseters Casino).

EGMs were introduced in 1991 and since then casino gaming expenditure grew on average by only 10 per cent per year. In 1996-97, expenditure on EGMs was \$15.4 million while casino gaming expenditure was \$46 million.

Racing expenditure as a proportion of total gambling expenditure is the major component of gambling in the Northern Territory, at 25 per cent in 1996-97. While this has risen from 14 per cent of total gambling expenditure in 1986-87 (the only state or territory to experience an increase in racing expenditure), the biggest boost to the overall rise in gambling expenditure was due to casino gaming.

Table 2-8: Expenditure on gambling by type, Northern Territory, \$ million

	1986-87	1991-92	1996-97
TAB	3.7	9.3	13.9
On-course totalisator	0.2	0.8	2.1
Bookmakers on-course	1.3	2.3	9.1
Bookmakers off-course	0.1	-	-
Total Racing	5.3	12.4	25.1
Other lottery	0.4	0.2	1.7
Lotto	3.4	7.8	11.1
Instant lottery	2.0	1.2	1.1
Pools	0.1	0.5	0.03
Casino gaming	26.6	32.7	45.9
Bingo	0.6	-	-
Gaming machines	-	3.2	15.4
Total Gaming	33.1	45.5	75.2
Total Gambling	38.4	57.9	100.3

Source: Tasmanian Gaming Commission, 1997

Attachment 3: Some Examples of Gaming Operators' Initiatives to Promote Responsible Gambling

The main gambling providers have taken a number of initiatives to promote responsible gaming. They are in addition to the industry codes of practice which all the main suppliers have signed. Examples of initiatives which three of the major gaming service providers have implemented are outlined below.

A3.1 Crown casino

Crown casino offers the Crown Assistance Scheme to all Crown customers and anyone seeking help, assistance or advice for gambling problems. While all Crown staff are trained in the responsible service of gaming, they are also equipped to offer this professionally staffed referral service.

In addition, anyone seeking to be excluded from the casino as part of a rehabilitation program can enter into a voluntary agreement with the Casino — the Voluntary Exclusion Program. In addition, Crown will also consider requests for exclusion orders from close relatives of customers with gambling problems. However, common law entitlements and people's right the freedom to decide their own course of action must be considered.

Crown is represented widely on many committees and advisory bodies dealing with issues of problem gambling. It is also involved in successful industry self regulation such as the gaming machine Codes of Practice, referral services, the industry secretariat for the dissemination of information and problem solving, operating manuals and advertising standards.

A3.2 Tattersall's

Tattersall's has a number of programs designed to promote responsible gaming.

To encourage responsible management of its gaming venues, Tattersall's runs a Tatts Pokies Advantage incentive program. Points are awarded for the display of and adherence in venues to the principles outlined in the Victorian Gaming Machine Industry Codes of Practice. All Tattersalls venues must sign the Codes of Practice document and comply with its provisions.

Staff training is also a key component of Tattersall's responsible gaming efforts. This includes a module specifically on the management of

complaints at venues and the Complaints Resolution Process as outlined in the industry's Codes of Practice.

In November and December 1998, Tattersall's commissioned a pilot study to assess the most appropriate way to get the 'responsible gaming' message across. The idea is to advise poker machine clients to 'Have Fun, But Play it Safe' and to suggest a few other sensible rules for gaming, such as 'Set a Limit', 'Don't Borrow', 'Don't Spend to Win Back Losses' and 'Have a Break'.

The pilot study tested eight different communications devices in ten venues and found that the most effective were stickers placed on machines and at cashier stations.

A campaign which widens the communication exercise to all Tatts Pokies venues is now being planned.

A3.3 TABCORP

A number of initiatives have been taken by TABCORP to promote responsible gaming in its venues, including:

- All TABCORP venue operators must sign the Codes of Practice and adhere to its provisions;
- Running workshops on responsible gaming issues with venue management;
- Structuring of induction training for gaming venue staff to include a segment on responsible gaming;
- Developing community relations training modules for venues that assist in their liaison with the local community and local government;
- Actively participating in local government forums regarding gaming and the development of gaming policies; and
- TABCORP's Venue Performance System (VPS) includes monitoring of each venue's performance against a series of criteria specifically related to the Codes of Practice, including proper display of materials promoting gambling counselling services and the presence of clocks in the gaming room.

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