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BACKGROUND PAPER

RELIANCE ON GAMING REVENUE: IS THERE ANOTHER WAY?

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Introduction:

This paper is authored by Ali Uguz a La Trobe Law student whilst on clinical placement at the West Heidelberg Community Legal Service.

State governments have become much more reliant on gambling revenues in recent times.¹ Since the introduction of gaming machines in the early 1990's, State Gambling Taxes have become a significant source of direct taxation revenue for Victoria.² Victoria's army of pokie players loses more than \$2.4 billion a year - excluding losses at Crown, which controls another 2500 machines.³ In 2004-05 taxation from gambling made up close to 14% of the States Taxation Revenue with gaming machines accounting for 8.1% of Victoria's taxation revenue.⁴ Budget papers reveal that dependence on gaming machine revenue from the government is increasing and they stand to collect a whopping \$1.006 billion from poker machines in 2006-07.⁵ The government needs to identify an alternative source of revenue so that it can become less reliant on the revenue raised from gambling,⁶ unless this occurs, it will be difficult for the Victorian Government to be able to accept initiatives to reduce problem gambling. Whilst various reports that pertain to problem gambling in Australia exist, the author of this report will demonstrate the importance of continuing to stress to government and industry bodies the negative effects of gambling on so many Victorians. The impacts of problem gambling range from shortage of money and stress, through to impoverishment, serious crime and suicide.⁷ The government has been relying more heavily than ever on revenue raised from gambling and this Report's aim is to reinforce community concerns to the elected government of Victoria.

Objectives:

The author intends to examine the current situation of gambling taxation in Victoria paying specific consideration to gaming machines:

- Compare this reliance of gambling taxation with other States within Australia with particular attention to Western Australia,
- Analyse other international countries such as the US, Ireland, and Netherlands, and
- Make recommendations of alternative revenue raising schemes for the Victorian State government.

Methodology:

In compiling this report the author mainly relied upon literature reviews, newspaper articles, websites, non-fiction books, government reports and discussion with the former Premier of Victoria the Honourable John Cain who is the Patron and one of the founders of the West Heidelberg Community Legal Service where the author undertook his clinical placement.

With regard to certain topics covered in this report, such as the opportunity cost of gambling and the redistribution of consumption into other areas of the economy, research is scarce. The Victorian

¹ Smith J, *Gambling Taxation in Australia*, Australian Tax Research Foundation, Sydney, 1998 at 91

² Office of Gaming and Racing, *Gaming Machine Licence Arrangements Post-2012 Issues Paper*, Victoria, Department of Justice, 2006 at 33

³ Warner M & Ife H, 'Pokies taxes hit \$1b' Herald Sun, 31 May, 2006

⁴ Supra n 2

⁵ State of Victoria, 2006-07 Victorian Budget, 2006

⁶ West Heidelberg Community Legal Service, The impact of law and social policy on the community: 'Another poke at the pokies', Melbourne, West Heidelberg Community Legal Service, 2005 at 61

⁷ Costello T & Millar M, *Wanna Bet? Winners and losers in gambling's luck myth*, Allen & Unwin, 2000, at 222

Government has limited the capacity for the release of statistics of this nature.⁸ The state government demonstrates understandable reluctance to publish reports, which may be damning to their reputation in relation to their approach and contrary to the interests of the gaming industry and the effect of gambling on society.⁹ This has made it extremely difficult for effective public policy to be implemented so as to deal with issues that ensue from gambling.¹⁰

The author of this report acknowledges that problems and issues exist with all forms of gambling, such as gaming tables at a casino. However, this report focuses on electronic gaming machines for reasons including that the State government is budgeting for pokie machine taxes to raise more than \$1 billion for the first time¹¹, that 84 per cent of problem gamblers prefer to gamble this way,¹² and that there is a high concentration of machines in lower socio-economic areas, such as West Heidelberg and Maribyrnong.¹³ These suburbs have amongst the highest per capita concentration of gaming machines in the state,¹⁴ with many commentators arguing this was a clever tactic¹⁵ which makes the burden of the cost fall on the vulnerable, socially disadvantaged sector of society.¹⁶

Due to terms of reference the author is unable to address the issues of pokie machine locations being in concentrated areas of low socio-economic status and the ease of accessibility of gambling. However, it is stressed that these are important contributing factors to the significant expenditure on gaming machines.

Current Situation:

The gaming machine industry in Victoria was established with the granting of two gaming operator's licences on 14 April 1992. The two licence holders were the wagering provider, Totalisator Agency Board (TAB), and the lottery provider, Tattersall's.¹⁷

This created a duopoly with both the TAB and Tattersall's obtaining a gaming operator licence period until 2012. The two gaming machine operators currently acquire, own, distribute and operate all gaming machines.¹⁸

Subject to any relevant caps, each gaming operator, rather than the gaming venues, has control over the number of machines that will be offered in each venue, the venues in which the machines are available to the public, the rate of return to players¹⁹ over and above the legislative minimum of 87% and, subject to having to obtain the approval of the Victorian Commission for Gambling Regulation (VCGR), the choice of games and gaming machines that will be offered.²⁰

⁸ Supra n 6 at 4

⁹ Supra n 6 at 4

¹⁰ Productivity Commission Canberra, *Australian Gambling Industries*, Report No 10, (1999) Summary of the Report, pg 1

¹¹ Supra n 5

¹² Gambling Research Panel, *Victorian Longitudinal Community Attitudes Survey: Problem Gambling*, 2004, at 15

¹³ ABC, *The National Interest: A poke at the pokies*, 30 May 2004

¹⁴ Appendix 1

¹⁵ Dr Jamie Doughney, Rev Tim Costello, Australian Hotels and Hospitality Association

¹⁶ Interview with John Cain, Former Premier of Victoria (1982-90), 15 May 2006, interview by Ali Uguz

¹⁷ Supra n 2 at 8

¹⁸ Supra n 2 at 9

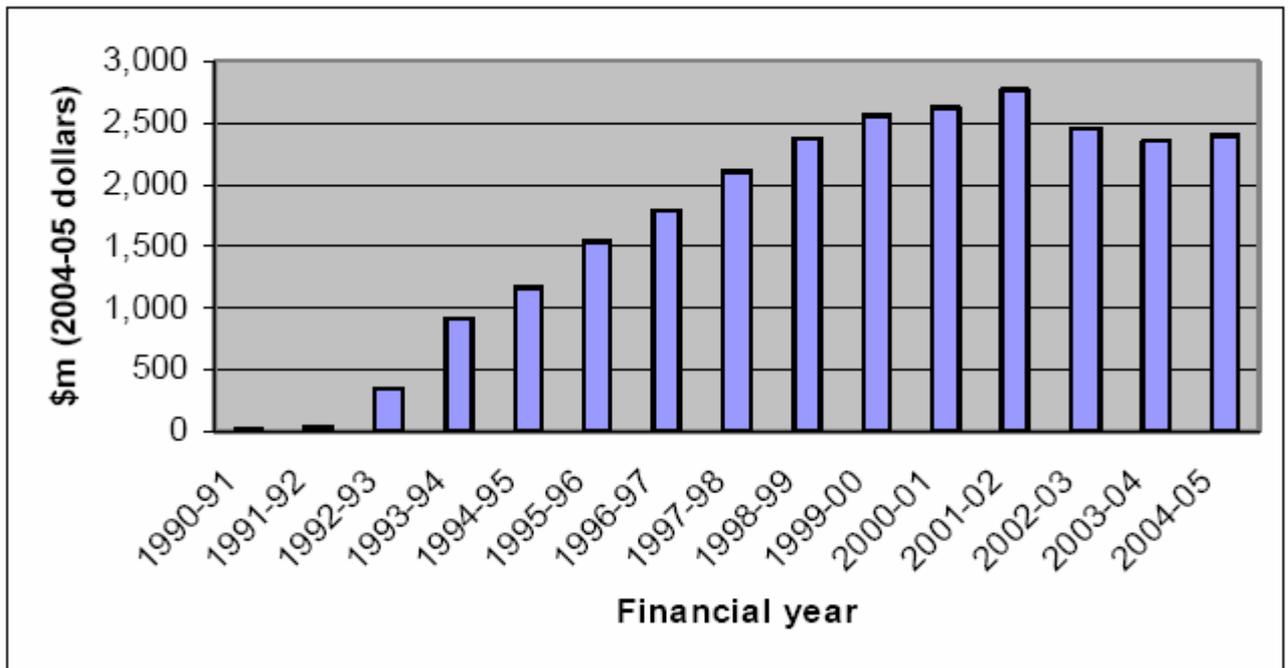
¹⁹ The 87% is calculated against the return to players at a venue over a year.

²⁰ Supra n 2 at 10

The introduction of gaming machines in 1992 has led to a significant increase in overall real per capita gambling expenditure in Victoria. The expenditure on gaming machines has been largely additional expenditure rather than expenditure diverted from other types of gambling.²¹

In 2003-04, \$2.3 billion was lost on gaming machines in Victorian licensed clubs and hotels.²² The introduction of gaming machines in 1992 has led to a significant increase in overall real per capita gambling expenditure in Victoria (Figure 1).

Figure 1: Real Expenditure on Gaming Machines in Victoria from 1990-1991 to 2004-2005



(Source: Office of Gaming and Racing, *Gaming Machine Licence Arrangements Post-2012 Issues Paper*, Victoria, Department of Justice, 2006 at 20)

A small decrease in gambling expenditure took place over 2002-03 and 2003-04. The State government attributed this to smoking bans which were implemented over this period.²³ An increase in 2004-05 has taken place with pokie players now spending over \$2.4 billion over the last year²⁴ (Table 1).

²¹ Supra n 2 at 20

²² Office of Economic and Statistical Research, *Australian Gambling Statistics 2005*, Queensland, Queensland Treasury, 2005

²³ Supra n 2 at 19

²⁴ Warner M, 'Win only for Bracks' Herald Sun, 1 July, 2006

Table 1: Gaming Machine Expenditure in Victoria, Number of Licensed Venues and Gaming Machines: 1999-2000 to 2004-2005

Year	Total net gaming machine expenditure (millions)	Average net gaming machine expenditure per Victorian adult *	No. of venues with gaming machines	No. of gaming machines in Victoria (outside the Melbourne Casino)
1999-00	\$2,170	\$615	536	27,408
2000-01	\$2,366	\$662	537	27,444
2001-02	\$2,562	\$696	534	27,400
2002-03	\$2,334	\$627	532	27,260
2003-04	\$2,290	\$600	530	27,132
2004-05	\$2,393	\$618	523	27,124

(Source: Office of Gaming and Racing, *Gaming Machine Licence Arrangements Post-2012 Issues Paper*, Victoria, Department of Justice, 2006 at 23)

The financial arrangements from the proceeds of gaming machines vary according to whether they are provided by a club or hotel. Tax is assessed on the net cash balance of the operators, the difference between the amounts gambled and the amounts paid out in prizes. The net cash balance is split in the following manner (Table 2):

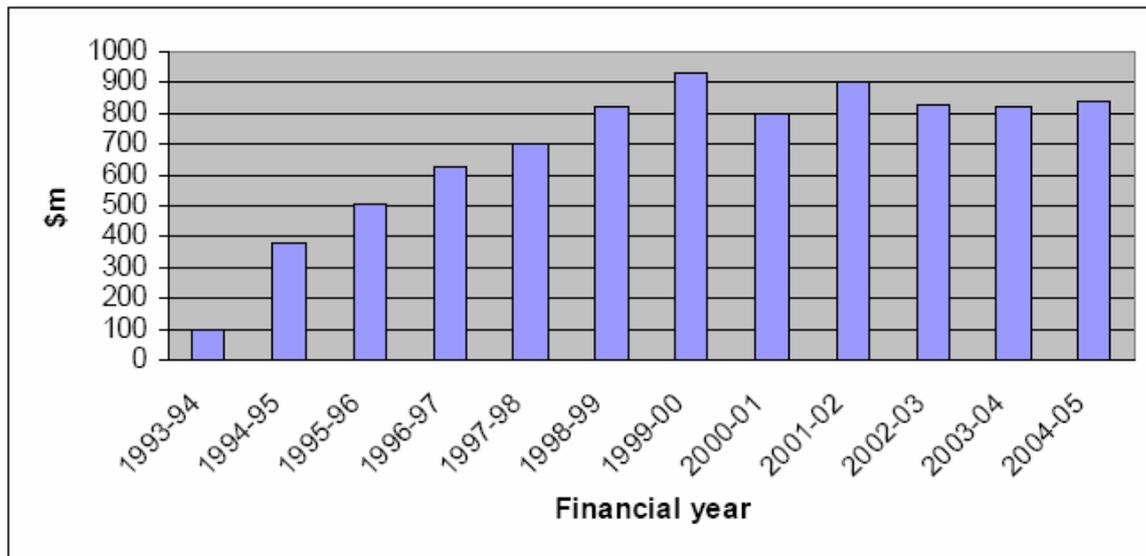
Table 2: Distribution of Gaming Machine Revenue

	<i>Club venues</i>	<i>Hotel venues</i>
To the venue operator	33.33%	25.00%
To the gaming operator *	33.33%	33.33%
To the Community Support Fund	nil	8.33%
To the State's Consolidated Revenue Fund	24.24%	24.24%
GST	9.09%	9.09%
Total	100.00%	100.00%

(Source: Office of Gaming and Racing, *Gaming Machine Licence Arrangements Post-2012 Issues Paper*, Victoria, Department of Justice, 2006 at 30)

Victorian taxation revenue from gaming machines was \$841 million in 2004-05 down from the peak of \$933 million in 1999-00.²⁵ The Victorian government has budgeted revenue from gaming machines to be \$1.006 billion in 2006-07.²⁶ It is reasonable to conclude from this that we are seeing a continuing rise in the overall dependency on taxes from gambling.²⁷ On average, every machine outside the casino generates approximately \$30,600 per annum of tax revenues to the Government²⁸ (Figure 2).

Figure 2: State Revenue from Gaming Machine Taxation from 1993-1994 to 2004-2005



(Source: Office of Gaming and Racing, *Gaming Machine Licence Arrangements Post-2012 Issues Paper*, Victoria, Department of Justice, 2006 at 32)

Gambling is a significant source of direct taxation revenue for Victoria.²⁹ Since their introduction gaming machines have provided the major component of gambling taxation.³⁰ In 2004-05 taxation from gambling made up close to 14% of the States Taxation Revenue with gaming machines accounting for 8.1% of Victoria's taxation revenue (Figure 3).

²⁵ Supra n 2 at 20

²⁶ Supra n 5

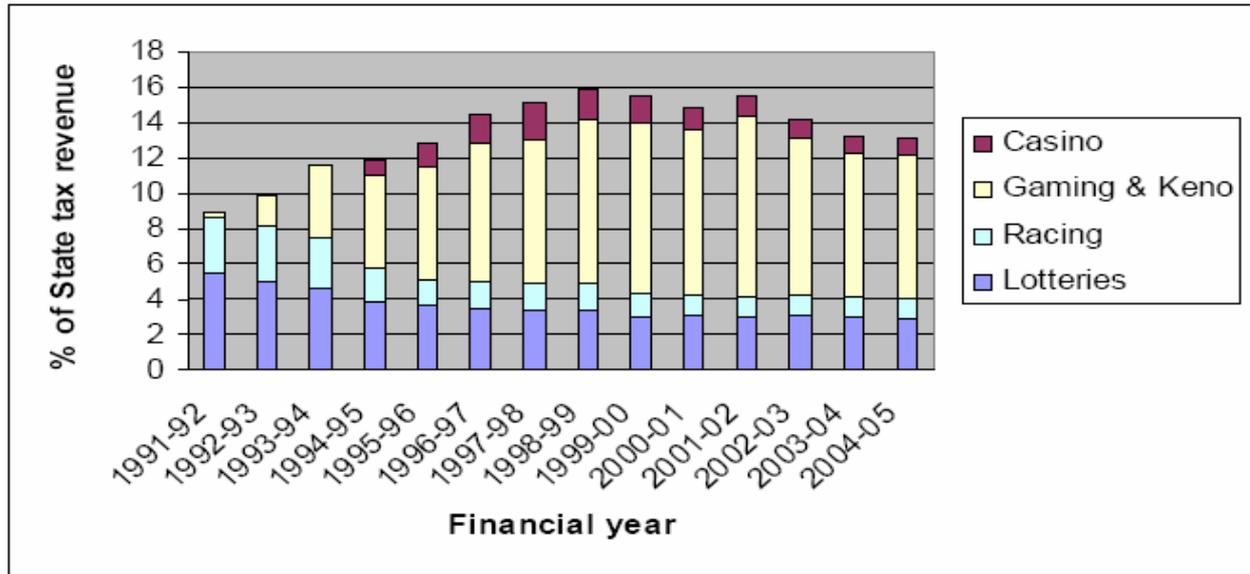
²⁷ Banks G, 'The Productivity Commission's Gambling Inquiry: 3 years on', presentation to the 12th Annual Conference of the National Association for Gambling Studies at Melbourne, 2002 at 16

²⁸ Supra n 2 at 32

²⁹ Supra n 2 at 33

³⁰ Supra n 2 at 33

Figure 3: State Gambling Taxes as a Proportion of States Taxation Revenue: 1991-1992 to 2004-2005



(Source: Office of Gaming and Racing, *Gaming Machine Licence Arrangements Post-2012 Issues Paper*, Victoria, Department of Justice, 2006 at 33)

Comparison of Victoria with Other States:

In Australia, all jurisdictions except Western Australia have legalised the provision of gaming machines in clubs and/or hotels. In Western Australia, Burswood Casino has a licence to operate electronic version of casino games but not for gaming machines. In all States and Territories, again with the exception of Western Australia, gaming machines are the most popular form of gambling as measured by expenditure.³¹

Table 3 shows that within all the states, Victoria is the second most dependent after South Australia on gaming machine revenue with 8% reliance in 2003-04. This is despite Victoria having the third lowest number of gaming machines at 7.17 per 1000 adults as at 30 June 2004 behind Tasmania and the Northern Territory.³² Hence the reliance on gaming revenue by the Victorian government is far more compared to other state governments.

³¹ Supra n 2 at 13

³² Appendix 2

Table 3: The States' own-source taxation revenues 2003-04 (per cent)

	<i>NSW</i>	<i>Vic.</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas.</i>	<i>NT</i>	<i>ACT</i>	<i>Total</i>
<i>Payroll</i>	29.0	26.8	22.2	25.4	27.6	26.5	34.5	23.5	26.8
<i>Property</i>	9.4	9.4	7.9	10.6	9.7	5.9	-	23.6	9.4
<i>Financial</i>	0.9	2.6	3.9	2.7	2.6	4.8	3.4	2.3	2.2
<i>Stamp duties</i>	30.1	27.2	33.9	24.8	33.4	22.5	26.9	28.0	29.8
<i>Lotteries</i>	1.9	3.0	2.8	2.7	1.8	3.2	4.5	1.7	2.4
<i>Poker machine</i>	5.3	8.0	6.8	10.0	-	8.7	-	4.4	6.0
<i>Casino</i>	0.5	1.0	0.8	0.6	0.5	0.5	6.8	0.3	0.7
<i>Racing</i>	1.0	1.1	0.5	0.2	0.8	-	-	0.1	0.8
<i>Other gambling</i>	0.0	0.0	-	-	-	-	3.4	-	0.0
<i>Total gambling taxes</i>	8.7	13.1	10.9	13.5	3.2	12.4	14.8	6.5	10.0
<i>Insurance (fire)</i>	2.5	2.9	-	-	0.8	4.8	-	-	1.8
<i>Third party</i>	0.2	1.0	0.7	1.4	-	0.5	-	-	0.5
<i>Other insurance</i>	5.3	5.5	4.8	8.1	7.2	4.8	7.6	5.0	5.7
<i>Motor vehicle taxes</i>	11.9	11.1	14.6	13.3	15.6	17.7	12.9	11.0	12.7
<i>Fuel</i>	-	-	-	-	-	-	-	-	-
<i>Tobacco</i>	-	-	-	-	-	-	-	-	-
<i>Liquor</i>	0.0	0.1	-	-	-	-	-	-	0.0
<i>Other</i>	1.9	0.5	1.2	0.1	0.0	0.3	0.0	0.0	1.0
<i>Total</i>	29.0	26.8	22.2	25.4	27.6	26.5	34.5	23.5	26.8

(Source: Doughney J, 'Why remove 'gaming operators'', submission to Gaming Machine Licence Arrangements Post-2012 Issues Paper, 2006 at 18)

New South Wales, Victoria and Queensland continue to record the largest total expenditure on gambling.³³ In 2005, Queensland had the biggest increase in real expenditure on gambling (up \$256.5 million to \$2.79 billion) followed by NSW (up \$105.73 million to \$6.57 billion) and SA (up \$50.04 million to \$1.06 billion).³⁴ The increased expenditure has resulted in an increase of taxation revenue to the States.

The major difference between Victoria and the other States and Territories is the Victorian system of gaming operator licences. In Victoria, as stated earlier, all gaming machines are owned, operated and maintained by the two operators, Tabcorp and Tattersall's. In all other States and Territories, the venues own or lease machines, with various arrangements in place or being implemented which provide for the trading or transfer of machines or entitlements.

In contrast to Victoria's regressive tax system many states and territories have a progressive gaming machine tax system. These include Queensland (Table 4), New South Wales (Table 5), South Australia (Table 6), ACT (Table 7) and Tasmania (Table 8). This means in all licensed clubs as the monthly taxable metered win increases the gaming machine tax also increases.

³³ Centre for Gambling Research, *The Australian Gambling Market 2005 Fact Sheet*, Canberra, Australian National University, 2005

³⁴ *ibid*

The Queensland gaming tax revenue is set out as follows (Table 4):

Table 4:

Gaming Machine Monthly Taxes (GST Adjusted)

Premises Type	Monthly Taxable Metered Win (\$)	Gaming Machine Tax (% of Monthly Taxable Metered Win)
Licensed Clubs (Category 2 licensed premises)	\$0 – 9,500	Nil
	\$9,501 – 75,000	17.91%
	\$75,001 – 150,000	20.91%
	\$150,001 – 300,000	23.91%
	\$300,001 – 1,400,000	25.91%
	> \$1,400,000	35.91%
Hotels (Category 1 licensed premises)	All amounts	35.91% + levy if applicable

Source: http://www.qogr.qld.gov.au/publications/fees-tax-rates/GamingMachinefee_20050701.pdf

The New South Wales gaming tax revenue is set out as follows (Table 5):

Table 5:

HOTEL TAX RATES

from 1 July	≤ 25,000	>25,000 - ≤ 200,000	>200,000 - ≤ 400,000	> 400,000 - ≤ 1,000,000	> 1,000,000 - ≤ 5,000,000	>5,000,000
2004	5.8	15.8	17.2	26.5	31.5	33.6
2005	5.7	15.7	18.5	27.1	32.1	36.4
2006	5.5	15.5	19.8	27.7	32.7	39.1
2007	5.4	15.4	21.1	28.2	33.2	41.8
2008	5.3	15.3	22.4	28.8	33.8	44.5
2009	5.1	15.1	23.7	29.4	34.4	47.3
2010	5.0	15.0	25.0	30.0	35.0	50.0

CLUB TAX RATES

from 1 September	≤ 200,000	>200,000 - ≤ 1,000,000	> 1,000,000 - ≤ 5,000,000*	> 5,000,000 - ≤ 10,000,000*	> 10,000,000*
2004	0	10.8	18.3	19.7	20.4
2005	0	10.7	19.4	22.3	23.7
2006	0	10.5	20.5	24.8	26.9
2007	0	10.4	21.6	27.4	30.2
2008	0	10.3	22.8	29.9	33.5
2009	0	10.1	23.9	32.5	36.7
2010	0	10.0	25.0	35.0	40.0

Source: http://www.dgr.nsw.gov.au/pdfs/marginal_tax_rates.pdf

The South Australian government taxes gaming in the following manner (Table 6):

Table 6:

Annual NGR	Other than Non-Profit Businesses (Hotels)	Non-Profit Business (Clubs & Community Hotels)
	Marginal Tax Rates	Marginal Tax Rates
\$0 - \$75,000	0%	0%
\$75,001-\$399,000	27.50%	21.00%
\$399,001 - \$945,000	\$89,100 plus 37.00% of excess NGR over \$399,000	\$68,040 plus 28.50% of excess NGR over \$399,000
\$945,001 - \$1,500,000	\$291,120 plus 40.91% of excess NGR over \$945,000	\$223,650 plus 30.91% of excess NGR over \$945,000
\$1,500,001 - \$2,500,000	\$518,170.50 plus 47.5% of excess NGR over \$1,500,000	\$395,200.50 plus 37.5% of excess NGR over \$1,500,000
\$2,500,001 - \$3,500,000	\$993,170.50 plus 57% of excess NGR over \$2,500,000	\$770,200.50 plus 47% of excess NGR over \$2,500,000
Above \$3,500,000	\$1,563,170.50 plus 65% of excess NGR over \$3,500,000	\$1,240,200.50 plus 55% of excess NGR over \$3,500,000

Source: http://www.olgc.sa.gov.au/Gaming/Gaming_Tax/BOOKLET_Gaming_Tax_04_05.pdf

The ACT has the following tax system (Table 7).³⁵

Gross Gaming Machine Revenue for month	Tax Rate
If less than \$15,000	nil
If equal to or greater than \$15,000 but is less than \$25,000	15%
If equal to or greater than \$25,000 but is less than \$50,000	16%
If equal to or greater than \$50,000	18%

Tasmania has the following tax system (Table 8).³⁶

Annual Gross Profit from Gaming Machines	Tax Rate
Between \$30-\$35 million	20.88%
Greater than \$35 million	25.88%

In Western Australia the Burswood Casino has exclusive operating rights for poker machines. 'No gaming machines exist within the suburbs. The Western Australian government has been opposed to poker machines and stuck by it. Successive governments have stuck by it. No doubt this has affected their revenues because the poker machines are a 'soft form' of revenue. A government does not collect much political hostility for introducing them; they are a good revenue earner for governments.'³⁷

³⁵ <http://www.gamblingandracing.act.gov.au/Documents/pdf/Club%20Circular%20004-2005%20Budget%20Tax%20Changes%20May.pdf>

³⁶ Tasmania Gambling Commission

³⁷ Supra n 16

As a result many differences exist within the gaming industry of Western Australia and Victoria. Western Australia has the lowest rate of problem gambling in Australia.³⁸ The Western Australian economy is not able to rely as heavily as other states on gaming machine revenue. Despite this successive governments have resisted loosening gambling regulation. 'Western Australia demonstrates states can survive without it and we need to thoroughly examine ways to survive.'³⁹

The Western Australia economy has not suffered as much as expected from a lack of gaming machine revenue directly and indirectly. Despite not having a gaming industry, Western Australia still has a similar relative share of full-time employment in hotels, taverns and bars as Victoria.⁴⁰ This figure has not changed over time. Western Australia had 54 per cent in 1986 and 46 per cent in 2003; Victoria had 58 per cent in 1986 and 50 per cent in 2003 full-time employments in these areas.⁴¹

In a report commissioned by the Victorian Gambling Research Panel it was found that job intensity associated with gambling expenditure is quite low at 3.2 jobs per \$1 million of gambling income compared to 8.3 jobs per \$1 million of income from sales of liquor/beverages and 20.2 jobs per \$1 million of takings from food and meals.⁴² The Western Australian economy has not been hindered as a result. In fact if money which would be spent on gambling expenditure was consumed in other sectors of the economy, it would carry a benefit to Western Australia as more jobs would be created. This would have a follow-on affect of an increase in consumer expenditure as these people with jobs will have a higher disposable income which may subsequently lead to an increase of growth for the local economy.

Costs associated with having gaming machines are not felt as much in Western Australia as well. Victorian General Practitioners are four times more likely to identify patients presenting with health issues associated with problem gambling than their Western Australian counterparts (Victoria 17.7 per cent, Western Australia 4.3 per cent)⁴³

A key difference between gambling in Victoria and Western Australia has been public perception. In Victoria 73-78% believe poker machines do more harm than good.⁴⁴ Despite this the Victorian government still employs the use of pokie machines to raise revenue. The Western Australian government has not succumbed to industry pressure and stuck with their policy of no pokie machines in the suburbs.⁴⁵

International Comparison:

Many overseas countries have realised the social costs associated with gambling and have introduced measures designed to reverse the harm.⁴⁶ The US State of South Carolina implemented gaming machines in 1986. After 14 years it was decided in 2000 that the social cost exceeded the benefit and reliance was no longer required.⁴⁷ Instead South Carolina introduced a new form of gambling, the state-lottery. In its last year of operating, the gaming machine industry generated \$1 billion in profit to

³⁸ Victorian Gambling Research Panel, *Community Impacts of Electronic Gaming Machine Gambling (Victoria and WA)*, Melbourne, Department of Justice, 2005

³⁹ Supra n 16

⁴⁰ Supra n 40

⁴¹ Supra n 40

⁴² Supra n 40

⁴³ Supra n 40

⁴⁴ Supra n 12

⁴⁵ Supra n 16

⁴⁶ Catholic Social Services, 'Review of Electronic Gaming Machine Arrangements', paper submitted to Gambling Licences Review, 2006

⁴⁷ Bridwell, R. 2003 *South Carolina Video Poker Study*, University of South Carolina, 2003

the operators and paid \$65 million in fees to the state. In contrast, the state lottery in 2002 had \$627 million in sales and generated \$151 million to the state.⁴⁸

The Netherlands legalised gaming machines in 1988.⁴⁹ This led to a significant increase in the number of gambling addicted people from several thousands to between 100,000-200,000.⁵⁰ The Dutch Parliament called for the removal and in 1998 all 64,000 gaming machines were removed.⁵¹

Ireland has just a few thousand poker machines.⁵² The machines are banned in most parts of the country and restricted to holiday resorts and some amusement parlours.⁵³ Since 1956 Irish law has imposed maximum bets for the machines of 2.5 Irish pence and maximum pay-outs of 50 pence. Irish poker machines exist primarily to discourage an illegal trade in black market poker machines.⁵⁴

There are no casinos in Ireland, and the Irish government has repeatedly refused gambling industry pleas to establish them.⁵⁵ The European Commission report found that in Ireland the benefits of increased taxation from large-scale gambling 'have not been thought to be adequate compensation for the possible social problems that might arise.'⁵⁶ The gambling industry has lobbied hard and warned the Irish government that a country without casinos and modern gambling facilities is cutting its own throat in the competitive global economy. The Irish economy however is booming and celebrated as the economic miracle of Europe, with tourists travelling there in droves.⁵⁷

Recommendations:

Prohibition:

In consideration of the significant social costs of gambling it is recommended that gaming machines should not be in place in metropolitan and regional areas. The state government has become increasingly dependent on revenue from gaming machines and it is argued that the Victorian economy will continue to suffer as a result. However, prohibition of gaming machines may actually prosper the Victorian economy and cause it to be in a better condition than with gaming machines.

The circumstances behind the decision to introduce gaming machines must be understood. It is now widely acknowledged that the major contributing factor for the introduction of poker machines in Victoria was to curb the economic crisis that the state faced. However, the Victorian economy is now in a strong financial position.⁵⁸

The current economic "benefits" of poker machines to the community are an illusion.⁵⁹ Most of the money people lose to pokies may have been spent into other sectors of the economy such as shopping, restaurant, entertainment and other businesses. For every \$1million spent, 20.2 jobs are created in the restaurant/meals industry, compared to 3.2 jobs in pokies.⁶⁰ In other words, pokies have diverted spending from other sectors of the economy and reduced jobs. The community also pays the hidden

⁴⁸ *ibid*

⁴⁹ *Supra* n 48

⁵⁰ *Supra* n 48

⁵¹ *Supra* n 48

⁵² *Supra* n 7 at 83

⁵³ *Supra* n 7 at 83

⁵⁴ *Supra* n 7 at 83

⁵⁵ *Supra* n 7 at 83

⁵⁶ *Supra* n 7 at 83

⁵⁷ *Supra* n 7 at 83

⁵⁸ Brumby J, '2006-07 Budget Speech', Melbourne, 30 May 2006

⁵⁹ www.pokiesaction.org

⁶⁰ *Supra* n 40

costs of poker machine-related harm to individuals and increased crime.⁶¹ The poker machine industry is an economic as well as social burden.

This situation also applies to regional areas. In 1999, a La Trobe University study conducted by Ian Pinge on the economic impacts of poker machines in the Bendigo region concluded that the multiplier effects of pokies are inferior to other industries. Levels of output, income, and employment would all be higher if gaming money was spent in any other part of the economy. The study also found that gaming is having a negative economic impact in the Bendigo region.⁶²

However, it may be financially unattainable to prohibit and not extend gaming machine licences past 2012 as it will cause a significant loss in state revenue as well as enacting a compensation clause which requires the government to pay approximately \$1.2 billion to Tattersall's and Tabcorp if their licences are not extended.⁶³ It must be noted that the gaming machine licences for the next period is until 2032.

As a result, it is recommended that a reduction and withdrawal should start after 2012 with a complete phase out within the following years. As the next gaming machine licences last until 2032, discussion would need to take place between the state government and licence holders to finish this period significantly earlier. At first, a similar system could be adopted to that of Western Australia with gaming machines only situated at a major centre such as Crown Casino. The licences would then be extended which would not enact the compensation clause causing a saving of \$1.2 billion to the government. Following this a complete phase out of gaming machines should take place. This process would solve the location and ease of accessibility of gaming machine issues.

With a prohibition, the opportunity cost of money which people spend on gambling may then be spent on other goods and services.⁶⁴ *Ceteris paribus*, this may have a demand side effect on the economy. It may increase the amount of GST collected which would supplement the revenue lost from the licences of poker machines. This GST collected could be returned from the Federal Government and State Grants Commission back to Victoria. The increase in spending on other goods and services would increase demand which may increase economic growth and have a subsequent positive effect on the economy causing output to grow. This may then create more jobs within the economy. With the creation of new jobs these people may then have an increased disposable income and spend this on goods and services. Thus it would have a roll-on effect to the economy.

No net loss may then occur from the GST as a result. A larger proportion of GST would exist which could be returned to the state. This may then restore the revenue that has been lost from the licences of poker machines. Thus in effect it would lead to an actual no net loss, or possibly depending on other forces within the economy, a positive GST returns from the State Grant Commission than previously. However, it must be noted that an agreement must be in place with the State Grants Commission to realign the total grant provided to Victoria. There is no guarantee that the State Grants Commission will look favourably on a State which sets down to reduce its current source of income.⁶⁵ It needs to be verified if the State Grants Commission and the Federal Government will consider favourably a state which chooses to withdraw or reduce its involvement in poker machine revenues.⁶⁶ The treasurer, Peter Costello, has criticised states for their growing reliance on poker machine

⁶¹ *Supra* n 61

⁶² Pinge I, *Measuring the economic impact of electronic gaming machines in Regional areas – Bendigo, a case study*, Bendigo, Centre for Sustainable Regional Communities, 200

⁶³ Warner M & Whinnett E, 'Battle for more Pokies' Herald Sun, 6 June, 2006

⁶⁴ Victorian Gambling Research Panel 2005 finding, that 20.2 jobs are created in the restaurant/meals industry, compared to 3.2 jobs in pokies.

⁶⁵ *Supra* n 16

⁶⁶ *Supra* n 16

revenue⁶⁷ which may be an indication that discussion could take place on the issue. A strong political/social argument can be made out for a consideration of this.⁶⁸

A strong body of public opinion from the community of Victoria against poker machines is evident. In 2003 the *Victorian Longitudinal Community Attitudes Survey*⁶⁹ found:

- 85% of Victorians agreed that ‘gambling is a serious social problem in Victoria’
- 76% of Victorians agreed that ‘gambling is too widely accessible in Victoria’
- 74% of Victorians agreed that ‘the number of poker machines in Victoria should be reduced’
- 91% of Victorians agreed that ‘there should be more pubs and clubs without poker machines’ and
- 73-78% of Victorians believe poker machines do more harm than good
- 81% of Victorians consider gambling related problems have become worse in Victoria over the past three years
- 51% of Victorians knew someone who had a problem with poker machine gambling

The *Victorian Longitudinal Community Attitudes Survey*⁷⁰ makes it clear that Victorians disapprove of the number of electronic gaming machines in this state. The state government must act by taking an immediate interest in the impact that gambling is having on Victorians and embrace the need for reform of the current gambling regulations.⁷¹

The overall social benefit derived from prohibition will outweigh any revenue lost. ‘We did not have these forms of revenue in this magnitude a few years back, yet now the government is dependent on these revenues. We have created this monster ourselves, without the support of the public. Gaming machines tax is a soft form of revenue which makes it easy for governments. It is a cop out, a decision taken without examining the consequences.’⁷² Consideration has to be given to the stages that occur over a period of time from removal of this social plague that has become so deeply entrenched. It must be asked with strong consideration if the government requires this revenue.

Ireland has a low number of pokie machines and is hardly dependent on revenue derived from gambling. Yet they have one of the strongest economies in the world. Western Australia is an example that you can survive without it and ways to survive must be thoroughly examined. The Netherlands and State of South Carolina in the United States are all currently surviving with the loss of gaming machine revenue.

Prohibition would also create reductions and savings to the government. While government revenue would be foregone, government expenditure would also decrease as a decrease in problem pokie gambling services would occur. Other social benefits such as less counselling, health care and suicide rates would also occur.

Conclusion:

For many people gambling is an occasional benefit in the form of recreation or entertainment. However, those addicted to it end up being huge net losers. The same applies to governments. While public profit or enjoyment from gambling is acceptable taken in moderation, substantial dependence on it implies future costs will exceed its present benefit. Taxation of gambling provides revenues for public purposes that may come largely from windfall profits by operators, or may be justified to

⁶⁷ Gordon J, ‘States are ‘gambling tax addicts’’ The Age, August 6, 2003

⁶⁸ Supra n 16

⁶⁹ Supra n 12

⁷⁰ Supra n 12

⁷¹ Supra n 6

⁷² Supra n 16

discourage gambling. However, promoting or encouraging gambling in order to protect or enhance taxation revenues is not a philosophically, economically or socially defensible strategy because of the wide costs to society embodied in such an approach.⁷³

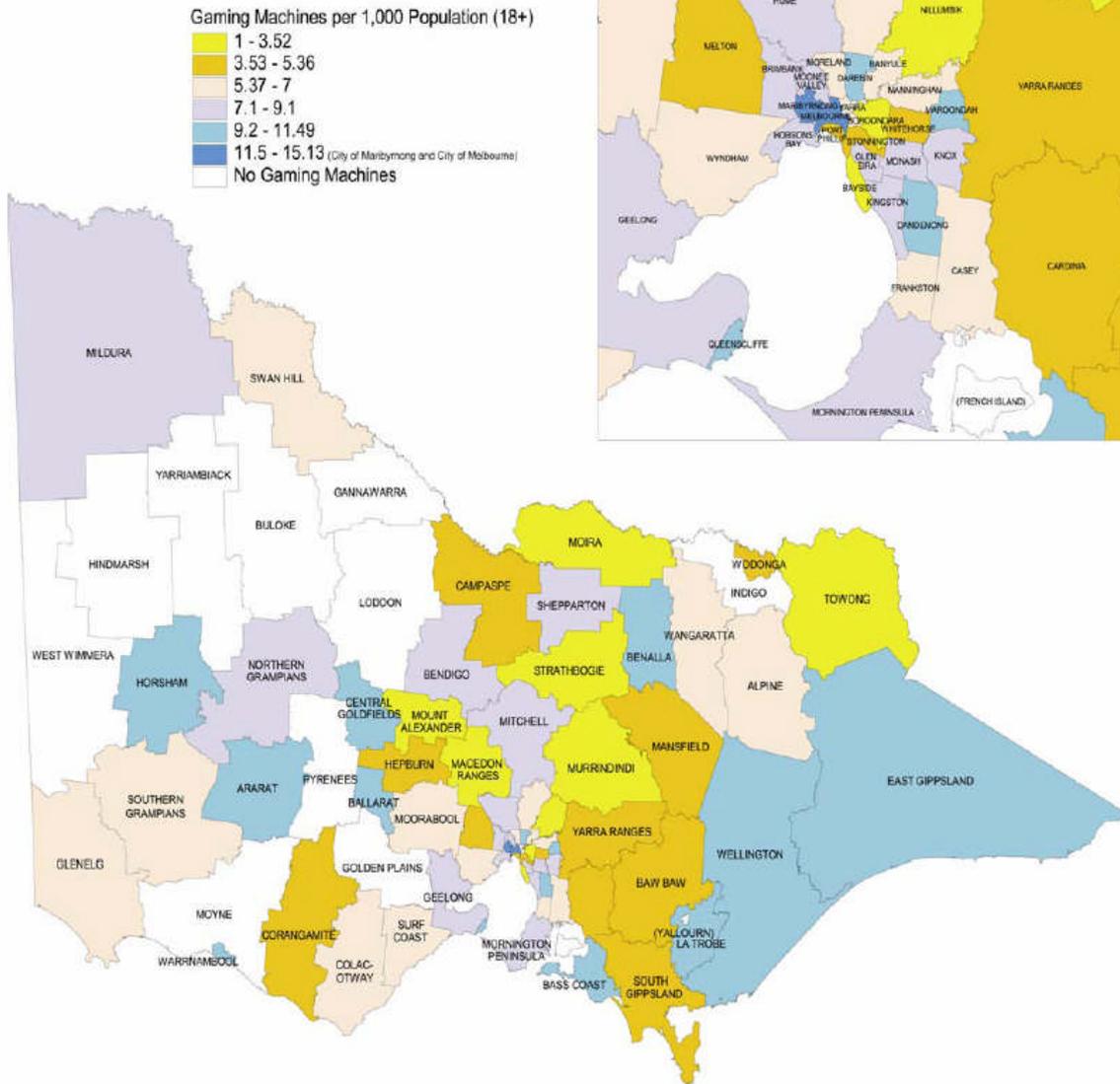
The State Government can no longer afford to ignore the detrimental impact on the community of gaming machines. It must abandon its stance of inevitability in relation to gaming machine taxation and confront the fact that a staged reduction in this form of regressive revenue will be required post-2012 leading to a complete withdrawal of pokie machines.

Victoria is now not in the financial situation of the early 1990's. With strong economic policy and management the government can ensure that Victoria will never enter that situation again. Pokie machines are no longer needed and the social and economic costs far outweigh any benefits to the government and community.

⁷³ *Supra* n 1 at 94

Appendix 1

Number of Gaming Machines per 1,000 adults by Local Government Area, as at 30 June 2005



(Source: Office of Gaming and Racing, *Gaming Machine Licence Arrangements Post-2012 Issues Paper*, Victoria, Department of Justice, 2006 at 25)

Appendix 2
Distribution of Gaming Machines in Clubs and Hotels as at 30 June 2004; and Number of Gaming Machines per 1000 adults in each State and Territory as at 30 June 2004

State/Territory	Clubs – Number of gaming machines	Hotels – Number of gaming machines	Number of gaming machines per 1000 adults as at 30 June 2004
Victoria	13,556	13,704	7.17
New South Wales	74,990	24,166	19.41
Queensland	20,441	17,813	13.26
South Australia	1,724	13,075	12.52
Tasmania	173	2,114	6.32
ACT	4,930	70	20.24
Northern Territory	661	291	6.80

(Source: Office of Gaming and Racing, *Gaming Machine Licence Arrangements Post-2012 Issues Paper*, Victoria, Department of Justice, 2006 at 14)