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Back to the Future:

Submission to the *Joint Select Committee into Future Gaming Markets* by Dr James Boyce, October 2016.

Poker machines are *not* an inevitable part of modern life. The principal defence made for extending the status quo in Tasmania is that 'everywhere' else is just as bad.¹ But the infestation in eastern Australia of the most addictive style of poker machine is not the global norm and need not be the national one. Australia, with 0.34% of the world's population has 21% of the world's high intensity poker machines.² Much of the Western world prohibits 'Australian' style poker machines altogether because they are so dangerous.³ Tasmania is in a unique position to lead the nation in doing the same. There are four reasons why this is much easier and less costly to do than is generally believed.

The first is that Tasmania is the only jurisdiction where there is only one licence holder with one licence expiry time. NSW clubs and pubs hold their licences in perpetuity and other states have scores of licence holders with multiple expiry times. This makes removing poker machines on the mainland a complex administrative, political and legal process. This is not so in Tasmania where there are no contractual or sovereign risk issues involved. The current contract specifies that the Treasurer does not even need to provide a reason for not renewing it.⁴ If the Government gives notice in 2018, all contractual obligations will have been fulfilled and all poker machines will need to be removed from the state within five years. Moreover, the Tasmanian Gaming Commission is specifically mandated to set whatever new restrictions it likes in the interim.⁵ As the former Treasury Secretary, Don Challen, noted in 2003 "About 10 to 12 years from now the government of the day, [can] give them [Federal Hotels] five years notice that they won't be renewing their licence. I think that will put the government of the day in a very strong position indeed."⁶ Even Greg Farrell once acknowledged the right of the government "to do something different in 2018". The only obligation of the Government was to "see its [the current contract's] course through."⁷

The second unique feature of the Tasmanian model is that precisely because the profits from them have been so concentrated in the hands of one company, there will be only one big loser should they be removed. Federal Hotels owns 12 of the top 20 pokie pubs in Tasmania as well as the dominant clusters in the two casinos. They also get the largest share of the profits from pokies in the venues they don't own. The result is that it has been estimated that pubs and clubs not owned by the Federal Group "only end up with 6% of the overall gaming pie."⁸ With over 90% of poker machine losses after tax being transferred to a private family company, it is clear that if the Tasmanian Hospitality Association or the Tourism Council choose to resist the removal of poker machines, they will not be representing either the interests or views of the vast majority of their membership.

The third reason that Tasmania is uniquely placed to achieve reform is because the usual 'prohibition' arguments, that highlight the prospect of an alternative source of supply, do not apply. One of the reasons that poker machines gained acceptance in Victoria and Queensland was because millions of dollars were being spent by their citizens in pokies located in NSW border towns. But this will not occur in the island state where the number of people likely to travel to the mainland just to play the pokies will be very low.

The final reason that it is comparatively easy to remove poker machines in Tasmania is that the budget is less reliant on the revenue that comes from them. It is often assumed that the Government is 'addicted' to poker machine revenue. This might be true in Victoria where the government tax take in 2015/6 is about \$1.1 billion but in Tasmania the decision to give Federal Hotels their licence for free and set a comparatively low rate of tax, means that the state is far less dependent on poker machine revenue. The extent to which pokie taxes currently contribute to the Tasmanian budget bottom line has been significantly exaggerated.

The first point to remember is that in a small state lacking economies of scale, poker machines are particularly expensive to regulate. About \$5 million is spent by the Tasmanian government to collect about \$55 million in gaming taxes and licence fees from Federal Hotels. This compares with about \$10 million to collect the remaining \$820 million in state taxes.⁹ Poker machine receipts also come at the expense of other taxation revenue. Over the period from 1990-91 to 2012-13, while pokies proliferated across the island, the real gambling revenue of the Tasmanian Government only increased from \$65 million to \$83 million. The main reason that the apparent taxation boon provided by the pokies amounted to less than \$20 million in real terms is that the introduction of the machines saw a directly associated decline in revenue from other forms of gambling. The impact of poker machines on other forms of gambling revenue was established by the 2009 Social and Economic Impact Study. This confirmed the predictions of other Tasmanian studies made as far back as 1987.¹⁰

The comparatively employment-intensive racing industry that used to provide millions in tax will receive a significant boost if pokies are removed, as will the hotels that host this form of gambling. The equally employment intensive table gambling, that also provided millions of dollars to the state budget in the pre-pokies era, but now contributes less than \$100 000 a year, will also benefit. Without the competition of pokies, the casinos could be refurbished and table gambling revitalised to the benefit of both the economy and the budget. The two million dollar return from Keno gaming, that is also largely based in hotels, is also likely to significantly increase.

Lotteries already provide as much revenue for the Tasmanian Government as hotel poker machines do, and considerably more than the pokies in the casino.¹¹ The high tax return/low social risk expenditure on lotteries will receive a further boost from the removal of poker machines. Per capita government revenue from all forms of

gambling in WA is actually \$13 a person *higher* in WA than Tasmania despite the absence of high-intensity poker machines in the West mainly because of the higher spend on lotteries.¹²

The removal of the pokies could make it feasible for Tasmania to also once again have its own lottery. In 2008, this Green policy proposal even had support from Paul Lennon.¹³ At the moment a state lottery is probably not feasible but without the pokies it could be. If such a lottery was able to achieve even a small amount of what the Lottery Commission has achieved in WA, it could have a transformational impact on the community.

The budgetary impacts of removing poker machines will also be reduced by the increased revenue flowing from the associated economic stimulus. Because most of the losses come from lower income people, almost all the \$200 million that are currently lost on the pokies will be spent elsewhere. In 2008-9, Tasmania gambling expenditure as proportion of household consumption was 3.4 per cent, the second highest of any state, and only just below NSW at 3.5 per cent and nearly double the WA figure.¹⁴ Low household income in Tasmania means that almost all gambling losses are directly diverted from alternative retail, leisure and recreational expenditure.

Removing poker machines will provide an immediate boost to the small businesses that drive the Tasmanian economy to a greater extent than anywhere else in Australia.¹⁵ The new spend will also be concentrated in the most disadvantaged regions of the state reducing the social and economic divide that is increasingly evident. The increase in employment, based on the study done in 1992, is likely to amount to over 500 jobs.¹⁶ This employment growth will further boost government revenue.

The significant reduction in problem gambling will also provide budgetary relief though relieving pressure on overstretched and costly health, community and criminal justice services. Given the cost of prisons and courts, the reduction in crime alone, which research has directly linked to poker machine addiction, will save many millions of dollars.

Poker machines have only resulted in a small increase in net revenue and may have even harmed the bottom line.¹⁷ The licence arrangements established in Tasmania primarily advantaged Federal Hotels rather than the Tasmanian budget. The state now has an opportunity to benefit from this mistake.

If Tasmanian members of parliament are serious about reducing problem gambling, they should look to the Australian state which has developed the model which has come closest to achieving it.

Western Australia has a viable model for operating electronic gaming machines more responsibly. The state has a complete regulatory and technical package that Tasmania could adopt. WA allows poker machines in Burswood Casino but these machines are not 'Australian' style machines. Like the 'fruit machines' in UK pubs and most other EGMs around the world, WA poker machines require players to make decisions while playing a game. These machines are *not* risk-free but they are less dangerous. If Tasmania was to follow the WA lead, problem gambling would not be eliminated, but it would be reduced. The WA model is not perfect but it would at least be a responsible starting point for further reform.

The WA system is effectively what Tasmania had in place before the December 1993 Gaming Control Act allowed pokies in pubs and legalised the high intensity machines. Before this time, Tasmania did have poker machines but they had to simulate casino games (that is, be actually played) and were confined to the casino. Before they were bequeathed the monopoly licence, Federal Hotels claimed that they never wanted poker machines to leave the casino and no organisation was more articulate or persuasive in documenting the dangers of allowing them to do so. What Greg Farrell senior warned about came to pass and with the imminent expiry of the current arrangements, the State has the opportunity to return to its former policy settings.

Geoff Gallop, the former Premier of WA, has written of the benefits of the WA model which enjoys bipartisan political support. He used the history of the pokies debate in his home state to counter widespread community cynicism about the political process. For decades powerful vested interests pushed politicians to allow 'Australian' style pokies in WA but this pressure was successfully resisted by MPs from across the political spectrum. Gallop's conclusion is apposite for Tasmania, "Nothing is inevitable – politics do matter."¹⁸

The federal system of government, in which responsibility for gambling policy rests with revenue-deprived states, has not served Australia well. States have normalised dangerous pokies policies that are among the most lax in the world through comparing their own dismal performance with the equally awful situation in other Australian jurisdictions. But competitive federalism can also work for the national good. It is as possible for a state to benefit from leading the way to a better future as it is to lose by imitating others destructive path. If Tasmania was to go 'back to the future' by abandoning its failed 23 year experiment in high intensity poker machine proliferation, it would strengthen the case for rational reform everywhere.

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¹ The defence of the status quo relies on dubious interstate comparisons that misrepresent the limited data. For example, Tasmania does *not* have a 'lower than average' number of machines as is often claimed. About half of Australia's poker machines are in New South Wales, mostly in thousands of not for profit clubs. NSW has had the pokies since 1956 (more than three decades longer than the other states) and they are deeply embedded in cultural and political life to an extent unparalleled not just in Australia but the world. It is as misleading to include NSW data in national comparisons as it is the smaller state of WA, where a form of less intensive poker machines exist but only in the casino. The number of poker machines per capita in Tasmania is broadly in line with the national average excluding NSW and WA, and is considerably higher than Victoria. Tasmania has about one machine for every 140 people. In Victoria it is about one machine for every 203 people. Data from Australian Gambling Statistics, 2013-4 and ABS latest population estimates by state and territory.

² www.powerhousemuseum.com/gambling.

³ In Britain, for example, high intensity, 'Australian style' machines are only allowed in casinos. Those in British pubs are low intensity forms of machines that need to be actually played by the gambler, and have much lower losses.

⁴ The contract states that "The Minister may determine not to renew the Rolling Term in his or her absolute discretion and need not give any reason for the determination."

⁵ The contract states that the rolling term will be subject to the "the conditions determined by the Gaming Commission".

⁶ Public Accounts Committee, 2003

⁷ *The Mercury*, 19 April 2008

⁸ John Lawrence, *The Tasmanian Times*, 30 October 2015.

⁹ John Lawrence, *The Tasmanian Times*, 16 May 2012, with updated figures on tax receipts from TGC Annual Report 2014-15. The cited figures do include the Community Support Levy.

¹⁰ As well as the various studies undertaken in 1992-3 referred to in earlier chapters, see Peter Bennett and Associates, *The Impact of Video Gaming Machines on Other Forms of Gambling*, prepared for the Tasmanian Gaming Commission, 1987

¹¹ Tasmanian Gaming Commission, *Annual Report 2014-15*.

¹² In 2012-13, the per capita government revenue from total gambling was \$219.83 in WA and \$206.43 in Tasmania. Australian Gambling Statistics, 1987-2012-13, 30th edition, 248.

¹³ See the *Mercury* 12 March 2008. Paul Lennon resigned soon after so the idea was never followed through.

¹⁴ The 3 proportion of household consumption made up of gambling in Queensland was 2.8%, SA was 2.6% Victoria 3.3%, WA was 1.8% and the ACT was 2%. Average expenditure per adult even in dollar terms was higher in Tasmania than SA or Queensland. Productivity Commission Inquiry Report Volume One, no 50, 26 February 2010, *Gambling*.

¹⁵ Tasmania is the only state where the number of businesses per ten thousand persons is greater than the number of persons employed per thousand persons.

¹⁶ Obviously, updated modeling on the employment impact of poker machine expenditure is urgently needed.

¹⁷ It is also important to note that while *all* forms of gambling taxation combined currently provide about 11 per cent of state taxes, this is only about two per cent of all state government revenue. Tasmanian Gaming Commission, *Annual Report, 2014/5*

¹⁸ Geoff Gallop, WA – the no-pokies state, *Sydney Morning Herald*, 27 December 2011.