
O Displacement of illegal gambling?

As discussed in chapter 2, there has been significant growth in legal gambling over recent decades. Some proportion of this growth is likely to have ‘crowded out’ illegal gambling. This is relevant to the assessment of the costs and benefits of liberalisation in a number of ways:

- One of the benefits of liberalisation is that it may have displaced illegal gambling, and thereby reduced some of its adverse social costs (associated with corruption, organised crime, intimidation and violence);
- Some of the people with gambling problems associated with legally available gambling may have developed these problems with illegal gambling anyway.

However, the notion that legal and illegal forms are substitutes is not always accepted. For example, Hybels (1998) has suggested that legal and illegal modes of gambling may be complements. That is, when gambling is legalised, people may develop a greater taste for it and engage in more illegal gambling too. Hybel presents data to show that the proportion of people engaged in illegal gambling is higher in certain US states that allow three or more forms of legal gambling, compared with states that do not allow legal gambling. While the Commission has concerns about aspects of Hybel’s analysis, the theoretical point is that there may be a degree of complementarity between illegal and legal modes of gambling.

There have been two major forms of illegal gambling in Australia — off-course SP bookmaking and illegal casino gaming (table O.1). Of the two, SP bookmaking has been the larger and more widespread across the country. This appendix briefly examines evidence on how illegal gambling may have changed with the introduction of legal gambling, and the qualitative benefits and costs associated with these changes. It is hard to obtain accurate figures on some aspects of legal gambling, let alone illegal gambling, and so the estimates are necessarily uncertain.

Illegal bookmaking

Participants at the Commission’s Roundtable on crime and gambling considered that illegal bookmaking had not vanished with the TABs:

In NSW ... it is believed that there are some SP bookmakers operating but they cannot be specifically named.

In South Australia, the TAB cut out a lot of SP bookmakers but it is naive to say that they no longer exist. We are aware of a couple ... They exist because of better odds, no tax records, and there's money in it. Now it is more organised. The TAB has taken away the bottom end of the market.

Table O.1 The estimated value of illegal gambling turnover and player losses

<i>Year</i>	<i>Gambling type</i>	<i>Turnover</i>	<i>Estimated player losses^a</i>	<i>Jurisdiction</i>	<i>Source</i>
		\$ million (1997-98 prices)	\$ million (1997-98 prices)		
1950-51	SP bookmakers	2 686	269	VIC	NSW racing officials (McCoy 1980, p. 178)
1950-51	SP bookmakers	5 373	537	NSW	NSW racing officials (McCoy 1980, p. 178)
1961-62	SP bookmakers	4 894	489	NSW	Kinsella Royal Commission 1962 (McCoy 1980, p. 180)
1982-83	SP bookmakers	3 545	355	NSW	Connor Casino Inquiry (Hickie 1985, p. 364)
1982-83	SP bookmakers	1 970	197	VIC	Connor Casino Inquiry (Hickie 1985, p. 364)
1982-83	SP bookmakers	7 879	788	Australia	Connor Casino Inquiry (Hickie 1985, p. 364)
1979-80	SP bookmakers	52	5	QLD	Queensland (1989)
1988-89	SP bookmakers	255	26	QLD	Queensland (1989)
1994-95	SP bookmakers	1 060	106	NSW	McMillen and Kerr (1996, p. 3)
1994-95	SP bookmakers	318	32	VIC	McMillen and Kerr (1996, p. 3)
1973-74	Casinos	3 131	125	NSW	Hickie (1985, p. 178)
1976-77	Casinos	2 233	89	NSW	McCoy (1980, p. 200)

^a McCoy (1980, p. 253) estimated that illegal bookmakers made an average 10 per cent profit on turnover so this factor is applied to estimate player losses. The casino games have relatively high player rates of return (eg around 97.5 per cent for roulette). An estimated player loss rate of 4 per cent has been applied — this is somewhat more than used by Hickie (1985, p. 178). All data is in 1997-98 prices (based on the implicit price deflator for private final consumption expenditure from the National Accounts – ABS Cat. no. 5204.0).

It may seem plausible that the overall decline in illegal bookmaking was due to the introduction of legal TABs in the 1960s, and the fact that, over time, these became highly accessible throughout the community.

However, this is not altogether certain. There was limited change in the estimated value of illegal bookmaking from 1961-62 to 1982-83, well after legal TABs had flourished.¹ McCoy (1980) considers that these illegal and legal forms could

¹ Another difficulty in trying to assess the impact of legal on illegal gambling is estimating what the counterfactual would have been. For example, some might have supposed that illegal

survive together because they catered to different markets and because illegal bookmakers became far more organised with the onset of legal competition. Moreover, TABs did not cater for people who wished to place fixed odds or starting price bets.

There is also some question about the magnitude and nature of the social gains realised through legalisation. It appears that prior to the introduction of the legal TAB, illegal bookmakers were not considered as criminals, but as part of a suburban service (Charlton 1987). The 1984 *Royal Commission on the Activities of the Federated Ship Painters and Dockers Union* (Commonwealth Government and the Victorian Government 1989) found that, by the 1980s, the SP bookmaker was quite different to the small operator of the pre-TAB era. With the introduction of the TAB and increased law enforcement, SP bookmaking had become a highly organised operation throughout Australia. In major cities, territories were marked and distributed among organisations. Most transactions were conducted via the telephone, and violence was sometimes employed to ensure the operation of the system.

Illegal casinos

According to Hickie's (1985, p. 59) account of the New South Wales experience, most of Sydney's illegal casinos began as baccarat schools or clubs, with the transition to illegal casinos beginning after the end of a gang war in 1967-68, and aided by corruption in NSW politics and in the NSW police.

The casinos were often equipped with roulette wheels, dice tables, bar equipment and hostesses in scanty uniforms. They operated openly and, in some instances, a sign on the street marked the locations of the casinos. Celebrities, leading athletes and politicians, as well as a substantial walk-in clientele frequented these casinos. The expenditure (player losses) associated with these illegal casinos appeared to be relatively significant (at around \$100 million in 1997-98 prices — table O.1).

Sydney's illegal casinos went through a boom in the 1970s (Hickie 1985), but started to decline during the late 1970s as a result of increased law enforcement. Illegal casinos were no longer able to protect their immovable assets, and several shut down while others returned to the style of baccarat schools.

gambling, with all of its costs, may have grown very substantially over time if the TAB had not been introduced. Not to take this into account would then underestimate the benefits of liberalisation. However, there is some evidence that the illegal market was relatively stable prior to introduction of the TAB. Thus illegal bookmaking turnover barely changed from 1950-51 to 1961-62 (table O.1).

It is understood that illegal casinos have almost entirely disappeared from Australia. Some ‘schools’ could possibly still exist, but their turnover would be relatively small. Part of the reduction is probably due to the existence of legal alternatives in all jurisdictions, which have driven customers from the illegal to the legal venues. It also appears that tougher policing has been a prime factor in the curtailment of illegal activity.

The implications of displacement of illegal gambling

Trying to quantify the benefits of the displacement of illegal gambling through liberalisation is very difficult:

- the benefits of displacement is *not* the value of player losses, but of the social costs of corruption and crime associated with the illegal gambling;
- factors other than liberalisation seem also to have played a role in the decline of illegal gambling;
- an apparent response to the availability of legal gambling has been the greater penetration of organised crime into the remnant of illegal gambling; and
- the form where the greatest displacement has occurred is probably racing, which is a relatively minor component of overall legal gambling.

However, overall the liberalisation of gambling is likely to have generated benefits by displacing some illegal activity. It is also likely that some of the people who currently experience problems on legal forms would have experienced problems on illegal forms previously — principally on racing.

But the magnitude of these benefits are more a footnote to the true source of gains from the liberalisation of gambling — the substantial consumer benefits from the increased legal availability and diversity of gambling products (which is discussed in chapter 5).