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## 10 Broader community impacts

### Box 10.1 Key messages

- Gaming machines have provided new recreational and social opportunities, attracted more people out of the home, and some gambling revenue has been used to provide better community and club facilities.
- Gaming machines have also altered the nature and feel of clubs and hotels, and can 'crowd out' other forms of entertainment, such as live music and alternative leisure and community activities.
- While growth in gambling limits growth in the retail sector, the effects are small.
- In some states, gaming machines are concentrated in lower income areas. This can compound social problems and cause funds to leak out of the area.
- The impact of gambling in country areas appears to differ little from the impact in city areas.
- Leaving aside crime associated with problem gambling, there is no evidence of significant criminal activity associated with the (legalised) gambling industry. Strong probity rules have contributed to this.
- Gambling may undermine certain community norms and some people may feel aggrieved simply by living in a gambling culture, just as others may feel better, but assessing these effects is difficult.
- Around 70 per cent of Australians (including a substantial majority of regular gamblers) consider that gambling does more harm than good to the community. Only 15 per cent feel it does more good than harm.

### 10.1 Introduction

Beyond the effects on gamblers and the gambling industry itself discussed in earlier chapters, gambling may also create broader community impacts. Questions which arise at this level include:

- apart from the crimes that problem gamblers commit, does gambling bring about greater criminal activity generally, or has the legalisation of gambling actually 'crowded out' organised crime syndicates?

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- how does the ‘gambling culture’ affect the feel, nature and cohesion of society? Is it neutral or even beneficial? Or does it, as some people assert, promote greed and idleness, undermine family values, and act to unravel the social fabric?
  - given that the gambling industry wins from liberalisation, do any industries lose and, if so, what should government do about this?
  - does gambling affect privileged and disadvantaged areas equally, or is the gambling industry, as some people suggest, ‘preying on the poor’? and
  - do communities in country Australia fare any differently to those in the cities?

In this chapter, the Commission explores each of these questions in turn.

## 10.2 Aspects of crime and gambling

Observers often warn that the gambling industry, and particularly casinos, attracts significant criminal activity. In its submission, an interdenominational Christian group called Salt Shakers noted:

Gambling is often associated with organised crime. Stories have already surfaced about the Melbourne Crown Casino being used to launder money. FBI Director William H. Webster said he “knew of no situation in which legalised gambling was in place where we did not eventually have organised crime.” Austin Guigan, chief states’s attorney of Connecticut, has said that in the USA “there is no major bookmaking operation ... which operates without organised crime” (sub. 170, p. 14).

While accepting that certain types of low level crime may occur in and around gambling establishments, several gambling businesses and industry groups argued in submissions that, these days, there is limited criminal involvement in gambling. Indeed, Star City said:

The infiltration of the casino industry by organised crime is now largely a thing of the past overseas and has never been a feature of the Australian industry. Even in Las Vegas which, in its early days was infiltrated by organised crime, [it] is now free of such influences. The myths persist, propagated by cinema and television, like the myths of the Wild West and [the] Australian bush, but the reality has been different for several decades (sub. 33, p. 24).

So, real world crime cauldron or Hollywood hoax — what does the evidence show? In this section, the Commission explores the issues at four levels:

- petty crime in gambling venues themselves;
- ‘street crime’ in the vicinity of those venues;
- money laundering through casinos and other venues; and
- control of gambling venues by organised crime syndicates.

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## Offences committed in gambling venues

People have been caught committing a range of petty offences inside casinos and gambling venues.

Some patrons seek to cheat at table games. For example, they lay bets at roulette tables after the ball has stopped spinning, or move their wagers from one position to another after the game has finished. Some patrons attempt to claim false jackpots. And in more sophisticated (and rarer) cases, groups have been caught filming cards being played by a croupier and, using remote radio communications, telling a player at the table what bet to make!

According to Victoria's State Coordinating Magistrate, Jelena Popovic:

Persons who have been charged with cheating offences at Crown Casino probably make up the bulk of gambling related offenders at Melbourne Magistrate's Court (1998, p.7).

As well, various forms of petty theft may be committed against patrons in gambling establishments, such as:

- stealing chips;
- thieving from unattended bags;
- pickpocketing; and
- stealing items such as handbags and wallets.

There are some obvious reasons why patrons in casinos — and other gaming establishments — might be targets for these types of petty theft. First, gambling venues often draw large crowds of people, most of whom can be expected to have a reasonable amount of cash or chips among their possessions. Second, many patrons consume alcohol whilst gambling, and/or may be mentally 'absorbed' by the game they are playing. They may thus appear to be easier prey for a petty thief. Finally, the focus of activity in a gaming establishment is on obtaining money. People who could be tempted to steal may be more likely to do so in such an atmosphere.

On the other hand, potential thieves also face clear disincentives to commit crime inside casinos, either against other patrons or against the house itself. Casinos have strong security and player monitoring systems, and a police unit is located inside some Australian casinos, which may act as an additional deterrent against petty crime. As Star City Casino pointed out:

There is no evidence to suggest that the crime rate is higher [inside casinos] than comparable gaming and non-gaming facilities. Nor is there any reason why crime rates should be higher in this industry. Certainly, a casino is the worst place from the viewpoint of the perpetrator to do such things given the presence of 1000 surveillance

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cameras and 133 security officers. For this reason the detection rate and thus the apparent crime rate may be higher than for less well supervised locations (sub. 33, p. 23).

Further, in a study of crimes related to the Treasury Casino following its opening in Brisbane in 1994, McMillen and Rolfe (1997) noted that ‘the security system inside the casino is such that the Casino Crime Squad enjoys a higher than average clear-up rate against reported offences’.

Some participants at a Roundtable on Gambling and Crime — hosted for the Commission by the Australian Institute of Criminology (‘the Roundtable’) — said that ‘spotting’ for ‘loan sharking’ often occurs within casinos. Loan sharking refers to the practice of luring or pressuring people with high debts to take out high interest loans. While loans are not (normally<sup>1</sup>) arranged inside casinos, people potentially in need of loans are ‘spotted’ on the premises and put in touch with lenders. One participant suggested that such behaviour is ‘prolific’, at least in Victoria, and another confirmed that patrons at Crown Casino had been approached to take out a loan, although the loan was represented as a house or car loan rather than a loan to finance gambling.

Overall, while some petty crime (and spotting for loan sharking) certainly does occur inside gambling venues, the Commission can not identify any evidence or clear-cut reason to conclude that the crime rate inside them is any higher than that for other venues that draw similar numbers of people. Nor does the Commission have reason to believe that what petty crime there is represents a cost to society that is not already adequately dealt with through existing deterrents and sanctions.

### **‘Street crime’ in the vicinity of gambling venues**

A more common concern expressed about casinos is that they bring about an increase in crime *beyond* the walls of the establishments themselves. This concern relates not just to petty theft. It is also about other forms of ‘street crime’, such as break and enter, burglary offences, (illegal) prostitution and assault.

Several early studies of the effects of introducing casinos in the United States appeared to give credence to this concern. These studies commonly found that, after one or more casinos started in a particular area, the level of street crime in that area

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<sup>1</sup> At the Commission’s public hearings in Melbourne, the Australian Vietnamese Women’s Welfare Association said that it was aware of incidents at Crown Casino in which patrons had been approached and given loans within the casino itself, often after the patron had just suffered significant losses (trans., p. 563).

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went up. Some also found that crime increased in neighbouring areas, although the further the distance from the casino(s), the smaller was the increase in crime. Several case-studies have been made of the effects of large-scale casino development in Atlantic City, following the legalisation of gambling there in 1976. A number have reported that the city's per capita crime rate increased by more than the state average (Miller and Schwartz 1998). Indeed, one study noted that, in the twenty years after 1976, the city had to triple its police budget, while the local population actually decreased by 20 per cent!

However, Miller and Schwartz (1998, p. 134) have pointed out that many studies conducted on gambling and crime fail to consider the effect that casinos have on drawing people into an area:

Studies have found a relationship between casino gambling and street crime, but then again, most of these studies do not take into account that large numbers of tourists and gamblers are temporality in town, presumably increasing both the opportunities to commit crime and to be victimised by it.

In the case of Atlantic City, for example, there are apparently around 30 million tourist visits each year. When the level of crime is judged against the number of people actually in the area, rather than against the number of permanent residents living in the area, the crime rate has not increased.

Similarly, Margolis and Gray (1997) — in a paper commissioned by the American Gaming Association — argued that a number of key empirical studies had failed to document any causal link between gaming and crime. They also pointed out that crime rates had actually fallen in many areas where casinos had been established.

In concluding their review of the literature, Miller and Schwartz (1998, p. 135) stated:

We have not found here any compelling evidence to suggest that there is something unique about casinos that causes an increase in crime in the surrounding area. Of course, with increased people traffic, it is entirely likely that the raw number of crimes will go up. With tourists walking around with large amounts of money and expensive equipment, often vulnerable because of alcohol and their behaviour, it should not be surprising that more crimes will be committed. Most important of all, if large numbers of new hotel and motel rooms are built, particularly if little security is provided and it becomes known that people are leaving valuables (jewellery, cameras, winnings) in these rooms, then an increase in burglary should not be unexpected. None of these arguments, however, is different from those for resort areas and tourist attractions.

Indeed, Stitt, Giacopassi and Nichols (1999) — in a recent paper supported by the US Department of Justice — failed to find evidence that casinos increase crime rates when tourist numbers are taken into account. These authors looked at 'before and after' crime rates for seven US jurisdictions in which casinos have been

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established. While crime rates increased in some of these, they fell in others, with no clear pattern overall. The authors speculated that local factors may be important determinants of whether crime rates increase or fall in an area following the establishment of a casino.

Overall, it is difficult to conclude from the US experience that casinos necessarily lift per capita crime rates, even if crime in the area surrounding a casino does increase.

In the Australian context, as noted earlier, McMillen and Rolfe (1997) have undertaken a study of casino-related crimes in respect of Brisbane's Treasury Casino. The study sought to:

- identify crime incidents within the vicinity of the casino;
- look at regional incidents which could be linked to the casino; and
- compare crime incidents before and after the opening of the casino.

McMillen and Rolfe found that crime in the immediate vicinity of the casino had varied little following the casino's launch in April 1995. The casino works closely with police, and a police precinct has been established within the casino (paid for partly by the casino). Overall, however, crime has not necessarily diminished — just shifted. There was less of a physical police presence in other city areas, and assaults around nightclubs increased over the study period. As well, a development associated with the Brisbane casino has been the growth in pawnbrokers and second-hand dealers in the immediate vicinity of the casino. The authors point out that this, of itself, does not necessarily mean that crime associated with casino patrons has increased. However, it does facilitate more of certain types of crimes, such as shoplifting, by providing more outlets through which petty thieves can dispose of stolen property.

Participants at the Roundtable noted similar trends in some other Australian cities. Policing in and near Sydney's casino has caused crime to shift to other parts of the city. It was observed that, in Sydney, statistically you are least safe if you are a young male, within 500 metres of a hotel, between 1am and 3am — the casino and its precincts are relatively safe. Likewise, a Melbourne Safe City Survey had found that the casino precinct was the second safest area of the city — safer than trams and cinemas, for example.

In summary, the Commission has found no evidence that casinos in Australia bring about more per capita street crime, nor even that crime rates increase in the immediate vicinity of casinos. Indeed, the opposite appears possible.

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This is not to imply that crime does not happen as a result of people gambling. Clearly, where people incur debts they otherwise wouldn't, there is an increased risk that those people will be lured into committing criminal acts. This matter arises most obviously in the case of problem gamblers, and is addressed in chapter 7.

But the absence of substantive evidence does imply that there are unlikely to be major social costs, and may well be no social costs, associated with street crime *attributable specifically to (legal) gambling venues*.

## Money laundering

Graycar and Grabosky (1996, p. viii) define 'money laundering' as:

... the process by which the proceeds of crime ('dirty money') are put through a series of transactions which disguise their illicit origins, and make them appear to have come from a legitimate source ('clean money').

Participants at the Roundtable mentioned that it is more difficult to launder money in Australia than in many other countries because there is a more tightly controlled regulatory framework.

A key element of that framework is the Australian Transaction Reports and Analysis Centre (AUSTRAC). It was established under section 35 of the *Financial Transaction Reports Act 1988* (FTR Act), as part of the Commonwealth Government's response to money laundering, organised crime and serious tax evasion. As AUSTRAC noted (sub. 43), part of its role is to:

- collect financial transaction reports information from the financial sector and some sections of the gambling industry (casinos, totalisator agency boards and bookmakers); and
- disseminate this information to law enforcement and revenue agencies — such information provides a money trail, crucial for identifying the financial dealings of money launderers and tax evaders.

In its view, the FTR Act and other regulatory mechanisms serve to minimise the opportunities for Australia's gambling industries to be used to facilitate money laundering and serious tax evasion.

Under the FTR Act, casinos, totalisator agency boards and bookmakers are classed as cash dealers, and are thereby required to (sub. 43, p. 2):

- report significant cash transactions (of \$10 000 or more), 'suspicious' transactions, and international funds transfer instructions;

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- verify the identity of signatories to any accounts which may be opened and operated with them; and
  - provide a suspect transaction report to AUSTRAC if the dealer suspects it is being used to facilitate money laundering or tax evasion.

The decision to include casinos as cash dealers under the FTR Act in 1988 arose from concerns over the threat posed by organised crime. A report by the Senate Standing Committee on Legal and Constitutional Affairs (1993) recorded that:

Casinos pose a particular risk in this area [of organised crime] because of the international nature of their operations and of the banking system through which they function.

But the same report concluded that obvious ways of laundering money through casinos had been eliminated, largely due to the FTR Act.

Indeed, whether the spending of ‘ill-gotten’ money by criminals at casinos or other venues is strictly ‘laundering’ is debatable. As one participant at the Roundtable explained:

Laundering is the conversion of money from crime, not the spending of money from crime. What about people that are spending money from crime because they like gambling? — this isn’t laundering.

On the same point, AUSTRAC commented that:

There is ... evidence to indicate that criminals sometimes use their illicit funds in a ‘recreational’ sense during the course of gambling sprees at casinos. This would not generally be seen as a vulnerability of casinos in terms of the potential for money laundering. However, it may constitute a money laundering offence in terms of the Proceeds of Crime Act or corresponding State or Territory legislation (sub. 43, p. 5).

And Star City Casino pointed out that:

Successive studies, including one by AUSTRAC, have demonstrated that money laundering and tax evasion through a casino is ineffective and therefore very limited. The casino accounting and payment systems are transparent and do not allow for the translation of large sums of money into a different, unrecognisable form (sub. 33, p. 24).

Nevertheless, participants at the Roundtable offered a range of opinions on the importance of money laundering in the gambling industry:

I’m convinced that cash in hand businesses launder money through clubs and casinos to avoid taxation.

I believe there is a substantial amount of money laundering but it’s from overseas. There are problems with people ... [from] South East Asia, Russia. There is also anecdotal evidence of drug dealers laundering money.



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Betting turnover for greyhounds and trotting races doesn't indicate money laundering. Gallops still have a large turnover but there is no evidence that money laundering is prevalent.

People laundering money through the casino could be of some concern. Casinos don't want to shut off clients that are good for business... It is difficult to tell the level of laundering and how they are doing it. The concern is that they can avoid AUSTRAC by playing at different tables. We are concerned about junkets and money laundering. Junket operators deposit money in casino safety boxes, but there is no record of where the money withdrawn is going — on gambling or into other areas.

Our position is different... Chips outstanding are at low levels. The casino gives you a cheque for winning, the capacity to launder at a casino is impossible. Money is recorded overseas and it's difficult to see how junkets are laundering money.

The Commission is unable to reach any definitive conclusion on the extent of money laundering in the gambling industry. Different parts of the gambling industry appear to proffer different scope for laundering, and hard evidence of the extent of actual laundering activities is thin.

Nevertheless, from the evidence before it, the Commission is of the view that money laundering in the gambling industry in Australia is unlikely to be a major cost to society.

## **Control by organised crime**

As noted earlier, there are long held concerns that organised crime syndicates exert significant influence or control over segments of the gambling industry.

### *Horse racing and casinos*

ACIL, in its submission for major gambling providers (sub. 155), pointed out that, traditionally, concerns about organised crime involvement in gambling in Australia have focussed on race-betting and illegal gaming. It also noted that substantial government controls had been introduced to counter these problems:

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 Frank Hardy's famous novel *Power Without Glory*, the subsequent defamation trial and the 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 [of] betting and racing, and this is one of the reasons for the controls in place today ... (sub. 155, p. 108).

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The clamp-down on off-course SP bookmakers and the emergence of state-run single 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. The limitations on poker machine numbers and the types of venues that may have them has been another key control (sub. 155, p. 112).

ACIL continued by pointing out that, ironically:

The worst crime in recent years has been associated with the unlawful administration and policing of gambling restrictions (sub. 155, p. 112).

Participants at the Roundtable observed that illegal gambling had declined recently:

In NSW, there are no longer any illegal casinos. 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 naïve 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.

In relation to the casino segment of the gambling industry, Star City Casino argued:

The infiltration of the casino industry by organised crime is now largely a thing of the past overseas and has never been a feature of the Australian industry...

The reasons for this are:

- Most casinos are now public companies and subject to all the checks and balances of the securities agencies, shareholders and the media.
- The regulatory controls on operations and on the probity of directors, managers, employees, associates and suppliers and the existence of a very large body of regulators makes this one of the most heavily supervised businesses in the private sector (sub. 33, p. 24).

In fact, to the extent that the operation of legal gambling helps to drive out illegal operations, it is plausible that legalisation has reduced the influence of organised crime.

The Commission has examined evidence of the extent of illegal gambling in Australia prior to, and since, the imposition of stricter controls and the liberalisation of legal gambling, in appendix O. Not surprisingly, hard data on illegal gambling is sparse, and any estimates must be treated with caution.

Based on available estimates, the Commission calculates that, at its peak in 1982-83, spending on SP bookmaking in New South Wales was around \$350 million, and around \$800 million Australia-wide (in 1997-98 prices). This compares to around

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\$100 million in New South Wales by 1994-95. For illegal casinos in New South Wales, the Commission calculates that annual expenditure was around \$125 million in the mid 1970s (in 1997-98 prices), and would be much less, and possibly approaching zero, today. These declines in turn imply less scope for control by organised crime.

Based on available evidence, the Commission believes that the introduction of TAB and legal casino gaming would have displaced some level of illegal activity, but other factors were also at work and the evidence is ambiguous.

And at the same time, an apparent response to the liberalisation of legal gambling, and the police crackdowns on the illegal sector associated with it, has been greater penetration by organised crime in the remaining level of illegal gambling activity (appendix O).

### *Other gambling modes*

Roundtable participants expressed more concern about the potential for organised crime penetration in clubs and pubs with gaming facilities than in casinos:

Those that control the cash flow should go through some sort of clearance, as they do in Victoria. In NSW, regulation is fragmented and needs reform. There is no auditing, and there are possibilities for skimming ... Earnings should be properly reported.

It was also noted that, as more venues with liquor licenses also establish gaming facilities, the opportunities for money laundering and criminal activities increase. The Commission is aware of concerns about the ownership of some venues; for example, hotels. One participant said that there needs to be ‘firewalls’ to stop people with criminal backgrounds gaining gaming licenses.

There was little concern in relation to lotteries, and a number of submissions from lottery organisations, normally government bodies, pointed to their strict controls and vetting procedures.

The Commission received very little information about the informal gambling sector — such as that which takes place in some ethnic communities around games such as mah-jongg, or informal betting in pubs and clubs — and so has no appreciation of any criminal activity that may or may not surround this sector.

### *Conclusion*

From the evidence before it, the Commission is again unable to reach a definitive conclusion on the extent of organised crime in the gambling industry. The

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unlicensed part of the industry would appear to proffer most scope for organised crime involvement. However, this is the case for the unlicensed segments of any industry. In this case, it appears that the extent of illegal gambling operations has declined over recent years, at least partly because of the growth in legal gambling opportunities. Other parts of the gambling industry may also proffer some scope for organised crime involvement, although the scope appears to vary from segment to segment, and hard evidence of illicit activities is again thin.

In terms of the legalised section of the industry itself, however, in the absence of substantive evidence to the contrary, the Commission's assessment is that liberalisation at the very least has not added markedly to problems of control and influence by organised crime.

Australia's strict probity rules are a key reason for this and, as discussed in chapter 16, the Commission considers that these rules need to be maintained and possibly widened in application.

### **10.3 Impacts on the 'nature' and 'feel' of community life**

A further issue is the extent to which gambling changes the 'nature' or 'feel' of life in the community and, to the extent that it does, whether these changes generate social costs or benefits.

Several submissions argued that gambling does have such effects, primarily of the negative type. Gambling was said to have changed the nature of entertainment and recreation for the worse, and to have undermined norms of ethical behaviour that are vital for the functioning and wellbeing of our society — in effect, gambling was seen as unravelling the social fabric. Salt Shakers went as far as to assert:

Gambling offers nothing constructive in our society. It is psychologically addictive, socially corrupting, economically fruitless, politically irresponsible, intellectually irrational and morally bankrupt (sub. 170, p. 4).

However, other participants presented gambling as being essentially just another product, and that its expansion has been driven by the demands of the people themselves, through their role as consumers. For example, in a submission for Tattersall's, Access Economics said:

There is a general acceptance of gambling in Australia, and strong consumer demand. By meeting that demand, Tattersall's and other gambling providers are contributing to the consumer wellbeing of Australians (sub. 156, p. i).

Some of these participants suggested that many of the 'moral criticisms' of gambling simply reflect paternalism or social engineering on the part of the critic,

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and have no relevance for the economic analysis of gambling (and should have no relevance for government policy). Indeed, according to ACIL:

Many organisations, and not just the churches, include a kind of ‘evangelical’ purpose amongst their objectives, and with regard to gambling as with other things, advice is always being offered by well-meaning people about how others should behave ... 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 (sub. 155, pp. 83-4).

On the other hand, the Interchurch Gambling Task Force argued that it is the gambling industry itself, through its expansion, promotion and relationships with government, that is guilty of social engineering:

There’s a very strong argument that the industry itself is trying to socially engineer the culture of our community to divert and attract young people and others to gambling ... The churches have said quite clearly that, in terms of gambling, gambling is part of Australian life. But what we need to do in a sophisticated, mature society is to ensure that addiction — to alcohol, gambling, all these sorts of things — doesn’t become a destructive element so much that the very nature of our community fabric disintegrates (transcript, p. 383).

In this section, the Commission explores these issues under the following headings:

- services provided by community clubs;
- changes in the nature and provision of entertainment;
- changes in behavioural norms and social ethics; and
- psychological costs of living in a society that ‘condones’ gambling.

## **Services provided by community clubs**

The gambling industries, particularly the community club sector, point to a wide range of benefits that they provide to local communities — benefits that are heavily dependant on the level of gaming revenues they derive from their patrons.

Participants from community clubs argued that they contribute significantly to the local region. As well as those in country towns, clubs are typically located in the outer suburbs of the major cities, and provide a range of services that are often poorly provided outside the city centre. In its submission, the Council of Community Clubs of Australia and New Zealand said:

More than nine million people from all walks of life are estimated to belong to the 5,600 plus Australian registered and licensed clubs.

To the individual patron, who may or may not participate in gaming activities, clubs offer a low cost, safe, controlled environment, providing facilities and support in

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keeping with the club's objectives. To the larger community, the existence and continued good fortune of clubs means that provision of financial and in kind support often not readily available from alternative sources within the community, or at a regional or state level. Not only do clubs recycle their gaming surpluses into the community, but also they do so with a clear non-profit focus, responding to specific needs at a local level in a highly efficient and cost effective manner (sub. 63, p. 3).

In a submission to the Commission's draft report hearings, the Penrith City Council highlighted the role of clubs within its community:

There are approximately 30 registered clubs in Penrith. These clubs offer a diverse range of facilities and services from sporting and recreational pursuits such as golf and bowling clubs to clubs that have an entertainment/leisure focus. Registered clubs are an important part of the history and culture of Penrith as they fulfil many of the community service obligations that Council or other service providers are unable to deliver (sub. D244, pp. 1-2).

Clubs receive concessional tax treatment in almost all jurisdictions in recognition of the services provided, and their locally-owned non-profit status.

Clubs Victoria, formerly the Licensed Clubs Association of Victoria, commented on the importance of gambling in the provision of these services and facilities by local clubs:

Gaming revenue returns are essential to create, promote and subsidise the necessary facilities, services and welfare activities (sub. 90, p.6).

Similarly, Clubs Queensland indicated that more than 650 out of the 1100 clubs in Queensland have gaming machines, and that:

These Clubs now rely, to some extent, on the revenue from gaming machines to fund other operations and community service activities. Accordingly, licensed Clubs represent a component of the wider gambling industry, although they should not be considered in the same context as other sectors of the gambling industry, due to the community ownership of Clubs (sub. D273, p. 2).

The Commission accepts that the growth of gambling has enabled community clubs, at least in some jurisdictions, to increase significantly the quality and range of the facilities and services they provide. Indeed, the extra funds diverted to community service projects can be considered a social benefit of gambling, and the Commission has included it in its estimates of the benefits of gambling (chapter 5).

Further, it is interesting to note some differences in the focus of concerns about gambling in states like Victoria, where local (gaming machine) gambling is provided by a private duopoly (Tabcorp and Tattersall's), and New South Wales where local gambling is dominated by the community clubs. In Victoria, concern is

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### **Box 10.2 The role of community clubs**

The Club Managers' Association Australia and the Leagues Club Association of New South Wales (sub. 41, p. 4) said:

Clubs provide social, cultural and recreational facilities to millions of Australians, as well as extensive support to community and welfare groups.

Over 65,000 people are employed in clubs in New South Wales alone. Club employment is not confined to metropolitan areas. Clubs provide employment in regional centres and small country towns.

While banks and government agencies have withdrawn services from rural communities, clubs have continued to expand and refurbish facilities and provide services that are being lost to the local community.

Gaming is a vital component of the operations of most licensed and registered clubs in New South Wales, Victoria, Queensland, South Australia and the ACT.

It is estimated that in 1997 registered clubs in New South Wales provided \$155.1 million in community support. Clubs also invested \$280 million in non-gaming related buildings, facilities and equipment (sub. 41, p. 4).

The concessional taxation treatment and gaming privileges conferred on clubs in some states recognises the important contribution clubs make to members, local communities and regional development (sub. 41, p. 14).

The Associations (p. 14) also said:

In many municipalities clubs relieve the financial pressures on councils to provide social, sporting and cultural infrastructure. This contribution is particularly valuable in provincial towns, regional centres and the rapidly growing urban fringes of sprawling Australian cities.

Of the 1,500 registered clubs in New South Wales, 860 or 57% are located in rural areas. Registered clubs often play a very significant role in rural communities because there are fewer recreational services available.

The Associations also see clubs as providing a broader range of benefits to the local community (p. 14):

In every State Emergency Services Evacuation Plan in NSW registered clubs play a prominent role. In the recent Wollongong flood crisis, clubs in the Illawarra and southern Sydney provided shelter to thousands of evacuated residents and stranded commuters.

regularly expressed about the extent to which gambling expenditure results in money going out of the local community in the form of private profits and high State taxes. For example, Clubs Victoria (sub. 90) criticised arrangements for providing gaming machines in Victoria that 'directed wealth away from the community clubs.' In New South Wales, where the clubs retain most of the gaming revenue, and where they receive concessional tax treatment, concerns about money going out of the region are less prominent. Certainly, in New South Wales, local expenditure of gambling revenues is quite visible in the form of the growing size and improved facilities of the local clubs.

However, from a public policy perspective, the key question that arises is whether it is efficient for governments to ensure provision of these services by encouraging gambling (or providing clubs with a tax concession), rather than by directly funding them. In theory, governments should have a more comprehensive view of the needs of the wider community, and are subject to public scrutiny and review through the democratic process. Against that, some participants expressed scepticism about the reliability of government as an alternative provider of community facilities. These matters are taken up further in chapter 20.

Community attitudes to clubs are typically positive. For example, in a 1998 survey in Queensland of attitudes to the club industry, most respondents responded favourably to a range of questions on the role of clubs (table 10.1).

On *gambling* in clubs, however, the attitude was more ambivalent. While a majority considered that clubs were responsible in their provision of gaming facilities, a majority also considered that the clubs rely too heavily on gambling. This view was stronger among respondents who were members of clubs than among those who were not (CMP Marketing Services 1998, p. 52).

**Table 10.1 Community attitude to clubs: Queensland, 1998**  
per cent

| (n=1713)   | <i>Strongly agree</i> | <i>Partly agree</i> | <i>Neither</i> | <i>Partly disagree</i> | <i>Strongly disagree</i> | <i>Unsure</i> |
|--|-----------------------|---------------------|----------------|------------------------|--------------------------|---------------|
| The Club Industry is vital for funding and provision of local sport  | 51                    | 31                  | 1              | 5                      | 3                        | 8             |
| The growth in the number of Clubs since 1993 in Queensland has been bad for local communities                              | 8                     | 14                  | 3              | 23                     | 33                       | 18            |
| Generally Clubs care about their local communities   | 45                    | 31                  | 2              | 6                      | 7                        | 9             |
| The Club Industry is responsible in their provision of gaming facilities to the community                                  | 29                    | 28                  | 2              | 11                     | 17                       | 14            |
| Clubs have a tax advantage over other hospitality providers such as hotels and restaurants                                 | 19                    | 12                  | 1              | 4                      | 5                        | 59            |
| Clubs provide vital employment and tourism opportunities in local communities  | 54                    | 33                  | 1              | 4                      | 3                        | 5             |
| Clubs provide a safe environment for socialising and entertainment   | 60                    | 26                  | 2              | 4                      | 4                        | 5             |
| Clubs rely too heavily on gambling   | 42                    | 25                  | 3              | 11                     | 11                       | 9             |
| The Club Industry is vital for funding of community bodies such as hospitals, aged care, schools and welfare organisations | 20                    | 24                  | 2              | 11                     | 14                       | 28            |

Source: CMP Marketing Services (1998) p. 73.



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## Changes in the nature, provision and utilisation of entertainment facilities and leisure activities

Some participants expressed concern about the changing nature of entertainment venues, such as hotels and clubs, or of the difficulties of providing ‘healthier’ community leisure activities in competition with gaming venues.

The large scale placement of gaming machines in venues can change the ‘feel’ or ‘atmosphere’ of a venue itself, by:

- visually crowding or, to some eyes, ‘polluting’ the venue;
- reducing space for other forms of entertainment in the venue, such as pool tables, dance floors or stages for bands;
- providing a different background noise or hum; and
- reducing the amount of chatter and interaction between patrons, as people will often be playing gaming machines solo rather than ‘leaning against the bar’.

Greater expenditure within venues of gaming machines can also ‘crowd out’ other forms of entertainment that might be provided. For example, the Jazz Co-ordination Association (JCA) of NSW reported on how the spread of gambling opportunities had adversely impacted on the live music scene. The JCA recently instigated an industry wide survey through the NSW Musicians’ Union, to assess trends in live music employment opportunities. It found that:

... the biggest single factor nominated in loss of employment was the installation of gambling facilities [in Sydney’s pubs] ... The question which asked if the musician was aware of bands replaced by poker machines brought an affirmative answer from around 33 respondents [31 per cent]. Is it part of the image Sydney wishes to project that its only pub recreation is gambling? Local music is a vibrant presence in the world’s great cities. On present trends, Sydney will soon have none (sub. 159, pp. 7-9).

Further, by soaking up patrons’ leisure time and discretionary cash, gambling can lessen the demand for other community activities, with possible implications for the nature and feel of community life. As Moreland City Council stated:

We would have a very vibrant lively community and we [in the Council] feel thwarted by the fact that we go to enormous efforts to provide all sorts of other things for people to do and value social capital, community participation, to address social isolation, and we have these [gaming] venues that seem to bring in the opposite result from the sort of values that we’re trying to create in building social capital.

I think on a number of levels, [gambling] is misleading in terms of what gain you would get from it in terms of social connectiveness, that while there are other people around you, it’s actually a very solitary kind of activity and there are other beneficial ways of connecting into our community other than going to one of those venues.

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We do the best that we can to promote our services, to identify the services and create them and so forth, but when you look at the concentration [of gaming venues in the area]..., there's a heck of a competition there for people's attention and I think it takes more to get people involved in some kinds of other leisure activities than to simply walk into a hotel that's down the street. So there is a sort of mismatch between what you can get people involved in (transcript, 1293).

Clearly, to the extent that the nature of entertainment venues change, those who preferred the venues in previous form, including the type of entertainment they provided, will be worse off. This is no doubt the reason that some venues have decided not to introduce gaming machines, as certain clubs in Port Augusta have done (box 10.9 in section 10.5).

Likewise, people who would otherwise be able to enjoy the services provided by alternative leisure or entertainment facilities, and enjoy the camaraderie involved, will be disadvantaged to the extent that the growth of gambling diverts potential patrons away from other facilities and activities, and thus renders them less viable or attractive.

On the other hand, many of those who prefer the new facilities or the new activity of gaming will be better off.

Further, it should be recognised that many people may decidedly appreciate the ease of accessing gaming machines — which require 'simply [a] walk into a hotel that's down the street', as Mooreland Council put it — and some may simply not want to participate in 'community' activities. Indeed, Clubs Victoria indicated that one of the attractions of gaming for some people is that it actually is 'simple, unstimulating and non-interactive' (transcript, p. 1309).

In any case, there is evidence that the placement of gaming machines in certain venues has enticed a wider range of people, including otherwise housebound people, to travel to, utilise and enjoy the facilities and the particular type of social interaction they allow. In the various surveys of both metropolitan and regional consumers in Victoria conducted for the VCGA, people were asked what they saw as the benefits provided by local gambling facilities. According to the study on the *Impact of Gaming Venues on Inner City Municipalities*:

... EGM venues have almost achieved the status of community centres - pleasant places to go to meet and socialise with friends for reasons that have little or nothing to do with EGM usage or where EGM usage is a minor feature of the range of reasons the venue is used. It is also apparent that the comfort and ambience of such venues is very attractive and that good food, in particular, is an incentive.

The *impression* is that it [EGM usage] is largely a new audience, that it is a previous 'stay at home' audience is now a 'going out' group. This appears to be especially so in the case of the unemployed, women, the newly retired and elderly, NESB migrants and

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the disabled for whom there are very few non gambling based community social and cultural alternatives and for whom community centre services have been reduced in recent years (MIAESR, DHSA and NIEIR 1997, p. 168).

And in a study of women with gambling problems, Brown and Coventry (1997, p. 70) reported the attractiveness of the venues as:

... an escape from reality to a place where they could feel safe and ‘belong’. Attention given by friendly staff and gaming venue managers can alleviate feelings of loneliness and isolation; staff smile and appear to go out of their way to pay attention to patrons. ... it is significant that the venues were perceived as pleasant environments in which women could, in turn, be supported or served by gaming venue staff.

How should the benefits for those who prefer the new, post-liberalisation style of venues and range of activities be weighed against the costs for those who preferred the style and range that previously existed?

Normally, shifts in the nature of products and activities available to the community, in response to changing consumer demand, relaxed government regulation or new innovations, are not seen as detrimental. Rather, they reflect a re-organisation of market activities to best meet the overall pattern or range of consumers’ preferences. This does not imply that everyone’s preferences will be perfectly catered for. What it does point to, however, is that such changes are likely to increase the fulfilment of people’s preferences *in aggregate*. As Access Economics, in a submission for Tattersall’s, said:

The vast majority of Australians have enjoyed gambling in moderation for decades. To the extent that they have increased their participation in some forms of gambling in recent years, this mainly represents the free exercise of consumer choice in response to changing product availability and innovation in the gambling market (sub. 156, p. i).

And the Australian Hotels and Hospitality Association added:

... this new product [gaming] represents a new and popular form of entertainment. Just as television did before it, and electronic games, and credit cards, and the internet, they all effected cultural change (sub. 154, attachment 3, p. 8).

So, while recognising that some people will lose out from the process of ‘structural adjustment’ within the entertainment and recreation sphere, the Commission does not see this in itself as embodying a net social cost.

## **Changes in behavioural norms, social ethics and personal preferences**

Another concern is that the expansion of gambling has changed, and is continuing to change, the behavioural norms and social ethics of society that influence and underpin people’s broader behaviour.

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Several submissions suggested that gambling can, among other things, undermine the work ethic, family values, healthy lifestyles, altruism, volunteerism and trust. For example, the Lutheran Church of Australia said:

Gambling encourages greed in people which results in a hard-hearted spirit and lack of concern for other people. Gambling connects greed, self-focus and lack of concerns for others — that is its nature (sub. 85, p. 1).

Salt Shakers added:

The promotion of gambling as a way of increasing one's wealth without effort is detrimental to the value system of our nation because it is based on greed at other people's expense (sub. 170, p. 2).

The Festival of Light (SA) referred to a concern that gambling “corrodes the initiative, inventiveness, diligence and thrift that are requisite for economic success in a free society” (sub D213, p. 4):

Likewise, the Interchurch Gambling Task Force stated:

... gambling corrodes social capital. It actually runs down civil society. It actually spends a lot of the trust, the values that say hard work and saving is preferable to a quick return on the pokies or on the roulette wheel or at the lottery. Whilst those pleasures are entirely acceptable and we're not trying to prohibit them, they also have cultural effects. They actually have an impact on society (transcript, p. 1645).

And according to the National Council of Women of Victoria:

Adolescents and their younger siblings are receiving sad messages from the modeling of many parents — that chasing that win is more important than the school or birthday outing; that time sitting in front of a machine and feeding it coins and notes by the hour is more important than spending time as a family at home or going out for a walk or to kick a ball; and that it's OK to lie about where you have been and where you got the money from (sub. 140, pp. 6-7).

From an economic viewpoint, behavioural norms and social ethics are of interest as they feed into people's preferences and, ultimately, have an impact on their actual behaviour. For example, societies in which people have a strong work ethic are likely to produce more than societies that do not. And there is likely to be more violence in societies in which violence is an accepted way of settling disputes and grievances than in those in which it is not ethically condoned. Obviously, a strong work ethic might be seen as leading to a 'good' outcome, at least up to some point, whereas a norm of violence might be seen as leading to a 'bad' outcome.

To what extent should the way that activities, such as gambling, affect people's norms and ethics be the subject of policy action by governments?

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If governments could put appropriate controls in place to deal with any and all socially deleterious behaviour, such as violence, there would be no need for them to interfere with people's norms and ethics.<sup>2</sup>

In practice though, it is not possible to perfectly regulate people's activities and actions. For example, it is costly to detect and penalise all perpetrators of violence, and current sanctions do not deter all violence, so much violence continues.

This implies that there may be a case from the viewpoint of economics (broadly understood) for governments to influence people's norms and ethics, or at least to remove or curtail influences that distort them, to avoid bad social outcomes. For example, it is likely to be more efficient to inculcate non-violent attitudes in children, than to incarcerate them for crimes of violence when they are older.

This in turn implies that such matters potentially should be incorporated into policy advice provided to governments.

However, there is little agreement as to which norms or ethics are beneficial and which are not, and how beneficial or deleterious they might be. Most people would probably agree that a norm of violence was unlikely to be constructive for a society. But not everyone would agree that either 'family values' or 'the work ethic' — however they might be defined — are meaningful or appropriate norms or ethics for life in the next century. Likewise, some people might see trust in government and social institutions as a good thing *per se*; others might suggest that it is better that people form *accurate* perceptions about the level of trust those institutions warrant, rather than placing unwarranted (high) trust in them.

Further, it is difficult to determine the extent to which gambling may lead to an erosion in particular (good) norms or ethics and, in turn, the impact that erosion would have on community wellbeing.

There has been some research overseas on the effects of changes in norms, ethics and preferences on social outcomes. For example, Titmus (1971) analysed the effect of crowding out altruism with self-interest in the case of blood donations in the United States compared with Britain, and Putnam (1993) has examined the effects of different civic-traditions on various social and economic outcomes in Italy. Both these studies suggest that changes in people's norms, ethics and preferences can have substantive effects. Further, a survey of 100 charities in Ireland found that, after the introduction of the Irish Lottery: '... in many instances, the public were

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<sup>2</sup> This is akin to the argument, in relation to environmental protection, that if perfect 'end-of-pipe' regulation and controls could be put in place to ensure that no undue pollution occurs, there would be no need for 'upstream' regulation of businesses inputs or processes, such as mandating 'clean' production technologies

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more reluctant to donate, and desired some form of return for their donation such as a novelty trinket or item such as a pen.’ (Kiernan and Harvey 1993, cited in DFSAIA 1995, pp. 63-4).

What about gambling in Australia? At its initial public hearings in Melbourne, the Commission heard that the growth in gambling is undermining traditional arrangements for pooling funds within some ethnic communities, which is creating tensions and potentially leading to a breakdown in trust and community relations (Broadmeadows Care, transcript, p. 559). At the public hearings on the draft report, Moreland City Council (transcript, p. 1293) stated that gambling had displaced other community activities which could enhance what it termed ‘social connectedness’ (see above).

But while several participants asserted that gambling is having deleterious effects on norms, ethics and preferences, the Commission received little specific evidence on, for example, whether gambling had reduced the level of volunteerism in Australia, or how it has affected community norms. Further, the Commission is unaware of any comprehensive or robust study that looks broadly at the effects of gambling on norms, ethics or social cohesion.

This is not entirely surprising, as such concepts are quite nebulous and intangible, and attributing changes in them to one factor among many possible causes would be hazardous. This is not to say that these impacts are not real or do not matter, just that they are difficult to delineate and measure.

In the past, governments have restricted gambling largely because of community concerns about these types of effects. More recently, governments have faced competing incentives to restrict gambling, and these issues appear to have been given (relatively) less weight than they previously were. However, the pervasive community concerns about gambling do not appear to have diminished as liberalisation has progressed.

Overall, while the Commission recognises that gambling may indeed generate (potentially substantial) social costs through its effects on people’s norms, ethics and preferences, it is unable to determine just how significant or pervasive these impacts may be.

### **Psychological costs of living in a society that ‘condones’ gambling**

Related to the foregoing is that some people may feel bad just from living in a society that ‘condones’ gambling or, at least, from living in a society in which gambling is seen to be encouraged and expanding, even though they need not and do not engage in gambling themselves. For them, a gambling venue may be a sign

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of a degenerating society and may cause them feelings of regret, frustration or ‘disutility’. Glitzy gambling advertisements, and negative reporting of gambling and gambling-related problems in the media, may add to these feelings. Such feelings would not be unlike those feeling some people experience in relation to the existence of prostitution or, in a different way, poverty in our society. They are the converse of the pleasure or satisfaction some people gain just from knowing that a place like Kakadu exists and is protected, even though they may never visit it.

On the other hand, some people may gain psychological benefits from the presence of gambling. They may feel that it adds to their entertainment choices, even though they may not take up those choices. People with libertarian ideals may also feel better just knowing that gambling is not prohibited. And some participants suggested that, as a result of the promotion of gambling by governments in some states recently, people could gain an almost patriotic feeling by gambling (or the absence of one by not doing so).

To the extent that people feel good or bad about gambling’s presence and/or prevalence in society, the existence of gambling can be said to result in ‘external psychological benefits or costs’ on them. Because these impacts are ‘externalities’<sup>3</sup>, they are *potentially* relevant matters for government policy.

It is difficult to quantify the extent to which individuals incur these types of impacts from the existence of gambling, and how broadly they occur within the community. Surveys on public perceptions to gambling may provide an indication. however.

### *Public perceptions of gambling*

As part of the Commission’s *National Gambling Survey*, participants were asked whether they agreed or disagreed with the statement “gambling does more good than harm for the community”. The results are set out in tables 10.2 and 10.3.

Most people thought gambling harmful overall. Around 70 per cent disagreed (most disagreed ‘strongly’) with the statement, compared with only 15 per cent who the agreed (most only ‘slightly’). Not surprisingly, regular gamblers were less critical of the effects of gambling than non-regulars, who in turn were less critical than non-

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<sup>3</sup> These impacts are said to be ‘external’ because they are external to the parties that generates them — the gambling industry and its patrons. As discussed in chapter 4, external benefits and costs are relevant for the analysis of government policy as they cannot be adequately captured and dealt with through normal transactions among people and businesses in the market place. Psychological costs incurred by gamblers from their own gambling are not external costs.

**Table 10.2 Perceptions of the net benefits of gambling, by type of gambler<sup>a</sup>**  
per cent

|             | <i>Strongly agree</i> | <i>Slightly agree</i> | <i>Neither agree nor disagree</i> | <i>Slightly disagree</i> | <i>Strongly disagree</i> | <i>Don't Know/ Can't say</i> | <i>Total</i> |
|-------------|-----------------------|-----------------------|-----------------------------------|--------------------------|--------------------------|------------------------------|--------------|
| Regular     | 6.1                   | 17.3                  | 14.6                              | 27.8                     | 33.2                     | 1.1                          | 100.0        |
| Non-regular | 3.1                   | 11.8                  | 13.4                              | 25.9                     | 43.9                     | 1.8                          | 100.0        |
| Non-gambler | 5.1                   | 5.6                   | 4.4                               | 14.0                     | 68.7                     | 2.3                          | 100.0        |
| Australians | 3.8                   | 11.2                  | 11.9                              | 23.9                     | 47.4                     | 1.8                          | 100.0        |

<sup>a</sup> Based on the question: What do you think of the statement that overall, gambling does more good than harm for the community?

Source: PC National Gambling Survey.

gamblers. Nevertheless, even among regular gamblers, a significant majority disagreed that gambling does more good than harm for the community.

The responses across states were moderately consistent (refer to table 10.3). South Australia (85 per cent) recorded the highest proportion of respondents that disagreed with the statement, with 64 per cent of South Australians strongly disagreeing. More than 70 per cent of respondents in New South Wales, Victoria, Tasmania, the Australian Capital Territory and the Northern Territory also disagreed with the statement. People in Queensland and Western Australia disagreed to a slightly lesser extent, the lowest score being 64 per cent in Queensland. This represents a 20 per cent spread in the number of respondents that disagreed with the statement in different states, although this figure drops to around 12 per cent when the highest and lowest scores are excluded.

**Table 10.3 Perceptions of the net benefits of gambling, by state<sup>a</sup>**  
per cent

|           | <i>Strongly agree</i> | <i>Slightly agree</i> | <i>Neither agree nor disagree</i> | <i>Slightly disagree</i> | <i>Strongly disagree</i> | <i>Don't Know/ Can't say</i> | <i>Total</i> |
|-----------|-----------------------|-----------------------|-----------------------------------|--------------------------|--------------------------|------------------------------|--------------|
| NSW       | 3.4                   | 10.5                  | 12.5                              | 21.6                     | 50.8                     | 1.2                          | 100.0        |
| VIC       | 3.0                   | 12.5                  | 10.3                              | 27.5                     | 44.4                     | 2.2                          | 100.0        |
| QLD       | 6.2                   | 13.2                  | 14.8                              | 24.4                     | 39.4                     | 2.0                          | 100.0        |
| SA        | 3.0                   | 6.9                   | 4.0                               | 20.6                     | 64.0                     | 1.6                          | 100.0        |
| WA        | 4.0                   | 11.3                  | 14.9                              | 22.6                     | 44.8                     | 2.5                          | 100.0        |
| TAS       | 2.8                   | 8.3                   | 8.9                               | 28.3                     | 49.6                     | 2.2                          | 100.0        |
| NT        | 2.4                   | 8.1                   | 17.2                              | 23.0                     | 47.9                     | 1.5                          | 100.0        |
| ACT       | 2.2                   | 12.6                  | 11.2                              | 28.9                     | 41.5                     | 3.6                          | 100.0        |
| Australia | 3.8                   | 11.2                  | 11.9                              | 23.9                     | 47.4                     | 1.8                          | 100.0        |

<sup>a</sup> Based on the question: What do you think of the statement that overall, gambling does more good than harm for the community?

Source: PC National Gambling Survey.



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New South Wales was in the middle of the group. This is surprising given that poker machines were introduced there in 1956, long before the other states. This tends to suggest that people have not become more accepting of gambling with lengthened exposure to it. On the other hand, gaming machines are also far more pervasive in New South Wales than in other states, potentially confounding this conclusion.

The results of the Commission's survey are largely in line with the results of some other domestic surveys on people's perceptions (box 10.3). Three of the four Australian studies reported in the box found clear majority agreement with the view that gambling has adverse impacts on society (or words to that effect), the other study being inconclusive.

The results of a New Zealand survey also suggest broad concerns towards gambling (box 10.4), whereas Americans appear much less concerned about the community impacts of gambling and, in a number of cases, are reported to generally approve of gambling in their communities (box 10.5). That said, the Commission has not closely vetted these foreign studies.

**Box 10.3 Perceptions of gambling by Australians in other surveys**

- A study on *The Impact of Gaming Venues on Inner City Municipalities* in Melbourne found that individuals reacted more negatively than positively to the impact of gaming machines (MIAESR *et al* 1997). There was little support for claims that gaming machines achieve good rather than bad impacts, except from the hotels and clubs directly benefiting from them. The number of individuals who claimed their lives had been improved by 'wins' was relatively small and it appeared that many of them lost this money through renewed 'investment' in gaming machines.
- A survey of 58 South Australian local councils found that 82 per cent thought that the impact of gaming machines on their community was negative (sub. 171). About 30 per cent thought there was a 'severe negative impact' on their community and 50 per cent said that there was a 'moderately negative impact'. About 20 per cent of councils had received reports from members of their community on the negative impact of gaming machines. About 80 per cent of councils thought that the impact of gaming machines on the community requires greater analysis.
- A VCGA commissioned *Second Positive and Negative Perceptions of Gambling Survey* (Dickerson and Market Solutions 1997, p. 71) found *strong* agreement amongst survey respondents that "gambling is a serious social problem" and that "gambling related problems have got worse over the last four years". However, there was moderate agreement amongst them that "on the whole, gambling is an acceptable activity in our community".

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### Box 10.3 continued

- The Boroondara Gambling Impact Study found that community attitudes to gambling are ambivalent (sub. D207). Many interviewees were not against gambling on moral grounds and considered gambling a matter of free choice. However, some interviewees suggested that gambling activity had adverse effects on Victoria and the local community. The facilitator of a migrant womens' support group reported that group members considered gambling to be 'bad for society'. Casinos were seen as anti-social and unsavoury: 'Interaction is with money and not people'.

### Box 10.4 Views across the Tasman

- A New Zealand survey of *People's Participation In and Attitudes Towards Gambling* found some forms of gambling to be 'socially undesirable' (Department of Internal Affairs NZ 1996). Two thirds of respondents considered telephone games to be socially undesirable and about half considered betting with bookmakers to be socially undesirable. Slightly over one third thought casinos, gaming machines, sports betting, and overseas lotteries were socially undesirable. In addition, almost two thirds of respondents wanted gambling specially regulated. That is, gambling should be regulated differently to other businesses and forms of recreation. The main reasons were to prevent criminal activity, to make profits fund worthy causes, to protect people who could be harmed and to make sure gaming is run fairly.

### Box 10.5 Perceptions in the USA

- The *Gambling in America* survey found that 63 per cent of adults surveyed approved of legalised gambling but have reservations about the impact of legal betting on sports events and the effect of casinos on local communities and youth (Gallup Organization 1999). There was *moderate* agreement amongst them that "on the whole, gambling is an acceptable activity in our community".
- A US survey on *What Iowans Say About Gambling* found that opposition to gambling depended on certain demographics (The Iowa Stater 1997). Women surveyed were more likely to oppose gambling (37 per cent) than men surveyed (25 per cent). About 40 per cent of those over 30 years of age and 11 per cent of those 18 to 29 years of age opposed gambling.
- A US survey of *Casino Entertainment* found a high level of acceptance of gambling by the American public (Harrah Entertainment 1997). Ninety two per cent of survey respondents indicated that casino entertainment is acceptable for themselves and others. Seventy per cent of Americans said that casino gambling can be an important part of a community's entertainment and tourism offering. Eighty-one per cent of Americans said that casino gaming can be a 'fun night out'.

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#### Box 10.5 continued

- A questionnaire on *Attitudes of Community Leaders in New Casino Jurisdictions Regarding Casino Gambling Effects on Crime and Quality of Life* in the United States found that:
  - 65 per cent believed that casinos had a positive effect on the quality of life in their community;
  - 77 per cent believed that casinos benefited their community; and
  - 59 per cent were in favour of a casino being in their community.

The survey interviewed community leaders (majors, members of the city council, leading members of the business community) or people who work in areas (banking, law enforcement, social services) which provide an insight into the positive and negative effects that casinos have on communities. The study noted that the attitudes of community leaders may be swayed by them playing a prominent role in permitting casino gambling in their community (Giacopassi et al 1999).

#### *Are there psychological costs?*

The results from the Commission's survey provide a possible indicator of the psychological effects of gambling. The results would directly convert into psychological costs to the extent that people's perceptions about gambling affect the way they feel.

However, negative perceptions elicited from surveys do not automatically translate in psychological costs from the existence and prevalence of gambling. This is because people on a day-to-day basis may not give any particular attention to gambling and its effects.

Further, while Australians generally hold negative perceptions about the impacts of gambling, survey evidence also suggests that people may also incur adverse psychological costs were it to be curtailed. Among respondents to the *Second Positive and Negative Perceptions of Gambling Survey* (Dickerson and Market Solutions 1997, p. 71), for example, there was moderate agreement amongst them that 'on the whole, gambling is an acceptable activity in our community'. Respondents to several of the US surveys also agreed with this or similar notions (probably reflecting, at least in part, a greater prevalence of libertarian views in the United States than in Australia).

Overall, the Commission recognises that some people probably do experience some psychological costs from the existence of gambling, and that these constitute a form of social cost. However, although it is unable to determine how extensive they are,

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it does not believe that they would be significant compared to the other costs and benefits that flow from gambling.

## **10.4 Sectoral impacts of the growth in gambling**

The dramatic increase in expenditure on gambling over the last five or so years in Australia represents a significant shift in resources within the economy, and inevitably involves benefits for some industries and costs for others.

The benefits to the gambling industries, their suppliers and governments are clear enough. Chapter 2 has documented at length the growth of gambling in Australia — the industry now employs over 36 000 people and has an annual revenue of over \$11 billion. State and local government now receive almost \$4 billion per annum in gambling taxes.

As discussed later, industries that provide complimentary consumer products and services to gambling, such as clubs, dining and accommodation venues, have also benefited.

On the other hand, industries that compete with gambling for the consumers dollar will have experienced contractionary effects, although this loss has been spread across a wide range of consumption items, and the impact has been softened by the long-term decline in savings in Australia.

In submissions to this inquiry, participants raised concerns about the effects of the rapid expansion in expenditure on gaming machines and casinos on two specific areas:

- the retail sector; and
- traditional forms of gambling, such as racing and lotteries.

Some participants also advocated government action to halt or reverse these effects.

In this section, the Commission examines the impact of new gambling on these other areas and looks at the implications for government policy.

### **Impact on the retail sector**

A number of studies have been conducted into the impact of gambling liberalisation on the retail sector. Many of these rely on anecdotal assessments by retailers themselves. Others involve broader economic assessments and modelling.

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### *Survey and anecdotal evidence*

Over the period 1995 to 1997, the Small Retailers Association of South Australia conducted several surveys which, among other things, asked retailers for their perceptions of the impact that gaming machines were having on their businesses. Box 10.6 contains the results of the relevant survey questions.

These surveys consistently indicated that around 2 in 3 small businesses considered that they had been adversely affected by the introduction of gaming machines. The latest survey indicated that almost 40 per cent reported a major negative impact, with a similar number reporting a minor negative impact.

In 1999, the Local Government Association of South Australia surveyed local governments about their views on the impact of the expansion of gambling. The survey found that:

A significant majority (82%) believe that the impact of gaming machines on their community has been negative or severely negative. Significant [adverse] impacts have been observed by Councils on community/sporting clubs (unable to compete against clubs with pokies - 68% indicating medium or higher impact), local businesses (65% indicating medium or higher impact) and decline in local sponsorship (60% indicating medium or higher impact) (sub. 171).

In its submission to this inquiry, the Logan City Council in Queensland, where gaming machines have increased from 74 in 1992 to 881 by 1997, said:

... in the Council's ongoing liaison with gaming venues, small business owners and community welfare organisations, we have become aware that concerns about both the social and economic impact have been growing. ... Council suspects that there has been an impact resulting from changes in the way the community is directing its

#### **Box 10.6    The impacts of gaming machines                   on small retailers in South Australia**

January 1995: When asked the question "Has the introduction of the 'pokies' affected your turnover?", 67.4 per cent reported a decline, this decline averaging 7.8 per cent.

October 1995: When asked "What impact has the Pokies had on your turnover?", 90 per cent of food retailers, and 81 per cent of non-food retailers, reported a decline.

May 1996 When asked the impact of gambling in their business, 67 per cent reported a considerable impact, and 17 per cent reported some impact.

September 1997: When asked whether gambling had a positive or negative impact on their business, 38 per cent reported a major negative impact and 39 per cent reported a minor negative impact.

*Source:* Small Retailers Association of South Australia 1995a, 1995b, 1996, 1997

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discretionary income. However, these links are hard to substantiate because of the complex mix of factors involved (sub. 66).

Several Victorian participants, notably the City of Greater Dandenong (sub. 82), the Darebin City Council (sub. 150) and the Maribyrnong City Council (sub 39), expressed similar views. The latter said:

Local traders have also increasingly provided anecdotal reports of decreasing demand attributed to the impact of EGM gambling (sub. 39, p. 1).

...Council is particularly concerned at the impact that high levels of gambling expenditure may have on local economic activity and is seeking to develop an understanding of that impact (sub. 39, p. 12).

The Boroondara Gambling Impact Study (sub. D207, p. 4) also identified perceptions that businesses were suffering due to a redirection of funds to gambling, although it noted that this was by no means unequivocal or evident across the whole of the municipality.

These results need to be treated cautiously. As most of the participants acknowledge, much of this evidence of adverse effects of gambling liberalisation on other retailing activity is anecdotal. Given the recent visibility and profile of gambling in the community, it would not be surprising if some retailers were to attribute difficulties they are facing to the introduction of gambling, even if other factors were responsible.

Indeed, as argued in a recent South Australian study (which concluded that the introduction of poker machines had not had significant impacts on the retail sector):

It is clear that large numbers of [retail] operators believe their business has been hurt significantly, and this shows up through surveys conducted by the Small Retail Association. For some individual operators faced with direct competition from poker machines, this is undoubtedly true. For some individual households there are undoubtedly problems in dealing with excessive expenditure on poker machines, which limit their spending power in other areas. But in general, the introduction of poker machines cannot be seen as having a pervasive effect (sub. D231, att. 2, pp. 14-15).

There has been a much longer trend in the decline in expenditure on retailing. As the Australian Retailers Association said:

The trend over the past two decades at least, is that retailing has lost its 'market share'. In 1973-74 retailing attracted 43% of total consumption expenditure. This had declined to 36% by 1993-94 (sub. 93, p. 4).

While many areas increased their share of the consumer's budget, notably housing followed by income tax and entertainment/recreation, the Association commented:

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Putting aside major items such as savings and income tax, which are largely influenced by government policy, and other items over which retailing cannot easily influence by competition, (housing rent, education and health) the key sources of expenditure which are impacting on the retail industry are entertainment including the increasing presence of gaming (sub. 93, p. 7).

While this is undoubtedly true, as the Association's submission indicates, retailing has lost 7 percentage points of 'market share' while entertainment/recreation (of which gambling is a part) increased its market share by only 1.6 percentage points. Hence, retail decline is mainly due to factors other than the growth in gambling.

Nevertheless, the Association concluded:

Spending on gambling continues to impact negatively on traditional areas of retailing expenditure and continues to place great strain on the viability of many once profitable businesses (sub. 93, p. 7).

### *The 1997 Victorian study*

In Victoria, the VCGA commissioned a study into the impact of the expansion of gaming from 1990 to 1996 on the Victorian retail sector (NIEIR and Spiller Gibbins Swan 1997). The key findings of that study are presented in box 10.7.

The central finding was that the expansion of expenditure on gambling in Victoria had occurred at a time of a large fall in the level of savings in the State, and that expenditure on other retail activity had continued to rise over the same period. The study concluded that the expansion of gambling had been funded by the decline in the level of savings rather than a switch in expenditure from the retail sector.

While gambling may<sup>4</sup> not have caused a reduction in actual retail expenditure in Victoria during or immediately after its introduction, the Commission does not believe that this result can be generalised to suggest that an expansion in gambling comes at no cost to other retail activity. All products and services compete for a share of the consumer's budget. Unless there is a permanent shift in the savings rate, the growth in expenditure on one product or service generally must be at the expense of expenditures on others, whether it be in the form of an actual decline in retail spending or a slower growth in retail spending than would otherwise have happened. And even if there is a permanent shift in the savings rate, this can be

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<sup>4</sup> The Australian Retailers Association has raised questions about aspects of the Victorian study. The Association noted (sub. 93, pp. 10-11) that the data used for retail turnover actually contains some expenditure on gambling, in businesses such as clubs, hotels, taverns and newsagents, and thereby inflates the actual (non-gambling) level of retail expenditure.

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expected to have adverse effects on other economic variables, such as interest rates, which will ultimately find their way back to the economy in the form of reduced demand for other goods and services. Only if the increase in gambling caused a significant and sustained increase in economic growth, sufficient to offset the switch in market share away from other retail spending, would other retail sectors be better off. The Commission sees no reason to believe that this would be the case.

**Box 10.7    The Impact of the Expansion of Gambling  
on the Victorian Retail Sector**

The study examined trends over the period 1990 to 1996. The key findings were:

- Whilst the growth in gambling expenditure in Victoria between 1990 and 1996 was stronger than the growth in expenditure on retail goods and services, at the state level, this appears to have been funded through a reduction in savings.
- Victorian gambling expenditures rose from 1.4 per cent of household income in 1990 to 3.3 per cent by 1996. Measured on the same basis, Victorian retail expenditure rose from 35.9 per cent in 1990 to 38.2 per cent in 1996. Services excluding gambling rose from 52.2 per cent in 1990 to 55.0 per cent in 1996.
- The experience in Victoria is mirrored across other states where gambling expenditure rose strongly. Household savings declined and retail and services increased their share of household income concurrently with the gambling industry.
- In Victoria, during the period (from 1992-93 to 1995-96) when gambling expenditure gained its largest increase in household income (1.6 per cent to 3.3 per cent), the share of household income allocated to expenditure on retail goods grew more strongly rising by 2.4 per cent.
- It appears that services were hardest hit by the expansion of gambling expenditure, with that category's share of total household sector outlays declining by almost 3 per cent from 1992-93 to 1995-96. Expenditure on motor vehicle purchases and dwelling rent collectively lost 1.9 per cent of total expenditure share.
- The retail sector is currently experiencing particularly dynamic and volatile trading conditions. In this turbulent environment it is difficult to ascribe particular negative retail trends to the recent and on-going increase in gambling opportunities.
- While at the state level there is little evidence to suggest that increased gambling expenditure adversely affected the retail industry generally, on a geographical basis some areas and industries in Melbourne and Victoria have probably been affected.
- The long run impacts of increased gambling on retailing may be much more severe. In previous recessions in Australia, lower savings have supported household expenditure and retail sales than what would otherwise have been the case. To the extent that lower savings have financed increased gambling expenditure, part of the cushion to consumption expenditure in the next recession has been removed.

*Source: NIEIR and Spiller Gibbins Swan 1997*



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Indeed, the Victorian study recognised that:

The long run impacts of increased gambling on retailing may be much more severe. In previous recessions in Australia, lower savings have supported household expenditure and retail sales than what would otherwise have been the case. To the extent that lower savings have financed increased gambling expenditure, part of the cushion to consumption expenditure in the next recession has been removed (NIEIR and Spiller Gibbins Swan 1997, p. iii).

### *Economy-wide modelling results*

General equilibrium modelling (discussed in chapter 5) is a more sophisticated tool for gauging the impact of increases in gambling activity on different sections of the economy. This method is able to account for economic linkages between different industries.

Table 10.4 contains the results of modelling simulations presented by ACIL and CIE in submissions to the inquiry, and those prepared by Econtech. The Commission has reconfigured the CIE and Econtech results so that all three show the effects on other industries of an *increase* in the extent of gambling.

As would be expected, the gambling industries and those industries with a significant component of gambling included in them expand the most, while recreation and a range of retail activities which compete with gambling for the consumers' dollar are the principal areas of contraction.

That said, the decline in these sectors is relatively small compared with the increase in gambling. The CIE model simulation, for example, suggests that for every 10 per cent of growth in gambling, retail trade will contract by about only 0.2 per cent, in the short run. And the Econtech simulation suggests that a 26 per cent expansion in gambling would result in a contraction in the retail sector of only a 0.5 per cent, in the long run.

While the impact of increases in gambling expenditure on other retail business cannot be determined precisely, the Commission considers that it will generally be negative, although limited.

Nevertheless, some contraction or restriction in growth will occur, and some participants expressed concern about this switch in economic activity. What implications should this have for government policy?

Such 'structural' changes *of themselves* are a normal part of the business environment. Consumer demands are always changing. New products and technologies displace old ones in the consumption basket, and more efficient and/or

better focused suppliers displace those that are not. In most cases, consumers presumably make these changes in their consumption patterns because they value the new product or service more highly than the old. In a market-based economy, business is generally expected to adjust to these changes in consumers purchasing patterns. Except in exceptional circumstances (chapter 4), there is no economic rationale for governments to intervene to override changes in the pattern of goods and services that producers provide and consumers seek.

**Table 10.4 Industries most affected by an increase in the size of the gambling industries**  
percentage change

| <i>Industry</i>                          | <i>CIE</i>                                 | <i>ACIL</i>                            |          | <i>ECONTECH</i>                                |
|--|--|--|----------|--|
|  | <i>1% increase in gambling<sup>a</sup></i> | <i>50% reduction in gambling taxes</i> |          | <i>abolition of gambling taxes<sup>a</sup></i> |
|  | short run                                  | short run                              | long run | long run                                       |
| <i>Industries that gain the most</i>     |  |  |          |  |
| Gambling and recreational services       | 1.000                                      | 2.09                                   | 2.66     | 26.3   |
| Sports clubs                             |  | 0.53                                   | 0.63     |  |
| Accommodation, cafes and restaurants     | 0.318                                      | 0.38                                   | 0.44     | 4.5  |
| Other cultural and recreational services | .046                                       |  |          |  |
| <i>Industries that lose the most</i>     |  |  |          |  |
| Sport and recreation                     | -.0208                                     |  |          |  |
| Wine and spirits                         | -.0191                                     |  |          |  |
| Beer and malt                            | -.0175                                     |  |          |  |
| Retail trade                             | -.0162                                     |  |          | -0.5   |
| Active recreation                        |  | -0.25                                  | -0.15    |  |
| Organised sport                          |  | -0.20                                  | -0.15    |  |
| Furniture                                |  | -0.15                                  | -0.13    |  |
| Household appliances                     |  | -0.10                                  | -0.10    |  |
| Ownership of dwellings                   |  |  |          | -0.7   |
| Cultural and recreational services       |  |  |          | -0.4   |
| Finance and insurance                    |  |  |          | -0.4   |

<sup>a</sup> The results from the CIE and Econtech have been reversed to represent the impact of an increase in gambling activity

Source: CIE, sub. 111; ACIL, sub. 155; ECONTECH (1999)

### *Policy implications*

That said, there would be a case for examining government policies if such changes are the result partly or wholly of discriminatory policies that favour the expanding industry at the expense of others. The Australian Retailers Association raised the question of different operating rules (such as different opening hours) for businesses

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competing against gaming venues, which typically operate under a more liberal regime. The Association said:

Competition with the gaming industry has been introduced and fostered by state governments. Ironically, however, as evidence of the lack of forethought that has gone into the planning process, state governments' policies also retard the retail industry's capacity to compete. This is particularly the case when such policies place arbitrary restrictions on when shops may open and close (eg Sundays) and what producers may sell (eg liquor) (sub. 93, p. 7).

Further, there may be a case for governments to intervene to deal with the pace of change. In some jurisdictions, gambling has expanded rapidly, giving existing businesses less time to adjust to competition and changing consumer buying patterns. This problem may have implications for government policy, particularly when the speed of change results not from shifts in consumer demand but from liberalisation policies implemented by governments. Liberalising too rapidly may disrupt existing businesses, whereas a slower pace would allow those businesses and industries that are losing sales to adjust more smoothly by, for example, not replacing some capital when it depreciates and reaches its 'use-by' date.

### **The impact of gaming expansion on racing and lotteries**

As well as structural changes between gambling and other sectors of the economy, the recent liberalisation initiatives, particularly the increase in access to (and thus expenditure on) gaming machines, have affected the amount of spending on traditional forms of gambling — racing and lotteries.

In a study for the VCGA, NIEIR (1997a) examined trends in Victorian racing gambling expenditure and racing employment since the introduction of gaming machines and the opening of the casino in Victoria. NIEIR looked at data from the Tasmanian Gaming Commission and conducted interviews with major participants in the Victorian industry. NIEIR concluded that the expansion of gaming had reduced gambling expenditure on racing, with between 4 and 5 per cent of annual new gaming expenditure in Victoria being displaced from the annual gambling expenditure of the racing industry.

To further test whether the expansion of gaming machines has affected traditional gambling, the Commission examined changes in per capita spending on the various forms of gambling in each state and territory. The data are charted in figure 10.1.

The figure shows that:

- expenditure on gaming machines and, to a lesser extent casinos, has increased both significantly and rapidly since their introduction;

- in most jurisdictions, per capita expenditure on racing has been in decline, but this decline has been over the longer term, well *before* the expansion of spending on gaming machines became significant;
- for lotteries per capita spending has continued to increase in several jurisdictions, such as Queensland, Western Australia and the Northern Territory; and
- in the others, lottery expenditure has declined but, in Victoria and South Australia, this decline began before the increase in expenditure on gaming machines.

Hence, it appears that the increases in expenditure on gaming machines and casinos have left expenditure on the traditional forms of gambling largely untouched.

This in turn implies that the new forms of gambling have largely opened up new markets with new groups of consumers, rather than simply shifted the gambling dollar between forms.

This view was largely supported by the results of the general equilibrium modelling work that Econtech undertook for the Commission. Econtech ran one simulation to look at the impact of re-regulating gambling — reducing gambling activity to its

**Figure 10.1 Real gambling expenditure per adult in each state and territory by major type of gambling, 1972-73 to 1997-98**  
(1997-98 dollars)

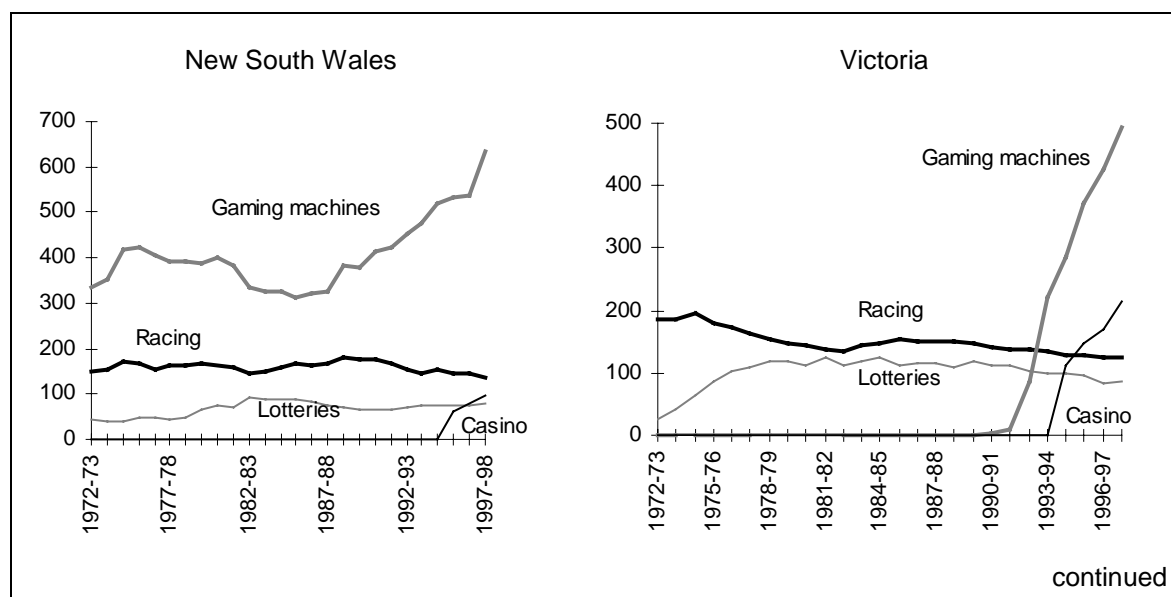
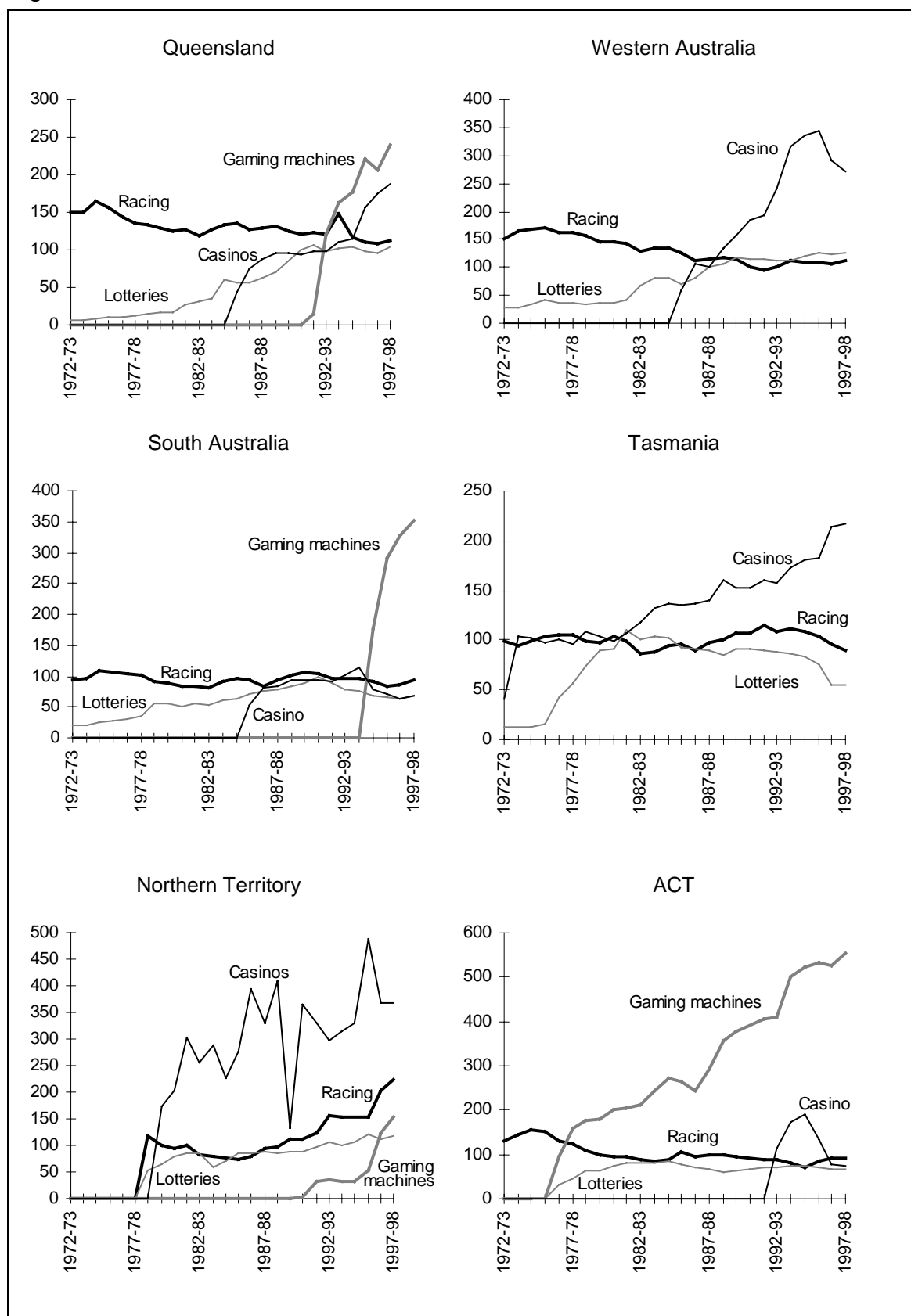


Figure 10.1 continued



Source: Tasmanian Gaming Commission 1999

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1993-94 level. This simulation involved reducing gaming machines by 18 per cent and casino gaming by 55 per cent. As a consequence, expenditure on lotteries was estimated to increase by 10 per cent and on racing by 11 per cent. Of the almost \$2 billion reduction in expenditure on casinos and gaming machines, only \$333 million (17 per cent) was estimated to switch to other forms of gambling. Looked at the other way, the \$2 billion growth in casino and gaming expenditure has come at a cost of only \$333 million for other forms of gambling (Econtech 1999).

As with structural change amongst different sectors of the economy, the Commission sees structural change within the gambling sector as a normal part of the business environment. Of itself, it does not warrant government policy action.

## **10.5 Local and regional impacts of the growth in gambling**

The Commission's analysis so far has identified several general impacts from the liberalisation of gambling in Australia, namely:

- significant increases in gambling expenditure;
- a rapid growth of the gambling industries themselves;
- benefits of this growth for most consumers of gambling services;
- limited effects on other industry sectors;
- the limited extent but significant impact of problem gambling;
- little evidence of other gambling-related crime;
- an increase in the patronage, and a change in the feel, of hotels, clubs and other venues with gaming machines; and
- possible changes in the nature and feel of society more broadly.

To the extent that the benefits and costs of gambling are spread evenly across the country, the impact of gambling in each region and each local community in Australia would simply be a microcosm of the national impact. Differences in state regulatory regimes aside, this means that the national trends identified in this report would also be evident in each region and each community.

From this starting model, the Commission has looked for evidence of variations in the local or regional impacts of gambling. Submissions have guided it to examine whether socially and economically disadvantaged communities are affected in different ways to other communities. It has also looked to see whether regions in country Australia are affected differently from those in metropolitan Australia.

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## Preying on the poor? — gaming machines in disadvantaged regions

Several submissions, particularly from Victorian local governments and community bodies, expressed concern about the apparent targeting of low-income and socially disadvantaged people and communities by gambling businesses, reflected in particular by the high proportion of gaming machines in such areas.

### *What evidence is there?*

The City of Maribyrnong noted that it has the highest proportion of low-income earners (55 per cent) and highest unemployment rate (16 per cent) in metropolitan Melbourne, yet it also has the highest density of gaming machines. Referring to broader data on the placement of gaming machines (table 10.5), it stated:

There appears to be a relationship between the proportion of low income earners and the EGM density (whether calculated for either total or adult population) in local government areas (LGAs) in metropolitan Melbourne, particularly if the City of Melbourne [which incorporates the CBD] is excluded... There appears also to be an even stronger relationship between unemployment rate and a particular LGA (sub. 39, p. 8).

The Victorian Local Governance Association said (sub. 91, p. 4):

Early analysis of this spread of gambling showed alarming growth patterns. The heavy take-up of gaming machines was occurring in almost direct [inverse] proportion to the wealth of a community. The in-depth work of the Maribyrnong City Council shows that this connection is unfortunately most accurate.

[Maribyrnong, Greater Dandenong and Moreland are] municipalities with excessively high levels of gaming machines and venues per head of population. [They] are among Victoria's most disadvantaged in terms of income and all three have very high levels of recent settlers, many arriving from traumatic events in their home countries.

**Table 10.5 Gaming machine density, low income earners and unemployment in selected cities of metropolitan Melbourne**  
number and per cent

| <i>City</i>       | <i>Gaming machines per<br/>1000 adults (29/9/98)<br/>(number)</i> | <i>Low income earners<br/>(per cent)</i> | <i>Unemployment rate<br/>(per cent)</i> |
|-------------------|---|--|---|
| 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                                     |

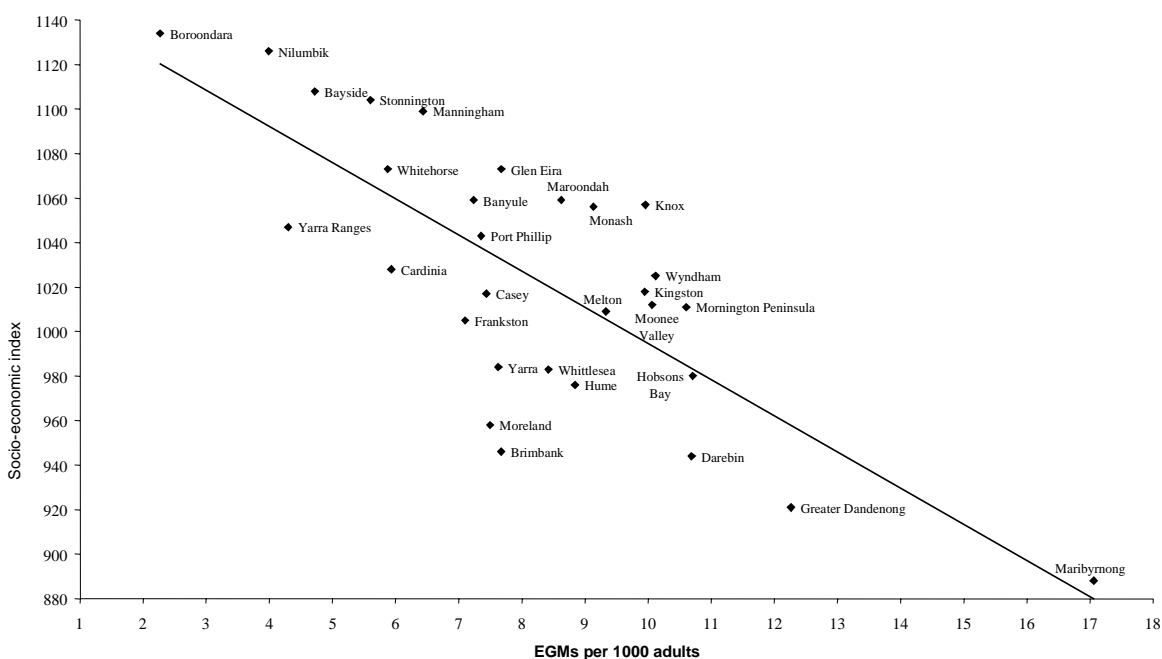
Source: Maribyrnong City Council (sub. 39, table 1).

The Yarra City Council stated that there is a close proximity between gaming machine venues and large public density housing estates:

[there is] a clustering of existing machines around the largest density public housing estates in the city, the Richmond, Elizabeth Street high rise, walkups and low-rise areas. Five of Yarra's venues are within easy walking distance of this predominantly low income district, generating a total of 53 per cent of the city's machines... Three other venues, the Tankerville Arms Hotel in Fitzroy (40 machines), the Albion Inn (20 machines) and the Collingwood Football Club (54 machines) are also in close walking distance to large public housing estates (sub. D238, p. 2).

Further, in its submission on the draft report, the City of Maribyrnong presented an analysis of the relationship between socio-economic factors and the number of electronic gaming machines for areas in suburban Melbourne. Figure 10.2 indicates a very strong negative relationship between the socio-economic index for areas and the number of electronic gaming machines. That is, the lower an area's socio-economic standing, the more electronic gaming machines in the area.

**Figure 10.2 Socio-economic index for areas and the number of gaming machines for areas in suburban Melbourne<sup>ab</sup>**



<sup>a</sup> The Australian Bureau of Statistics Socio-economic Index for Areas is used as a measure of socio-economic factors. The measure is a composite index that considers a range of characteristics from Census data including the incidence of unemployment, income, characteristics of dwellings and proficiency in the English language. <sup>b</sup> The correlation coefficient is 0.77 at the 1 per cent level (transcript, p. 1267).

Source: Maribyrnong City Council (sub. D202, p. 5).



The Commission conducted a basic analysis of data for Victoria, Queensland, New South Wales and South Australia to assess the relationship in different areas between:

- income levels;
- total gaming machine spending; and
- the number of gaming machines.

The Commission did not undertake analyses of the other jurisdictions due to data limitations and, in the case of Western Australia, its prohibition on gaming machines outside the casino.

The Commission's analysis used econometric techniques to assess the relationship on an 'unweighted' and 'weighted' basis. Unlike in the draft report, only the weighted results are discussed here, as they more accurately take into account the population size of regions (table 10.6). Appendix I provides more detail on the data sources, methodology and results.

**Table 10.6 Relationships between income, gaming spending and the number of gaming machines for regions in various states<sup>a</sup>**

|   | <i>NSW</i>                  | <i>Vic<sup>bc</sup></i>  | <i>Qld</i>                  | <i>SA<sup>d</sup></i>    |
|---|-----------------------------|--------------------------|-----------------------------|--------------------------|
| Income and the number of gaming machines          | Negative and significant    | Negative and significant | No significant relationship | Negative and significant |
| Gaming spending and the number of gaming machines | Positive and significant    | na                       | Positive and significant    | Positive and significant |
| Income and gaming machine spending                | No significant relationship | na                       | No significant relationship | Negative and significant |

**na** not available **a** Appendix I provides more detail on the results and data sources. **b** Data has only been made available to the Commission on income and the number of gaming machines for Victoria. **c** Data for the City of Melbourne is an outlier and has been removed. The large number of machines in this area unreasonably affects the results. **d** Data for the City of Adelaide is an outlier and has been removed. The large number of machines in this area unreasonably affects the results.

The Commission's analysis yields mixed findings on the relationship between the placement of gaming machines and the incomes of people in an area.

- The data supplied by Victorian participants has been confirmed by the Commission's analyses — there is an inverse relationship between income levels and the density of gaming machines in Victoria. This also applies in New South Wales and South Australia, but not in Queensland.
- Analysis of Queensland, New South Wales and South Australian data also indicates that there is a positive relationship between the number of gaming machines in a location and the amount spent on them, so the greater density of

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gaming machines in low-income areas is not necessarily being compensated for by a lower spend per machine.

- On the other hand, there is no significant relationship between income levels and the total amount spent on gaming machines in all states examined, except in South Australia where there is an inverse relationship between income and gaming machine spending.

Of course, gaming machines are only one aspect of gambling. Others include table games, race betting, lotteries and so on. It is not clear that a higher density of gaming machines in lower socio-economic areas would mean that people in those areas are supplied with more gambling services. For example, unlike residents in Brisbane to the north and the Gold Coast to the South, residents of Logan City — which has a large proportion of residents who are socio-economically disadvantaged — do not have access to a casino in their area.

Nevertheless, it remains the case that, in two of the four States studied, gaming machine densities are higher in economically disadvantaged areas and that, in turn, is likely to mean that people in those areas spend more on gaming machines than people in other areas.

### *Why might it happen?*

One often heard explanation for this is that the gaming industry is ‘preying on the poor’ — targetting socially and/or economically vulnerable people. Logan City Council stated that:

A general view expressed by some [counselling and welfare] service providers is that people from a low socio-economic background are more vulnerable because gambling may be perceived as their only chance to improve their situation. The hope is nurtured by advertising that portrays normal people having the “big win”, whether it be scratchies, Keno, Gold Lotto or gaming machines (sub. 66, p. 4).

But there are other possible explanations.

### *Consumer demand*

Consumer preferences are likely over time to influence the usage and location of gaming machines in the same way as for any other goods or service in any other market. Demand for gaming machines from consumers will be met by the supply of gaming machines from gaming operators. According to Tabcorp:

The allocation of gaming machines is determined by: the identification of unmet consumer demand within a particular geographic area; the number, proximity and

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quality of competing entertainment businesses; and the availability of existing licensed premises to convert to gaming venues (sub. D232, p 13).

If so, it implies that consumers in low-income areas have stronger preferences for gaming machine gambling than those in high income areas. Why might this be?

A study conducted by the Good Shepherd Youth and Family Service (sub. 178, p. 12) nominated several factors that may make gaming machines attractive to low income people, including:

- proximity to home (meaning limited transport costs and easy access);
- welcoming, friendly and non-discriminatory atmosphere;
- small amounts of money can be used to play;
- venues commonly provide a range of incentives, such as free food and drinks, specials, and a warm environment with no restrictions on length of stay; and
- a limited range of alternative entertainment options (such as watching TV).

Clubs Victoria also suggested that the nature of gaming may make it more appealing as a form of entertainment to lower income earners. It stated:

This is a poor man's sport, playing gaming machines. It is simple, unstimulating and non-interactive but more poor, lesser educated like it more than do rich, educated people (transcript, p. 1309).

The Yarra City Council (sub. D238) argued that the concentration of migrants in low income areas may also further add to the demand for electronic gaming machines in these areas. Migrants may be attracted to gambling because it is an easy entertainment for people who are yet to assimilate into society. This type of demand may be reflected in Yarra City which has a high density of gaming machines. In Yarra City, about 35 per cent of residents are low income earners (a weekly gross income of less than \$500) and 32 per cent are from a non-english speaking background. The combination of low incomes and a high proportion of migrants may lead to higher demand for gaming machines in Yarra City.

#### *Caps on gaming machines and the structure of the market*

While consumer demand is likely to be a major determinant of the location and type of gaming machines, supply-side factors will also affect the way that gaming operators meet this demand. In particular, the location of gaming machines is also likely to be influenced by:

- limits or 'global caps' applying on the number of gaming machines; and/or
- the number of gaming machine operators providing gaming machines.

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Victoria could be an example of the effect of these factors. The Victorian Government has placed global caps on the number of gaming machines. The number of gaming machines in hotels and clubs is limited to 27 500 (refer to chapter 13). There are also only two suppliers of gaming machines — Tattersall's and Tabcorp — who between them have access to all the market information on gaming machines, including in which areas the demand for machines is the greatest (or most profitable per machine). The two operators will be able to quickly assess which machines are yielding the greatest profit and will place their machines in these areas. In a market with a large number of operators, there will also be incentives for machines to be located in those areas with the greatest demand, but it may take longer for gaming operators to determine these areas through the process of buying and selling machines.

The Australian Hotels Association (AHA) submitted that these factors were responsible for the Victorian situation. It stated:

The AHA submits that the increased prevalence of gaming machines in lower income areas is a phenomenon derived from global statewide caps and pressures for gaming operators to place machines where there is highest demand. States such as Queensland and South Australia, both relatively new entrants to the gaming market, have not experienced any bias towards lower income areas (sub. D231, p. 6).

#### *Wet versus dry areas?*

In the draft report, the Commission said that:

... gaming machines are commonly located in hotels and clubs, but a number of middle class areas of Melbourne, including Box Hill and Camberwell, have no hotels and clubs. This may skew the distribution of gaming machines away from better-off areas.

In its response to the draft report, the City of Maribyrnong (sub. D202) presented evidence to refute this proposition. It found that there are sufficient venues in high socio-economic areas for gambling, but that the number of venues providing gambling services is lower.

The six Local Government Areas in suburban Melbourne with the lowest socio-economic index have:

- some of the highest gaming machine densities; and
- a total of 219 potential gambling venues; with
- 95 (or 43 per cent) of these venues providing gambling services.

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At the other end of the spectrum, the six areas with the highest socio-economic index have:

- lower gaming machine densities; and
- a total of 166 potential gambling venues; with
- 42 (or 25 per cent) of venues providing gambling services.

This suggests that the higher density of gaming machines in socio-economically disadvantaged areas is not attributable to a lack of potential gaming venues in better-off areas.

*What does it mean for disadvantaged communities (and governments)?*

Whatever the reasons, where socially and economically disadvantaged areas do have a high density of gaming machines, there will be implications for the local community.

On the positive side, ACIL drew attention to the benefits that gambling venues bring to lower socio-economic areas.

An acknowledged benefit of 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 people to develop alternative social networks (sub. 155, p. 79).

From this perspective, disadvantaged communities have benefited significantly from the growth in gambling and, indeed, possibly more so than otherwise better-off communities whose residents do not have access to the same number of gaming venues.

However, a number of submissions expressed concern about the adverse effects of gambling on economically disadvantaged areas of the community. In particular, residents who are already encountering personal or financial difficulties will have them compounded by additional difficulties that derive from problem gambling. The City of Maribyrnong stated:

Many of the welfare agencies operating in the municipality have reported that they have experienced or are experiencing the impact of increased gambling expenditures in the form of:

- problem gambling behaviour;
- increased levels of poverty and bankruptcy;
- family break-ups;

- 
- domestic violence; and
  - stress and anxiety (sub. 39, p. 4).

Many of these problems are experienced at the individual or family level — by the problem gamblers themselves and those whose lives are entwined with them — although they also put some demands on community resources, such as welfare and counselling services. These matters have been discussed in detail in chapters 6 and 7, and the Commission has sought to quantify the costs of these problems in chapter 9, and to devise policy responses to them in part D of the report.

In one sense, the fact that these problems may arise in some places more than others is not relevant — so long as governments have appropriate policies in place to address these problems *wherever they arise*, and to the extent that they arise, the specific locations where they arise should not matter.

At the community level though, several submissions, mainly from councils, expressed concerns about the effects of gambling (box 10.8). These concerns covered:

- the size of EGM losses as compared to the amount of money that is returned to communities — submissions reported losses of up to around \$50 million per local government area with substantially smaller amounts being returned to local communities; and
- the effect of EGM losses on the local community, such as reduced employment and declining ‘social conditions’.

A study commissioned by a number of Victorian city councils — Brimbank, Greater Dandenong, Maribyrnong, and Moreland — assessed the local area impact of local gambling for Maribyrnong (box 10.9). While the study acknowledged the difficulties in estimating the effect of gambling on only the local community, it found that:

- gambling is a substitute for alternative consumption — consumption is diverted to gambling and away from (other) local consumption spending; and
- the net effect on low income communities diminishes the level of overall economic activity — production was estimated to reduce by up to \$21.3m and local income reduced by up to \$4.8m.

Similar results were generated by Pinge (sub. D279) using an input-output model of the regional economy of Greater Bendigo. Pinge found that the local gaming industry had weak linkages with the regional economy, with large leakages out of the region and that:

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... if money spent on EGM's were spent in any other sector of the region, then output, income and employment would be better off. Gaming as an industry is in effect having a negative regional economic impact by redirecting economic activity out of the region (p. 2).

#### **Box 10.8 Concerns about the effect of gambling on local communities**

A number of submissions, mainly from councils, expressed concern about the economic and social effects of gambling on local communities. These submissions were concerned about spending being diverted away from other forms of consumption and the size of EGM losses as compared to the amount of money that is returned to the community from gambling.

The City of Maribyrnong points to broader community-level implications of concentrating gaming machines in areas of socio-economic disadvantage:

Council is particularly concerned about the impact that high levels of gambling expenditure may have on local economic activity... In a municipality such as Maribyrnong, it is difficult to accept that annual EGM losses of around \$45 million do not have an adverse impact on local consumption expenditure, with corresponding impacts on local employment and social conditions (sub. 39, p. 12).

Similarly, reflecting the results of a study it had done, the City of Greater Dandenong said:

Council is concerned that more than \$60 million is taken from players of local gaming machines, and less than \$17 million of this is identifiable as likely to be returned to local clubs and hotels as profit, or for the development of local facilities and services (sub. 82, p. 7).

The Victorian Local Governance Association added:

The inequitable location of gaming machines is most disturbing to those municipalities which lose enormous sums of money to commercial operators and the State Government. The three local governments involved in this submission — the Cities of Maribyrnong, Greater Dandenong and Moreland — between them watch helplessly as \$150 million annually leaves their communities through gaming machines.

... The study into the money trail by the City of Greater Dandenong shows that very little of this money finds its way back into the communities that make the greatest contribution (sub. 91, p. 4).

Logan City Council expressed major concern about:

... the amount of money that is going out of the community through: taxes on gambling profits; the profits themselves where the product is commercially owned; and through people going outside the local community to spend their gambling dollars (sub. 66, p. 10).

And Brighton Council in Tasmania drew attention to the reduction in local amenities resulting from the outflow of money from the disadvantaged communities of Gagebrook and Bridgewater. Among other things, this has seen the virtual closing of one of these communities' shopping centres (transcript, pp. 929-45).

*Source:* submissions.

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**Box 10.9    The impact of expenditure on gaming machines on Maribyrnong's economic activity**

Doughney and Kelleher (1999) used a local area economic impact model to estimate the effect of the diversion of potential consumption away from non-gambling firms and the subsequent effect on the income of Maribyrnong residents. They used data from the Tasmanian Gaming Commission, the Australian Bureau of Statistics and the VCGA. The data on gaming expenditure was adjusted upwards to remove the under-reporting of gaming expenditure data collected from surveys. The authors recognise the difficulties in conducting purely local impact as opposed to broader country level economic modelling.

Doughney and Kelleher found that economic production and income in the Maribyrnong local area would have been higher had the expenditures on gaming machines not been diverted from other consumption spending — an increase in people's expenditure on gaming machines reduces demand for goods and services in the local area. Total local value added or production is estimated to reduce because of increased gambling expenditure by up to \$21.3m. Maribyrnong residents share of total local value added or income is estimated to have been reduced by up to \$4.8m.

*Source:* Doughney and Kelleher (1999).

Again, such effects could be expected to occur in any area in which expenditure by members of the community seeps outside the boundaries of that community, whether the expenditure be on travel, education, motor vehicles, opera, gambling, or anything else.

That said, because higher taxes are levied on gambling than on most other goods and services, the gross leakage of funds resulting from expenditure on gambling will be commensurately greater.

Further, it is possible that in communities that already suffer from significant socio-economic disadvantage, overlaying an additional source of socio-economic stress may have more significant community-wide impacts. That is, social and economic stresses may have compounding impacts. For example, where the unemployment rate in a particular area is already high, a further increase may push it to a level at which people in the area become too discouraged to look for work, and anti-social behaviour may ensue. The same effects might not be experienced in areas that start with a lower unemployment rate.

In the Commission's view, the potential for disadvantaged communities to suffer more adverse social problems from expansions in gambling has important implications for government policy.



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In particular, it raises the issue of the appropriate type and degree of local government involvement in gambling issues. Several local councils, particularly in areas with a high proportion of low income earners, expressed concern at having no or limited control over the number of gaming machines in their local area. These councils argue that they are in the best position to analyse the social and economic effects of gambling on their local community, but are unable to directly control the number of gaming machines. That said, a survey by the Local Government Association of South Australia found that 56 per cent of councils want the State Government to remain responsible for licensing gaming machines (sub. 171), but that 70 per cent of councils wanted to gain greater input into the gambling and liquor licensing. The issues of appropriate local government involvement is discussed further in chapter 22.

Another issue is the ‘earmarking’ of gambling taxes, to repatriate them to the local communities from where they came or to reserve them for certain uses, such as addressing problems arising from gambling. This is discussed in chapter 20.

### **Special impacts on country communities?**

As part of this inquiry, the Commission held Roundtable discussions with local people in Port Augusta and Goulburn to obtain information on the effects of gambling on country communities. Participants included hoteliers and club officials, government and private welfare workers and gambling counsellors, police, Councillors, community group representatives and retail sector employees (box 10.10).

The Commission has augmented this information by drawing on other material, including the results of two studies conducted for the VCGA: one into the effects of gambling on a selection of non-metropolitan communities in Victoria (DHSA and MIAESR 1997), and one into its effects on small Victorian rural communities (HSV 1997) (boxes 10.11 and 10.12).

These discussions and studies together reveal that the impact of gambling on country communities has been similar in many ways to the impact in metropolitan areas. For example:

- expenditure on legal gambling has increased in the towns over recent years, with anecdotal evidence suggesting that illegal gambling has declined;
- the recent introduction of gaming machines had increased the patronage and profitability of clubs and hotels, provided new opportunities for social interaction and led to improved community and sporting facilities provided by clubs;

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### Box 10.10 Country impacts: views from around the table

Below is a selection of comments made at the Commission's Regional Roundtables.

#### Individual and community benefits

People want quality of life — an ability to choose entertainment and relaxation in small amounts. Gambling is an alternative to more expensive pursuits which lead to quality of life. People are shifting their money away from other recreational/entertainment activities. Gambling is seen as community building. Community activities (eg radio station) are broadcast through venues with gambling. Gambling revenue does not really go out of the community. The club gives out 3.5 per cent of poker machine revenue, and has done so for years. *[Club official]*

Poker machines have increased hotel turnover, which has resulted in more jobs. We sponsor a few clubs and support health and youth causes in Port Augusta. We paid \$60 000 for an orthopaedic pool for kids with arthritis. *[Hotelier]*

Community groups get funding from clubs and hotels, so gambling is not inimical to the community. *[Councillor]*

#### Pubs and clubs: impacts and responses

Gaming in Port Augusta commenced in July 1994. There were 600 hotels on the market in South Australia. About 250 were for sale in the country. Gaming made hotels more marketable and profitable. Pokies were introduced to complement hotels. The state allows a maximum of 40 machines in each hotel.... The pokies have brought women back into hotels. They have brought in couples. There are nine hotels in Port Augusta — only two don't have gaming. The average number of machines is between 20 and 30. There are TAB facilities in six venues and one free standing TAB. *[Hotelier]*

Little pubs in rural areas are very important. *[Councillor]*. But smaller hotels are closing with licenses transferring to big urban areas. *[Police officer]*

Some clubs are now just into gambling to get bigger — without community objectives. *[Hotelier]*

I can speak for two clubs. One is heavily in debt and decided not to go further into debt by purchasing pokies. The other has no debt problem but also decided no to pokies because it felt that pokies would ruin the atmosphere of the club. *[Club official]*

#### Impact on other spending

Gambling is affecting other businesses, but I don't know by how much. *[Hotelier]* Cheap pokies lunches have affected our meat sales. *[Supermarket employee]*

Decline in bingo ticket spending has meant that community groups in Whyalla have lost \$250 000 a year. *[Counsellor/welfare worker]*

Initially, the introduction of poker machines brought a down turn in TAB turnover. Last year, TAB turnover came back to its normal level and I expect it to stay that way. *[Club official]*

#### Problem gambling/counselling

I'm not known in Port Augusta and many people approach me because I don't live in their community. In Roxby Downs there is a huge problem with problem gambling — both illegal and pokies. Very few people seek help when they are starting to go down. 70 per cent of problem gamblers seek help only when they have reached rock bottom. *[welfare worker]*

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## Box 10.10 continued

### Problem gambling/counselling continued

There is only one recognised gambling counsellor between Campbelltown and Canberra so I would agree with that problem gambling service availability in country regions is poorer than city areas. Funding is enough for some face-to-face counselling — I did 70 hours counselling over 3 months. Most of the problem gamblers have contemplated suicide. *[Counsellor]*

My main concern is what's going to happen to family life. The main effect is on the unemployed and pensioners. We mainly see people on Newstart. Gambling has a great effect on families and children. Social issues are a real problem. *[Charity welfare worker]*

### Crime and illegal gambling

There is not much illegal gambling in Port Augusta. Illegal betting changed when the TAB came in. The TAB has meant that you haven't been able to put a bet with a SP bookmaker for the last five to ten years. *[Club official]*

There have been three unsubstantiated cases of illegal SP bookies operating in pubs in the last 5 years. Otherwise, there has been no evidence of crime, either organised crime or break-ins, associated with gambling. But I do not know what lies behind other crimes, such as domestic violence *[Police officer]*

There is a huge gambling culture in jails. They gamble with items like cigarettes, and it leads to a lot of violence. *[Correctional officer]*

### Role of government

Government ought to control gambling. If you do not have government controlling it, the underworld does. Gambling is here to stay, but it should be channelled in a way that does not injure families. Governments should exercise responsibility — increase their awareness about the effects of gambling and their responsibilities. *[Councillor]*

I wouldn't like to see the council rule on gambling issues. The council stopped a major development store in Port Augusta and didn't have the foresight to see that people would travel elsewhere — to Whyalla *[Community group representative]*

On pension days, pokies should be closed until after a certain hour. *[Counsellor]*

Years ago, only hotels had a license to sell alcohol. Now, coffee shops in Adelaide can. Business has been chipped off. I am against more businesses having gambling. *[Hotelier]*

### Other matters

Some people are concerned about Sunday gambling, but I think those days are gone. Gaming machines are seven days a week. *[Community group member]*. Saturday and Sunday is defunct. Lifestyles have changed over the last decade, you have leisure time through the week. People have a right to entertainment anytime. People can go into a club in Sydney at 4am and there will be 30 or 40 machines in play and people on shift. *[Club official]*

The Internet is very accessible in Port Augusta and Whyalla. I'm not sure it will impact on total expenditure. But if people are staying at home to play for entertainment, the community becomes more alienated. It also impacts upon venues and jobs. *[Charity welfare worker]*

I have grave concerns about Aboriginal gambling. Gambling is part of Aboriginal culture. But through card games it stayed in the community. Now with the pokies, the money doesn't go back to the community. *[Counsellor/welfare worker]*

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- there are concerns that gambling is taking money away from local shops and other organisations, including charities; and
  - a small number of people had experienced severe problem gambling, and in some instances this had led to financial crises, family breakdowns and crime.

However, some slight differences also emerge.

First, at its Roundtable discussions, the Commission was struck by the importance that many locals appeared to attach to hotels and clubs as a focal point for social interaction and community life in country Australia. This may reflect a lack of alternative entertainment and recreation venues in country Australia relative to those available in city areas. Clubs were seen as having a particularly important role to play in supporting local community groups and charities. The increase in patronage following the introduction or increased availability of gaming machines and other gambling services in clubs and pubs may thus be of more benefit to country dwellers than city residents. The VCGA's reports also pointed to improved entertainment and sporting club facilities as major community benefits associated with gambling.

Second, the introduction or increased availability of gaming machines and related gambling services may be contributing to changes in the pattern of settlement in country Australia. In its recent report on *The impact of Competition Policy reforms on rural and regional Australia*, the Commission (PC 1999) identified a 'sponge city' phenomenon, in which larger regional centres are growing in size, in part by soaking up population from their hinterlands. Participants at the Commission's Regional Roundtables said that gaming machines in venues in the towns added to their attractiveness, and were helping to pull in custom from surrounding districts. In turn, less money is spent in smaller localities, thereby reducing their viability, and smaller hotels are apparently closing with licenses being transferred to bigger urban areas.

These trends no doubt derive mainly from the broader changes that are transforming country Australia, such as improved transport, lower commodity prices, larger farm size and changes in government policies relating to rural and regional Australia.

However, the recent introduction or increased availability of gaming machines and related gambling services may be adding to them.

Further, Roundtable participants and respondents to the VCGA studies also expressed concern about potential leakages of economic activity from the region if State gambling tax revenue, hotel gaming profits and (non-club) gaming operator income is repatriated to metropolitan areas or elsewhere without corresponding

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injections of funds. As in the case of metropolitan municipalities that see a leakage of funds, this then raises the issue of whether funds should be ‘earmarked’ for these communities to counter these losses — a matter discussed in chapter 20.

Third, there is some limited evidence that the availability of problem gambling services in country regions is poorer than in city areas. For example, there is only one recognised problem gambling counsellor between Campbelltown, on Sydney’s outskirts, and Canberra.

Overall, however, the Commission was unable to identify any substantial differences in the impacts of liberalised gambling in country areas relative to those in metropolitan areas.

In its submission on the draft report, the Queensland Government stated:

The Draft Report’s claims do not give adequate consideration to impacts at a state, regional and community level, or to the differing nature and characteristics (such as levels of infrastructure) of individual state economies and their respective abilities to attract industries and jobs.

For example, the resurgence of the club and hotel industries in Queensland has been a direct result of the expansion of gaming since the introduction of gaming machines in 1992. This expansion has been associated with:

- significant growth in employment in Queensland clubs and hotels;
- increased Queensland clubs and hotels revenue (and associated decline in revenues for clubs in Northern NSW which previously relied heavily on the patronage of Queenslanders);
- the generation of revenue for direct funding of Queensland community projects and capital works and for the provision of essential government services including health, education, and law and order; and
- enjoyment of recreational and other facilities by Queensland patrons.

The Queensland Government considers that it is unlikely such benefits would have accrued in regional Queensland, or elsewhere in Queensland, if gaming machines had not been introduced (sub. D275).

It further commented that:

The availability of gaming creates economic activity, employment, recreational and entertainment opportunities in regional communities. Such investment can alternatively lead to improvement in the overall investment in smaller towns (sub. D275).

The Commission of course accepts that the introduction of gaming machines in Queensland may well have attracted some expenditure away from New South Wales clubs and hotels, just as the introduction of pokies in Victoria has seen an end of ‘day trips’ to towns on New South Wales border for the purposes of gambling.

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### Box 10.11 Effects of EGMs on non-metropolitan communities

A VCGA study covered five regional areas: the cities of Greater Ballarat, Bendigo and Geelong, and the Shires of La Trobe and of Baw Baw. The report commented:

....EGMs in clubs and hotels are currently providing 760 jobs to residents in the five study regions representing 0.40 per cent of regional employment. Households in the five regions are likely to spend \$150 million on EGM gambling.

Offsetting any short term gains, there may be leakages of economic activity from each region if State gambling tax revenue, hotel gaming profits and gaming operator income is repatriated to Melbourne and elsewhere and if like transfers into the areas from Melbourne and elsewhere do not take place.

There is evidence of important distributional effects among, between and within business and households in regional communities, in that moneys spent on EGMs would otherwise have been spent in other areas.

On the differences between the regions, the study commented (p3):

The dissimilarity of socioeconomic – demographic profiles of the regions (with the exception of Ballarat and Bendigo) restricted comparative possibilities *between regions*. However, when comparing the randomly selected *individuals* surveyed across the five regions in terms of their stated behaviour and attitudes to EGMs, the individuals showed far more similarities than differences. The reaction to EGMs in each region across a range of interest groups showed in all cases (except the gaming industry) more negative than positive reactions to EGMs. In short it was the marked *similarities* between the regions surveyed in data generated by this study as to the use of and reaction to EGMs which is notable. ... Thus, despite the differences in the economies of the regions, there are not marked differences of scope and scale in EGM activity, usage and response.

On the overall level of community attitudes, the study found:

However, when asked whether gambling does more bad than good about 80 per cent of all respondents said “yes”. While this response was more prevalent among non-gamblers, about 77 per cent of gamblers and EGM gamblers also gave this answer. In the public sphere, State agencies report social and economic impacts in the form of marginally higher workloads (Department of Human Services, Police, Magistrates Courts). Officials in private community service agencies (emergency relief, financial counselling, family counselling) reported major increases in workloads, not necessarily in a large volume of cases but in the severity and complexity of cases related to actual or suspected problem gambling. There appeared to be an increased workload for the Commonwealth Department of Social Security (DSS) which related to client gambling behaviour.

In conclusion:

From the data collected during this study, it would appear that the social consequences for most EGM users are benign, and are perceived by them most often in terms of improved social and entertainment facilities provided by EGM venues. These non-gambling social benefits were reported as more important to individuals than actual EGM gambling. The major neighbourhood benefits cited were improved facilities to sporting clubs and regional returns from the Community Support Fund. In all regions, the major discourse about the impact of EGMs concerned the perception of the severity of problem gambling. The perception of the severity of the consequences of problem gambling was influential in shaping the strong opinion that the bad achieved by EGM gaming outweighed the good.

Source: Deakin Human Services & Melbourne Institute of Applied Economic and Social Research (1997)

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### Box 10.12 Impact of EGMs on small rural communities

The VCGA commissioned a study of the effect of gaming machines on three small rural communities in Victoria. The communities chosen were:

- the Statistical Local Area of Wannon, including the townships of Balmoral (population 220) and Coleraine (population 1105);
- the Statistical Local Area of Camperdown, based around the township of Camperdown (population 3153); and
- the township of Sale and the area within 40 kilometres (population 31,574).

The study was based on discussions and interviews with a range of people in each of the regions. The report commented (p.xv):

In overall dollar terms, the role of EGMs was found to be minimal when compared with the overall level of economic activity (as approximated by aggregate private income) and employment structure in each of the regions. As a result, quantifiable evidence of the impact of EGMs was not detected in the analysis of the changing social and economic characteristics of any of the regions.

The study reported the results of community workshops as (p. xvi):

In general there was agreement that EGMs had changed the lifestyles of a significant section of the community and that there had been changes to entertainment patterns which are attributable to the introduction of EGMs. There was a clear response to the issue of changed shopping patterns with participants indicating that discretionary expenditure is being directed away from retail towards EGMs. ... Gaming venues were perceived as providing safe and comfortable entertainment environments for females. However there were perceived to be negative impacts on alternative forms of entertainment.

*Source:* Hames Sharley Victoria (1997)

Nor does it deny the potential for many of the broader benefits identified by the Queensland Government, including those accruing in regional centres. Indeed, the Commission did examine the benefits for the club industry and its patrons (section 10.2) and it has included the tax revenue from gambling as benefits (chapter 5). And nor does it deny the potential for regional variations in the distribution of benefits from gambling liberalisation.

However, these points do not alter the conclusion about the national benefits and costs resulting from liberalisation; nor do they negate the conclusion that *substantial* differences in the impacts of liberalised gambling in country areas relative to those in metropolitan areas are difficult to identify.

In this context, it should be noted that, just as there will be country communities that do benefit significantly from the liberalisation of gambling, so there will be

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those that do not. Indeed, as a study that analysed the impact of the introduction of gaming machines in a country town in South Australia argued:

In summary, it can be claimed that the costs and benefits of poker machines in Peterborough have not been metered out in a balanced fashion. There is little in the way of employment and multiplier effects, entertainment values and cheap meals are not valued enormously by the town's people, and no-one was aware of any major jackpot wins. In contrast, most people knew of someone with a gambling problem, small businesses have experienced declines in turnover, clubs and charities are in difficulty due to fundraising declines and the demand for welfare services has increased. It would appear that given the socioeconomic circumstances of the town, the arrival of the poker machines has brought with it new problems and exacerbated old ones, but has brought little in the way of benefits. Poker machines are now contributing to the declining socioeconomic fortunes of the town (Marshall 1999).

This helps to highlight the fact that, just as some metropolitan areas will benefit (or fail to benefit) from gambling to a different extent than others, so some regional areas will benefit (or fail to benefit) from gambling to a different extent to others.

Overall then, the Commission remains of the view that the broad pattern of impacts of gambling in country areas does not differ significantly from the pattern in metropolitan areas.