

**CENTRAL OFFICE**

Cameron Offices
Chandler Street
Belconnen ACT 2616

PO Box 10
Belconnen ACT 2616

Telephone: (02) 6252 5000
Facsimile: (02) 6251 6009

Ms Bronwyn Fisher
Gambling Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Ms Fisher

I refer to your facsimile of 3 November regarding the issue of value added as it relates to the gambling industries. Specifically, your note sought ABS input on three issues:

- (a) ABS advice in regard to the most appropriate measure of value added for the gambling industries;
- (b) Availability of measures of value added for the gambling industries; and
- (c) ABS comment on ACIL's estimate of value added for the gambling industry as presented in their submission.

(a) Most Appropriate Measure of Value Added

In respect of the first issue, the ABS uses the *System of National Accounts 1993* (SNA93) as the framework for compiling national accounting aggregates including value added. Within SNA93 value added is defined as the value of output less the value of intermediate consumption, and at the total economy level SNA93 recognises the existence of three alternate measures of value added.

1. Value added at producers prices, which is defined as output valued at producers' prices less intermediate consumption at purchasers' prices. As noted in SNA93 it is an economically meaningful measure that is equivalent to the traditional measure of value added at market prices.

In the gambling industries situation, adoption of such a measure would result in gambling taxes being included in, and hence substantially increasing, the 'value added' of the industry.

2. Value added at basic prices which is defined as output valued at basic prices less intermediate consumption at purchasers' prices. Again, as noted in SNA93, purchasers' prices for inputs and basic prices for outputs represent the prices actually paid and received and as such is particularly relevant for the producer.

This measure of value added would exclude gambling taxes from the 'value added' of the industry because gambling taxes would be viewed as taxes on products payable on outputs.

3. Value added at factor cost which essentially excludes all net production taxes, not just net taxes on products. As such it can be defined as value added at basic prices less other net taxes on production (eg payroll taxes, fringe benefit taxes etc).

As with value added at basic prices, value added at factor cost would exclude gambling taxes from the value added of the industry.

Turning to the issue as to which of the above is the most appropriate measure, there is no 'uniquely correct answer', as the measure used will be dependent on the analytical use being made of the data. However, from a national accounts perspective, at the industry level the strongly preferred measure is value added at basic prices. When presenting an industry view of Gross Domestic Product (GDP) for the Australian economy the ABS shows value added at basic prices by industry, to which is added an aggregate estimate of taxes less subsidies on products to give a total measure of GDP at market prices. This latter adjustment is necessary to align the production approach to measuring GDP with the expenditure approach which, by its nature, must be at market prices.

Having said that, ABS would accept that the most appropriate measure will be dependent on the analysis being undertaken and for industries which are relatively highly taxed and regulated there may be situations in which it is appropriate to use value added at producers' prices. This is particularly so if one is assessing the percentage contribution of an industry to total GDP for the economy, which as noted earlier is at market prices.

(b) Measures of Value Added for Gambling Industries

The most recent (reference year 1997-98) ABS survey of gambling industries does not enable the derivation of value added at basic prices or value added at producer prices as defined in the SNA. However if one accepts that gambling taxes is a reasonable proxy for taxes less subsidies on products for the gambling industries then it is possible to derive reasonable approximations of value added at basic and producers' prices for the industry. These are presented in Table 1 at Attachment A.

It should be noted that the gambling industries (as defined in the Australian and New Zealand Standard Industrial Classification and presented in the attached) do not cover the provision of all gambling services. Both the pubs, taverns and bar industry and the clubs (hospitality) industry have significant gambling activities. In the case of the pubs, taverns and bars industry gambling income represents only 16.1% of total income of the industry (refer ABS Cat. no. 8687.0 - Clubs, Pubs, Taverns and Bars 1997-98) and hence it would generally be inappropriate to consider it as part of 'gambling' industries, however it needs to be recognised that it is significant in terms of gambling activity. In contrast gambling income accounts for 53.3% of the total income of the clubs (hospitality) industry and it could be reasonably argued that it is in reality a part of the gambling industries. Information on estimates of the value

added of the clubs (hospitality) industry is presented in Table 2 at Attachment A.

In summary, an approximation of the value added at basic prices of the gambling industries in 1997-98 was \$1,850 million, while an approximation of value added at producers prices was \$4,500 million. If one was to view (based on predominant source of income) the clubs (hospitality) industry as part of the gambling industries then the approximation of value added at basic prices of the 'gambling industries' would be \$4,513 million, while value added at producers' prices would be \$7,878 million.

(c) Comments on ACIL Estimates in Submission

Much of the ACIL analysis is covered by the preceding comments and the availability of more recent and complete data for the sector. Nevertheless a few observations regarding the ACIL comments:

- It should be noted that the 'industry gross product' (equivalent to value added at basic prices) quoted by ACIL at para 2 of page 22 relates only to the strictly defined gambling industries (ie it excludes the clubs (hospitality) industry). In contrast the estimate of government taxation revenue cited in the submission and sourced from the TGC covers all gambling activity - not only the strictly defined gambling industries but also the clubs (hospitality) industry and the pubs, taverns and bars industry and any other industries (eg racing clubs) providing gambling services.
- The comparison of value added at producers' prices for gambling industries to total GDP is appropriate as total GDP is measured at market prices. However, to compare gambling industries value added at producers' prices with estimates of value added at basic prices for other industries (which I presume is the case in Chart 2 of their submission) is not appropriate to the extent that those industries may pay indirect taxes or receive subsidies, and hence the value added at producers' prices may be substantially different to value added at basic prices.

I trust that the above is of assistance in understanding the issue of value added for the gambling industries. Suffice to say the issue is complex and there is no uniquely correct answer. Should you have any questions regarding the above please do not hesitate to contact Paul Sullivan (phone 6252 5635) who is responsible for ABS surveys of the gambling industries.

Yours sincerely



Russell Rogers
Assistant Statistician
Services and Small Business Statistics Branch

18/11/99

Attachment A

Table 1: Gambling Industries - Value added 1997-98

	Lotteries \$m	Casinos \$m	Gambling nec \$m	Total \$m
Value added at basic prices (a)	342	744	764	1,850
Gambling taxes	1,321	426	903	2,650
Value added at producers' prices (a)	1,663	1,170	1,667	4,500

(a) The estimates of value added at basic prices and at producers prices are approximations only. They are premised on the assumption that gambling taxes is a reasonable proxy for taxes less subsidies in the gambling industries.

Table 2: Clubs (Hospitality) Industry - Value added 1997-98

	\$m
Value added at basic prices (a)	2,663
Gambling taxes	715
Value added at producers' prices (a)	3,378

(a) The estimates of value added at basic prices and at producers prices are approximations only. They are premised on the assumption that gambling taxes is a reasonable proxy for taxes less subsidies in the gambling industries.