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NSW and Gambling Revenue

by

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Briefing Paper No. 16/96

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ISSN 1325-5142

ISBN 0 7310 5957 3

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October 1997

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EXECUTIVE SUMMARY

- there has been a long history of government recourse to revenue from gambling (pp.4-5)
- racing, poker machine playing and lotteries have expanded significantly in New South Wales during the first half of the twentieth century, but racing has declined in recent years (pp.6-14)
- governments tend to look to revenue from gambling in periods of decline in business activity (pp.14-16)
- a basic economic and financial breakdown of gambling, and New South Wales government revenue from gambling, is presented (pp.16-21)
- NSW government revenue raising from racing, poker machine playing and lotteries has expanded significantly during this century (pp.21-33)
- the development of casinos in Australia and in New South Wales is outlined (pp.33-38)
- poker machine gambling is the biggest area of gambling but its contribution to government revenue is not that far ahead of revenue raised from racing and lotteries (pp.27-30)
- some issues connected with gambling are discussed - including government intentions towards revenue raising from gambling; the possible social impact of government revenue raising from gambling; and the possible social effects of this fiscal strategy (pp.39-47)

1 INTRODUCTION

Government revenue from gambling has grown significantly since the Great War of 1914-1918 when New South Wales first began to raise revenue from gambling in order to supplement the State's funds.

All state governments in Australia have come to increase their reliance on this source of income but it is probably of more significance in New South Wales because gambling appears to be more prevalent in NSW. Jan McMillen, in her thesis on casinos in Australia, has commented that,

By the 1970s NSW was well established as the 'gambling state', with more forms of legalised gambling and double the level of discretionary spending on gambling than any other Australian state. . .¹

By 1980-1981, according to McMillen, "gambling revenues in NSW provided 13.59% of total state taxation". Although, by the end of the 1980s, this percentage had declined slightly, revenue from gambling continued to constitute a significant proportion of the State's income and McMillen has added that, even by 1990, "gambling provided 10.1% of NSW tax receipts, the fourth highest after payroll tax, stamp duties and licences".²

Reliance on revenue from gambling continues and Access Economics, in one of its monthly corporate briefs, published this year, has commented that, as far as the finances of the Australian States are concerned, gambling "provides one of their few rapidly growing revenue sources."³

This paper surveys the development of revenue raising from gambling in New South Wales, particularly across the three main areas of gambling: racing, poker machines and lotteries. It outlines how state government income from these sources has grown. Finally it looks at the emergence of casinos in Australia and at some of the issues associated with government revenue from gambling.

¹ Jan McMillen, *Risky Business: The Political Economy of Australian Casino Development* (PhD Thesis, University of Queensland, 1993), p.255.

² *Ibid.*, p.268.

³ Stephen Ellis, "States Grow More Dependent on the Golden Goose" in the *Australian Financial Review*, 9 May 1996, p.4.

2 *PREVIOUS OCCURRENCES OF GOVERNMENT RECOURSE TO REVENUE FROM GAMBLING*

(a) *History of Government Use of Lotteries: As a Contribution to Government Revenue*

Recourse to revenue from gambling is centuries old. Professor John O'Hara has written that, in Britain,

England's first national lottery, held by Elizabeth I [was] a fund-raising exercise between 1567 and 1569. This lottery, which initially advertised a first prize of £5,000 and total prizes of around £100,000, was beyond the means of all but the wealthy. The lottery failed to inspire that group and failed to attract more than one-twelfth of the projected subscriptions, so the prizes had to be reduced accordingly. It did, however, fire the imagination of the lower classes who, in the seventeenth and eighteenth centuries, gave enthusiastic support to both less ambitious state-run national lotteries and the small-scale lotteries held at provincial fairs. . . . Support for the lotteries was so great that two legislative attempts were made (in 1669 and 1710) to restrict their growth and to ensure that government received a share of the profits. The acts had limited effect. They had no influence over the activities of the popular, small-scale, private lotteries, known as 'Little Goes', which the lower orders supported in ever-increasing numbers; and by the end of the eighteenth century state-run lotteries, the small-scale lotteries and insurance schemes disguised as lotteries became the subject of a parliamentary inquiry. The committee of inquiry, concerned with the extent to which lotteries attracted lower-class speculators and 'tempted [them] to their ruin', recommended the complete prohibition of lotteries.⁴

Although lotteries were suppressed in Britain during the Napoleonic Wars when, in the year that the Duke of Portland was Prime Minister, the *Lotteries Act 1809* was passed,⁵ their use was continued in other European countries. In 1903, Professor Charles Bastable, in his study of public finance, remarked that,

A more important but at the same time more questionable source of revenue is by many states derived from the receipts of lotteries conducted by the government. The tendency of the state to seek gain from the errors or vices of its subjects is very noticeable in the early period of financial history. Appeals were often made to men's absurd presumption in their own good fortune by the establishment of periodical lotteries in which the contributors, taken as a body were certain to lose. In many cases the lottery became a state monopoly. . . . Italy

⁴ John O'Hara, *A Mug's Game: A History of Gaming and Betting in Australia* (NSW University Press, Sydney, 1988), p.5.

⁵ *Ibid.*, p.45.

is the receiver of a large revenue from this source, the gross yield for 1901-2 being computed at 67,500,000 lire. Saxony, Hamburg, Spain and Hungary are also indebted to this system for a portion of their revenues. The objections are rather moral than economic, though the virtues weakened by the prevalence of gambling are the peculiarly economic ones of prudence and willingness to acquire wealth by labour. . .The pernicious effects of state sanction of the vice of gambling have led to the abandonment of the lottery system in. . .Hesse (1832), France (1836), Sweden (1840), Bavaria (1861) and Switzerland (1865).⁶

b) *History of Government Use of Lotteries: As Inducement to Public Subscriptions to Government Loans*

Government use of lotteries, in Britain, was also used as an inducement in government borrowing strategies.

In the third edition of his study on public finance, Professor Findlay Shirras wrote that, in Britain,

Lottery loans were first raised in the seventeenth century. The first loan of this kind drawn under the sanction of government authority was in the reign of James I. From 1688 to 1785 lotteries were used to encourage contributions to Government loans. The Lottery Annuity Loans of Queen Anne's reign (1710, 1711, 1712, 1713 and 1714) are good examples. In 1755 the first lottery was issued in aid of the revenue as a source of profit by allotting among contributors an amount of stock of less value than the total sum subscribed. From 1768 lotteries were a permanent source of revenue. All the loans contracted in the American War of Independence were connected with lotteries. In 1778, for example, in connexion with the loan of £6,000,000 there were 48,000 lottery tickets. Each subscriber of £1,000 received an equivalent amount of 3 per cent stock and an annuity for 30 years of £2 : 10s on each £100, which amounted to 5½ per cent for 30 years, together with the privilege of purchasing 8 lottery tickets for an additional payment of £80. After 1784 the practice of attaching elaborate lottery schemes to loan flotations was discontinued, but until 1823 a certain percentage of the annual requirements of the Exchequer was provided from the sale of lottery tickets. Between 1755 and 1826 lottery loans were resorted to no less than 55 times. The net income throughout the period (apart from loan receipts) was £12,000,000.⁷

⁶ C.F. Bastable, *Public Finance*, third edition (MacMillan, London, 1903), pp.234-235.

⁷ G. Findlay Shirras, *The Science of Public Finance*, Vol.II, third edition (MacMillan, London, 1936), p.885.

3 *THE EXPANSION OF RACING, POKER MACHINE PLAYING AND LOTTERIES IN NSW*

(a) *Racing: From the 1800s to the 1980s*

The first horse race in Sydney was held a little over twenty years after the arrival of the first ships from Britain. Associate Professor John O'Hara has outlined the inauguration and expansion of horse racing accordingly:

The first official colonial race meeting for thoroughbred race horses was held at Hyde Park in Sydney in October 1810. It was organised by officers of the Seventy-Third Regiment, with the official sanction of Governor Lachlan Macquarie. Although the meeting was recognised as a success and plans were laid to repeat the occasion, organised racing was dependent upon the military. When the Seventy-Third Regiment was replaced in 1814 racing went into recess. . .By the 1820s horse numbers and colonial enthusiasm had grown sufficiently to support a more regular racing schedule and permanent race clubs began to emerge to organise the sport. The short-lived Sydney Turf Club (1825-34) [was] the first. . .but. . .competition for control of the sport was contested by the Australian Racing and Jockey Club, the Parramatta Turf Club and the Agricultural Turf Club until the Australian Jockey Club (AJC) emerged as the dominant body in 1842. . .In New South Wales various suburban race tracks at Bellevue Hill, Grose Farm, Randwick, Homebush and Petersham were used in the 1830s and 1840s, and the beginnings of a country racing circuit was emerging at Hawkesbury, Campbelltown, Liverpool, Penrith, Maitland, Patricks Plains, Bathurst and Yass. . .In the 1850s the essential elements of racing were apparent throughout Australia, but only in Sydney was the sport fully established.⁸

Although racing became established in Sydney by the 1850s it was not thriving and this situation prompted those interested in its progress to consolidate and expand it. Martin Painter and Richard Waterhouse have written that,

by the later 1850s Sydney racing was in the doldrums. . .The 1859 Homebush meeting attracted representatives from 'sporting circles' but proved less popular with the general population. Other signs of decline were evident, too. The Parramatta and Camden races were now extinct, while the Liverpool and Campbelltown fixtures were reported as 'very sick' and 'poor' respectively. . .In 1858 the AJC began to take steps to reorganise itself and to acquire a new course ...Randwick. . .The first meeting conducted at Randwick under AJC auspices

⁸ John O'Hara, "Horse-Racing and Trotting" in Wray Vamplew and Brian Stoddart (eds.), *Sport in Australia: A Social History* (Cambridge University Press, Melbourne, 1994), pp.97-100.

proved a great success. More than 6,000 people attended. . .In the 1870s crowds of up to 12,000 were not uncommon at Autumn programs, while by the early 1900s numbers in excess of 12,000 were the norm for Easter race meetings. . .in the period from 1906. . .Randwick was transformed. . .Altogether the AJC spent some £370,000 on improvements in the period from 1906 to 1920. . .by 1920 crowds. . .numbered in the vicinity of 70,000 ...With onset of the Depression in 1929. . .Crowd numbers at Randwick fell dramatically. . .to less than 32,000 by 1935. . .crowds began to increase by the late 1930s. . .80,000 turned out for Derby Day in 1941. . .in the late 1940s Randwick was attracting huge crowds - a still-standing course record of 93,746 attended Doncaster Day in 1948. . .⁹

Trotting, which increased in popularity during the twentieth century as a secondary form of horse racing, was first staged properly in Sydney during the 1880s.¹⁰

Attendances at race meetings at Randwick, and at the many other racecourses in Sydney and in country New South Wales, have declined since the late 1940s. The advent of television, and transmission of race meetings, the significance of which will be commented on later in this note, has had a significant impact on crowd attendances on race days and John O'Hara has remarked that,

In the 1990s the main racecourses are often lonely places, with expensive facilities used by ever decreasing crowds. Most racing followers now choose to watch the events on television away from the track.¹¹

(b) *Poker Machines*

John O'Hara has described the origins of poker machines, and their introduction into Australia, as follows:

In the US the machines first appeared in 1887, gradually became more widespread between 1900 and 1920, and then began to boom after the addition of a jackpot. The concept of a jackpot, which offered the possibility of a large prize for a small outlay, made the poker machine acceptable. . .Some machines had appeared in New South Wales' hotels by 1921, when they were declared illegal by the full bench of the Supreme Court, but the ruling was sufficiently ambiguous to permit their continued operation in clubs, where the profits from the machines contributed to the club, rather than to an individual owner of a machine, or the owner of the premises on which they were used. So, throughout

⁹ Martin Painter and Richard Waterhouse, *The Principal Club: A History of the Australian Jockey Club* (Allen and Unwin, Sydney, 1992), pp.21-22,107-127.

¹⁰ O'Hara, op.cit., pp.103-104.

¹¹ O'Hara, op.cit. In Vamplew and Stoddart, op.cit., p.110.

the 1920s poker machines were increasingly common in New South Wales clubs where they operated without interference from the police gaming squad, but they were not permitted in hotels. The situation became somewhat confused between 1930 and 1931 when, in a series of moves, machines appeared briefly in hotels, were then removed from both hotels and clubs, and the reinstated in the clubs. In 1932 they reappeared in the hotels, supposedly under the control of the New South Wales hospitals commission, as a fund-raising venture, but the commission soon lost control of the scheme. After examination of the situation by a royal commission late in 1932, the machines were again removed from both hotels and clubs. By 1939 the poker machines had returned to the clubs, as it was clear that the 1921 judgment was still valid. Although their use was not widespread, clubs which permitted them gained up to £20,000 per year in profits from the machines.¹²

Legalisation of poker machines specifically in clubs was inaugurated by the Cahill Government which obtained passage of the *Gaming and Betting (Poker Machines) Act 1956*. The number of clubs authorised to have poker machines, and the number of poker machines in clubs within those clubs, has expanded over the years as follows:

	<i>Clubs</i>	<i>Poker Machines</i>
1957	952	5,596
1958	1,073	6,561
1959	1,135	7,289
1960	1,189	8,299
1961	1,228	9,614
1962	1,264	10,814
1963	1,274	12,229
1964	1,306	14,107
1965	1,335	16,273
1966	1,365	18,326
1967	1,394	19,617
1968	1,420	21,873
1969	1,438	24,004
1970	1,442	26,636
1971	1,453	29,887
1972	1,467	32,411
1973	1,475	34,709
1974	-	-
1975	1,494	40,264
1976	1,507	43,126
1977	1,506	44,400
1978	1,525	45,519

¹² O'Hara, op.cit., pp.198-199.

1979	1,534	47,182
1980	1,532	48,439
1981	1,539	49,208
1982	1,543	49,369
1983	1,547	48,285
1984	1,553	47,434
1985	1,544	47,314
1986	1,541	46,689
1987	1,530	47,963
1988	1,535	48,782
1989	1,521	50,705
1990	1,501	52,353
1991	1,499	54,992
1992	1,487	57,197
1993	1,468	58,734
1994	1,453	59,650 ¹³

By the early 1990s an estimated 2 million people in New South Wales were members of registered clubs and, each day, an estimated 330,000 people visited those clubs.¹⁴

(c) *Lotteries and Lotto*

During the mid-1800s the outlook of British legislators in the colonies in Australia paralleled that of their contemporaries at home, and indeed the New South Wales Legislative Council approved a Bill which became the *Lotteries Act 1852* and outlawed lotteries in the colony.

Despite these efforts to suppress lotteries in NSW, they re-surfaced in other forms. John O'Hara outlined their development accordingly:

new forms of gambling speculation. . . were establishing themselves in the 1870s. These included sweepstake consultations. . . sweepstakes. . . were speculations, usually on horse races, which involved the sale of a large number of tickets, some of which were allocated by lot, the horses entered to contest a particular event. The holder of the ticket which drew the winning horse received a large cash prize, and the holders of the other tickets successful in drawing horses received consolation prizes. Originally these sweepstakes were small-scale amusements generally run by clubs or among the regular clientele of hotels, but gradually some of the better patronised sweeps began to expand by advertising

¹³ *New South Wales Gaming Analysis* (NSW Department of Gaming and Racing, Sydney, NSW, 1995), p.19. Figures for 1974 are not available.

¹⁴ Mark Tindale, *The Sydney Casino*, research project (Bachelor of Applied Science in Land Economics, University of Technology Sydney, 1993), p.6.

publicly. . .In Sydney, from 1878, George Adams, who was to become Australia's leading gambling entrepreneur, was building the reputation of his Tattersalls Sporting Club sweeps at O'Brien's Hotel in preparation for his first public sweep in 1881. . .¹⁵

O'Hara has described the measure taken by governments, and their impact, as follows:

to deal with Adams and other sweepstake operators. . .the New South Wales government regulated against 'the delivery of letters containing sweep money', and George Adams, along with his main rival Humphrey Oxenham, moved to Brisbane ...the Queensland government in 1895 enacted a bill which defined sweepstakes as a form of lottery, and accordingly outlawed them. Adams. . .was prepared for this legislation. For two years he had been negotiating with the Tasmanian government in an effort to secure a base free from legislative or executive regulation attack... He sought a deal. . .which would give him a licence to operate his Tattersalls sweeps from Tasmania. . .he was promised the introduction of the necessary legislation and the support of Premier Braddon. . .Braddon kept his promise and introduced a bill which would permit the licensing of Tattersalls, but which, apparently with some irony, became the Suppression of Public Betting and Gaming Act. The apparent contradiction here is reconciled when it is realised what Braddon hoped to achieve. By introducing legislation which permitted the licensing of lotteries or sweepstakes, he was not promoting the introduction of more gaming outlets. His aim was to suppress the existing facilities by refusing them licences, while supporting Tattersalls which could be carefully supervised and controlled by licensing regulations issued under the Act. . .Although the Act took effect from January 1897, Adams had to wait another six months before he was able to conduct his first horse racing sweep under licence from the Tasmanian government.¹⁶

Although one colony had countenanced a lottery, the others had yet to follow.

The prohibition on lotteries in New South Wales was continued just after the turn of the century when, in 1901, the year that Sir John See replaced Sir William Lyne as premier, the NSW Parliament approved the passage of the *Lotteries and Art Unions Act 1901*.¹⁷

¹⁵ O'Hara, op.cit., pp.77-78.

¹⁶ O'Hara, op.cit., pp.100-102.

¹⁷ According to O'Hara, this legislation was passed at a time when the churches in Sydney were prevailing upon the, now, state government not to promote the "betting evil". See O'Hara, op.cit., p.137. Art unions were originally organised in Britain, in the 1800s, for the purposes of raising funds for the purchase of works of art. The legal basis for these activities was provided for, in Britain, by the *Art Unions Act 1846* and in the then British colony of New South Wales by the *Art Unions Act 1850*.

An emergency situation, this time the Great War in Europe of 1914-1918, induced another of the now states to introduce a lottery. John O'Hara has written that,

The decision which provided the precedent for these developments was taken in Queensland in 1916 when the Ryan Labor Government introduced the 'Golden Casket' lottery. . .the first five draws were to raise funds for the war council. . .The first 'Golden Casket' for which tickets went on sale at cost of five shillings and sixpence each on 1 December 1916, was closed on 31 May 1917. . .the first prize winner received £6,000 and other subscribers shared a further £7,000. . .Once the war was over, revenue from the Golden Casket was used to provide funds for Anzac cottages and nurses quarters and, from 1920, for the Queensland hospital system.¹⁸

Only fifteen years later, New South Wales began to countenance the introduction of a lottery. According to O'Hara,

In New South Wales in 1921 some local branches of the ALP and some hospitals urged Labor treasurer Jack Lang to institute a state lottery on the Queensland model, and the chief secretary commissioned an accountant to report on both the Golden Casket and Tattersalls operations. The government statistician was required to furnish reports on the Italian and Spanish state lotteries. . .The police were requested to draw up a list of people who could act as agents to sell lottery tickets and the parliamentary draftsmen prepared a bill for submission to the parliament. But despite all this activity, the chief secretary did not consider the lottery bill a matter of urgency and it was not proceeded with before the fall of the Labor government in 1922.¹⁹

In 1930, however, with the onset of the Depression significantly affecting state revenue, the Lang Government obtained passage of the *State Lotteries Act 1930* to introduce state run lotteries as a revenue raising measure to cover a shortage in funding for NSW hospitals. The Act was proclaimed in June 1931 and the first state lottery was held in August of that year. Tickets in that lottery were 5 shillings and 3 pence, and the first prize was £5,000.

In 1947 the McGirr Government increased the prices of lottery tickets to 5 shillings and 6 pence, and raised the first prize to £12,000.

In 1954 the Cahill Government introduced the "Mammoth Lottery" with tickets priced at £1 and a prize of £30,000. Two years later, in 1956, the Cahill Government changed the Mammoth Lottery to the Jackpot Mammoth Lottery. Tickets remained at £1 and the first prize would be £30,000. There would also be a jackpot prize - the jackpot starting

¹⁸ Ibid., p.171.

¹⁹ Ibid., pp.171-173.

at £4,000 until it reached £20,000. In 1957 the Cahill Government changed the name of the lottery to the Jackpot Lottery.

When the Cahill Government undertook to build the Sydney Opera House it also chose to fund the venture by means of a lottery and the Opera House Lottery was inaugurated in November 1957. Tickets in the lottery were £5 and the first prize was £100,000.

In 1963 the Heffron Government changed the name of the government lottery once more - to the New Jackpot Lottery.²⁰

In the early 1970s a new form of lottery was introduced in Australia when, as John O'Hara has described,

In 1972 Victoria permitted Tattersalls to operate lotto, a new type of number s game, derived from the numbers games popular in Europe in the 1960s. It was modified a little by Tattersalls, in the interests of excitement, to permit the on-camera selection by a machine of seven numbers between one and forty. Players receive[d] dividends if they correctly forecast[ed] at least four of the numbers. The 'Tattslotto' system ensured a regular supply of small prizes and a jackpotting of major prizes, so that on occasion an individual winner might receive a sum in excess of \$1 million.²¹

In 1974 the Askin Government introduced a new Ten Dollar Lottery with tickets priced at \$10 and a prize of \$250,000. Two years later, during the year that the Wran Government was elected, the prize for the Ten Dollar Lottery was increased to \$500,000.

Neville Wran, after becoming Premier in 1976, likewise turned to lotteries as a source of furthering state revenue. Just after gaining office, he endorsed the establishment of casinos in Sydney. Sean Brawley has written that, despite this announcement, however,

During Wran's first term in office his economic advisers advocated that a Lotto game rather than a legalised casino was the best way to increase government revenue from gambling. In Australia, Lotto systems had commenced in Victoria... and had proved very popular.²²

In 1979 the Wran Government obtained passage of the *Lotto Act 1979* to inaugurate

²⁰ A Part of Australia's History (NSW Lotteries, Sydney, 1991).

²¹ O'Hara, op.cit., p.200.

²² Sean Brawley, *Beating the Odds: Thirty Years of the Totalisator Agency Board of New South Wales* (Focus Publishing, Sydney, 1995), p.165; Jan McMillen, *Risky Business*, p.260

Lotto in New South Wales.²³ The first Lotto Draw took place on television in November 1979. The first division prize for the inaugural draw was \$384,975.

A year later, in 1980, the Wran Government introduced a new state lottery prize. Tickets were \$20 and the prize was \$1,000,000 - the name given to the lottery, accordingly, being the Million Dollar Lottery.

In 1981 the NSW Lotteries conducted a Golden Jubilee Lottery with tickets priced at \$25 and a first prize of \$500,000.

In 1982 the Wran Government introduced instant lotteries. Tickets were sold through newsagents.

Two years later, in 1984, the Wran Government lifted the ceiling on the jackpot lottery prize - the prize being allowed to accumulate by increments of \$8,000 per lottery until it was won outright. This allowed for bigger prizes to be won, with \$792,000 being won in 1985.

In November 1984 the Wran Government introduced a mid-week Lotto draw.

In 1986 the Half Million Dollar and Million Dollar lotteries were redesigned and ticket prices halved.

During 1987 the Unsworth Government putting Lotto on an on-line basis with the on-line system phased in during 1988 to cover all parts of New South Wales.

The Greiner Government, after its election in 1988, reformatted the Jackpot Lottery allowing for more cash prizes and a \$20,000 per lottery jackpot component. The number of tickets issued per lottery was increased from 100,000 per lottery to 150,000. In 1989 a jackpot prize of \$4,120,000 was won.

In 1989 the Greiner Government changed the range of numbers in the Lotto draw from 40 to 44. By 1990 the standard Lotto prize was \$1 million for the main drawing, on Monday, and \$500,000 for the mid-week prize.²⁴

(d) Soccer Pools and Keno

Against the background of the growth, in Britain, of commercialised gambling on the outcomes of football matches, the Askin Government allowed the Australian Soccer Pools company to establish operations in Sydney in 1975. The reasons why the Pools has not emerged as a major avenue of gambling have been that, according to John

²³ Brawley, op.cit., p.169.

²⁴ c

O'Hara,

the variety of football codes throughout the nation, and single-minded loyalties of the majority code followers in each state, meant that it was not possible to base Australian football pools on Australian football results. The decision to use British soccer results doomed the pools to a minor role, catering only for the diehard gamblers. By the early 1980s, pools had been forced to change its operations to become a simple numbers game. . .²⁵

In May 1989 the NSW Lotteries took over the pools game. It continues to have only a low profile in Australian gambling.

Keno was introduced into registered clubs in New South Wales in 1991. By mid-1994 it was available in 611 registered clubs in NSW. Keno is a game of selecting winning numbers on an entry card which has 80 available numbers.²⁶

4 THE CIRCUMSTANCES OF GOVERNMENT INCLINATION TOWARDS GAMBLING AS A SOURCE OF REVENUE

(a) 1900s-1930s

Periods of recession are often those in which governments turn to revenue from gambling. Government revenue generally tends to come from businesses and from individuals who are, in many ways, encompassed in the realm of business - either as business people or workers. When businesses prosper, revenue can be maintained. When they subside, revenue falls. According to Mario Puzo, it was this situation which caused the Nevada State Legislature, which had passed a law in 1910 outlawing gambling in public, to reverse its position in 1931 and legalise gambling.²⁷

As outlined above, in the case of New South Wales, it was likewise during the onset of the 1930s depression, with businesses collapsing and government revenue declining, that the Lang Government introduced a state lottery.

(b) 1950s-1960s

However it is not always during times of recession that governments turn to gambling as a source of revenue. When the Cahill Government expanded the scope of the NSW

²⁵ O'Hara, op.cit., p.200.

²⁶ *New South Wales Gaming Analysis*, p.30.

²⁷ Mario Puzo, *Inside Las Vegas* (Grosset and Dunlap, New York, 1976), pp.32,46.

Lottery during the 1950s, it do so during a period of relative prosperity. State run lotteries were introduced in the USA during the mid-1960s - again a period of relative prosperity in the USA. Ann Hansen, in her 1995 article on the Colorado state lottery , noted that,

Since the 1964 introduction of the first state-operate d lottery by New Hampshire, 36 states and the District of Columbia have adopted this form of taxation.²⁸

It does appear, though, that periods of recession have intensified the recourse to thi s form of revenue.

(c) 1970s-1990s

In the years since the Second World War, it was the 1973-1974 international recession, partly caused by Arab countries raising the price of a barrel of oil from \$2.59 to \$11.65, which led to the first major decline in business activity since the 1930s.

In the USA, the leading industrial nation in the world, this recession had the following impact, as outlined by Jonathan Hughes,

since the mid-1970s, the country has been alarmed by successive crises involving manufacturing industry. Great and famous industrial plants like Firestone's tyre plant in Dayton, Ohio, and US Steel's giant Chicago South works have been left by their owners to rust. Steel and automobiles, the core industries of the American economy, were in deep trouble Steel had been the metal of twentieth century industrialisation. By 1950, nearly 47 per cent of world output was made in the United States. By the 1980s, the American share of world output was one-tenth of the total. in motor vehicle production. Motor vehicle imports reached 27 per cent by 1981.²⁹

It would seem that it was in response to declining revenue from business, as a result of the 1974-1976 recession, that governments in the USA decided to turn to revenue from gambling. Mary Borg, Paul Mason and Stephen Shapiro in their 1990 article on casino gambling in the USA, state that

until 1976, Nevada was the only place in the United States where one could find a legal casino. Since then, however, New Jersey became the second state t o legalise gambling, although only. . .in Atlantic City. Casino gambling is no w found on Indian reservations in North Dakota and. . .Several other states have

²⁸ Ann Hansen, "The Tax Incidence of the Colorado State Lottery Instant Game" in *Public Finance Quarterly*, vol.23, no.3, July 1995, p.385.

²⁹ Jonathan Hughes, *American Economic History*, third edition (Scott Foresman, Glenview, Illinois, 1990), pp.558-559.

proposed limited legalised casinos. . . ³⁰

While not so important for federal revenue in the USA, lotteries have become important for state governments in the USA. The main form of these lotteries is lotto. John Scoggins has observed that,

State-operated lotteries have become an important source of revenue for several state governments. The single most popular and profitable type of game offered by the different state lottery agencies [is] called lotto. ³¹

In New South Wales, not only was it during the 1930s depression that the first state lottery was introduced, it was during the period of the 1974-1977 recession that the Wran Government set out to introduce Lotto, and it was in 1980, just after Iran raised the price of oil even higher, contributing to a recession during 1980-1982, that the Wran Government increased the Lottery prize to \$1 million and introduced \$20 lottery tickets. It was in 1982, with the recession continuing, that the Wran Government introduced instant lotteries.

5 BASIC ECONOMIC AND FINANCIAL BREAKDOWN OF GAMBLING , AND GOVERNMENT REVENUE FROM GAMBLING, IN NEW SOUTH WALES

(a) Economic Definitions and Descriptions of Goods

In the economic representation of production and consumption, goods are defined by their position in consumption. In their outline of the operation of demand in an economy, John Jackson and Campbell McConnell provide the following conventional economic definitions and descriptions of goods:

The impact of changes in money income upon demand is more complex. For most commodities, a rise in income will cause an increase in demand. Consumers typically buy more shoes, steaks, stereos and Scotch as their incomes increase. Conversely, the demand for such products will decline in response to a fall in incomes. Commodities whose demand varies directly with money income are called *superior*, or *normal*, goods. Although most products are normal goods, there are a few exceptions. Examples: As incomes increase beyond some point, the amounts of bread or potatoes or cabbages purchased at each price may

³⁰ Mary Borg, Paul Mason and Stephen Shapiro, "An Economic Comparison of Gambling Behaviour in Atlantic City and Las Vegas" in *Public Finance Quarterly*, Vol.18, no.3, July 1990, p.292.

³¹ John Scoggins, "Upping the Ante for Lotto: A Strategy for Enhancing State Revenues" in *ibid.*, Vol.22, no.2, April 1994, p.258.

diminish because the higher incomes now allow consumers to buy more high protein foods, such as dairy products or meat. Similarly, rising incomes may cause the demands for minced beef and apples to decline as wealthier consumers switch to rump steak and strawberries. Goods whose demand varies *inversely* with a change in money income are called *inferior* goods.³²

(b) *Economic Definition, as a Good, of a Bet or Lottery Subscription*

In her study of the Colorado state instant lottery, Ann Hansen places instant lottery tickets as an inferior good: people on higher incomes tend to buy fewer lottery tickets. She has outlined the scope of her study, and its findings, as follows:

Data on the population, number of sales outlets, and sales of instant scratch game tickets from February 20, 1989 to February 25, 1990 for the 63 counties of Colorado were obtained from the Colorado Lottery. This time period spanned six games and ran concurrently with the weekly 6/42 lottery. Income data were obtained from The Survey of Current Business (US Bureau of Economic Analysis 1991). Other demographic variables were obtained from the County and City Data Book (US Department of the Census 1988). Average ticket purchases systematically fall as one moves up the income scale. There is some evidence that instant game tickets are an inferior good. Although average per capita sales do not decline monotonically as higher income groups are considered, a general pattern of lower sales for higher income groups is discernable. Mean per capita sales are lowest for the 11 richest counties and highest for the 11 poorest.³³

In other areas of gambling this does not entirely hold true. John O'Hara has written, in regard to gambling by the rich in England, in previous centuries, that

For the gentry, gambling, whether gaming or betting, was important as a show of wealth rather than as an attempt to increase that wealth. . . For these gamblers, losing large stakes was just as important as winning.³⁴

Indicating to other wealthy people, that one possessed substantial wealth oneself, by being seen to be capable of gambling substantial sums of money, appears to continue to be a feature of gambling by the wealthy both at the racecourse and at casinos.

This would, however, not seem to be a consideration taken into account by those on low incomes, when they gamble.

³² John Jackson and Campbell McConnell, *Economics*, second Australian edition (McGraw Hill, Sydney, 1985), p.48.

³³ Hansen, op.cit., pp.387-388.

³⁴ O'Hara, *A Mug's Game*, p.4.

(c) *The Loss Incurred in Making a Bet or in Taking a Lottery Subscription*

Betting is an arena of venture which has been established to have an outcome that people, generally, will lose rather than gain.

In a report prepared on the likely impact, on registered clubs, of allowing casinos to have poker machines, Peter Swan provided the following outline of the basic financial impact, on an individual, of making a gamble on a poker machine contrasted with making a wager in other areas of gambling such as lotto:

The 'price' of a gamble is the share or percentage of the gross turnover or amount wagered retained by the provider of the gambling service after winnings have been paid out. . .The ratio of expenditure to turnover equals the price of the gamble... For poker machines played in a registered club in New South Wales the price is generally about 13 per cent. . .That is, for each \$1 put through a poker machine the gambler can expect to lose 13 per cent, that is to get back 87 per cent. . .The price of 13 per cent for poker machines is actually quite low compared with many other forms of gambling. For example with most forms of lottery the price will be in the range of 36 to 50 per cent. To take one particular form of lottery, lotto, the turnover in 1990-91 for NSW was \$343.839 million with an expenditure of \$137.536 million so that prizes paid totalled \$206.303 million. The effective 'price' that lotto participants paid was 40 per cent which is the ratio of expenditure to turnover.³⁵

(d) *Gambling Turnover in New South Wales from the early 1970s to the early 1990s*

Gambling turnover, as indicated in the previous sub-section, is the amount of money gambled collectively, by all those who gamble, including the re-gambling of winnings received. The figures for financial years 1972-1973 to 1994-1995, as compiled by the Tasmanian Gaming Commission, are as follows:

1972-1973	\$2.318 billion
1973-1974	\$2.738 billion
1974-1975	\$3.711 billion
1975-1976	\$4.222 billion
1976-1977	\$4.581 billion
1977-1978	\$4.991 billion
1978-1979	\$5.496 billion
1979-1980	\$6.306 billion
1980-1981	\$7.141 billion

³⁵ Peter Swan, *Report on the Likely Effect of Slot Machines in a Casino on the Operations and Viability of the Registered Club and Hotel Industries* (Swan Consultants, Sydney, 1992), p.15.

1981-1982	\$7.741 billion
1982-1983	\$7.943 billion
1983-1984	\$8.368 billion
1984-1985	\$8.902 billion
1985-1986	\$9.661 billion
1986-1987	\$10.779 billion
1987-1988	\$11.799 billion
1988-1989	\$14.472 billion
1989-1990	\$15.678 billion
1990-1991	\$17.540 billion
1991-1992	\$18.413 billion
1992-1993	\$19.603 billion
1993-1994	\$24.464 billion
1994-1995	\$28.263 billion ³⁶

(e) Individual Gambling and Re-Gambling of Winnings

According to the members of the Australian Institute of Gambling Studies there are 4.512 million people in New South Wales who are eligible to gamble.³⁷ \$28.263 billion divided by 4.512 million appears to give an aggregate, approximate, amount for each person eligible to gamble in New South Wales of around \$6,200. That is, on average, the sum which each person eligible to gamble in New South Wales initially outlays for gambling, together with the amount of their winnings which they receive and gamble again, seems to be in the vicinity of around \$6,200 a year.

(f) Money Lost on Gambling in New South Wales from the early 1970s to the early 1990s

The amount of money lost on gambling, as outlined in sub-section (c) above, is formally defined as “gambling expenditure”. Gambling expenditure is the amount of money gambled collectively (including the re-gambling of winnings) *minus* the prizes (large and small) collectively returned to those who gamble. According to the figures produced by the Tasmanian Gaming Commission, the figures for actual total New South Wales gambling expenditure from financial year 1972-1973 to 1994-1995 are as follows:

1972-1973	\$289.6 million
1973-1974	\$341.1 million

³⁶ Tasmanian Gaming Commission, *Australian Gambling Statistics 1972-73 to 1994-1995* (Tasmanian Gaming Commission, Hobart, 1996), table 5, “New South Wales Gambling Turnover”.

³⁷ Australian Institute of Gambling Research, *An Examination of the Socio-Economic Effects of Gambling on Individuals, Families and the Community including Research into the Costs of Problem Gambling in New South Wales*, report prepared for the Casino Community Benefit Fund Trustees (University of Western Sydney: MacArthur, Sydney, 1966), p.26.

1974-1975	\$469.8 million
1975-1976	\$547.1 million
1976-1977	\$595.8 million
1977-1978	\$652.5 million
1978-1979	\$720.2 million
1979-1980	\$834.8 million
1980-1981	\$955.6 million
1981-1982	\$1.031 billion
1982-1983	\$1.094 billion
1983-1984	\$1.163 billion
1984-1985	\$1.256 billion
1985-1986	\$1.369 billion
1986-1987	\$1.513 billion
1987-1988	\$1.659 billion
1988-1989	\$2.021 billion
1989-1990	\$2.183 billion
1990-1991	\$2.455 billion
1991-1992	\$2.580 billion
1992-1993	\$2.741 billion
1993-1994	\$2.917 billion
1994-1995	\$3.283 billion ³⁸

(e) Individual Loss on Gambling in New South Wales

The aggregate amount lost by individuals in New South Wales (the aggregate amount gambled and re-gambled *minus* the aggregate amount of winnings returned) has been estimated by the members of the Australian Institute for Gambling Research, in their report on the effects of gambling, as follows,

Total expenditure on gambling in New South Wales in 1993/94 was \$2,918.1 million. . . With 4.512 million of the NSW population eligible to gamble, the average loss per head was \$646.70.³⁹

(f) Government Revenue from Gambling in New South Wales

The overall figures for NSW government revenue from gambling, for financial year 1972-1973 to financial year 1994-1995, according to the statistics from the Tasmanian Gaming Commission, are as follows:

³⁸ *Australian Gambling Statistics 1972-73 to 1994-95*, table 6, "New South Wales Gambling Expenditure".

³⁹ Australian Institute for Gambling Research, *ibid.*

1972-1973	\$98.4 million
1973-1974	\$114 million
1974-1975	\$151.8 million
1975-1976	\$181.7 million
1976-1977	\$200.5 million
1977-1978	\$217.6 million
1978-1979	\$239.1 million
1979-1980	\$288.4 million
1980-1981	\$333.3 million
1981-1982	\$365.9 million
1982-1983	\$427.6 million
1983-1984	\$478.6 million
1984-1985	\$501.5 million
1985-1986	\$556.2 million
1986-1987	\$597.7 million
1987-1988	\$665.9 million
1988-1989	\$726.6 million
1989-1990	\$812.3 million
1990-1991	\$856.1 million
1991-1992	\$881.3 million
1992-1993	\$923.1 million
1993-1994	\$1.01 billion
1994-1995	\$1.07 billion ⁴⁰

6 THE EXPANSION OF NSW GOVERNMENT REVENUE RAISING FROM GAMBLING: BY CATEGORY

(a) Racing

Following the passage, in Britain, of the *Betting Act 1853* by the government of the Earl of Aberdeen, off-course betting in the nineteenth century, particularly in private houses where individuals had gathered together for such purposes, had been banned and betting was confined to racecourses.⁴¹ A good deal of illegal gambling, however, occurred at various betting shops in the city of Sydney. In 1891, for instance, it was estimated that there were 35 betting shops in the city area.⁴²

There was a great deal of public concern over the activities of the illegal betting establishments and Martin Painter and Richard Waterhouse have written that, following

⁴⁰ *Australian Gambling Statistics 1972-73 to 1994-95*, table 107, "Government Revenue from Racing and Gaming".

⁴¹ O'Hara, *op.cit.*, p.44.

⁴² Painter and Waterhouse, *op.cit.*, p.44.

the state election of 1905 the Carruthers Government,

felt compelled to act. The 1906 Gaming and Betting Act was the result. It clarified the law to permit betting on the racecourse, introduced new measures to stamp out street betting and the betting shops and placed restrictions on the number of race meetings held in Sydney.⁴³

Six years later, the first ALP government in New South Wales, led by James McGowen, secured passage of the *Gaming and Betting Act 1912* as a basis for the administration of horse-racing and trotting in New South Wales. Racecourses had to be licensed for the holding of race meetings; the number of days on which races could be held were limited; and provisions were included for setting the length of race tracks.⁴⁴

In 1915 a new levy on racing clubs was imposed to include a portion of the licence fees that the clubs received from bookmakers. A stamp duty was also levied on betting tickets and an annual levy on individual bookmakers was introduced.⁴⁵

Betting under the totalisator system was inaugurated in New South Wales in the middle of the Great War 1914-1918 by the Holman Government which obtained passage of the *Totalisator Act 1916*. As Painter and Waterman recall,

The Bill was presented by the government as a revenue measure made necessary by the strictures of wartime; emphasis was placed on the revenue gains of a proposed 10 per cent deduction from investments. Earlier proposals had stressed the revenue gains for racing clubs, with the proviso that a surplus could be provided for charitable purposes such as donations to hospitals. Now it was simply a taxation provision. As a result all clubs were compelled by the Bill to install the totalisator to maximise government revenue. An amount of three per cent of turnover . . . was set aside for the clubs to cover running expenses, and a further 1 per cent was put into a sinking fund to assist in installing totalisators on racecourses. Initial estimates of the revenue from the totalisator were not realised, partly because of delays in installation and inadequate facilities at some racecourses and partly because many punters preferred to patronise the bookmaker. Revenue in 1917-18 was £82,802 as against an estimate of £150,000. The auditor-general reported that there was a 'lack of public confidence in the totalisator'. After reaching a peak of £281,817 in 1922, revenue gradually declined for the rest of the decade.⁴⁶

⁴³ Ibid., p.46.

⁴⁴ *Official Year Book of New South Wales 1913* (NSW Government, Sydney, 1914), p.607.

⁴⁵ Ibid.

⁴⁶ Ibid., p.55.

In 1921 a new tax was imposed on racecourse admission charges.⁴⁷

By 1922 the then Fuller Government in New South Wales was receiving around £547,000 in racing taxes.⁴⁸

The 1920s saw the expansion of another form of racing - greyhound racing. Technological innovation provided a further stimulus to off-course betting. Painter and Waterman have written that,

The late 1920s and early 1930s also saw a boom in off-course betting. One stimulus was the advent of the wireless, which provided off-course punters and bookmakers with form, tips, and the latest prices and results.⁴⁹

The depression of the 1930s, and the mass unemployment which prevailed, saw the returns to the racing clubs decline during the early 1930s but, towards the end of the decade, with a revival in conditions, punters had returned to the racecourses and John O'Hara has written that, "New South Wales revenue from betting was approaching £500,000 per annum by 1937".⁵⁰

After the second world war, the first major changes to horse-race betting came in the 1960s. At the beginning of the 1960s, in Britain, the Conservative Party government, led by Harold Macmillan, had obtained passage of the *Betting and Gaming Act 1960*, which legalised off-course cash betting in bookmakers' offices.⁵¹ In 1963, in New South Wales, the Heffron Government established a royal commission to investigate the establishment of off-course totalisator betting. Opposition to the establishment of such totalisator agency betting came from bookmakers who wanted to be able to establish off-course bookmaking operations. Certain groups, including the Liberal Party, then in opposition, advocated legalising the illegal starting price (SP) bookmakers.

Reg Downing, the attorney-general in the Heffron Government, gave his strong support to the totalisator agency proposal, and the Heffron Government subsequently obtained

⁴⁷ Ibid., p.74.

⁴⁸ Ibid.

⁴⁹ Ibid., p.69.

⁵⁰ O'Hara, op.cit., pp.221-222. Gambling on horse racing had expanded significantly in Britain, likewise, and during the period just after the Second World War continued to be the biggest area of gambling there. A British private research company estimated that in 1947, for example, £400 million was gambled on horse racing in the UK. In 1948 the Labour Party government, led by Attlee, introduced a betting tax but exempted betting on horse racing. See B. Seebohm Rowntree and G.R. Lavers, *English Life and Leisure: A Social Study* (Longmans Green and Company, London, 1951), pp.123-124.

⁵¹ David Dixon, *From Prohibition to Regulation: Bookmaking, Anti-Gambling and the Law* (Oxford University Press, London, 1991), p.1.

the passage of the *Totalisator (Off-Course Betting) Act 1964* which established the NSW Totalisator Agency Board (TAB).⁵²

When the TAB started its operations it only had six branches. By 1969, under the Askin Government, the number of branches and agencies had expanded to 333. In 1970 the TAB awarded a contract to IBM for a computer system and programming. This system became

operational in 1973 and then provided for the processing of 540,000 bets an hour.⁵³

In the early 1980s the Wran Government obtained passage of the *Totalisator (Off-Course Betting) Amendment Act 1982* which provided for the introduction of TAB facilities on licensed premises.⁵⁴ A year later the Wran Government provided for betting on rugby league games through the introduction of FootyTAB.⁵⁵

In 1988, during the year that the Greiner Government was elected, SKY channel was introduced - especially to broadcast races to hotels and clubs. Brawley has remarked that, "The PubTAB service area and the SKY monitors changed the focus and atmosphere of many hotels and clubs."⁵⁶ Painter and Waterman have noted that "by 1989, there 553 TAB agencies in clubs and hotels."⁵⁷

The turnover of gambling on racing (initial outlays on betting plus re-gambling of winnings) - primarily through the off-course TAB - from financial year 1972-1973 to 1994-1995 has been estimated by the Tasmanian Gaming Commission as follows:

1972-1973	\$834.1 million
1973-1974	\$973.6 million
1974-1975	\$1.232 billion
1975-1976	\$1.335 billion
1976-1977	\$1.399 billion
1977-1978	\$1.596 billion
1978-1979	\$1.760 billion
1979-1980	\$2.071 billion
1980-1981	\$2.227 billion
1981-1982	\$2.497 billion
1982-1983	\$2.556 billion
1983-1984	\$2.727 billion
1984-1985	\$2.886 billion
1985-1986	\$3.291 billion

⁵² Ibid., p.94.

⁵³ Brawley, op.cit., pp.53,145; Painter and Waterman, ibid.

⁵⁴ Brawley, op.cit., p.192.

⁵⁵ Ibid., p.196.

⁵⁶ Ibid., p.194.

⁵⁷ Ibid.

1986-1987	\$3.639 billion
1987-1988	\$3.893 billion
1988-1989	\$4.508 billion
1989-1990	\$4.798 billion
1990-1991	\$4.941 billion
1991-1992	\$4.797 billion
1992-1993	\$4.574 billion
1993-1994	\$4.529 billion
1994-1995	\$4.708 billion ⁵⁸

The total amount lost by people gambling on races in New South Wales - the difference between initial outlays on betting, plus repeated gambling of winnings received, *minus* the winnings returned to those people, has been calculated by the Tasmanian Gaming Commission accordingly:

1972-1973	\$82.0 million
1973-1974	\$95.7 million
1974-1975	\$128.4 million
1975-1976	\$142.6 million
1976-1977	\$150.3 million
1977-1978	\$177.1 million
1978-1979	\$195.4 million
1979-1980	\$224.3 million
1980-1981	\$241.1 million
1981-1982	\$268.7 million
1982-1983	\$278.5 million
1983-1984	\$307.5 million
1984-1985	\$344.8 million
1985-1986	\$400.5 million
1986-1987	\$438.6 million
1987-1988	\$488.8 million
1988-1989	\$579.3 million
1989-1990	\$617.6 million
1990-1991	\$657.1 million
1991-1992	\$650.9 million
1992-1993	\$609.1 million
1993-1994	\$595.2 million
1994-1995	\$665.8 million ⁵⁹

⁵⁸ *Australian Gambling Statistics 1972-73 to 1994-95*, table 1, "New South Wales Racing Turnover".

⁵⁹ *Australian Gambling Statistics 1972-73 to 1994-95*, table 3, "New South Wales Racing Expenditure".

By far the greatest part of revenue obtained by the NSW Government from betting on racing is from revenue raised on betting at the off-course totalisator agencies (colloquially known as the off-course TAB). Thus in financial year 1990-1991, out of \$312 million raised by the NSW government in revenue from betting on racing, ACIL Australia has estimated that only \$12.4 million was obtained from the activities of bookmakers and only \$45 million from the on-course totalisator.⁶⁰

The proportion of money bet at the TAB which is to be returned to the NSW government is set out in the *Totalisator (Off-Course Betting) Act 1964* as subsequently amended. In the case of money collectively outlaid at the TAB on win and place bets, for example, the Act currently states that, after prize money is returned to those whose bets were successful, “6.75 per cent must be paid as commission to the Minister to be credited to the Consolidated Fund; and... 7.5 per cent may be retained as commission by the Board”.⁶¹

The figures, inclusively, for financial years 1972-1973 to 1994-1995 are as follows with revenue from off-course totalisator (off-course TAB) sales included in brackets:

	<i>Total</i>	<i>(off-course TAB sales)</i>
1972-1973	\$35 million	(\$24 million)
1973-1974	\$41 million	(\$28 million)
1974-1975	\$54 million	(\$37 million)
1975-1976	\$66 million	(\$47 million)
1976-1977	\$73 million	(\$53 million)
1977-1978	\$82 million	(\$61 million)
1978-1979	\$89 million	(\$66 million)
1979-1980	\$103 million	(\$73 million)
1980-1981	\$109 million	(\$78 million)
1981-1982	\$121 million	(\$85 million)
1982-1983	\$131 million	(\$91 million)
1983-1984	\$149 million	(\$98 million)
1984-1985	\$163 million	(\$109 million)
1985-1986	\$187 million	(\$128 million)
1986-1987	\$205 million	(\$140 million)
1987-1988	\$230 million	(\$162 million)
1988-1989	\$266 million	(\$189 million)
1989-1990	\$291 million	(\$216 million)
1990-1991	\$312 million	(\$230 million)
1991-1992	\$309 million	(\$229 million)
1992-1993	\$320 million	(\$246 million)

⁶⁰ ACIL Australia, *The Contribution of the Racing Industry to the Economy of New South Wales* (ACIL Australia, Canberra, 1992), p.43.

⁶¹ *Totalisator (Off-Course Betting) Act 1964*, section 13G.

1993-1994	\$321 million (\$252 million) ⁶²
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(b) *Poker Machines*

John O'Hara has written that, in regard to the development of NSW government revenue from poker machines (which were first known as fruit machines or slot machines),

At first poker machine profits in New South Wales went to the clubs which owned them. In 1931 they were legalised on a trial basis in New South Wales hotels and clubs, with profits supposedly going to the state's hospitals.⁶³

After the Cahill Government secured passage of the *Gaming and Betting (Poker Machines) Act 1956*, and poker machines were finally legalised on a regular basis and licence fees were imposed, they soon returned the state government more than £1 million per annum.⁶⁴

The amount of money gambled, and winnings re-gambled, on poker machines in New South Wales now far exceeds all other forms of gambling. The figures from the Tasmanian Gaming Commission on turnover for poker machines in New South Wales are as follows for financial years 1972-1973 to 1994-1995:

1972-1973	\$1.419 billion
1973-1974	\$1.694 billion
1974-1975	\$2.397 billion
1975-1976	\$2.780 billion
1976-1977	\$3.066 billion
1977-1978	\$3.272 billion
1978-1979	\$3.600 billion
1979-1980	\$4.023 billion
1980-1981	\$4.633 billion
1981-1982	\$4.940 billion
1982-1983	\$4.928 billion
1983-1984	\$5.170 billion
1984-1985	\$5.518 billion
1985-1986	\$5.822 billion
1986-1987	\$6.567 billion
1987-1988	\$7.347 billion
1988-1989	\$9.388 billion

⁶² *Australian Gambling Statistics 1972-73 to 1994-95*, table 81, "New South Wales Government Revenue from Racing"; Brawley, op.cit., p.233.

⁶³ O'Hara, op.cit., p.223.

⁶⁴ Ibid.

1989-1990	\$10.283 billion
1990-1991	\$11.965 billion
1991-1992	\$12.854 billion
1992-1993	\$14.132 billion
1993-1994	\$18.881 billion
1994-1995	\$22.355 billion ⁶⁵

The total amount lost by people gambling on poker machines in New South Wales - the difference between initial outlays on gambling on poker machines, plus repeated gambling of winnings, *minus* the winnings returned to those people - has been outlined by the Tasmanian Gaming Commission accordingly:

1972-1973	\$184.5 million
1973-1974	\$220.3 million
1974-1975	\$311.6 million
1975-1976	\$361.5 million
1976-1977	\$398.6 million
1977-1978	\$425.4 million
1978-1979	\$468.0 million
1979-1980	\$523.0 million
1980-1981	\$602.3 million
1981-1982	\$642.2 million
1982-1983	\$640.6 million
1983-1984	\$672.1 million
1984-1985	\$717.4 million
1985-1986	\$756.9 million
1986-1987	\$853.7 million
1987-1988	\$955.1 million
1988-1989	\$1.220 billion
1989-1990	\$1.337 billion
1990-1991	\$1.555 billion
1991-1992	\$1.648 billion
1992-1993	\$1.811 billion
1993-1994	\$1.950 billion
1994-1995	\$2.202 billion ⁶⁶

Since the 1950s the NSW Government's revenue from poker machines has risen substantially. The method of revenue raising from money gambled on poker machines was subsequently outlined by a NSW Treasury publication as follows:

⁶⁵ *Australian Gambling Statistics 1972-73 to 1994-95*, table 2, "New South Wales Gaming Turnover".

⁶⁶ *Ibid.*, table 4, "New South Wales Gaming Expenditure".

Licence tax is levied on the number of poker machines operated by a club and supplementary licence taxes are payable on clubs' net revenue from poker machines.⁶⁷

The amount of revenue raised by the New South Wales government from poker machine gambling has been increased over the years by the Heffron Government's introduction of a supplementary licence tax during financial year 1962-1963; the Askin Government's introduction of an additional supplementary licence tax during financial year 1965-1966; and the Greiner Government's introduction, during the 1989-1990 financial year, of a net profit duty system under which registered clubs paid a self-assessed duty quarterly at the rates of 1% for the first \$25,000 per quarter, and 22.5% on every dollar thereafter.⁶⁸

The figures for NSW government revenue from poker machines, for financial years 1956-1957 to 1993-1994, as compiled by the NSW Department of Gaming and Racing, are as follows:

1956-1957	\$1.5 million
1957-1958	\$1.7 million
1958-1959	\$1.8 million
1959-1960	\$2.5 million
1960-1961	\$3.3 million
1961-1962	\$3.5 million
1962-1963	\$6.6 million
1963-1964	\$11.4 million
1964-1965	\$13.7 million
1965-1966	\$15.8 million
1966-1967	\$19.6 million
1967-1968	\$23.1 million
1968-1969	\$26.3 million
1969-1970	\$30.4 million
1970-1971	\$34.8 million
1971-1972	\$38.3 million
1972-1973	\$42.6 million
1973-1974	-
1974-1975	\$71.9 million
1975-1976	\$83.4 million
1976-1977	\$92 million
1977-1978	\$98.2 million
1978-1979	\$107.9 million

⁶⁷ NSW Treasury, *An Introduction to Government Finance and Accounting in New South Wales* (NSW Treasury, Sydney, 1987), p.30.

⁶⁸ *New South Wales Gaming Analysis*, pp.5,19.

1979-1980	\$120.7 million
1980-1981	\$139 million
1981-1982	\$153.1 million
1982-1983	\$152.7 million
1983-1984	\$158 million
1984-1985	\$167.5 million
1985-1986	\$179.5 million
1986-1987	\$191.8 million
1987-1988	\$212.2 million
1988-1989	\$239.4 million
1989-1990	\$269.9 million
1990-1991	\$284.3 million
1991-1992	\$293.2 million
1992-1993	\$306.1 million
1993-1994	\$347.7 million ⁶⁹

(c) *Lotteries*

John O’Hara has commented, on the Lang Government’s inauguration of a state lottery in 1930, that “From the outset the New South Wales state lottery was a major revenue source, despite the economic depression which coincided with its introduction.”

O’Hara has listed income, prize money and state government profits from the state lottery in the first four years of its existence as follows:

	<i>Receipts</i>	<i>Prize Money</i>	<i>Profits</i>
1931-1932	£2,095,678	£1,247,794	£698,039
1932-1933	£2,135,764	£1,315,710	£722,164
1933-1934	£1,883,584	£1,117,325	£641,191
1934-1935	£1,806,309	£1,092,100	£626,136 ⁷⁰

The amount of money gambled, and winnings re-gambled, on Lotto and lotteries ranks third behind the amounts gambled on poker machines and on racing. The figures for turnover on Lotto in NSW (which did not begin until 1979) and on the State Lottery, for financial years 1972-1973 to 1994-1995 are as follows:

⁶⁹ *New South Wales Gaming Analysis*, p.19. Figures for 1973-1974 are not available.

⁷⁰ O’Hara, *op.cit.*, p.222.

	<i>Lotto</i>	<i>State Lottery</i>
1972-1973	0	\$64.3 million
1973-1974	0	\$69.6 million
1974-1975	0	\$82.7 million
1975-1976	0	\$88.9 million
1976-1977	0	\$96.1 million
1977-1978	0	\$101.4 million
1978-1979	0	\$108.3 million
1979-1980	\$75.6 million	\$105.8 million
1980-1981	\$159.1 million	\$103.8 million
1981-1982	\$201.3 million	\$91.9 million
1982-1983	\$228.6 million	\$73.5 million
1983-1984	\$249.5 million	\$69.5 million
1984-1985	\$294.0 million	\$66.6 million
1985-1986	\$322.0 million	\$73.4 million
1986-1987	\$331.3 million	\$80.4 million
1987-1988	\$325.5 million	\$79.5 million
1988-1989	\$336.0 million	\$96.7 million
1989-1990	\$313.7 million	\$124.5 million
1990-1991	\$343.8 million	\$136.1 million
1991-1992	\$388.5 million	\$129 million
1992-1993	\$403.9 million	\$138.4 million
1993-1994	\$476.6 million	\$136.9 million
1994-1995	\$546.4 million	\$118.6 million ⁷¹

The total amount lost by people gambling on Lotto and on the State Lottery - the difference between initial outlays on entries, plus repeated gambling of winnings *minus* prizes (large and small) returned to those playing - has been outlined by the Tasmanian Gaming Commission as follows:

	<i>Lotto</i>	<i>State Lottery</i>
1972-1973	0	\$23.2 million
1973-1974	0	\$25.1 million
1974-1975	0	\$29.8 million
1975-1976	0	\$32.0 million
1976-1977	0	\$34.6 million
1977-1978	0	\$36.5 million

⁷¹ *Australian Gambling Statistics 1972-73 to 1994-95*, table 2, "New South Wales Gaming Turnover".

1978-1979	0	\$39.0 million
1979-1980	\$30.2 million	\$38.1 million
1980-1981	\$63.6 million	\$37.4 million
1981-1982	\$80.5 million	\$33.1 million
1982-1983	\$91.4 million	\$26.6 million
1983-1984	\$99.8 million	\$25.0 million
1984-1985	\$117.6 million	\$23.9 million
1985-1986	\$128.8 million	\$26.4 million
1986-1987	\$132.5 million	\$28.9 million
1987-1988	\$130.2 million	\$28.6 million
1988-1989	\$134.4 million	\$34.8 million
1989-1990	\$125.5 million	\$44.8 million
1990-1991	\$137.5 million	\$48.9 million
1991-1992	\$155.4 million	\$44.9 million
1992-1993	\$161.5 million	\$48.9 million
1993-1994	\$190.6 million	\$47.5 million
1994-1995	\$218.5 million	\$41.1 million ⁷²

During the 1980s the NSW Government's revenue from government lotteries (including Lotto, and including the almost negligible contribution from soccer pools) increase d by the same rate as that from poker machines. The nature of NSW revenue raising from Lotto, which, following its introduction in 1979, has become the main avenue for lottery gambling in the state, has been outlined by the NSW Treasury accordingly:

Under the provisions of the *Lotto Act 1979*, the State receives duty of 31 per cent of subscriptions to the game of Lotto. In addition a sliding scale percentage is paid to the Director of State Lotteries.⁷³

The figures for financial years 1982-1983 to 1994-1995 are as follows:

1982-1983	\$140 million
1983-1984	\$146 million
1984-1985	\$150 million
1985-1986	\$165 million
1986-1987	\$177 million ⁷⁴
1987-1988	\$169 million

⁷² Australian Gambling Statistics 1972-73 to 1994-95, table 4, "New South Wales Gaming Expenditure".

⁷³ *An Introduction to Government Finance and Accounting in New South Wales*, p.30.

⁷⁴ NSW Tax Task Force, *Tax Reform and NSW Economic Development: Review of the State Tax System*, report prepared for the Premier and Treasurer, the Hon. Nick Greiner, August 1988, p.284.

1988-1989	\$172 million
1989-1990	\$180 million
1990-1991	\$185 million
1991-1992	\$200 million
1992-1993	\$216 million
1993-1994	\$257 million
1994-1995	\$257 million ⁷⁵

(d) Soccer Pools and Keno

NSW government revenue from soccer pools and keno has not been discussed in this outline because they are both relatively small as areas of gambling. Turnover for the soccer pools in New South Wales, in financial year 1994-1995, was only \$7,593,000.⁷⁶

Keno entries in financial year 1993-1994 totalled \$249.6 million with NSW government revenue raised amounting to \$6.9 million.⁷⁷

7 CASINOS

(a) Wider Aspects of Casinos

In the last twenty to thirty years, state governments have endorsed the establishment of casinos.

Casinos, however, do not lie simply within the realm of gambling - they also lie within the realm of tourism. Jan McMillen has written that,

The two jurisdictions most vulnerable to the 1970s global economic slump (Tasmania and the Northern Territory), were the first to legalise casinos for regional development. . . Australia experienced a second wave of casino legislation during the 1980s global slump as the newly developing states (Queensland, Western Australia and South Australia) sought to expand into tourism to diversify their economies. A third period of casino expansion occurred as the previously affluent industrialised states, New South Wales and Victoria,

⁷⁵ *Australian Gambling Statistics 1972-73 to 1994-95*, table 89, "New South Wales Government Revenue from Gaming".

⁷⁶ *Ibid.*, table 208, "Soccer Pools Turnover".

⁷⁷ *New South Wales Gaming Analysis*, p.30.

suffered the consequences of the 1990s recession. . .⁷⁸

In the case of the Burswood Island casino, endorsed by the Western Australia n government during the mid-1980s, for example, the Burke Government intended, according to Jan McMillen, that

the Burswood complex, which included a 410-bed hotel, a golf course, a 20,000-seat sports arena and Western Australia's largest entertainment auditorium, would be completed in time for the America's Cup defence in early 1987.⁷⁹

When the Greiner Government decided, in 1991, to proceed with plans for a casino in Sydney, something which will be outlined at greater length subsequently in this section, the building of the casino was linked to its likely impact on the development of tourism in New South Wales. In a joint press release issued in August 1991, the then Premier, Nick Greiner, and the then Chief Secretary, Anne Cohen, both declared that the casino project

will provide employment for up to 7,000 people and thousands more jobs will be created in related industries. . [and] will serve as a major tourism drawcard, particularly for Asian tourists who tend to be attracted to cities with casinos.⁸⁰

In this respect, government policy in Australia during the 1970s, towards casinos, began to diverge significantly from government policy in Britain. In an article entitled "The British Casino Industry and Trends in the 1990s", Lord Harris of Greenwich has written that, when the Labour Party government of Harold Wilson secured passage of the *Gaming Act 1968*, it was

. . .a watershed for gaming in Britain. . .in some respects, the *Gaming Act* is unique in casino gaming legislation throughout the world. The object of the 1968 Act was exclusively social. This is in sharp contrast to the objective of pursuit of financial and economic purpose, which is evident in every other country in the world with gaming legislation. In other jurisdictions, the objectives have typically been to attract tourism, in some cases to revive waning resort areas, or simply to raise revenues for the state. . .In Britain, the *Gaming Act 1968* had no such objective. Recognising that after the *Gaming Act 1960*, casino gaming had, through a legal loophole, emerged to a point where it could no longer suppressed

⁷⁸ Jan McMillen, "The Globalisation of Gambling: Implications for Australia", paper presented at *High Stakes in the Nineties*, sixth national conference of the National Association for Gambling Studies, 28-30 September 1995.

⁷⁹ Jan McMillen, *Risky Business*, p.215.

⁸⁰ Chief Secretary and Minister for Administrative Services, the Hon. Anne Cohen MP, *press release*, 6 August 1991.

entirely, which is what governments of either major political party would have probably preferred, the 1968 Act was designed ‘. . .to curb all forms of gaming which were liable to be commercially exploited and abused’. . .all casinos in the United Kingdom are based on club membership and potential members must apply for such membership forty-eight hours before they are enabled to enter a casino for the purpose of gaming. . .there is a prohibition on all forms of advertising. . .⁸¹

Casinos, therefore, as much as they lie within the area of gambling, also currently lie within the area of tourism.

(b) Casino Building in Australia

The following casinos have been established in the following locations between 1973 and 1996:

Wrest Point (Hobart)	1973
Diamond Beach (Darwin)	1979
Lasseters (Alice Springs)	1982
Launceston Country Club (Launceston)	1982
Jupiters (Broadbeach)	1985
Burswood Resort (Perth)	1985
Adelaide	1986
Breakwater (Townsville)	1986
Canberra	1992
Christmas Island	1993
Melbourne	1994

⁸¹ Lord Harris of Greenwich, “The British Casino Industry and Trends in the 1990s” in William Eadington and Judy Cornelius (eds.), *Gambling and Public Policy: International Perspectives* (Institute for the Study of Gambling and Commercial Gaming, University of Nevada, Reno, 1991), pp.402-403.

Sydney	1995 ⁸²
Brisbane	1995
Cairns	1996

(c) *The Establishment of the Darling Harbour Casino*

Despite having declared during the 1976 state election, according to Jan McMillen, that he did not “have in mind to establish a casino” in Sydney, Neville Wran, once elected as Premier, soon announced that his government would move to legalise casinos in New South Wales. In September 1976 the Wran Government appointed Edwin Lusher to inquire into casinos for New South Wales and to recommend to the government on their legalisation. In his report, released in July 1977, in McMillen’s words,

Lusher recommended that casinos should be of the restricted British ‘club’ style rather than the more commercial American model. The guiding principle behind this recommendation was that casino gambling should not be artificially stimulated, exploited or proliferated, either in the interests of private profit or the promotion of tourism by the state in its quest for revenues. Rather, on the understanding that the main reason for legalisation was the ‘servicing of an irrepressible demand in a legal rather than an illegal form’, Lusher argued that the purpose of the casino should not be to ‘attract and allure patrons’ and that advertising should be prohibited.⁸³

According to McMillen, “In the face of sustained anti-casino opposition from the coalition parties and a threat by the churches to campaign against the narrowly elected government in the next election, Cabinet did not formally accept or reject Lusher’s recommendations”.⁸⁴

Two years later, however, Wran revived the casino proposal. McMillen has outlined the course of the revived proposal as follows:

the casino issue was revived following the annual Premiers’ Conference in June 1979. NSW had fared badly under the cutbacks of Fraser’s ‘new federalism’ and Wran announced that the government would legalise six casinos to boost state revenue. . .Key sections of the ALP [however] remained unconvinced by the suggested casino and in February 1980 Wran’s proposal to go ahead with legal casinos was defeated in Cabinet. . .In 1980-81. . .under the constraints of the

⁸² Jan McMillen, *Risky Business*, p.132.

⁸³ *Ibid.*, pp.260-263.

⁸⁴ *Ibid.*

economic recession. . .unemployment rose steadily until by 1982 it was 7.3%. . .in 1982 the Treasurer, Ken Booth, conducted his own internal inquiry into specific policy aspects of casino legalisation for NSW. . .Booth completed his report in May 1982 and recommended a large open casino-hotel intended to maximise state revenue and stimulate tourism. . .the 1982 and 1983 State Conferences of the NSW ALP reaffirmed the party's earlier resolution that if casinos were legalised they should be government owned, controlled and operated. Wran maintained his private casino stance. . .In . . .1985. . .The government. . .announced that a state-run casino would be included in the Darling Harbour redevelopment project. The casino premises would be privately owned but leased by the government; the casino licence would be wholly government owned. . .the Darling Harbour Casino Bill was presented to Parliament in December. . .⁸⁵

The Wran Government obtained passage of the Bill, and the *Darling Harbour Casino Act 1986* was proclaimed in May of that year.

In June 1986 the Hooker-Harrah consortium was selected to establish and run the Darling Harbour casino. Two months later, shortly after Neville Wran's resignation as Premier, Barrie Unsworth, his replacement, revoked the former Wran Government's nomination of Hooker-Harrah as casino operator and developer on the basis of the unsuitability of Hooker's chief executive, George Herscu.⁸⁶ Hooker-Harrah then launched a damages claim in court against their loss of nomination for the project.⁸⁷

In the state election of March 1988, the Liberal Party-National Party coalition campaign included a commitment to abandon the casino project. Shortly after his election the new Premier, Nick Greiner, declared in Parliament that,

there will be no legal casinos in this state. . .the infiltration of organised crime into a casino was almost impossible to avoid. . .on economic and social grounds, there was absolutely no desirability or justification for a casino. . .⁸⁸

Soon afterwards the Greiner Government repealed the *Darling Harbour Casino Act 1986*.

In December 1988 the Hooker-Harrah consortium gained an out of court settlement of \$38 million over their damages appeal.⁸⁹

⁸⁵ Ibid., pp.265-274.

⁸⁶ Ibid., p.280.

⁸⁷ Ibid. P.282.

⁸⁸ Ibid, pp.281-282.

⁸⁹ Ibid.

Once more the onset of economic recession, which began internationally in early 1990, following the stock market crashes of late 1987, led to a reduction in revenues which, in turn, led to a reconsideration of the casino. Jan McMillen has written that,

At the Premiers' Conference in June 1990, the Hawke Commonwealth government announced major cuts in its grants to the states, forcing states to consider other revenue raising options. . .in July 1990 Premier Greiner asked the Chief Secretary's Department to estimate the potential revenue to NSW of a casino. . .Greiner reversed his anti-casino stance following the [next state] election. . .and announced plans for two casinos in Sydney - one a large American-style casino and a smaller 'boutique' casino for private members and international high-rollers. . .The NSW Chief Secretary, Ann Cohen, co-operated with Victoria to prepare 'almost identical' draft casino legislations. . .[when] the draft Casino Control Bill 1991... was debated in Parliament. . .the ALP moved several amendments. . .The ALP... favoured one large casino on the Darling Harbour site. . .in. . .1992 the new Liberal Premier, John Fahey, agreed to establish only one large casino. . .Premier Fahey announced. . .the government's designated location for the site in February 1993.⁹⁰

The Casino Control Bill 1991 became legislation in the form of the *Casino Control Act 1992*. In 1994 a consortium which included the Australian company Leighton Holdings, and the American company Showboat, successfully bid for the nomination to establish and operate the casino. A temporary casino, the Sydney Harbour Casino, was opened in September 1995.

(d) *Casino Profits and Contribution to Government Revenue*

In her 1995 paper on the economics of gambling, Jan McMillen noted that a recently published report by the Australian Bureau of Statistics showed that,

large private investors have earned high profits from gaming. . .The. . .operating casinos in 1994-95 generated an income of \$1,651 million, of which \$1,382 million (84%) came from gambling.⁹¹

Revenue contributions to government, however, remain relatively low. Revenue is derived from casino taxation, annual operator's licence fees and unclaimed prizes. McMillen has noted that, in Australia as a whole,

in 1991-92 total government revenue from casinos was \$98.36 million. . .⁹²

⁹⁰ Ibid., pp.283-288.

⁹¹ Ibid., pp.283-288.

⁹² McMillen, *Risky Business*, p.410.

8 ***ISSUES CONNECTED WITH GOVERNMENT REVENUE RAISING FROM GAMBLING***

(a) Average Contribution per Person to Government Revenue

According to the Australian Institute for Gambling Research, "Of every \$100 spent on gambling, the government receives \$34.60 in taxes. The remainder is absorbed by the gambling medium in costs, profits, etc."

If, as mentioned above, from the estimates provided by the institute, there are 4,512,000 people eligible to gamble in New South Wales - and if, in financial year 1993-1994, for example, those people collectively lost \$2.9 billion on gambling - then, on an average of \$646.70 lost on gambling in that year, by each person eligible to gamble, the New South Wales government, according to the calculations of the institute, received on average "\$223.66 in 'voluntary tax'" from each adult in NSW.⁹³

(b) Government Reliance on Revenue from Gambling

The position with regard to NSW government revenue is that about 40% comes from the Federal Government in the form of grants and the other 60% comes from levies raised solely by the NSW Government. The Australian Institute for Gambling Research has described the contribution of revenue from gambling during financial year 1993-1994 as follows:

NSW Government total current revenues in 1993/94 amounted to \$17,371 million. Gambling, therefore, accounted for 5.8% of Government current revenue. As a percentage of taxes, fines and fees, exclusive of grants received and other revenue, the gambling generated share was 11.9%.⁹⁴

(c) Government Intentions for Revenue from Gambling

It would appear, both from a survey of the growth of government revenue from gambling, and from reports on government financial strategy, that government has intended the contribution from gambling to actually expand.

In 1987 a Tax Task Force was established by the Unsworth Government to review the taxes then levied in the State. In 1988 the incoming Greiner Government reappointed the Task Force with some changes of personnel and with some wider references. In August 1988 the Task Force delivered its report. With regard to government revenue from gambling, the Task Force recommended that,

⁹³ Australian Institute for Gambling Research, op.cit., p.26.

⁹⁴ *ibid.*

the percentage of NSW revenue raised from taxes on gambling should be increased.⁹⁵

Jan McMillen's estimates of the trends in indirect consumption appear to indicate that this recommendation has been translated into policy. According to McMillen, the amount of gambling tax levied by all state governments in Australia, combined, from the late 1980s to the mid-1990s, has risen by the following proportion:

1989-1990	\$1.8 billion
1994-1995	\$3 billion
<i>Percentage Increase</i>	69% ⁹⁶

(d) *Possible Social Effects of Government Strategy for Revenue from Gambling*

A number of analysts have held that lottery taxes are regressive. Such a tax is defined by the economists John Jackson and Campbell McConnell accordingly,

A regressive tax is one whose rate declines as income increases. Such a tax takes a smaller and smaller proportion of income as income increases.⁹⁷

Ann Hansen, writing in 1995 on tax incidence in American government lotteries, has outlined the categories of gambler, and gambling, which have been surveyed in the USA in order to determine the incidence of gambling taxes. These were as follows:

- winners by postcode
- winners by census tracts
- lottery sales by postcode

According to Hansen, all these studies have confirmed the "regressivity of the lottery excise tax".⁹⁸

⁹⁵ NSW Tax Task Force, *op.cit.*, p.286.

⁹⁶ Jan McMillen, "The Economics of Gambling", paper delivered at the *Australia Forum*, University of Melbourne, 23 April 1996, p.20.

⁹⁷ Jackson and McConnell, *op.cit.*, p.114.

⁹⁸ Hansen, *op.cit.*, p.385. The articles which contain the findings of these surveys are as follows: Roger Brinner and Charles Clotfelter, "An Economic Appraisal of State Lotteries" in the *National Tax Journal*, vol.28, 1975; Jerome Heavy, "The Incidence of State Lottery Taxes" in *Public Finance Quarterly*, vol.6, 1978; Charles Clotfelter, "On the Regressivity

(e) *Possible Social Impacts Associated with Government Strategy for Revenue from Gambling*

The major problem associated with the reliance of government on revenue from gambling is the impact on those likely to be engaged in gambling.

In 1987, a year before his election as Premier, in 1988, the then leader of the opposition, Nick Greiner, declared that, in relation to the Unsworth Government's commitment to the Darling Harbour casino,

Since 1976-77, the state receipts from gambling have almost doubled to more than half a billion dollars from . . . poker machines. . . lotto, lotteries and racing. Personally I have some difficulty with the notion of adding yet another layer on top of these forms of gambling, to seek to take even more income from the people of this state. There is something grossly wrong about increasing taxes and cutting wages, all in the guise of getting Australians to pull in their belts, while at the same time introducing another form of gambling calculated . . . to . . . wager away what is left of their earnings. . .⁹⁹

Part of this concern over the impact of gambling on people was reflected in the Community Benefit Fund provisions of the *Casino Control Act 1992*. Section 115 of the Act provided that,

A casino community benefit levy is to be paid to the [Casino Control] Authority in respect of each casino licence. . . The money derived from payment of those levies in respect of a casino licence is to be the subject of the creation and operation of a trust deed. . . the trustees of each trust deed may make recommendations to the Minister as to the application of money. . . for the benefit of the community. . .¹⁰⁰

Under the current provisions of Section 115 the present operator of the Sydney Harbour Casino is required to pay into the Community Benefit Fund a 2% community benefit levy on casino gaming revenue from the commencement of casino operations on 13 September 1995.

of State-Operated 'Numbers' Games" in the *National Tax Journal*, vol.33, 1979; Charles Clotfelter and Phillip Cook, "Implicit Taxation in Lottery Finance" in *ibid.*, vol.40, 1987.

⁹⁹ Jan McMillen, *Risky Business*, p.276.

¹⁰⁰ Section 115, *Casino Control Act 1992*.

The Community Benefit Fund is administered by nine trustees drawn from the Casino Control Authority, the Wesley Mission, the Salvation Army, the Society of Saint Vincent de Paul, the Uniting Church in Australia, the Department of Education and Training Co-ordination, the Department of Health, the Department of Community Services and the Department of Gaming and Racing.

The main objective of the Community Benefit Fund is to ensure that monies raised through the levy are used for the following purposes:

- fund appropriate research into gambling and the social and economic impact of gambling on individuals, families and the general community of New South Wales
- promote industry and community awareness of problem gambling and associated activities through education campaigns
- support voluntary organisations offering counselling services for problem gamblers and their families
- support treatment and rehabilitation services for problem gamblers and their families
- fund such other community projects and services which may be determined as being of benefit to the community generally

So far, Queensland and Victoria have been the first states in Australia to establish a state-wide network of services for problem gamblers and their families.

In New South Wales, under the Casino Community Fund, the trustees of the Fund, in relation to their duties in advising the NSW Minister for Gaming and Racing on the allocation of money from the Fund, have commissioned the following two studies:

Study 1: To establish a profile of services and related research into gambling and problem gambling in New South Wales (completed by consultants Keys Young)

Study 2: To examine the socio-economic effects of gambling on individuals, families and the community, including research into the costs of problem gambling in New South Wales

The problems encountered in the second study, undertaken under the leadership of Associate Professor Mark Dickerson of the University of Western Sydney (MacArthur) illustrate the difficulties in such endeavours. Dickerson and his colleagues chose a sample

of 1,390 respondents for their study. At the end of their report, the research team cautioned that,

A major limitation of a survey is that there is no continued, prospective information and understanding of how for most regular players gambling remains a pleasurable leisure occupation but for others results in a complex of significant problems. Longitudinal studies of players are needed to understand the key features of the process. Of the gambling related problems one of the most significant involves the impacts on the family. The present survey can only provide indications of the kinds of difficulties that arise. Further studies are needed to evaluate how families are affected by the excessive gambling of a member.¹⁰¹

On an overall level, however, Dickerson and his colleagues concluded from their research that,

Using for the first time an Australian validation of the internationally accepted measure of problem gambling. . . it is conservatively estimated that. . . 0.5% of the adult population may be considered 'cases of problem gambling experiencing a wide range of severe gambling related problems in all domains of their lives. . . in addition a further 0.6% of the adult population are considered to be at risk of gambling related problems with varying degrees of impact from severe to relatively mild.'¹⁰²

As a percentage, 1.1% may seem a low figure for the number of problem gamblers or people who have a problem with gambling. Numerically, however, this is still substantial - as outlined by Mark Tindale in his description of the earlier, national, study undertaken by Mark Dickerson which preceded the New South Wales study. Tindale writes that,

In 1991-92 a national survey of gambling related problems in Australia funded by the Australian Research Council (ARC) was investigated by Associate Professor Mark Dickerson. The project entitled 'The Estimation of the Extent and Degree of Gambling Related Personal Problems in the Australian Population' . . . involved interviews with 2,800 people across Adelaide, Brisbane, Melbourne and Sydney. The results of the survey estimated a 1.3% current prevalence of probable pathological gamblers. With an estimated Australian adult population of 12,430,180 this indicated a total of 161,592 probable pathological gamblers.¹⁰³

¹⁰¹ Australian Institute for Gambling Research, op.cit., pp.8,13,28,67,70.

¹⁰² Ibid., p.11.

¹⁰³ Tindale, op.cit., p.84.

If, according to Mark Dickerson and his colleagues, there are 4.512 million people eligible to gamble in New South Wales, this suggests there are effectively 4.512 million adults in the state. As a proportion of the 12,430,180 million adults in Australia, this means that the adult population of NSW is just somewhat above one-third of the adult population of the country as a whole. This suggests that there are in New South Wales just somewhat above one-third of the total 161,592 probable pathological gamblers in the nation. That is, that there are possibly around 58,000 people in NSW who are either problem gamblers or who have a problem with gambling.

Recently the current Premier of New South Wales, Bob Carr, lent government support to concerns over problem gambling. In April of this year he announced that the NSW Government would make a contribution of \$4.7 million to the Community Benefit Fund.¹⁰⁴

(f) *Gambling and Criminal Activity and Official Corruption*

A time honoured cause of concern in relation to gambling is the occurrence of the involvement of criminal elements, and the occurrence of corruption of police and government officials.

In 1932, the first year of the Stevens Government, a royal commission was established to investigate “greyhound racing and fruit machines”. This commission was instituted in response to activities in the greyhound racing area following the NSW Parliament’s approval of the *Gaming and Betting (Night Betting) Amendment Act 1927* which outlawed betting after sunset and a subsequent court ruling that betting on greyhound racing (which occurred at night) was consequently illegal. Justice Rogers, who chaired the commission, found, according to O’Hara,

that a scheme for achieving desired changes in the legislation, through the use of bribery, was set in train in 1931, by one Redmond Barry and officials of the two Sydney greyhound clubs. Despite accepting money from the clubs Barry appeared to achieve little, so the clubs switched their attention to F.S. Swindell, who had been responsible for the introduction of greyhounds and the mechanical tin hare in 1927. Swindell agreed to help, provided he was given full control of the Harold Park company’s board and 12,000 shares in the Mascot company. After the enactment of the 1931 Finance Act which permitted greyhound racing to operate as it had in 1927, Swindell assumed a position of power and influence. Chief Secretary Mark Gosling sought his opinion on permit applications, allowing Swindell to demand and receive money and shares from applicants for greyhound racing licences. Commissioner Rogers. . .concluded that Swindell was in close touch directly or indirectly with some section of the Cabinet. . .¹⁰⁵

¹⁰⁴ John Larkin, “Carr’s \$4.7m to Tackle Gambling” in the *Sunday Telegraph*, 7 April 1996, p.2.

¹⁰⁵ O’Hara, op.cit., pp.228-229.

In regard to activities connected with fruit machines in New South Wales, the commission found that, according to O'Hara,

In December 1930, Automatic Machines Ltd managed to place a number of machines in New South Wales hotels, despite a 1921 court ruling that such was contrary to the state's Gaming and Betting Act. Police inquiries were met with the claim that the machines had the approval of Chief Secretary Gosling. When the commissioner of police advised the chief secretary of his error, Gosling insisted on referring the matter to the attorney-general. The police commissioner took this as an instruction not to prosecute, so the hotels and their machines had immunity from prosecution for five weeks, until the arrival of the crown solicitor's advice. Gosling then ordered the machines' removal from hotels and clubs where they were previously not considered contrary to the law. In examining these events Justice Rogers found that representations were made to Gosling by an agent of Automatic Machines Ltd who had been supplied with £3,000 with which to secure immunity from prosecution.¹⁰⁶

Similar inferences of corruption were found in the investigation of three royal commissions into police and illegal betting, held between 1936 and 1939, chaired by Justice Markell, which looked at the involvement of NSW police with operators of illegal, off-course, starting price (SP) betting. According to O'Hara,

In New South Wales in 1930, a special SP-Gaming Squad was formed within the police force, resulting in a dramatic increase in arrests for betting and gaming offences. Twenty thousand people were prosecuted between 1930 and 1936... Markell... found that there was substance in allegations that police sometimes deliberately 'framed' innocent men for SP betting offences, and at other times failed to arrest and charge bookmakers, preferring to charge employees with no previous convictions...¹⁰⁷

Thirty-five years later, the Askin Government, in 1974, established a royal commission, chaired by Justice Moffat, to investigate possible inroads of organised crime into registered clubs in New South Wales. The commission, in O'Hara's summary of its findings,

failed to find sufficient evidence to institute legal proceedings against individuals in organised crime in the clubs. It also failed to find evidence of government or any other cover-up, but it did find that police inquiries into the New South Wales clubs had been unsatisfactory, and it found evidence of close links between the clubs' main supplier of poker machines and known criminals...¹⁰⁸

¹⁰⁶ Ibid.

¹⁰⁷ Ibid., p.232.

¹⁰⁸ O'Hara, op.cit., p.238.

Similar issues emerged in the 1980s over the question of the Sydney casino, as outlined in the previous section of this paper. Jan McMillen has written that the Hooker-Harrah consortium's loss of nomination for the Darling Harbour Casino project came about because, shortly after the Wran Government announced in June 1986 that it had accepted Hooker-Harrah's bid to establish and operate the proposed Darling Harbour Casino,

police investigators. . . identified significant concerns against George Herscu, the managing director and 42% shareholder of Hooker Corporation, including his involvement in 'bottom-of-the-harbour' tax schemes and his guilty plea to several charges of paying large secret commissions to the secretary of the Builders Labourers' Federation (BLF), Norm Gallagher. . . In August 1986 Premier Unsworth revoked the government's nomination of the Hooker-Harrah consortium as operator-developer of the Darling Harbour casino-hotel, citing concerns about Herscu's payment of secret commissions to Victorian union officials.¹⁰⁹

In the case of the recent negotiations over the Sydney casino, similar problems have arisen over the involvement in the consortium of the building firm Leighton Holdings - a partner, along with the American company Showboat, in the consortium which successfully bid for the nomination to develop and operate the Sydney Harbour Casino.

In May 1994 the Casino Control Authority in New South Wales cleared Leighton's as a suitable partner in the \$1.2 billion casino project. Subsequently, in December 1994, there was a special inquiry into its probity. The head of the inquiry, Murray Tobias QC, was critical of Leighton's previous involvement in collusive tendering practices and the company offered to "quarantine" its casino interest by placing it with National Mutual Trustees for five years.

In July 1995, only two months before the opening of the temporary casino, Leighton Holdings pleaded guilty in North Sydney Local Court to making false statements to obtain a financial advantage while bidding for two major developments during the 1980s.¹¹⁰

Meanwhile, during 1995, a rival consortium, Darling Casino Limited, in which the businessman Kerry Packer was an important member, and which had lost the bid for nomination to Leighton's and Showboat, subsequently launched a legal challenge to the latter consortium's right to establish and operate the casino. The challenge was lost, however, when the NSW Court of Appeal ruled that the NSW Supreme Court did not have the power to hear Darling Casino Limited's challenge.

¹⁰⁹ Jan McMillen, *Risky Business*, pp.278-280.

¹¹⁰ Mark Westfield, "Leighton Fined over Tendering" in *The Australian*, 19 July 1995, p.31.

In February 1996, Darling Casino Limited won leave to appeal to the High Court to have the NSW Supreme considered eligible to hear its challenge. In June 1996 the Darling Casino group had its case heard by the High Court.¹¹¹

The High Court has yet to deliver its verdict on the Darling Casino consortium's appeal.

9 CONCLUSION

In his 1976 book on Las Vegas, the American novelist Mario Puzo rather cynically observed that,

In 1976 the citizens of New Jersey voted to legalise casino gambling in Atlantic City. In that same year the Federal Commission on the Review of the National Policy towards Gambling finished a three-year study and submitted it to Congress. Both actions indicate that the United States will soon become the foremost gambling country in the world. And that gambling will make taxpaying almost as painless as modern dentistry.¹¹²

In light of the fluctuations in international business conditions since the 1970s, and their consequent affect on government revenues, it might be said that this could come to be the trend in a number of countries.¹¹³

It might further be said that New South Wales simply moved earlier than other jurisdictions to access gambling as an area of revenue. This strategy for government revenue raising, however, is not without its associated problems as this survey has attempted to indicate.

The marked significance of governments increasing their recourse to revenue from this particular source is the public disquiet which accompanies it.

As outlined above, gambling is an area of human activity with a long history, and

¹¹¹ Kathryn Bice, "Packer Appeals on Casino" in the *Australian Financial Review*, 6 February 1996, p.3; Matt Robbins, "Casino Licence Illegal and Immoral: QC" in *The Australian*, 18 June 1996, p.8.

¹¹² Puzo, op.cit., p.64. Gerri Herschey, a contributor to the *New York Times* magazine, has written that in 1993 revenues raised from gambling "reached \$30 billion" and that "The amount of money Americans spent on all forms of legal wagering" during that year reached "\$330 billion". See Gerri Herschey, "Gambling is Entertainment" in Charles Cozic and Paul Winters (eds.), *Gambling* (Greenhaven Press, San Diego, California, 1995), pp.52-54.

¹¹³ In Britain, where lotteries were suppressed in the early 1800s, the Major Government, in 1994, re-instituted a British National Lottery. See Jan McMillen, "The Economics of Gambling".

longstanding concerns over its impacts. Moreover it has traditionally been regarded as a vice. In 1948, for example, the Anglican Church, at its Lambeth Conference, called attention to the “grave social and moral evils that have arisen in many lands through the prevalence of gambling.”¹¹⁴

Just recently the Premier of New South Wales, Bob Carr, declared that, “There’s no argument against. . .the over-dependence of State budgets on gambling that I don’t find myself agreeing with.”¹¹⁵

Significantly, however, with increased government concerns over sources of revenue, gambling operations seem to have not only been allowed to become relatively free from religious and cultural disapproval, but seem to have increasingly been allowed to set the agenda. John Kindt, a lecturer in commerce at the University of Illinois, has recently observed that the proponents of legalised gambling argue that the social negatives associated with gambling,

are more than offset by the increased tax revenues and new jobs created by legalised gambling activities. . .To investigate these claims, the Ford Foundation and the Aspen Institute funded a study by the Center for Economic Development at the University of Massachusetts. The study analysed fourteen major reports prepared to evaluate increased legalised gambling activities. Only one report was considered balanced and the reports advocating increased legalised gambling activities were tagged as ‘often done by the industry’ . . .¹¹⁶

Even the moral perspectives themselves are apparently being changed as gambling concerns seem to be gaining the ascendancy. J.M. Fenster has remarked that,

gambling was one of the vices, but. . .it has been recast as ‘gaming’ . . .¹¹⁷

Essentially what appears to have happened in New South Wales, over the years since the 1950s, is that gambling has been brought closer to people. Whereas, once, gambling might have seemed to be the preserve of either the wealthy or the less well-off - something slightly shady and out of people’s ordinary experience - it has been brought closer to people through legalised availability of poker machines in clubs; through the legalised expansion of betting agencies in suburban streets and in hotels; and through

¹¹⁴ Rowntree and Lavers, op.cit., p.122.

¹¹⁵ *Sunday Telegraph*, 7 April 1996, p.2.

¹¹⁶ John Kindt, ‘Gambling is Economically Harmful’ in Cozic and Winters, op.cit., p.134. Kindt’s contribution in Cozic and Winter’s book comes from an article entitled “Increased Crime and Legalising Gambling Operations: The Impact on the Socio-Economics of Business and Government” published in the *Criminal Law Bulletin*, vol.30, no.6, 1994.

¹¹⁷ J.M. Fenster, “Americans Have Historically Accepted Gambling” in Cozic and Winters, op.cit., p.47.

the televised promotion of lottery draws.

Within this development, a basic point at issue, on a broad level, seems to be whether, in the terminology of economics, a bet or lottery subscription is an *inferior good*. That is, do people spend less on gambling as their income increases? This seems to be the suggestion of American public finance analysts such as Ann Hansen and others summarised in sections 5 (b) and 8(c) of this paper.

If this tendency in the community can be substantiated, and it would seem that it requires further quantitative research to verify this, it could present some challenging questions in present fiscal strategy.

If there is any one particular area of gambling in New South Wales which might invite attention, it is probably that of gambling on poker machines. In the report of his inquiry into the establishment and operation of legal casinos in New South Wales, Sir Laurence Street commented that in financial year 1990-1991 the total amount lost by people gambling on poker machines in New South Wales “eclipsed that of all other forms of gambling combined.”¹¹⁸

If poker machine gambling is the biggest area of gambling activity in New South Wales, then it is likely that, of the possible 58,000 people in New South Wales who are either problem gamblers or who have a problem with gambling, the majority of these people are poker machine gamblers. This would seem to be corroborated by the findings of the Australian Institute for Gambling Research which have indicated that, of the overall amount spent in gambling on poker machines, the greatest proportion is gambled by those who gamble regularly. According to the estimates of the institute, of the amount of money spent in gambling on poker machines, 83% of that amount is accounted for by those who gamble on poker machines on a weekly basis. Only 17% of the amount of money spent in gambling on poker machines is spent by those who gamble less frequently.¹¹⁹

¹¹⁸ *Inquiry into the Establishment and Operation of Legal Casinos in New South Wales*, report prepared by Sir Laurence Street, 27 November 1991, p.44.

¹¹⁹ Australian Institute for Gambling Research, op.cit., p.42.