

A Smarter Way to Police Pokies

2 Mar 2012

Politicians and voters both say they hate poker machines but reforms are moving slowly. Is there a better way? Ian McAuley explains how the distribution of GST revenue to the states could provide incentives to rein in gambling.

Pity the Western Australians, for they are largely denied the the thrill and buzz of gambling on poker machines. There are a few poker machines in the glitzy Burswood Casino, but it lacks the welcoming atmosphere of a suburban Sydney RSL club, and it's a long way from Perth's farflung northern and southern suburbs. Nor is the option of a two-day drive to the gambling dens of South Australia very appealing.

According to the research by the Productivity Commission, gambling expenditure in Western Australia in 2008-09 was only \$672 a household, compared with a national average of more than \$1000. Those unfortunate people in WA just don't know what they're missing.

Is it that the Western Australian Government is a pack of right-wing wowers or paternalistic socialists supporting the "nanny state"? Hardly so — if anything the state has something of a Wild West tradition, and the restrictions on poker machines have survived several changes of government.

The reality, as Tim Costello told the ABC yesterday, is that every politician who speaks to him says, "I hate pokies", and two-thirds of Australians support reform, including pre-commitment.

Were it not for the combination of cowardice from Labor politicians, and bloody-mindedness from Coalition politicians, we would now have implemented the Productivity Commission reforms of bet limits and mandatory pre-commitment. We wouldn't be proposing yet another trial. The ACT trial is almost doomed to fail because Queanbeyan in NSW is a lot closer to Canberra than Ceduna in South Australia is to Perth, and because Canberra's demographics are not typical of the outer suburbs of other capitals where problem gamblers live.

The isolation of Western Australia explains a lot about how poker machine gambling spread throughout the eastern states. Poker machines were legalised in NSW in the mid 1950s, as a means of supplementing clubs' revenue. In her history of poker machine gambling in NSW, Nerilee Hing points out that the community-based clubs were nothing like the huge and voracious business enterprises that they have become over the last 50 years — enterprises wealthy enough to finance a multi-million dollar political campaign. What seemed to be a good idea at the time has become a nation-wide problem.

As NSW clubs grew they attracted gamblers from other states. Canberra people took the 10 minute drive to the Queanbeyan Leagues Club, Brisbane people crossed the border to Tweed Heads. Even South Australians were not daunted: every weekend busloads of gamblers took the 500km journey from Adelaide to Broken Hill.

For state governments the situation was intolerable. Their citizens were paying taxes to NSW, and were supporting interstate entertainment and accommodation businesses without any reciprocal flow. Even though no reasonable politician in these other states supported poker machine gambling, they were in a powerless situation — one known in economics as a "prisoners' dilemma". Even if everyone wants to act responsibly in the public interest, the incentives in such a multiple actor system ensure that poor outcomes will prevail, unless some higher authority can be invoked.

That higher authority is clearly the Commonwealth, but even its proposed ACT trial, with its few desirable features such as ATM restrictions, looks like being defeated. Other, cleverer means need to be found. To save its own political skin the Commonwealth needs to do something, not only to keep Andrew Wilkie on side, but also to shore up support in the Senate and in those inner-urban seats where voters are angry with the Government's cowardice and where the clubs' threats carry little punch.

A problem which developed through state incentives could be amenable to a solution through state incentives. Under long-standing revenue-sharing arrangements, the Commonwealth distributes funds to the states — mainly the \$50 billion collected every year through the GST. It could compensate those states with zero or low poker machine tax revenue by reducing its payments to those states with high poker machine tax revenue. The main beneficiaries would be Western Australia, Queensland and the Northern Territory. My calculations of such a re-allocation, based on 2009-10 tax data, are shown in the table below.

Effect of re-allocating poker machine revenue on basis of all states' average

| | Present gaming machine revenue \$m | Re-allocated on basis of state per-capita average \$m | Change \$m | Present gaming machine revenue per-capita \$ | Re-allocated on basis of state average | Per-capita difference \$ |
|-------|------------------------------------|---|------------|--|--|--------------------------|
| NSW | 1 066 | 964 | -102 | 148 | 133 | -14 |
| Vic | 985 | 739 | -246 | 178 | 133 | -44 |
| Qld | 550 | 602 | 52 | 122 | 133 | 11 |
| SA | 284 | 219 | -65 | 173 | 133 | -39 |
| WA | 0 | 306 | 306 | 0 | 133 | 133 |
| Tas | 55 | 68 | 13 | 108 | 133 | 25 |
| NT | 2 | 31 | 29 | 9 | 133 | 125 |
| ACT | 34 | 48 | 14 | 95 | 133 | 39 |
| Total | 2 976 | 2 976 | 0 | 133 | 133 | |

If any state were to increase its poker machine tax take, it would automatically lose revenue, and, conversely, any state which lost tax revenue through restricting poker machine gambling would be compensated. Effectively, if people were to cross state borders to gamble, the taxes collected from their gambling would be returned to their home states. The perverse incentives in the "prisoners' dilemma" would be quashed, and, assuming state politicians are reasonably ethical, responsive to financial incentives and responsive to public opinion, poker machine gambling would be brought under control. Eventually there would be no need for re-distribution.

The only trouble with that approach would be the politics of the initial re-distribution. It's hard to imagine the Gillard Government, which even has trouble selling the mining tax, selling the idea of taking funds from the resource-poor states to give to the resource-rich states — and to the ACT! Andrew Wilkie may be able to sell it to Tasmanians, but Nick Xenophon would find it hard to justify taking \$65 million from South Australia to send west.

But if sticks do not work, carrots may. States currently collect \$3 billion a year in poker machine taxes. Why not increase the pool of Commonwealth funds for the states, and distribute them with the same incentives? It would be what economists call a "Pareto" solution, with no losers among the states. There would still be the same immediate imbalances between mining and non-mining states, but these would even out in time — Western Australia's windfall would last only until the eastern states reduced their reliance on poker machines.

Where, one may ask, would the Commonwealth find \$3 billion a year for the states — equivalent to a 6 per cent increase in GST revenue?

That's a narrow way to put the question. GST revenues are not turning out to be the "growth tax" for the states that was envisaged when it was introduced 12 years ago. At that time personal consumption was booming and growing. Australians, for the last five years, have been saving more and spending less, and, while spending on tax-exempt necessities such as health care and food tend to be sustained, cuts are taken in more discretionary items, subject to GST. (A full analysis of this trend is given in Budget Paper 1.)

The states, responsible for providing labour-intensive services of health care, school education and policing, are facing difficult fiscal conditions. There has to be a fiscal re-negotiation.

This re-negotiation may see an increase in the rate of the GST, a widening of its base, or some other source of tax revenue. However it works out, the Commonwealth will have some leverage over the states. Just as the Howard government succeeded in using the original leverage of the GST to eliminate certain state stamp duties, so too could the Commonwealth use fiscal leverage to push the states into poker machine reform, which, if they could be assured that other states wouldn't take advantage of those who reformed, should be politically easy to achieve.

Such a move may cost a lot less than the \$3 billion the states currently collect, because it does not take into account the benefit to GST and other taxes which would result from reducing problem gambling. What people don't blow on the poker machines they most probably spend in shops. (Problem gambling is concentrated among people with low income, who spend almost all their income.) The poker machine profits which get used to fund the growth of tax-exempt clubs (and political campaigns) would be realised in companies paying income tax.

A side benefit would be a boost for the retail sector, and, in those states where clubs are dominant, a boost for low-cost restaurants. Also, both the Commonwealth and the states should see some reduction in their social security and related budgets, because problem gambling has widespread social costs, many of which are picked up in the public sector.

Such a solution would have its critics in the clubs, but one benefit is that the arrangements would be too complex for a tabloid journalist to criticise. Another benefit is that the people of Western Australia would feel just a little more in step with other Australians — or should that be the other way around?