

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question No: AET 13

Topic: Gambling reform and pre-commitment

Hansard Page: Written

Senator Cash asked: According to the Commission's report, each problem gambler spends about \$21,000 on average per year. Based on a figure of 95,000 problem gamblers playing poker machines, this accounts for only \$2 billion a year. When the total poker machine expenditure in Australia is almost \$12 billion per year, why is it claimed that 40 per cent of poker machine expenditure comes from problem gamblers when your figures come up with less than 17 per cent?

Answer:

The data cited above come from various sources.

The \$12 billion dollar figure is a reliable estimate of total player losses (or spending). It is reliable because state and territory governments have systems in place at the gaming machine level to ensure that accurate estimates of spending are derived for tax purposes. However, estimates of the number of, and spending by, gamblers are from various sample surveys. These are affected by sampling and non-sampling errors, and by the fact that data on some aspects of gambling are only available from some surveys. The most important problematic aspect of estimating gambling expenditure is that people tend to underestimate the amount they lose.

Results from the ABS Household Expenditure Survey 2003-04 (HES) provide the most extreme illustration of this. It estimated total spending by EGM players of \$306 million — 3 per cent of the actual amount (\$10.7 billion). The Commission used a variety of methods to estimate people's spending, and all of the Commission's approaches provide estimates of total spending closer to the actual amount than the HES. That said, surveys generally underestimate spending by a significant margin.

It is likely that the problem of underestimation affects all gamblers, and not just those who are non-problem gamblers. It is well known that problem gamblers tend to conceal their spending from others. For that reason, the \$21 000 estimate is likely

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to be a significant underestimate of actual spending by problem gamblers (though it is the best estimate directly available from the survey evidence).

Given the presence of spending underestimation by gamblers generally, it is not appropriate to calculate the share of gambling accounted for by the different groups in the 'residual' way described in the question.

An illustration may be useful (table 1). In the NSW 2006 survey there were around 1.5 million adult non-problem EGM gamblers (based on the results shown in table B.4 in appendix B). Based on estimated spending per person and the numbers of people involved, the study suggests that problem gamblers accounted for about 35 per cent of total gambling expenditure as measured in the survey, with non-problem gamblers accounting for the remainder. This estimate is just one of many used to construct the range of expenditure shares found by the Commission.

Now consider the 'residual' method for examining expenditure shares. There are two alternatives:

If it were assumed that the estimates from problem gamblers were exactly right, and all of the survey evidence about spending by non-problem gamblers could be ignored, then spending by non-problem gamblers would not be \$1.75 billion as estimated, but \$4.25 billion (that is, taking away the estimate of spending by problem gamblers of \$950 million from the official estimate of EGM losses of \$5.2 billion). That would mean that the spending share of problem gamblers was 18 per cent, not 35 per cent.

However, the assumption that only non-problem gamblers underestimate spending is an arbitrary one. One could alternatively make the assumption that only problem gamblers underestimate their spending. In that case, spending by problem gamblers would not be \$950 million as estimated, but \$3.45 billion (that is, taking away the estimate of spending by non-problem gamblers of \$1.75 billion from the official estimate of EGM losses of \$5.2 billion). That would mean that the spending share of problem gamblers was 66 per cent, not 35 per cent.

There is no strong reason to choose one of these arbitrary assumptions over the other. The best measure of spending is that obtained when using all of the information from the survey. This is customary in empirical analysis of survey data.

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Table 1 Various ways of calculating the spending share

	<i>Number</i>	<i>Average spend</i>	<i>Total imputed spend</i>	<i>Share of total spending</i>
	People	\$ per year	\$m	%
Survey results (using all of the information)				
Non-problem gamblers	1,513,856	\$1,160	\$1,756	64.8%
Problem gamblers	46,228	\$20,642	\$954	35.2%
All EGM players	1,560,084	\$1,737	\$2,710	100.0%
Actual spend	..	..	\$5,206	..
Residual method 1				
Spending by non-problem gamblers (residually calculated)	1,513,856	\$2,809	\$4,252	81.7%
Spending by problem gamblers	46,228	\$20,642	\$954	18.3%
Total	1,560,084	\$3,337	\$5,206	100.0%
Residual method 2				
Spending by non-problem gamblers	1,513,856	\$1,160	\$1,756	33.7%
Spending by problem gamblers (residually calculated)	46,228	\$74,628	\$3,450	66.3%
Total	1,560,084	\$3,337	\$5,206	100.0%

