



## **Gambling and the EU internal market: aspects of the micro-economics and socio-economics of gambling**

**Speech given by Robert Young, Principal, Europe Economics, London, to a conference on The Future of Gambling in the Internal Market organised by the Academy of European Law, Trier, Germany, February 8-9 2007<sup>1</sup>**

Abstract: the starting point adopted for the conference was the lack of a single internal EU market in gambling services. This paper considers the situation from an economics-based rather than a law-based standpoint, using quantitative observations that are broad rather than deep. It suggests that divergent consumer tastes and the divergent attitudes of Member State governments towards gambling will continue to make for severe difficulties in the creation of a single gambling market. Tax treatment alone looks dauntingly problematic. The paper concludes that it may be more fruitful for the EU to seek harmonisation across gambling forms one by one than to aim for one-step harmonisation across the whole gambling sector.

### **Introduction**

Good morning, ladies and gentlemen. I must begin by thanking the organizers, particularly Herr Kramer, for inviting me to speak. This is my first visit to the Academy of European Law and my first to Trier, and I am delighted on both counts.

I have been asked to speak to you for 30 minutes on the micro-economics and socio-economics of gambling. If you will indulge me, I will do the socio-economics first, then the micro. Perhaps I could also reassure you that I am not going to burden you with heavy technical economics or econometrics. I am only the second speaker so I will not be thanked for putting you to sleep. What I would like to do is simply to cover some of the main quantitative characteristics of gambling as economists might see them.

I propose to divide my time up as follows: first to say something about my firm, though only very briefly, then to go on to tell you what is happening in gambling in the UK at the moment. It may hold some lessons for other EU Member States, though in some respects I hope not! Then I propose to say something about who gambles and how. This is the socio-economics part of my presentation. After that I will go through some government-related issues and some market-related issues, and these two together form the micro-economics part. Finally I will leave you with some ideas that we might think about over the next day and a half.

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<sup>1</sup> This is a text-only version of a speech which was accompanied by a slide presentation. The text has been changed only to the extent needed to make it comprehensible without the slides.



About Europe Economics, all I want to say is that we are a London-based firm which specializes in applying economics and econometrics to questions of public policy, especially in the fields of competition and regulation. About half our work originates in the UK and half overseas, most of that within the EU. We do not specialize only in gambling research – we just happen to have done quite a lot of it. We advised bookmakers on a major change to betting taxation in 2000/2001, since when we have worked on projects connected with betting terminals, betting exchanges, lotteries and casinos.

### **Gambling in Britain**

Let me move on now to some scene-setting, starting with the jurisdiction I know best, namely Great Britain, or, in my shorthand, Britain. To clarify, Britain means England, Scotland and Wales – not Northern Ireland, which for gambling purposes is dealt with differently.

Our most frequently-used form of gambling is the National Lottery. This was launched in 1994, after a prohibition on lotteries which had lasted about 170 years. The National Lottery proved to be immensely popular from the start, and brought a lot of people into gambling for the first time, especially women and higher socio-economic groups. The state-licensed lottery operator, Camelot, also runs virtually the entire British scratch card market, with a share of about 96 per cent. Our next most popular forms of gambling are bingo, which appeals mainly to women, and betting, which appeals mainly to men, followed by fruit machines, which are everywhere.

We have a new Gambling Act on the statute books. Although passed in 2005 it does not become fully operational until September 2007. At that point our new regulator, the Gambling Commission, already appointed, acquires all its powers. The government's main aims in creating the new Act were to sweep away much old and outdated gambling legislation, to create a new and fairer regulatory régime and, so far as possible, to keep gambling free of under-age access, criminality, and problem gambling. It is hard to argue against any of these aims.

There are other important aspects to the new Act, too. One is that it allows for the licensing of 17 new casinos in Britain – 8 so-called small casinos, 8 large ones, and one regional casino, also referred to as a resort casino or super-casino. As you may know, at the end of last month, Manchester was recommended to the government by an independent panel as the site of the first regional casino. As my firm advised Manchester on its proposal, I am very pleased about this. However, the process of approval is not quite complete: the Secretary of State has yet to bring before Parliament orders which allow the licensing of the 17 new casinos, so there remains the possibility of a challenge, whether in Parliament by MPs or through the courts by aggrieved losing bidders.

Once the new Act is fully in force, the government would like UK operators of remote gaming to bring these operations to Britain. Hitherto it has been illegal to offer remote gaming (though not remote betting) on a British site, so large companies like Ladbrokes, William Hill and Coral have had to operate their remote gaming offshore. They have



located in, for example, Gibraltar and Curaçao, where they enjoy very low tax rates. If they bring remote gaming to Britain they face VAT at 17.5 per cent and corporation tax at over 30 per cent, so it remains to be seen what they do.

Britain, like many other nations, is also facing a possible explosion in internet-based gambling, particularly remote poker. Reliable statistics are hard to get, but the anecdotal evidence one gets from around the world is hard to ignore. Explosion may indeed be the right word.

Finally, while gambling opportunities and gambling participation increase, there is quite a lot of public noise which objects to gambling. It is certainly audible in Parliament, from the government's own side as well as from the Opposition, and there is much to read in the Press. One senses too that there is opposition among a sizeable minority of ordinary citizens. The National Lottery is less well regarded than it was because of suspicion that the "good causes" it helps to finance have become substitutes for things that the government itself should do or are projects that the New Labour government's friends want. If large amounts of Lottery money are sucked into the 2012 Olympics in London, resentment could worsen. Consistently with such mounting scepticism, some suspicion is also falling on one of the government's main reasons for the new Regional Casino: the urban regeneration benefits it is intended to bring.

To round off the British gambling scene, you may like to know that we Brits spend more on gambling than any other EU25 Member State. We stake over €80 billion on gambling each year. This is about half what we spend on food, about the same as the government spends on education, and much more than it spends on defence. Of the €80 billion, just over 60 per cent goes on betting.<sup>2</sup> Of course, amounts staked are not the same thing as amounts lost, but the figures may still be of interest. I have some Member State comparisons of net expenditure – stakes minus winnings – to give you in a few moments.

### **Britain compared**

Let me now cover some of the main differences between gambling in Britain and gambling in other EU Member States. Our National Lottery is not state-owned (as it is in a number of other Member States) but it is state-licensed, and it is of course licensed as a monopoly. We also have a large betting sector, with some 8,500 betting shops. Most of our betting is at fixed odds, with relatively little *pari-mutuel* (pool) betting, and in that respect we differ from most of the rest of the EU except Ireland. You can bet on a very wide variety of sporting events, of which horse-racing is still the most popular, though betting on football is now overtaking greyhound racing into second place. Within the last three to four years bookmakers have also done well out of fixed-odds betting terminals. These are machines on which you can play a variety of virtual games, though roulette accounts for well over 90 per cent of usage.

Let me also put some perspective on casinos. We have about 120 casinos in operation now, but they have had to operate as clubs, and most of them are small. Even the eight

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<sup>2</sup> Source National Audit Office from HM Revenue and Customs.



new “small” casinos to be licensed under the 2005 Act will, typically, be bigger. But, conversely, the single Regional Casino that so worries the anti-gambling lobby will be much smaller than any you might see in Las Vegas.

Gambling is not, of course, static. Information technology alone makes for change bordering on turbulence. In the last few years it has brought British (and other) gamblers fixed-odds betting terminals, on-line betting exchanges and remote gaming. IT changes the economics of gambling supply and continues to open up new possibilities and new expectations for gamblers. It may bring unwanted side effects too.

It is notoriously difficult for national governments to keep pace with technical change and to devise regulatory interventions which contain adverse effects while not spoiling the enjoyment of the majority – though one may wonder if, collectively, the EU will do any better. That is one of the things we are here to discuss, of course.

I would summarise by saying that in Britain our attitudes towards gambling are a strange mix of greed, Puritanism and *laissez faire*. And although, as we shall see shortly, gambling preferences may differ between EU Member States, I suspect that the mix of attitudes we show in Britain is not so unusual.

### **Who gambles?**

Let me now start to say something about the socio-economics of gambling. Who gambles? And, importantly in the minds of many, who gambles too much?

The first thing to say is that there are not enough good recent studies of gambling round the world. The US is quite well documented, and, size for size, so are Canada, Australia, New Zealand and South Africa. In the UK we have a substantial Gambling Prevalence Study that dates from 2000, and a repeat of that is due this year.<sup>3</sup> My own firm has published two reports on betting terminals which also take into full account the wider gambling context in Britain.<sup>4</sup> The literature situation is getting better in the rest of the EU too. I know we have a number of speakers from the Swiss Institute of Comparative Law here today and I also know that their huge study for the EU has attracted a measure of criticism.<sup>5</sup> But my own view is that it is an immensely valuable report, and I congratulate them on it.

If we ask who gambles most in the EU25, then the answer in absolute terms, unsurprisingly, is the Member States with the largest populations. Britain tops the Big Five, with Gross Gambling Revenues (GGR), that is to say amounts staked less money returned to players, of €11 billion (a measure of net expenditure as mentioned a moment ago). Germany, despite having the largest population, comes second at €8.4 billion, then, in order, France at €7.6 billion, Italy at €6.2 billion and Spain at €4.9 billion.

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<sup>3</sup> *Gambling Behaviour in Britain: Results from the British Gambling Prevalence Survey*, Sproston, Ehrens and Orford, National Centre for Social Research, 2000.

<sup>4</sup> *Fixed Odds Betting Terminals, the Code of Practice and Problem Gambling*, Europe Economics, 2006. Available on-line at <http://www.eer.co.uk/download/2006abbfr.pdf>.

<sup>5</sup> *Study of Gambling Services in the Internal Market of the European Union*, Final Report, 14 June 2006, Swiss Institute of Comparative Law. See <http://www.isdc.ch>.



But size of population does not have much to do with propensity to gamble. Only one of the biggest five member states by population makes it into the top five for gambling expenditure *per capita* – what I have called the “Happy Five” – and that is Britain, which occupies fourth position. Ireland comes top by some way, at €279 per person, followed by Finland at €239, Luxembourg at €194, Britain at €181, and Sweden at €176.<sup>6</sup> All of these except Britain have small to medium size populations among the EU25. I should add that the figures for Luxembourg may be larger than shown, since the Swiss Institute’s report, the source of these figures, indicates that the returns for Luxembourg are probably not complete.

If we look at where the Big Five come in the EU25, then, measured by gambling per capita, France and Spain are 9<sup>th</sup> equal, Italy 12<sup>th</sup> and Germany 13<sup>th</sup>.

Whether you look at the Big Five or the “Happy Five”, gambling preferences are not uniform. Lotteries are fairly popular throughout but the mix of other things varies. Table 1 below shows the most favoured forms of gambling, measured by GGR, in each of the Big Five and the “Happy Five”:

**Table 1: top gambling forms in specified Member States**

<b>Big Five (ranked by population)</b>	
1. Germany	lotteries and gaming machines
2. France	lotteries and casinos
3. Britain	betting and lotteries
4. Italy	lotteries and betting
5. Spain	gaming machines
<b>“Happy Five” (ranked by GGR <i>per capita</i>)</b>	
1. Ireland	betting and lotteries
2. Finland	gaming machines and lotteries
3. Luxembourg	casinos (possibly)
4. Britain	betting and gaming machines
5. Sweden	lotteries and betting

*Source: Swiss Institute of Comparative Law*

The spread of gambling expenditure *per capita* is even wider than Table 1 might imply. The lowest recorded gambling expenditure in the EU25 is that of Poland, at €11 per annum per person, equivalent to less than 4 per cent that of Ireland; and the lowest in the former EU15 is that of Belgium, at €65 per annum, under one quarter that of Ireland.

With such diversity of expenditure and preferences, one must question whether there is any real prospect of creating a single market for all gambling in the EU. One might also ask whether there would even be serious *interest* in creating a single gambling market.

<sup>6</sup> Strictly speaking, Malta would come top of the list at €282 per head but is excluded because it operates a tax régime which is deliberately aimed at attracting offshore betting. Its figure of €282 is unlikely to be solely for citizens of Malta.



Perhaps if internet-based gambling becomes explosively popular in all member states, that will create a desire for common treatment – but of course internet-based gambling is recognised as perhaps the hardest of all modes of gambling to regulate.

It is one thing to get data about money spent on gambling, or taxes raised from it, but it is altogether more difficult to get details of who plays and who has problems with gambling. Two quotes from the Swiss Institute's EU study confirm this quite forcibly: As the Institute states:

“There has...been no uniformity in the way the governments of EU Member States have addressed the issue of negative social impacts, including problem gambling.” (Executive Summary, p.xlii)

“...most EU Member States have neither carried out prevalence studies nor put into place explicit strategies for developing a greater understanding of the causal or contributing factors to problem and pathological gambling within their borders.” (p.1443)

To try to develop some statistics I will give you some information about Britain. I do not claim that our data will be typical of other Member States, but they may serve to show you what economists think is important to capture.

We have first to identify which gamblers we want to study. The earlier British study I referred to, the Gambling Prevalence Study published in 2000, considered two groups – those who gambled at all during the past week and those who gambled during the past twelve months. In the work that Europe Economics were commissioned to do, the focus was rather different, and we researched those who gambled at least once per month. A further difference was that for our clients we were interested only in people aged 18 or over, whereas the Prevalence Study considered those aged 16 or over.<sup>7</sup> There can be big differences arising from this.

For the Europe Economics studies we used large sample sizes – 12,000 in each of two years, compared with just under 7,000 in the Prevalence Study. We found that almost half of British adults, 42 per cent, gamble regularly, and a very large proportion of those, 89 per cent, regularly play the National Lottery. Scratch cards come next, with 12 per cent of adults buying them. That is not surprising because you buy scratch cards at exactly the same place as lottery tickets, and they come from the same operator, who no doubt has a great deal of information about the purchasing practices of customers. After that, betting and bingo attract approximately equal percentages of the population, at 8 per cent, mostly women, for bingo and 7 per cent, mostly men, for betting. Five per cent play fruit machines. Casinos in their present form in Britain are very much a minority interest, with under 1 per cent of adults visiting them.

## **Problem gambling**

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<sup>7</sup> In Britain one can buy National Lottery tickets or scratch cards or play fruit machines from the age of 16, so the Prevalence Study used 16 as its starting point. Our clients were bookmakers, and since one can enter a betting shop only from the age of 18 we used that as our starting point.



Problem gambling has been defined in a number of different ways. Two American psychologists, Lesieur and Blume, have described it as “gambling to a degree that compromises, disrupts or damages family, personal or recreational pursuits”, and this is the definition we adopted for our own research. There are two very well-established psychological tests for identifying problem gamblers, namely the DSM-IV test and the South Oaks Gambling Screen (SOGS). Of these two we chose the DSM-IV for two reasons. It is shorter for use in mass surveys – 10 questions rather than 20 – and psychology experts say it gives more reliable results in mass surveys than the SOGS. However, new research is going on. Some commentators already favour the new Canadian Problem Gambling Index, and a DSM-V test is due to become available in 2011. If we are involved in future studies we will certainly take advice on the possibility of using the newer tests.

We found in the 2005 research an overall prevalence of problem gambling in Britain of 0.4 per cent, somewhat lower than the 0.6 per cent that the Prevalence Study had found. But there are two caveats to apply. First, the 95 per cent confidence interval applicable to our study would give a range of 0.2 to 0.6 per cent, so gambling prevalence might or might not be lower than in the earlier study. Secondly, we did not obtain our sample in the same way as the researchers did in 1999. Nevertheless we still feel confident in saying that levels of problem gambling *probably* did not increase in the five years between the two sets of studies. Thus, it does not necessarily follow that problem gambling always rises irresistibly, nor that problem gambling increases with new gambling opportunities. Our calculation is that there are between 250,000 and 300,000 problem gamblers in Great Britain.

Now let me come back to the Prevalence Study, to look at what forms of gambling might – and I emphasise might – be associated with problem gambling. In that study, casino gambling emerged as the most problematical, since 5.6 per cent of casino users were found to be problem gamblers. Conversely, the National Lottery appeared to be the least problematical, since only 0.7 per cent of lottery players were found to be problem gamblers. But if you look at the absolute numbers rather than the percentages, the picture is very different. We calculate that there are about 60,000 to 70,000 problem gamblers who visit casinos compared with 250,000 to 300,000 who play the National Lottery. These absolute numbers ought to matter to policy-makers. Maybe it is time to look harder at problem gamblers for whom the Lottery is prominent in their gambling habits.

However, one obvious conundrum about comparing, say, casino problem gamblers and Lottery problem gamblers is that they could be the same people (or, strictly speaking, overlapping groups). The British Gambling Prevalence Study and our own research show that problem gamblers generally participate in multiple forms of gambling, so it is very likely that they do overlap. So if, say, all casinos were closed or the Lottery abolished, would the rate of problem gambling fall? Probably not: the addiction would predictably be transferred to one or more other forms of gambling. And if all gambling were banned, then, so psychologist friends tell me, the addiction would not be eliminated but might well be transformed into some other form of addiction.



In any event we at Europe Economics have doubts about whether any particular form of gambling either causes or aggravates problem gambling. The logit modelling we did in the second of our studies suggests that two socio-demographic features – the age at which a person starts to gamble, and marital status – are the two factors most positively correlated with the presence of problem gambling. In the case of betting shop customers, the frequency of visits to the betting shop appeared to be more positively correlated than any particular betting pursuit available in the betting shop. Indeed, no particular form of gambling showed any correlation with problem gambling.

If we are right in concluding that the form of gambling is in effect immaterial, it makes sense to concentrate problem gambling research on problem gamblers themselves. Our own government has never funded or officially encouraged research of this kind. We had only a resounding silence when we suggested it in our second report.

### **Gambling and governments**

I move on, then, to gambling and governments, which marks the start of what I have to say on the micro-economics of gambling. Here I see three major issues to talk about – purely economic issues, then moral issues and public health issues. These last two both have economic consequences.

On balance we can say that, for governments, gambling both is and is not an economic activity like any other. Generally speaking, they want the gambling sector to thrive, and some governments actively promote national gambling interests against competing national interests, and in those respects EU governments appear to regard gambling like any other industry. On the other hand, in some respects they also bend the rules for gambling: they sanction lottery monopolies, they devise special tax deals, and they allocate percentages of gambling revenues to specific objectives. In these respects gambling is unlike other industrial sectors.

The tax picture in particular is very varied, as the Swiss Institute's comparative study has confirmed. Some quotes from p.1057 serve to illustrate:

“[tax is]...sometimes expressed as a percentage rate and sometimes as a fixed sum of money payable annually or monthly.”

“...the percentage rate may be referable to...net revenue...[or] gross revenue...[or] winnings.”

“...complications are introduced by national legislation in the form of reduced rates or exemptions from tax liability.”

Is the economic significance of gambling tax very great? Other forms of tax generate far higher revenues, in both absolute and relative terms. In Britain, gambling duties (as



distinct from VAT and corporation tax) come to only around 1 per cent of all duties, and gambling tax is a tiny percentage of all tax.<sup>8</sup>

On the other hand, tax régimes are, as I have said, sometimes used as a basis of competition between rival jurisdictions aiming to attract gambling operators. When some countries offer zero or close to zero rates (for example, Curaçao and the Mohawk Territory of Kahnawake offer zero per cent, Malta 0.5 per cent and Gibraltar 1 per cent) you understand why some operators choose to base their operations there.

Where tax is levied on gamblers, tax rates can affect their behaviour too. If taxes are levied at too high a rate on gamblers themselves, it depresses demand. But when tax is taken off the gambler and put on the supplier, the results can be electrifying. This is what we saw in Britain, with a change in taxes on betting in 2001. Before then the régime imposed levies on bettors that, at their highest, required bookmakers to deduct 9 per cent from amounts staked. In 2001 the tax on bettors was removed and tax at 15 per cent was imposed instead on the gross profits of bookmakers. The result was that between 2002 and 2004 betting volumes tripled.

One last point on tax. Our own government believes that UK operators who currently have to run remote gaming offshore will come back to the UK when they can lawfully do so after September 2007 *because British regulation is so much better than elsewhere*. Should we really believe that tax is a price worth paying for British regulation? Why should countries with low tax régimes not develop good regulatory régimes? We British used to believe that nobody could make ships or motor bikes as well as we did, and I wonder what went wrong there.

If I try to sum up for the EU as a whole, it must surely be true that a necessary precondition for a single market is a harmonised tax régime? And that a necessary precondition for that would be a harmonised tax rationale? By harmonised I do not mean necessarily identical tax rates, but I do mean consistent as to the objectives and basis of taxation.

As regards moral stance towards gambling, it is hard to see consistency among governments. In some Member States gambling is prohibited except where allowed and in others allowed except where prohibited. Consumer welfare is arguably an important component of moral stance, and on this point I refer you to an excellent paper by Dr. David Forrest of the University of Salford on the apparent disregard that our own government has shown towards consumer welfare in its treatment of gambling regulation – the tendency it shows to attach more importance to the ½ per cent or so who are problem gamblers than to the 99½ per cent who are not.<sup>9</sup> And I am impressed by the arguments run by Charles Whitebread, Professor of Law at the University of Southern

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<sup>8</sup> The VAT position on betting terminals in Britain has recently changed and the effects are not yet clear, so it is difficult to be more precise on the contribution that gambling makes to total tax revenue.

<sup>9</sup> *Consumer Interests and the Regulation and Taxation of Gambling*, Dr. David Forrest, Centre for the Study of Gambling, University of Salford. Paper given at a colloquium on European and national perspectives of the regulation of gambling, University of Tilburg, November, 2006.



California, to the effect that when governments get up on a moral high horse and start regulating from there, the effects are uneven, and often bear hardest upon the least influential, least articulate members of society.<sup>10</sup>

Next I turn to problem gambling as a public health issue. Here again, there is a shortage of good research material conducted or commissioned by governments. Within the EU25 it looks as though only Spain and Sweden recognise problem gambling as a public health issue which deserves attention by their national health services. The Swiss Institute records that:

“In some Spanish regions, problem gambling specialists are routinely included in the local Mental Health Departments” (p.1338)

and that:

“the Swedish National Institute of Public Health (Folkhälsoinstitutet) proposes various measures to control gaming addiction”. (p.1358)

All other EU Member State governments rely on third party charitable organisations to research and treat gambling addiction.

That said, it is worth remembering that gambling addiction – for the moment at any rate – appears to be a problem of a much smaller scale than, say, alcohol or drug addiction. I have only UK numbers to show you, and they suggest that compared with about 300,000 problem gamblers in Great Britain we have probably twice as many drug addicts<sup>11</sup> and at least ten times as many (3 to 4 million people) who are alcohol-dependent.<sup>12</sup> These are not detailed statistics, but you get the general picture. The only defence I can see for what the majority of governments do is that, if problem gambling were formally made a public health issue, the effects of the marginal burden falling on already stretched national health services could be severe.

### **Monopolies and the market**

The Swiss Institute reports that EU governments give a variety of reasons for wanting to own or directly control their own national lotteries and to organise them as monopolies: for example, the preservation of public order, protection against gambling addiction, and the prevention of fraud and money laundering. The good causes element is referred to by some, though this is not an obviously compelling reason for state control. In Britain at least, good causes come low down on the reasons gamblers give for playing the Lottery – under 1 per cent in our 2005 study. In round terms, government reasons for retaining complete control of lotteries can be reduced to a simple assertion – “we know best” – yet it is not at all clear why “we” do.

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<sup>10</sup> *Us and Them: the nature of moral regulation*, Prof. Charles Whitebread, Southern California Law Review, vol.74.

<sup>11</sup> Source: National Treatment Agency, <http://www.nta.nhs.uk>.

<sup>12</sup> Source: Turning Point, a UK social care organization, <http://www.turning-point.co.uk>.



As regards economic structure, the traditional approach of governments has been that in any one state – however we define “state” – there should be only one state-scale lottery. This is because the normal economic aim imposed on a lottery operator is to maximise revenue, i.e. ticket sales, and conventional wisdom is that only big prizes attract big sales and that a monopoly lottery will produce bigger jackpot prizes than competing lotteries. Apart from this, there is no obvious natural monopoly element about a lottery – lotteries are not like gas pipelines or electricity grids, where economic efficiency would fall with duplication. So in lotteries as in other sectors you may well get greater innovation and efficiency under competition.

The problem, however, is that nobody has looked seriously at this. Again I am indebted to David Forrest for suggesting that a good starting point would be more research into the way lotteries actually work.<sup>13</sup> He has pointed out that, although big prizes are assumed to attract big ticket sales, the UK’s Lotto Extra (which offered only one big prize) failed, possibly because it produced too few winners. Since lottery players generally play multiple lottery games, Dr. Forrest argues that we ought to know more about how the games interact with each other, and about the impacts that different prize structures would have. Such research might shed new light on whether monopoly is the right economic structure for maximising lottery revenue.

On the whole, one sees more innovation, greater cost efficiency and better value for money in competitive forms of gambling than in state-licensed monopolies. Lottery returns to players are generally a good deal lower than in any other form of gambling. In Britain, about 45 per cent of money staked on the National Lottery is returned to players. In betting, the figure is closer to 80 per cent, and with fixed-odds betting terminals 97 per cent.

But even in forms of gambling subject to competition, governments intervene as and when they think they should. Let me give you an example. When fixed-odds betting terminals started to become popular in Britain, the government seriously contemplated a ban on them because one Minister had seen what he regarded as similar machines (“pokey” machines) being addictively played in Australia. No matter that the machine specifications as between Australia and Britain were different, or that Australia allows gambling and alcohol to be mixed in a way that Britain does not, the government’s knee-jerk reaction here was that fixed-odds betting terminals had to be stopped before they caused a flood of gambling proliferation and addiction. After a flurry of exchanges between the government and bookmakers calmer counsels prevailed and systematic research was carried out (by Europe Economics). Yet even now, after five years, and with a Code of Practice in place, betting terminals are still regarded as effectively on probation by a government that has nevertheless happily sanctioned 1,250 unlimited prize slot machines in Britain’s first Regional Casino.

If there is any good news to point to it is that governments are perhaps – and I stress perhaps – becoming just a bit less sure about their traditional assumptions of moral rectitude. New attitudes towards alcohol licensing have resulted in regulatory changes

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<sup>13</sup> Unpublished presentation to the Royal Statistical Society, London, November 7<sup>th</sup> 2006.



that narrow the long-standing gap between UK practice and other EU Member States. Against such a background it is likely that attitudes towards gambling will continue to change too, a process that in Britain began when the National Lottery proved to be so popular. From a consumer welfare point of view, the open-minded re-examination of gambling, even if it results in no changes, can only be a good thing.

### **Conclusions?**

To conclude, what would an economist say about gambling and the internal market? At this stage, not very much. I have no nuclear flash of new insight to offer you.

EU governments would surely have to begin by agreeing what gambling is and what role it should play in our society.. But if they could agree on what role in society is served by gambling, they would next need to agree on whether a single gambling market is feasible, and whether it should be made to apply across all gambling forms. It might be easier with some than with others, so maybe an acceptance of gradual progress would be wiser than an expectation of instant success.

And even if the EU could devise some form of internal harmony what about the border between gambling in the EU and gambling in the rest of the world? Does it need to be policed, can it be policed, and if so how?

With every additional question I get more hesitant and less hopeful, so I think the time has come for me to stop.

Ladies and gentlemen, thank you.