

A NOTE ON THE NATURE AND EXTENT OF GAMBLING IN IRELAND

by

Richard Bruton

September 1975

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The Household Budget Inquiry 1965/6 provides some information on gambling among the $4\frac{3}{4}$ thousand urban households that were surveyed. In all, 67 per cent of the households reported some spending on betting, pools, competitions, etc. The average weekly spending of households on betting, etc (amount laid on less gross winnings) was £0.212 from an average weekly spending on all items of £21.22. Thus, 1.00 per cent of spending was devoted to net gambling in some form.

The Inquiry also provides information on the pattern of expenditure in different types of household. Table 1 shows the spending on gambling in relation to total spending for each of the social groups. The amount spent on gambling is greatest both absolutely and as a proportion of total spending among the lower non-manual and manual social groups. These are also the groups with the largest average household size and with the greatest number of children of dependent age. Gambling expenditure is lowest among professionals and salaried groups. The final social group spend least on gambling but their considerably lower level of total expenditure makes the expenditure share quite high. This group contains those engaged in farming or unknown activities. Since this was an urban survey it is hard to know who exactly would be in this group but it contains a considerable number of retired who probably failed to state their last occupation.

Table 1: Spending on Gambling by Social Group

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| (a) Gambling (£) | 0.220 | 0.191 | 0.247 | 0.248 | 0.223 | 0.150 |
| (b) Total Expenditure (£) | 33.840 | 23.283 | 19.740 | 21.952 | 17.415 | 12.029 |
| (c) (a) as % of (b) | 0.65 | 0.82 | 1.25 | 1.13 | 1.28 | 1.25 |

Note: The social groups are listed in the Appendix

Source: Household Budget Inquiry 1965-6.

Table 2 shows the spending on gambling among different income groups. The absolute level of gambling rises with income but tapers off in the highest income group. The proportion of spending devoted to gambling shows an uneven pattern. It is twin-peaked, tapering off sharply at either extreme. The evidence seems to suggest that, up to a certain level of income, gambling is a relative luxury indulged in more

Table 2: Average Weekly Spending on Gambling by Income Group

| | Under £10 | £10 and under £20 | £20 and under £30 | £30 and under £40 | £40 and over |
|----------------------|--------------|-------------------------|-------------------------|-------------------------|-----------------|
| (a) Gambling (£) | 0.042 | 0.175 | 0.240 | 0.461 | 0.412 |
| (b) Total Expen. (£) | 6.671 | 17.239 | 25.887 | 34.608 | 45.002 |
| (c) (a) as % of (b) | 0.62 | 1.01 | 0.93 | 1.33 | 0.91 |

Source: Household Budget Inquiry 1965-6.

frequently by higher income households but that once this threshold is passed gambling loses much of its attraction. However, the performance of the £20 to £30 income group spoils the consistency of this explanation. The very low proportion of spending devoted to gambling in the lowest income group is an interesting finding because one might expect that low income households who are in regular receipt of transfer payments would have less incentive to caution in their gambling habits. Indeed, this expectation would be reinforced by the fact that low income households tend to be relatively small in size, containing very few children but many elderly people. The pattern of gambling as income rises might be interpreted as evidence of households attitude to risk at different income levels.¹ However, such an interpretation is very shaky, because the entertainment aspect of betting distorts the straight risk-taking element.

It is not easy to reconcile the patterns revealed in Tables 1 and 2. The typically lower-paid social groups - social groups 3, 4 and 5 - devote a higher proportion of their income to gambling. One plausible explanation is that social group is a more reliable predictor of gambling behaviour than income, but within social groups gambling behaviour is largely dictated by income. In that event, the gambling patterns displayed in Table 2 would be the result of the social composition of that income group. It is not possible to check this, but it would lend some sense to the uneven gambling pattern revealed among different income groups.

From the point of view of possible hardship caused by gambling, it would be of interest to see the prevalence of gambling in households classified not only by income but also cross-classified by

1. Economic theorists have given considerable attention to attitudes towards risk as income and wealth rises. Diminishing risk aversity suggests that the rate of decline of the marginal utility of wealth slows down as you move up the income scale. This, in turn, can be used as an argument for limiting redistributive measures.

household size. Unfortunately, this information is not available. Information on household size alone shows no consistent pattern in spending on gambling, but generally the presence of children in a household prunes gambling expenditure.

Overall, the Household Budget Inquiry shows a surprisingly low prevalence of gambling in Ireland. However, there are a number of factors which tend to depress the amount spent on gambling. First, the question relates to net spending on gambling (i.e. net of winnings), not the total money staked. Secondly, there may be a serious tendency to understate the amount lost gambling when answering a questionnaire.

Table 3 presents an estimate of gross betting on horses and greyhounds but excludes gambling on sweeps, lotteries, etc. The total amount staked is considerably greater than betting losses. In the period 1966-74, money staked on horses and dogs amounted to an average of 3.73 per cent of consumer spending, but actual losses were only between 0.62 per cent and 0.85 per cent of spending. The 1966 figure for betting losses in Table 3 offers some support for the accuracy of the HBI figure for the same year. However, Table 3 applies to both urban and rural households and it is likely that rural households devote proportionately less to gambling on account of lower average level of spending and remoteness from betting outlets. Moreover, gambling on sweeps and lotteries are left out of account in Table 3. Thus, the HBI figures are probably still somewhat understated.

Although betting more than doubled between 1966 and 1974, total spending has grown faster, and the proportion devoted to betting has fallen as a result. This is a little surprising in the light of indications in the HBI that betting is a luxury item more indulged in by high income households. However, the pattern in the HBI was not uniform and it is conceivable that many households have now passed a threshold where gambling is a luxury. Differences between time series and cross-section patterns are quite common and have been rationalised in a number of ways.¹ Another

1. For example, some writers have suggested that expenditure patterns are related to relative income position rather than absolute income. A similar argument would be that gambling is primarily related to social class. Then, changes in gambling expenditure through time would reflect changes in the composition of the population. Since 1966, the major change in the Irish working population has been the decline in agricultural occupations. The HBI gave no information on the betting behaviour of this group, but it seems unlikely that the shift from agriculture would account for the relative decline in gambling.

Table 3: Gambling on Greyhound and Horse Racing

| Year | Estimated Betting Turnover | | Estimated Betting Losses by Households | | | |
|------|----------------------------|---|--|---------|---|------|
| | £(000) | As % of Personal Expenditure on Consumption | £(000) | | As % of Personal Expenditure on Consumption | |
| | | | Low | High | Low | High |
| 1966 | 32, 013 | 4.29 | 5, 077 | 6, 959 | 0.68 | 0.93 |
| 1967 | 31, 021 | 3.89 | 4, 947 | 6, 846 | 0.62 | 0.86 |
| 1968 | 33, 594 | 3.69 | 5, 372 | 7, 467 | 0.59 | 0.82 |
| 1969 | 40, 342 | 3.90 | 6, 551 | 9, 059 | 0.63 | 0.88 |
| 1970 | 44, 430 | 3.87 | 7, 388 | 10, 164 | 0.64 | 0.88 |
| 1971 | 47, 311 | 3.65 | 8, 045 | 10, 988 | 0.62 | 0.85 |
| 1972 | 51, 125 | 3.44 | 8, 680 | 11, 890 | 0.58 | 0.80 |
| 1973 | 58, 476 | 3.29 | 9, 972 | 13, 679 | 0.56 | 0.77 |
| 1974 | 70, 779 | 3.48 | 12, 183 | 16, 716 | 0.60 | 0.82 |

- Notes and Sources: (1) Betting turnover is estimated from the returns of Irish Racing Board and Bord na gCon and from the Revenue Commissioners Receipts in betting duty.
- (2) Betting losses are estimated as the sum of the tote's take, the on-course betting levy, the betting duty and a bookmaker's take of $7\frac{1}{2}$ per cent of turnover as a low estimate to 15 per cent as a high estimate.

possible explanation of the decline in gambling is that, like so many services, it has become relatively more expensive, reflected in an increased "house's take" to cover taxation, costs and profits.

Taxation of Betting

Only gambling on horse and dog racing is subject to taxation. The rate of taxation has tended to grow over the years. Different forms of betting are treated differently for tax purposes. Betting in off-course SP offices is subject to a betting duty. At the beginning of the 1960s, this levy was 10 per cent of betting turnover. In 1963, turnover tax was also introduced on off-course betting at a rate of $2\frac{1}{2}$ per cent and, in 1970, it was increased to 5 per cent. Turnover tax was removed from betting in 1972, but betting duty was raised to 15 per cent to compensate. In 1975, this duty was further increased to 20 per cent. There are two betting outlets on the track, the tote and the bookmakers. The tote is controlled in both cases by a semi-state body (Irish Racing Board and Bord na gCon). The tote's take was originally $12\frac{1}{2}$ per cent of turnover in both cases, but for horse racing this was changed to 20 per cent of losing bets in 1968 (this amounts on average to 14-15 per cent of total turnover). About half of the tote take goes to cover its operating expenses and the rest is ploughed back into racing. Thus, its surplus over expenses may be considered as equivalent to a tax, but it is a tax earmarked for the support of racing. A levy of 5 per cent of turnover is paid to the respective racing boards on bets with bookmakers on the track (raised to 6 per cent in 1975). This also goes back to racing. Overall, it seems that the tax treatment of on-course betting is considerably more lenient. The tax element is only about 6 per cent when operating expenses are allowed for and this is used for the benefit of the sport. Off-course betting, on the other hand, contributes 20 per cent of turnover to general tax funds. The reason for treating betting on the course more lightly is to encourage people to go racing rather than gamble at home.

On the face of it, the tax treatment of gambling appears quite favourable by comparison with alcoholic drink, smoking or luxury goods.¹ However, it is arguable that the real burden of taxation on

1. Between VAT and custom and excise duties, beer pays the equivalent of a tax rate of about 70 per cent, spirits about 140 per cent, and tobacco about 200 per cent of the pre-tax retail price. Luxury goods such as motor vehicles and radios pay 30.26 per cent VAT and other luxuries pay 16.37 per cent VAT.

gambling should be assessed by reference to net betting losses, the price people are prepared to pay for the joy of gambling. If the true expectation of loss on gambling is 10 per cent, then a 10 per cent tax on betting turnover will double the expectation of loss. If we assess tax burden in this way, the tax burden is probably about as high as for drink and tobacco and higher than any other luxuries. At all events, this highlights the point that the betting tax base is probably more sensitive to changes in the tax rate. The response to the increase in tax rate on off-course betting from $12\frac{1}{2}$ per cent to 15 per cent in May 1970 provides some evidence of this. A fall in betting turnover from £20.18 million to £19.19 million was recorded between the financial years 1969/70 and 1970/71. There was a significant reversal compared with the previous and subsequent growth in turnover. It would seem that total tax receipts actually fell in response to the increase in the rate of tax though the instability of the figures makes this difficult to judge. Moreover, the fact that other types of betting outlet did not suffer this tax increase gave some scope for switching.

Conclusion

Betting is a very important item of spending in Ireland, with gross betting on racing equivalent to about three-quarters the amount spent on tobacco and about one-third the amount spent on alcoholic drink. Off-course betting is at least as heavily taxed as other luxury goods, but it would seem to be somewhat anomalous that on-course betting is so much more lightly treated by the taxman, and sweeps, lotteries and bingo go scot free.

APPENDIX

Social groups are classified by the occupation of the head of the household.

Social Groups

Occupation/Industrial Status

- | | |
|---|---|
| 1 | Higher professional, lower professional, employer or manager. |
| 2 | Salaried employee, intermediate non-manual worker. |
| 3 | Other non-manual worker. |
| 4 | Skilled manual worker. |
| 5 | Semi-skilled manual worker, unskilled manual worker, |
| 6 | Farmer or farm manager, other agricultural worker, or fisherman, unknown. |