

THE SOCIETY FOR THE STUDY OF GAMBLING NEWSLETTER

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The Society for the Study of Gambling was formed in 1977 to provide a forum for those concerned with research into gambling, to promote its scientific study especially as far as the psychological, social and economic aspects are concerned, and to inform the public about these matters.

The membership of the Society is drawn from a wide circle of people who have an interest in various aspects of gambling. They range from social workers and psychiatrists who deal with "compulsive gamblers" to members of the commercial gambling industry. It is a condition of the Society that there should be freedom of opinion and practice among its members, so that the Society does not take any particular stance in relation to gambling.

The Society holds regular meetings twice a year in London. Further details are available from the Honorary Secretary.

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EDITORIAL: LOTTERIES IN THE UK?

Mark Griffiths

Psychology Department, University of Plymouth

Once again, the SSG meeting on the 19th May 1992 turned out to be a lively and stimulating affair. The morning session had a distinctly psychological flavour with Ken Coventry giving a paper on the cognitive aspects of gambling and the SSG's retiring Chairman Iain Brown examining the question "What contribution can the study of other addictions make to the understanding of addiction of gambling?" I hope to be able to publish their papers in a future edition of the Newsletter.

The panel discussion in the afternoon on "Lotteries in the UK?" proved to be particularly engaging with Andrew Tottenham (Managing Director of "Tottenham and Co.") arguing for a national lottery and Malcolm Hughes (Managing Director of 'Vemons Pools') and Dr. Emanuel Morn (Chairman of the National Council on Gambling) arguing against.

Andrew Tottenham (whose paper appears in this issue of the Newsletter) began by outlining the history of lotteries and informed the meeting that 33 US States now had a lottery. He then went on to outline the different types of lottery that currently exist. 'Passive draws' are those similar to a raffle in which a number is picked specific to the buyer of the ticket. In the US, this type of lottery is in decline and at present only claims 16% of the market. 'Instant Lotteries' basically fall into one of two types - 'scratch lotteries' and 'pull tab lotteries'. Scratch lotteries are tickets in which selected numbers are covered to be scratched off (usually with a coin) by the card buying punter. In the US, they are available in most places but there are set prizes and not random. Pull tab lotteries are popular in North West USA and with charities and have been described as "cardboard slot machines". These are usually sold in licensed bars and involve the pulling of a tab to reveal either a winning (or most of the time) losing symbols. According to Tottenham, in the money making stakes scratch cards (at present) have the edge over pull tabs. He then went on to talk about the development of "online lottery systems" which is a lottery system connected to a computer via a telephone system. This system involves a person selecting any six numbers which are entered into the computer. Therefore it is possible for more than one person to win). After entering the numbers, a computerized receipt of the numbers selected is returned to the buyer who keeps the receipt as his/her "ticket". The winning number is often selected via a national medium (e.g. T.V.) and owners of the winning ticket(s) share the substantial prize. This type of lottery produces a massive surge of ticket buying before the winning ticket is announced (in fact 70% of the tickets are sold in the preceding 3 hours!) and is currently being introduced into Eastern Europe.

There is no doubt that worldwide, lotteries are big business. In 1991, \$71 billion was staked globally (\$33 billion in Europe; \$24 billion in the USA) and the trend is towards larger and larger jackpots. The benefits of a national lottery is that governments receive much needed revenue, the system is controlled by state (and therefore accountable) and there is little fraud. However, are these good enough reasons for the UK to introduce a national lottery to raise money for arts funding?

Malcolm Hughes and Emanuel Moran examined the question of "to stimulate (gambling) or not to stimulate?" At present the UK (in comparison to our EEC neighbours) have a gambling market that is the largest, the most open, the most diverse, the least subsidized and the best regulated. Additionally, it raises \$1 billion annually in taxes. Hughes argued that the introduction of a national lottery would substantially reduce profits for the pools companies because they would not be competing on a level playing field. Although the form of the national lottery has yet to be decided, its distribution structure would almost certainly use a combination if not all of the following methods: (a) retail outlets (b) precinct booths (c) door to door agents (d) direct marketing and (e) telesales. Since the pools companies cannot use shops and retail outlets this would put them at a distinct disadvantage. Hughes also argued that whereas pools gambling is very much a passive pastime, a national lottery with mass exposure and advertising would stimulate gambling (i.e. make it more active) - a point also re-iterated by

Moran. However, the question of whether a national lottery in the UK is a good or bad thing is in essence a moral debate and is unlikely to produce majority agreement

N B This editorial was written before receiving the contribution by Andrew Tottenham which was faxed just before going to press.

THE NATIONAL LOTTERY

**Andrew Tottenham
Tottenham & Co**

The UK Government is proposing the legalisation of a National Lottery to help fund the Arts, Sports and Charities, and as a consequence published a White Paper which asked questions about the type and structure this lottery take. The government's position has, until now, been opposed to a lottery on this scale and this change of position represents a radical shift in policy. The reasons appear to be twofold:

1. The EC's investigation into each member state's gaming laws and whether they contravene European Law. The UK Government is currently being sued by the German Klassenlottery in the European Court over the confiscation by HM Customs & Excise of more than three million lottery tickets, and
2. Parliament has learnt that you cannot fund every project through tax, which people are unwilling to pay, and that it is easier to raise large amounts of money from the general population through the implementation of a lottery.

Lotteries have been used to raise money for "good" causes or projects throughout history.

1. The first recorded Lottery was in Bruges Belgium in 1466 (24th February) by the widow of the Flemish painter Jan Van Eyck.
2. London's first water supply was paid for from the proceeds of an organised lottery in 1631.
3. The British Museum and Sydney's Opera House were part paid for by lotteries.

In order for the UK to get the most benefit from the lottery it would be sensible to study all the forms that are available. In this way the return on the investment can be maximised by avoiding the mistakes that other countries have made. When it comes to lotteries the USA is probably the most technologically advanced and gaming is currently enjoying the longest period of sustained growth in that nation's history. Gambling flourished in the 18th century in the US totally uncontrolled, until there was a series of scandals and an outbreak of morality which forced the prohibition of most forms of gambling in the 1820's. A second wave of gambling occurred after the American civil war (1865) and again foundered due to more scandals and the Victorian moral climate at the beginning of this century. Nevada started the third wave of gambling in the USA with the relegalisation of casinos in the 1930's. The move to reintroduce lotteries began in 1964, and now they operate in thirty three States across the USA.

A typical example is that the State government legalises a lottery and earmarks the funds for a specific purpose, i.e. education, despite the fact that time and again this form of funding ultimately displaces revenues from other sources. Typically, lottery income increases annually until the public get bored with the concept and the lottery matures and the revenues decline, the lottery authority come under political pressure to increase revenues (government's thirst for revenues rarely decreases) and introduces a new form of lottery which gains the public's interest and so revenues increase again. California earmarked lottery revenue to its education budget, and is now experiencing reducing annual revenues, consequently then education system is grinding to a halt!

Once a State allows a lottery it is very difficult for any politician to support a move which would prohibit a lottery and either reduce public services or increase taxes. Also, States usually encourage out of State residents to play the lottery and so the moral argument of prohibiting gambling in neighbouring states loses some of its weight. Having legalised one

form of lottery it is usual for a other forms to be allowed under the same legislation without any new legislation. Today there are many different forms of lottery product from the instant latex scratch off ticket or break open to the most modern Video Lottery Terminals (VLT).

Scratch off - are cards with different combinations of symbols printed on them, with the area coated with latex so that the *player* cannot see if the ticket has a winning combination. Once purchased the player scratches of the latex to reveal the combinations of symbols. If the ticket has a winning combination the player returns it to the retailer who will pay the winnings up to a certain threshold. The appeal of this type of lottery is that it is instant - the player knows immediately if she wins or loses and does not have to wait for a specific time when a *draw is* held. The maximum prize is generally lower than for other forms of passive or on-line lottery as the security in the ticket is limited; usually some form of bar code allowing for instant verification and a latex covered security code which, if tampered with, makes the ticket void.

Break Open - similar to the scratch off tickets except that the symbols are hidden behind a layer of cardboard, and they are revealed by opening windows in the ticket. Break open tickets are legal in 25 States and usually between 60 to 75% is returned to the player. This type of ticket is usually used by charities to raise money and so any move to allow states to operate this type of lottery meets with stiff opposition from charities. The retailer usually buys a box of break open tickets of *deal*.. Within this box are a certain number of winning tickets and losing tickets, usually mandated by the state. Therefore the retailer knows that if he sells all the tickets in the deal he will know exactly what his profit should be (gross sales less cost of deal and prize money).

Both scratch off and break open tickets are not random; the chance of winning within a particular deal is dependent upon previously sold tickets. The makeup of the deal changes as each ticket is sold.

Passive lottery - prenumbered tickets are bought by players and at a predetermined time, usually weekly, a draw is held. A random device picks the winning combination. This type of lottery is declining in stature due to the increasing competition from instant and on line lotteries. Having said this the largest lottery in the world is the passive lottery in Spain. On Line/Semi On-line Lottery - the player chose a combination of six numbers, usually from a universe of forty-nine or fifty four. The player marks his choice on a piece of paper rather like a multiple choice paper.

This paper is then inserted into a terminal, situated in a retail outlet; newsagent, station forecourt etc. which is connected to a central computer, the terminal reads the choice and instantly sends the information to the central computer (semi on line terminals retain the information until they are interrogated by the central system), which registers the choice and sends a coded acceptance back to the terminal. The terminal prints a receipt with the numbers chosen and the acceptance code, which ensures accurate verification. The central system records information for each ticket sold; time of sale, retail outlet, choice of number etc, verification code etc. Again, at a predetermined time a random device chooses the winning combination. If the grand prize is not won it is usually rolled over to the next game; top prizes in excess of \$20 million are not uncommon!

The advantage of this system is the appeal to the player is being allowed to choose their own combination and the security of the system. Also, the system is totally flexible, any number; daily, bi-weekly, or type of game; pick three, four or six etc. can be played with no hardware change. The State receives its revenue by *sweeping* the retailers bank account on a periodic basis, of the gross sales less any commission.

Video Lottery Terminal - the first state to allow this form of lottery was South Dakota. Video Lottery Terminals are nothing more than modern microprocessor controlled slot machines linked to a central computer system, these terminal are usually found in bars, truck stops or race tracks. The player plays the device like any other slot machine, except that the screen shows a video facsimile of the game; reels, bingo, keno, poker etc. More sophisticated

machines have touch screen technology with the player being allowed to choose from a variety of games on one machine. Not only does the central computer monitor the number of games played at each terminal, and the win/loss but it also can monitor the performance of each terminal. A proportion of each coin put into each terminal is rolled up into a grand prize. If a player gets the correct combination s/he wins this grand prize. Again, on a periodic basis the retailer's bank account is swept by direct debit. Video lottery is the fastest growing sector, it is not accident that the two best performing stocks on the US stock exchanges were video lottery terminal producers. Modern slot machines are totally random and are not subject to the fraud that old mechanical, or electro-mechanical machines were susceptible to. The percentage against the player is determined by the roles of the game and the weighting of the payouts.

In 1991 total worldwide lottery sales exceeded \$71 billion dollars Europe accounted for \$33 billion and the USA \$25 billion. Assuming a retention or tax of one third this means that lotteries raised over \$20 billion dollars for government or charitable causes. Assuming an approximate return of 50% of money staked as prizes the prize money available to players exceeded \$35 billion or almost \$100 million per day! In the US state governments spend more than \$400 million dollars a year persuading the public that playing the lottery will turn them into instant millionaires, and the trend is for ever increasing jackpots, more and more are moving to 6 from a universe of 49 or 54. Another strategy is to weight the distribution of prize money heavily in favour of the jackpot at the expense of lower paying prizes. Lotto America, a link up of a number of state lotteries, allocates almost 84% of the prize pool to the jackpot.

Why have lotteries managed to survive and expand the variety of their products? Why is lottery proving to be an acceptable form of "soft taxation" and why are the number of State promoted lotteries growing so rapidly? The answer is control and accountability. As stated previously, when a State controls and promotes this form of revenue production it is very difficult for any person to successfully limit or curtail the activity. The second point is accountability. Modern printing and computer technology mean that it is extremely unlikely that a fraud can be perpetrated, and as such there is very little pressure on politicians to ban lotteries due to fraud or manipulation; modern technology and regulatory systems ensure that the security and integrity of lotteries cannot be compromised. History has shown that the deathnell of gaming has is scandal.

To date the government's policy has been not to promote gaming, supply should meet unstimulated demand. The national lottery would seem to fly in the face of this policy and open up many questions. One has to question whether it is the role of government to promote gambling. If an activity is not regarded as immoral and can be successfully regulated why should it be solely the domain of the government? Also, can the government be a regulator and operator? Isn't there a distinct conflict of interest?

I believe lotteries should be operated by the private sector, regulated by the government. The regulator should not seek to benefit from lotteries because of the conflict of interest Also, as government spending is displaced by lottery revenue the charities would seem to be the only sensible recipient (Charities are likely to lose revenues as a consequence of the lottery.)

A single lottery is also not a good idea. Lotteries represent the worst form of gambling; less than 55% is usually returned to the player in the form of prizes. The appeal is the large prize and yet lotteries represent the lowest return to the participant. People gamble for many reasons less than six% gamble to win. Lotteries provide nothing other than the chance of a big prize. With competition there would be some pressure to return a larger proportion of revenues to the player. One of the arguments against lotteries is that it is played by those sections of society who can least afford it. The same argument could be used against Woolworths or MacDonalds!

CHEQUES AND THE GAMING ACT 1968

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By various statutes since the 16th century, Parliament has been seeking to protect gamblers from the consequences of their gambling. By the Gaming Act 1710, "All notes bills or other securities for the reimbursing or repaying any money knowingly lent or advanced for such gaming shall be utterly void...." (Section 1). Consequently bills of exchange to repay money knowingly lent for gaming were void even in the hands of subsequent innocent bona fide holders for value. Later, Parliament considered that this was unjust and so by the Gaming Act 1835 "every note, bill, or mortgage" shall be "deemed.... to have been made, drawn, accepted, given or executed for an illegal consideration". This enables innocent bona fide holders for value to sue upon the bill or the security, but still protects the gambler from being sued by the payee of the bill.

The Gaming Act 1845 provides that all contracts or agreements whether oral or written "...by way of gaming or wagering, shall be null and void" and no one may recover any money or valuable thing alleged to be won or staked on any wager (Section 18). Finally the Gaming Act 1892 makes void any promise to pay any person any money paid by that person in respect of a gaming or wagering contract or to pay any commission fee or reward in respect of such a contract. There have been a variety of other Acts passed from time to time, but these sections of these four Acts are, still in force. Under these Acts, no gambler could be sued on any cheque that he wrote out in a casino to obtain chips with which to gamble.

Parliamentary protection of gamblers continued in the Gaming Act 1968. The Act imposes tight control over gaming generally and over licensed premises and the people who ran and work in them, and over gaming machines. An essential protection is given by Section 16 of the Act.

Section 16 is a very dense section; Section 16 (1) creates 24 possible offences. It provides that, when gaming takes place on licensed premises, it is illegal for the holder of the licence or any person acting on his behalf or under any arrangement with him:

“.... to make any loan or otherwise provide or allow to any person any credit, or release, or discharge on another's behalf, the whole or part of any debt -

- (a) for enabling any person to take part in the gaming, or
- (b) in respect of any losses incurred by any person in the gaming."

The whole section is designed to prohibit, amongst other things, gaming on credit, in casinos where the credit is being provided by the holder of the licence, or a person acting on his behalf or under an arrangement with him. If the section is breached, the holder of the licence, and/or persons concerned in the organisation or management of the gaming can be guilty of offences (Section 23).

The only exception to the prohibition on granting credit is that casinos may accept cheques and give in exchange cash or tokens to the like amount (Section 16(2) and (3)). This exception was put in to protect the gambler "who would otherwise often be carrying large amounts of cash into and out of casinos, often in the early hours, presenting a tempting target for muggers." (Paragraph 18.64, Volume 2, Royal Commission on Gambling 1978, Final Report).

A cheque so accepted must not be postdated and must be exchanged for cash or tokens to the full amount for which the cheque is drawn. It must be presented to a bank for payment not more than two banking days after it is accepted. (Sections 16(2) and (3)). As the Royal Commission points out (paragraph 18.62) "to instil a sense of responsibility into players and to reduce temptation to recover the money by blackmail or intimidation, cheques accepted in this

way can be sued upon at law." Thus Section 16(4) removes the protection of the Gaming Acts of 1710, 1835, 1845 and 1892 from such cheques.

Section 16 did not prevent abuses. In the early 1980s the activities of the Knightsbridge Sporting Club in London resulted in its gaming licence being cancelled, and the holders of the licence being disqualified from holding a licence in respect of the premises for three years. This decision of the South Westminster Licensing Justices was ultimately upheld by the Court of Appeal (See *R. v Knightsbridge Crown Court ex parte Marcrest Properties Limited* 1983 1 WLR 300) Some of the reasons for the cancellation and disqualification orders were that cheques accepted from gamblers in exchange for chips were not being presented to a bank for payment within two days as required by Section 16(3), dishonoured cheques for very large sums of money were not being sued upon, and far lesser amounts were being accepted in satisfaction of those debts in breach of Section 16(1)(b), and cheques were being accepted from gamblers at a time when dishonoured cheques from them remained unpaid.

The Court of Appeal made it clear that "the clear purpose of Section 16 is to protect the punters against themselves. They are not to be given by the casino so much rope that they may eventually hang themselves, figuratively or otherwise." (Per Ackner LJ at page 308B). Lord Justice Ackner commented that the policy of the legislation is "to ensure that licensees do impose realistic limits on the credit which they accord to their customers" (Page 310E). He also stated that the cheques taken by the casino in that case were a sham and that their "function was merely to record a loan of money or tokens to that value." (Page 308H).

Following that case the Gaming Board Report of 1984 set out guidelines to be followed by casinos where a cheque is dishonoured. The guidelines forbid a casino from accepting "a cheque from a player to enable him to game if that player has dishonoured a previous cheque from which the debt or any part of it, remains outstanding" to the casino (except in special circumstances). This does not cover the situation where the cheque was a third party cheque, and the gambler wishes to exchange his own, or a different third party's cheques for more chips. It is perfectly legal for the gambler to give and for the casino to accept a third party cheque in exchange for chips. Section 16 does not prohibit it.

The difficulty is that there is often so much money at stake in gaming transactions that there is great temptation to an unscrupulous licence holder (as exemplified by the Marcrest case) to try to avoid or even ignore the provisions of section 16. Impetus to succumb to such temptation may well have been provided by the recent Court of Appeal decision in *Crockford's Club Limited v Mehta and Another* (The Times 1st November 1991).

One of the questions to be decided by the Court of Appeal in the Crockfords case was whether, in addition to a cheque taken in accordance with Section 16 being excepted from the protective provisions of the earlier "Gaming Acts, any underlying promise to pay for the chips was also so excepted. Generally every contract for the sale of an item where payment is made by cheque contains an underlying express or implied promise from the purchaser to pay for the item. If A goes into a shop and asks for a pound of sugar the shopkeeper will say "Here you are; that will be 50p please". A replies "Thank you", and takes the sugar. At that moment A has promised to pay the shopkeeper 50p. A continues "Please may I pay by cheque?" The shopkeeper agrees. If the cheque is dishonoured on presentation the shopkeeper can either sue the drawer of the cheque (which is A in my example) on the cheque under the Bills of Exchange Act 1882, or can sue A on his underlying promise to pay.

With the agreement of the casino, the First Defendant in the Crockford's case had given third party cheques in exchange for chips with which to gamble. The cheques were dishonoured. The casino sued the First Defendant personally on his alleged implied promise to pay for the chips. The First Defendant argued that by Section 16 the casino was confined to its remedy against the third party on the cheques, as either there was no promise to pay, or if there were such a promise, it was not enforceable by reason of Section 16(1). The Court of Appeal decided that where a licensed casino gave a gambler chips with which to gamble in exchange for a third party cheque, if the cheque were dishonoured, the casino could sue the gambler

personally on his underlying promise to pay, as well as suing the third party on the dishonoured cheques. This is the first time that this question has been considered since the enactment of Section 16.

Following the *Crockford's* decision, a casino can either sue the gambler who asked for and was given the chips on his underlying promise to pay for the chips (although this is not a contract of sale, see *Lipkin Gorman v. Karpnale* (1991) 3 WLR 10) or can sue the drawer of the cheque on the cheque. As I have said the gambler and the drawer of the cheque may not be the same person.

This decision may well open the door to further problems along the lines exemplified in *Marcrest*. The danger is that it will be all too easy for casinos to accept third party cheques without enough scrutiny to see whether those cheques will actually be met, and to use the cheques merely as records of loans to the gambler, confident that they can sue the gambler personally.

Is this not precisely the behaviour that was castigated by the Court of Appeal in *Marcrest*? Will this bring unexpected hardship to gamblers, possibly where the where-with-all to gamble has been, with the consent of the casino, knowingly provided to the gambler by a friend, or will it bring realism to casinos and gamblers alike? Either way, the *Crockford's* decision emphasises a new area for careful scrutiny by both the Gaming Board and the Police.

THE GAMING MACHINE INDUSTRY IN NEW SOUTH WALES, AUSTRALIA

**Robert Clark and Mark Loves
New South Wales, Australia**

In an era of fiscal stringency, licensed club poker machines and hotel gaming machines hold forth a promise of providing substantial revenues to State Treasury. However outdated taxing procedures, overlapping and duplication of activities, overhead costs, support services and criminal activity are potentially costing the New South Wales State Government and the liquor and gaming industry, tens of millions of dollars a year.

The New South Wales liquor industry retails its goods through hotels, registered clubs, bottle shops and restaurants with a current total of 9,557 licensed premises (1990-91). A strategic assessment of the industry shows that between 1987 and 1991 there was a minimal growth in the numbers of hotels, bottle shops and restaurants and a decrease in the number of registered clubs. The industry as a whole pays a licence fee in advance twice per year of 13% of sales on full strength beer and spirits and 7% on low alcohol beer. A total of Liquor Fees assessed for the period of 1990-91 from restaurants, clubs, hotels, retail liquor outlets and others was \$209,883.000, actual liquor fees collected for 1990-91 was \$210,365.00 on all premises. Our research has shown a number of interesting trends relative to 24 hour trading licences in both registered clubs and hotels.

There are now 287 hotel and restaurant premises in New South Wales which have 24 hour licenses as of 30th July 1992. An interesting anomaly is that hoteliers are largely unaware that despite having a licence to operate between certain hours they are in fact entitled to remain open 24 hours per day, subject to court approval. Registered Clubs have no trading hour restrictions placed upon them, and can trade up to 24 hours a day if they wish.

In New South Wales, the majority of registered clubs and hotels are licensed to operate gaming machines. Most of the gaming machines operating today in New South Wales registered clubs and hotels are either stand alone units or jackpot linked. The majority of the machines in this State are computer based whilst manual machines are restricted to smaller clubs.

Currently, a percentage from each machine turnover is paid to State Treasury in taxation. To determine the tax payable, clubs and hotels use a combination of manual and computerised accounting systems which require a number of administrative club staff to access each machine to obtain turnover figures. As a result there are substantial costs expended by all registered clubs in the maintenance of poker machine administration.

The poker machine tax calculations are then forwarded to the Liquor Administration Board with a varying time period of up to fifteen weeks, between the calculation of the money owed by the club and its receipt at the State Taxation office. When looking at the total amount of tax paid each year (tens of millions of dollars) there is a considerable amount lost to State Treasury and to the public purse, because of the down time between these payments. Additionally, there are public servants currently employed in the administrative processing of these funds, resulting in further time wasting and the personnel costs.

If this money were invested on the short term money market, it would result in an additional turnover for the State Government of millions of dollars each year. By on lining each poker machine and hotel gaming device across the State to a central Treasury computer using retro fit packages where necessary for the manual machine linking, direct transfer of taxation percentages could be made to Treasury instantaneously.

The benefits of such a system would be;

- (a) Reduction of administrative staff in registered clubs and hotels and associated costs

- (b) Reduction of administrative public service staff and associated costs
- (c) Lower potential for criminal intervention upon poker machines and gaming devices
- (d) Substantial increase in revenue to the State from investing gaming machine taxation turnover in the short term money market
- (e) Possible reduction of variance percentages currently allowed under the current system.

The technology for such an initiative is already in existence. The totalisator Agency Board run a similar system whilst many companies have a very wide range of technical capabilities, that could be utilised in this initiative. Included amongst these is Club Gaming Systems Pty Limited, which is a subsidiary of AWA, established for the specific purpose of operating the Club Keno gaming system in the registered clubs in New South Wales. It has been granted the license for this purpose jointly with Club Keno Holdings Pty Limited, a company which is wholly owned by the Registered Clubs Association.

Club Keno successfully commenced gaming with a pilot operation in thirteen registered clubs in September 1991. A state wide Flexinet Telecom network of up to 3,000 ticketing machines is capable of giving players simultaneous statewide access to the Club Keno game.

As an example of how this system would increase Government turnover from gaming machines, the following average working figures have been prepared.

Sample

The total New South Wales net derived from poker machine duty in registered clubs and approved amusement devices in hotels for the 1990-91 fiscal year is \$341.1 million dollars (figures supplied from Chief Secretaries Department statistics). There is a current variance in pay periods of up to fifteen weeks, between the calculation of the money owed by the club and its receipt at the State Taxation Office. The Chief Secretaries Department confirms that most clubs wait until the end of the pay period before forwarding their money. If an average pay period of twelve weeks (3 months) is adopted, then there would be four pay periods for each calendar year for every registered club and hotel in New South Wales. Based upon the 1990-91 figure of \$341.1 million dollars, this would provide payments of \$85.28 million dollars per quarter. Obviously this money would not all be received at the start of the pay period. Using an average month of 30 days, these payments would be paid over a 90 day period, at an average daily payment rate of \$947,556 a day.

If this money were invested on the short term money market at say, 5% interest, this would result in an additional daily income of \$47,378. Over the three month pay period (90 days) this would result in an additional income to the State Government of \$4,264,020 million dollars. Over the period of one fiscal year (12 months) this would result in additional State Government income of \$17,055,000 million dollars. This does not take into account the millions of dollars saved through streamlining of administrative and support costs. This figure will increase annually with tourism and the expanding State population. Therefore this proposal outlines an initiative which New South Wales cannot afford to ignore. Additional benefits which will occur are;

- (a) If any hotel or registered club were to go into liquidation or receivership, the State Government would not have to wait to collect money owed through poker machine or gaming machine duty.
- (b) This system would supply registered clubs and hotels with an immediate financial breakdown and analysis of takings for each machine.
- (c) This system would reduce or eliminate payment variances currently allowed under the existing payment system.
- (d) The proposed New South Wales casino could immediately be brought on line with this system providing a dramatic immediate increase in State Government revenue.

- (e) Under the current system, it is in the interests of hotel owners to cheat on duty payable as this duty is payable on the turn over of each machine. This system would eliminate this problem.

As the situation stands presently, the registered clubs and hotels are effectively handed an interest free loan of State Government monies owed for each duty pay period, which they can invest on the short term for their own gain.

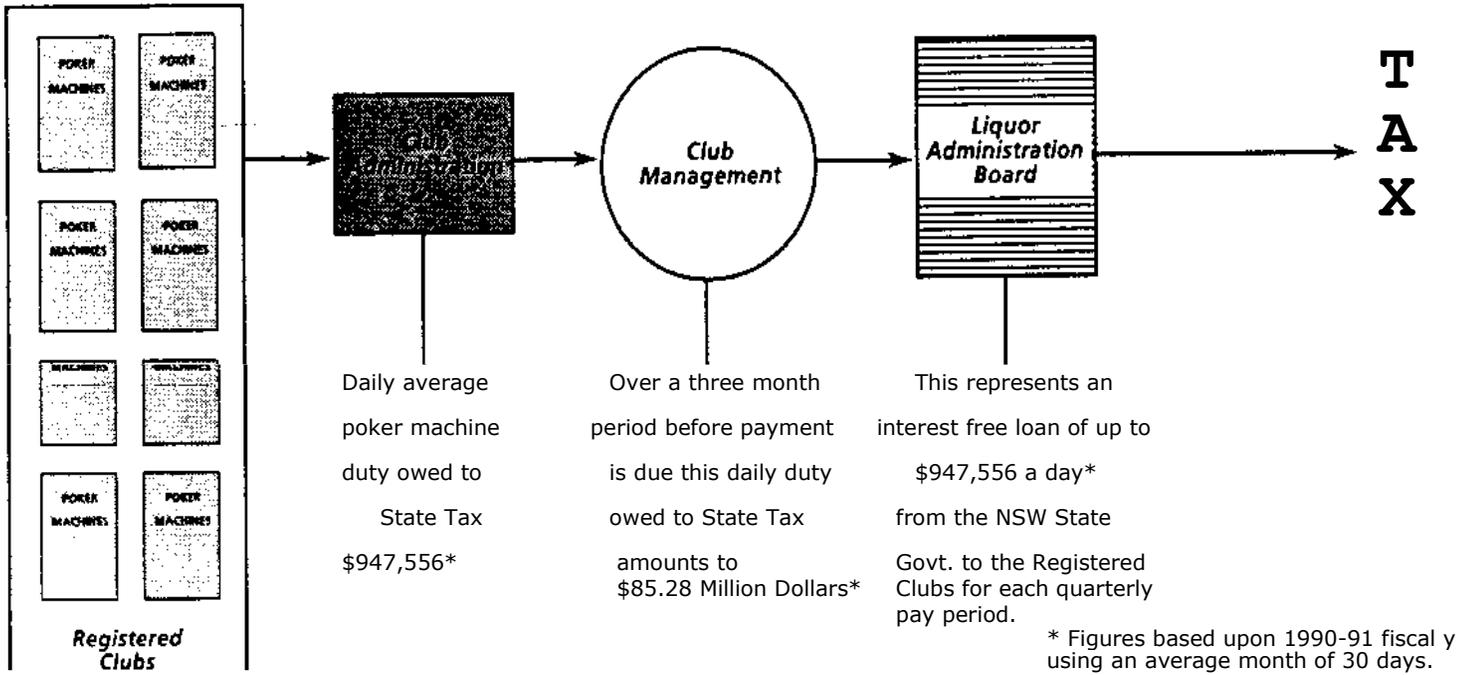
This concept can be further expanded into areas such as liquor shops (where duty from liquor purchases can be instantaneously transferred to Treasury) and depending on the political environment, to the proposed 'Goods and Services Tax' (GST), which is proposed by the Federal opposition Liberal Party, should they gain office at the next election.

The linking and automatic transfer of tax from gaming machines and perhaps liquor purchases points the way to a more cost effective, efficient and profitable system of payment for the people of New South Wales and indeed Australia. Political consideration aside, this initiative will provide Governments with a dramatic increase in funding from the gaming and liquor industries and opens the way for a whole new range of initiatives which can benefit Australian society as a whole.

CURRENT SYSTEM OF PAYMENT OF POKER MACHINE DUTY

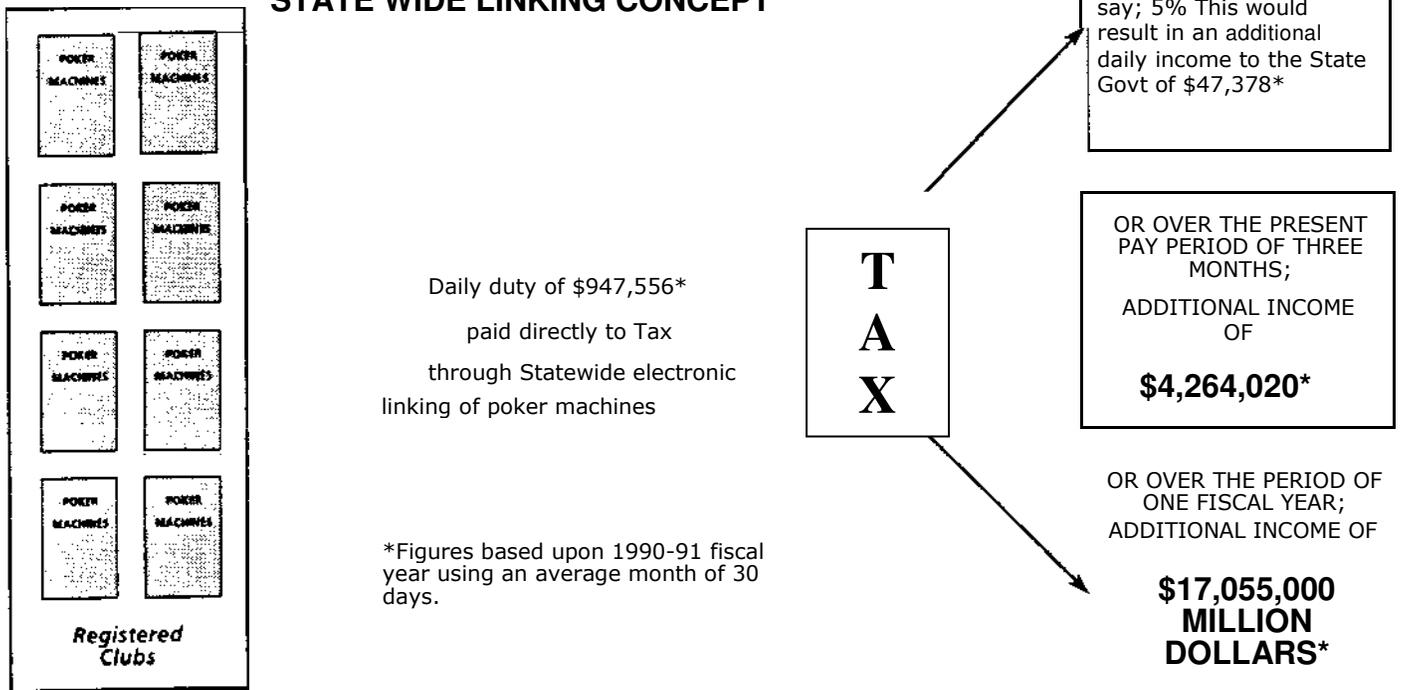
TIME FRAME - 12 to 15 WEEKS

Poker **Machine** Duty currently paid quarterly



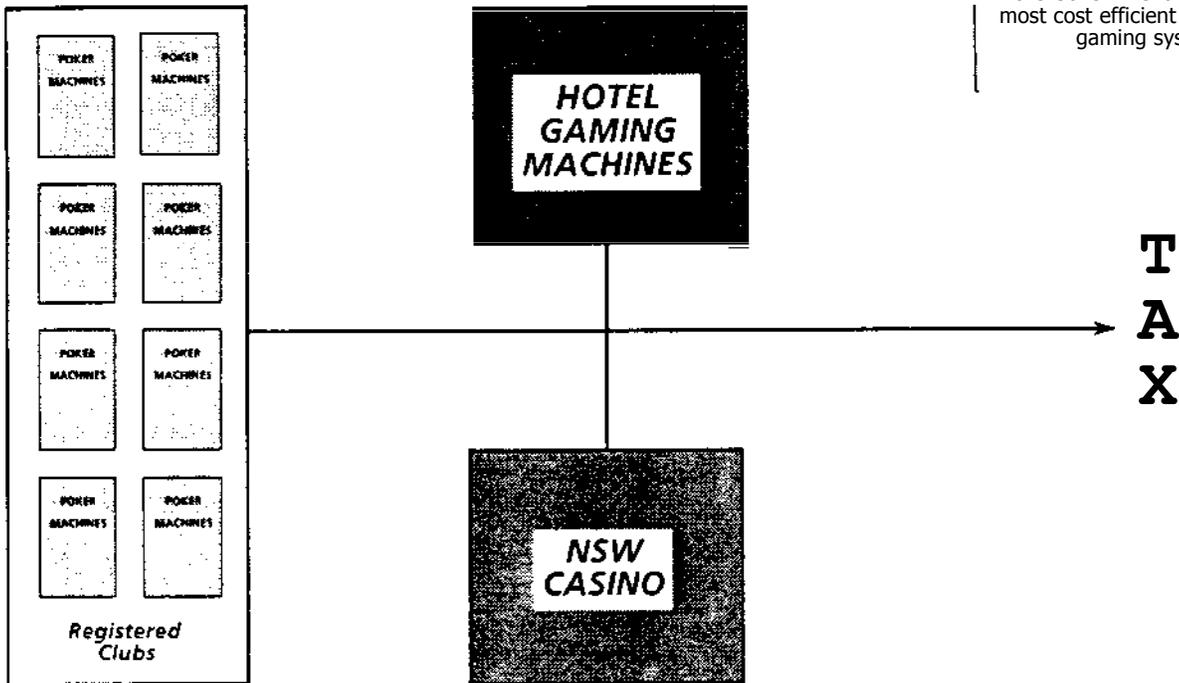
PROPOSED SYSTEM OF PAYMENT OF POKER MACHINE DUTY

STATE WIDE LINKING CONCEPT

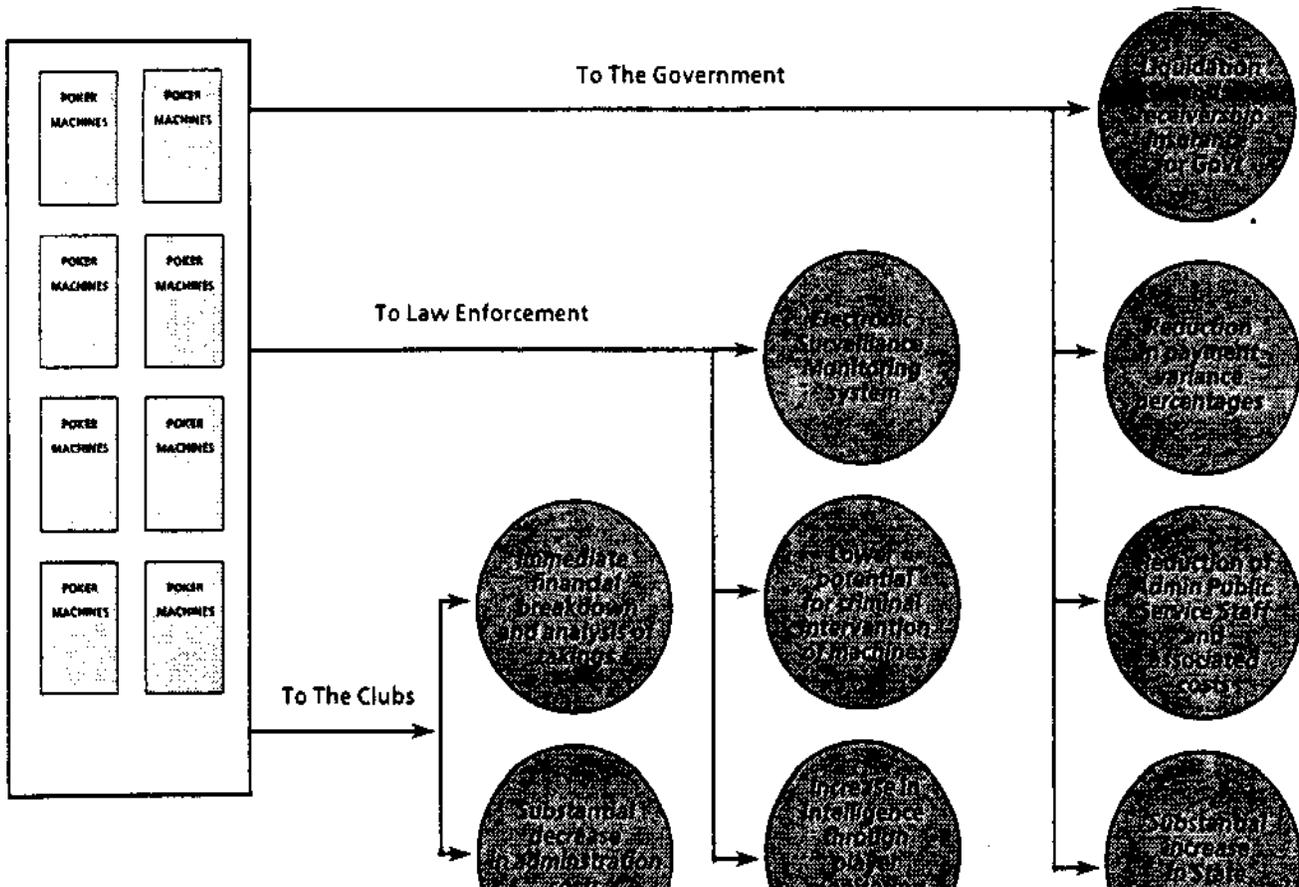


FURTHER EXPANSION OF THE PROPOSED SYSTEM

Both Hotel Gaming Machines and the New South Wales Casino can both be eventually brought on line with the linking network to create an even more substantial windfall for the Government and providing one of the most cost efficient effective and accountable gaming systems in the world



ADDITIONAL TANGIBLE BENEFITS FROM THE PROPOSED SYSTEM



THE USE OF LIGHT AND COLOUR IN GAMBLING ARCADES: A SMALL STUDY

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Research into the environmental effects on performance has had a long history in psychology, however, as a separate sub discipline, environmental psychology is a fairly recent development with its own emerging literature (e.g. Holohan, 1982; Levy-Leboyer, 1982; Feimer & Geller, 1983; Proshansky et al, 1976). Light and colour are two variables (often inter-related) which affect behavioural patterns in a variety of contexts (Birren, 1978). For instance, Bornstein (1978) concluded that there is little doubt about the direct relationship between colour stimulation and central nervous system activity, although why this should be so is not so clear.

Lighting levels can affect performance and arousal levels. As light levels increase so does visual acuity although this is only up to a critical point (Boyce, 1975). High levels of illumination can actually decrease performance by suppressing some information cues e.g. visual gradients (Stevens & Foxell, 1955; Logan & Berger, 1961), therefore light levels and performance follow an 'inverted U' shape when plotted. It has also been found that dim lighting or reduced light levels lessens eye contact and increases verbal latency in conversations (Carr & Dabbs, 1974).

There is some evidence that colour evokes affective states and influences behaviour. It has been suggested that some colours are associated with certain moods i.e. red is "exciting" and "stimulating", blue is "comfortable", "secure" and "soothing", orange is "disturbing" and green is "leisurely" (Odbert, Karwoski & Eckerson, 1942; Wexner, 1954). In addition, variations in colour can affect human physiological reactions such as blood pressure and breathing rate (Acking & Koller, 1972). Some researchers have found that colour may affect peoples' mood and arousal (Mehrabian & Russell, 1974) and their attitudes (Blum & Naylor, 1968, cited in Holohan, 1982) and it has been speculated by Holohan (1982) that these differences may indirectly affect behaviour. By comparing peoples' galvanic skin responses, it has been shown that red induces higher levels of arousal than green (Wilson, 1966) and with reference to observed behaviour, red appears to be associated with increased frequency and intensity of responding as compared with blue or green, while red and blue are usually preferred to green and yellow (Eysenck, 1941; Goethe, 1971). There is also some speculation that red can sometimes be connected with aggression with green having a quieting effect (Birren, 1965) although it is probable that the indirect effects of colour on performance are probably related to cultural differences in the meaning and conventional uses of various colours (Holohan, 1982).

To date there has been little research into the differential effects of colour stimulation on more complex behaviour in ecologically valid settings, and only one study (by Stark, Saunders & Wookey, 1982) has examined the differential effects of red and blue coloured lighting on gambling behaviour. In this experiment, Stark and his colleagues hypothesized that if red was arousing, subjects exposed to red light were likely to gamble more frequently, stake more money and take more risks than subjects exposed to blue light. Their hypothesis was confirmed with red lighting having less of an inhibitory effect on gambling behaviour than blue lighting. Why this should be so was again open to question although the most credible reason put forward was along semiological lines which stressed the cultural significance of the different colours for participants.

If red coloured environments increase gambling activity, such a finding suggests that in places where people participate in gambling (casinos, amusement arcades, betting shops etc.), managers could simply increase their profits by changing the colour of their lighting or decor. Hess and Diner (1969) point out that many of the marketing ploys used by the gaming industry have probably arisen spontaneously or fortuitously without psychological analysis, therefore the study to be reported examined the role of light and colour in real gambling establishments

assuming that their design had been formulated on a 'trial and error' approach over many years. A more detailed methodology can be found in the next section.

Methodology and Aims

In February 1991, a pilot survey examining the use of lighting, lights and colours was carried out by the second author without the owner's knowledge in all five of the amusement arcades in Plymouth. Since the study was of an exploratory nature there were no specific hypotheses although there were a number of questions to be answered by observation only, concerning lighting and colour relating to (a) the interior of the arcade, (b) the exterior of the arcade and (c) the gambling machines in the arcade. Since this was only a pilot study, in answering questions relating to lights and colours of each arcade's gambling machines, only one representative machine from each establishment was chosen for analysis.

The individual questions for each observation were as follows:

- (A) Questions concerning arcade interior:
 1. What was the general interior colour of each arcade?
 2. What colour was the floor/carpet in each arcade?
 3. What colour were the borders of the interior walls in each arcade?
 4. What colour was the lighting in each arcade?
 5. What brightness was the lighting in each arcade?
- (B) Questions concerning arcade exterior:
 1. What was the facing exterior wall of each arcade like?
 2. What colour (if any) were the exterior walls of each arcade?
 3. What colour was the name sign of each arcade?
 4. What colour was the writing of the arcade's name on the sign of each arcade?
 5. What colour was the entrance to each arcade?
- (C) Questions concerning the arcade's gambling machine:
 1. What was the name of each machine?
 2. What colours were used on each machine?
 3. Did the machine have flashing lights?
 4. How many (if any) flashing lights / series of flashing lights were on each machine?

The approach was on the whole qualitative and empirical and can be regarded as an observational field study capable of generating hypotheses but not of confirming fact.

Results

Observation of arcade interiors revealed that the general colour of all the arcades was towards the red end of the colour spectrum (see Table 1) although there was no such trend in the colour of the wall's borders which featured a variety of different colours (blue, yellow, black, white, red, green and yellow). All but one arcade had the same rusty red carpet and the remaining arcade's floor was also mainly red. The arcade's interior lighting all used standard coloured lighting except for one arcade which used red and yellow bulbs. None of the arcades' lighting was bright, with three out of five arcades using very dim lighting. A summary of the light and colour characteristics of the arcades' interiors can be found in Table 1.

Table 1: Light and colour characteristics of amusement interiors

Arcade	General Interior Colour	Wall Border Colour	Carpet/Floor Colour	Light Colour	Light Brightness
1	Red	Blue/Yellow/Black	Rusty Red	Standard	Dim
2	Orange/Red	Black/White	Rusty Red	Standard	Dim
3	Red	Black/White	Rusty Red	Standard	Dim
4	Pale Yellow	Red/Green	Rusty Red	Standard	Medium
5	Red	Yellow/Green	Red (Orange/Black/ White)Stripes	Standard	Medium

Compared with the arcades' interiors, the arcades' exteriors displayed little in the way of common colour trends. The two arcades that did not have brick exteriors were both painted green and the three arcades that had the brick exteriors all had entrances painted towards the red end of the colour spectrum. The name signs colours were nearly all different (red, black, white and yellow [2]) although four out of five arcades used yellow in the name sign's writing. A summary of the colour characteristics of the arcades' exteriors can be found in Table 2.

Table 2: Colour characteristics of amusement arcade exteriors

Arcade	Exterior Type	Exterior Colour	Entrance Colour	Sign Colour (Background)	Sign Colour (Writing)
1	Brick	-	Red	Red	Yellow
2	Brick	-	Red	Yellow	Orange/Red
3	Brick	-	Reddish Brown	Black	Yellow/Red
4	Tiled	Green	(Wood)	Yellow	Yellow/Green
5	Concrete	Green	(Metal)	White	Yellow/Red

With regards to each arcades' chosen gambling machine, all of them relied heavily on the prime colours in its design (red, blue and yellow) with the addition of at least one other colour (which in three cases out of five was green). All of the machines had flashing lights incorporated into the design of the machine and all but one of the machines examined had more than one series of flashing lights. A summary of light and colour characteristics of each observed gambling machine can be found in Table 3.

Table 3: Light and Colour characteristics of observed gambling machine

Arcade	Machine Name	Machine Colours	Bright Flashing Lights	No. of Flashing Light Series
1	Hot Spots	Red, Blue, Yellow, Orange	Yes	5
2	Jokers Wild	Red, Blue, Yellow, Green	Yes	4
3	Super Jester	Red, Blue, Yellow, Green	Yes	1
4	Tik Tak Cash	Red, Blue, Yellow, Green	Yes	7
5	Cash Blitz	Red, Blue, Yellow, Purple, Turquoise	Yes	10

Discussion

Although this was only a small pilot study concentrating on one city's amusement arcades, the results did suggest particular trends in the arcades' interior colour and lighting. Additionally, there is no reason to suspect that the arcades of Plymouth are substantially different from arcades elsewhere in England. The most salient result of the study was the fact that the interior colour of all the arcades was towards the red end of the colour spectrum produced by decor (e.g. wall, carpet colour) rather than the lighting, a finding which suggests the management may be aware that reddish environments are conducive to increased gambling. The colour red is associated both subjectively and objectively with arousal and excitement (Odbert et al, 1942; Wexner, 1954) and had the management been aware of such research, and there is no reason to suggest they are not, it is not surprising to find a predominance of red oriented gambling environments. If the management were aware of the psychological literature, this study would have confirmed the hypothesis that gambling establishments are significantly more likely to have reddish (as opposed to non-red) colours in them.

A report by Griffiths (1988) suggests that some arcade managers / companies carry out their own research in the form of "in-depth research" and "hall tests" (p.4). In 'in depth research' the industry employs a market research company to locate the heaviest machine players and pay them to sit on a "player panel". Question are then asked to the player by the arcade machine company or it's representatives about the attractiveness of machines, lights and colours, inducements to play etc. Using the responses from the 'player panels', machines features are updated to induce more players. 'Hall tests', on the other hand are still carried out by market research companies but generally use members of the general public. In this type of research, Griffiths reports that volunteers are escorted from (say) their shopping to a nearby indoor room (the 'hall') in which they would then be shown, for instance, two particular flashing lights and asked which of them was more 'attractive', 'arousing' and 'inviting' etc. Other questions relating to symbols, lights and colours are also asked. Again, results from this type of research are used in designing future machines. Although this type of 'in-house' research was done on peoples' perceptions of machines, there is no reason to suspect that arcade companies do not carry out research into the actual arcade environment (e.g. colour, lighting, lay-out etc.). Such research would suggest that the gaming industry do not rely on general psychological research in designing their machines and arcades.

The finding that none of the arcades in this study had bright lighting was another consistent finding. There is however one factor which might help to explain such a finding. In the U.K., amusement arcades contain commercial gaming machines which children and adolescents have legal entitlement to play (although it must be said that some arcades have voluntary codes of conduct which prohibit children under 16 or 18 years of age). Since there is a moral climate in the U.K. which opposes arcades actively recruiting young gamblers, many arcades have darkened (brown) tinted windows which prevent such individuals seeing the "enticing" and "visually attractive" gaming machines. Dim lighting has the added effect of making the arcades interior even more difficult to see from the outside (but also means it is difficult to see who is inside e.g. truanting children!). Arcades that do not have exterior tinted glass tend to put displays of commercial goods for sale in the window (again with the combination of dim lighting) to obscure the arcade interior from the general public, findings which have been reported by Griffiths (1990a) in his observational analysis of 33 U.K. amusement arcades.

There are also two other possible effects of dim lighting which might affect gambling profit. If visual acuity decreases as lighting levels decrease (Boyce, 1975) there is a possibility of poorer performance in both video games and slot machines which both (to some extent) rely on visual ability. Such an effect over a long period of time will lead to more losing plays in a specified period of time thus increasing profit for the management. A second more subtle effect may arise from the finding that dim lighting increases verbal latency and reduces eye contact (Car & Dabbs, 1974). A number of researchers (e.g. Graham, 1988; Griffiths, 1990a;b) have reported that many adolescents playing is peripheral to social interaction. If dim lighting reduces social interaction with peers, there will subsequently be more gambling if such individuals stay in the arcade.

With regards to the arcades' exteriors, there were few common characteristics although this may have been more a function of the premises inherited. The two arcades that did not have brick exteriors were both painted green which might be because green is perceived as a "leisurely" colour (Odbert et al, 1942). However, this assertion is highly speculative and more systematic research would need to be carried out to confirm such a hypothesis.

Machine lights and colours appear to be an important part of their attraction. According to White (1989), the flashing lights give a constant impression of fun and activity and Caldwell (1974) pointed out that "the rows of dazzling neon lit ... machines bathed in soft lighting create an atmosphere which is probably conducive to gambling". In a study by Griffiths (1990b), 30% of the 50 adolescent gamblers he interviewed claimed the 'aura' of the machine (i.e. the lights and noise) was one of the machine's most attractive features. It was also reported that all the pathological gamblers in his study (18%) were significantly more attracted to the machine's 'aura' than the non-pathological gamblers.

All of the machines observed in this small study utilized flashing lights with the majority having more than one series of flashing lights. The series of flashing lights usually relate to a particular skill (or 'pseudo-skill') feature which means to the player that the more series of lights, the more perceived skill there is present. Since the gaming industry realizes that adolescent gamblers desire skill, control and mastery in their machine playing (Griffiths, 1988), the lights which relate to skills and/or pseudo-skills provide motivating reasons to play.

Since this study was only an exploratory pilot study, a bigger study of more arcades in a number of different geographical areas in addition to the examination of a wider set of machines, would either confirm or disconfirm some of the speculations raised in the discussion. Future studies should perhaps use a light meter which would give objective measurements of light readings other than the subjective ratings used by the second author in this study. There is no doubt from this study that the arcades observed utilized red environments with non-bright lights although whether this was for aesthetic reasons or psychological reasons could not be determined. Discussions with members of the gaming industry might help clarify some of the issues raised although previous communications with such members tend to suggest that they can be a little evasive in answering questions about the

exploitation of psychological analysis (Griffiths, 1988). The global increase in slot machine play is of contemporary importance and more research into the marketing and psychology behind their usage and the environment they are in should be carried out as answers to such questions will produce guidelines for private and public policy making.

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RECENT DEVELOPMENTS

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1. *Report of the Gaming Board for Great Britain 1991/92 (13 July 1992, House of Commons paper No. 62).*

This shows that:

1. In 1991/92 121 casinos enjoyed a total drop of £1,914m, a 1% decrease over 1990/91, which had been a 3% increase over 1989/90. London casinos account for 63% of the drop, virtually the same proportion as the year before. The total house win was £367m (19% of the drop). American roulette is by far the most popular game (66% of the drop).
2. The amount staked on bingo at licensed bingo clubs between September 1990 and August 1991 was £661m. This was a 6.9% increase over the previous year. Unlike previous years, the number of licensed clubs rose: from 890 on 31 March 1991 to 901 on 31 March 1992, though, as has always been the case, not all of these are open for business.

The number of gaming machines was:

3.

	1990/91	1989/90
jackpot machines	39,516	40,720
AWP machines	189,741	186,104

2. **Gambling on the FT-Se 100**

City Index v. Leslie (1991) 3 All England Law Reports 180.

In **Newsletter No. 18** pp 2-6 ('Betting on Futures in Financial Markets) Stuart Wheeler described how it is possible to bet on the movement of the FT share index, up or down. The question which arose in *City Index v. Leslie* was whether such a bet constituted "a contract for differences" within s 63 of the Financial Services Act 1986. If it did, then it would constitute an exception to the general rule of law laid down in section 18 of the Gaming Act 1845, that gaming and wagering contracts are unenforceable at law. The implications are of some importance: principally, that *City Index* (or any other provider of this financial service) can sue the bettor for any outstanding wagers. Equally, the bettor will be able to sue for any winnings.

The Court of Appeal held that it was a "contract for differences" within the Act. The Court's attention was also drawn to the question whether bookmaking on sporting events would not also fall within the Act. This would obviously be a matter of considerable importance, but the court was not drawn to make any pronouncement on the matter, except that one of the judges suggested that it might be desirable for the Act to be amended so as to exclude betting on sporting activities.

3. *Annual Report of the Department of Customs and Excise year ending 31 March 1991. (October 1991; Command Paper 1636).*

The total of betting and gaming duties for the fiscal year 1990-91 was £1,006,438,000. This was a slight increase on the preceding year (£976,032,000).

The breakdown (£'000s) was:	1990-91	1989-90
<i>general betting duty</i>	479,064	458,749
<i>pool betting duty</i>	303,944	303,761
<i>gaming licence (premises) duty</i>	57,367	50,240
<i>gaming machine licence duty</i>	98,631	97,345
<i>bingo duty</i>	67,432	65,928

4. Betting in the House of Commons

During the first half of 1991, the parliamentary Home Affairs Select Committee conducted three enquiries into betting on horse racing and greyhound racing. A number of members of the SSG were involved in various capacities. The three Reports are:

Levy on Horserace Betting (Session 1990-91, Fourth Report on the Home Affairs Committee; House of Commons papers 146-I and 146-II. 17 May 1991).

Financing of Greyhound Racing (Session 1990-91, Sixth Report on the Home Affairs Committee; House of Commons paper 463. 8 July 1991).

The Tote (Session 1990-91, Seventh Report of the Home Affairs Committee; House of Commons paper 451. 22 July 1991).

Each Report made a number of recommendations. The Home Office has replied to them as follows:

Levy on Horserace Betting (Home Office; HMSO Cm 1583, July 1991).

The Tote (Home Office; HMSO Cm 1792, January 1992).

Financing of Greyhound Racing; (Home Office; HMSO Cm 1757, November 1991).

5. Government Proposals

There are two sets of proposals published by the Home Office which would bring about considerable change in the law.

1. The evening opening of betting shops (which picks up a recommendation of the Home Affairs Committee):

Evening Opening Hours of Licensed Betting Offices (A Home Office Consultation Document, October 1991).

2. A national lottery, legislation for which was announced in a White Paper:

A National Lottery Raising Money for Good Causes (Home Office; Cm 1861, March 1992).

6. Cheques in Casinos

It is a well known and long established feature of English law that gaming and wagering contracts are unenforceable. By section 16 of the Gaming Act 1968, a gaming club acts unlawfully if it provides any credit to any person so that he or another may take part in the gaming. However, it may accept a cheque for cash or gaming tokens provided that the cheque is not postdated, is exchanged for cash or tokens to the amount for which it is drawn, and is presented for payment within two banking days.

In law, a cheque is present payment for a debt, but has a legal quality independent of the debt. The important question which arose in *Crockford Club v Mehra* (1992) 2 All England Reports 748 concerned the effect of section 16 on the underlying loan.

A player at Crockfords Club had obtained gaming tokens to the value of £245,000, tendering four cheques for this amount. When presented, the cheques bounced. The club sought to recover the money from the player. His argument was that the underlying loan was unenforceable at law, even if it were possible, by virtue of section

16, to sue upon the cheques themselves. This argument was rejected by the Court of Appeal, upholding the High Court judge's decision below. Lord Justice Lloyd said:

"The legislative purpose of s 16 of the 1968 Act was to discourage gaming on credit. But consistently with that overall objective Parliament had to allow machinery for enabling lawful gaming to take place at licensed clubs. Otherwise those taking part in the gaming would have had to bring their own cash. The solution adopted was a neat one, and is to be found in s 16(1) and (2). Provided the cheque meets the requirements of sub-ss (2) and (3), the giving of cash or tokens in exchange for the cheque does not contravene sub-s (1).

The error in (the player's) argument is to treat s 16 (2) as if it only validated the cheque. It does more than that. It validates the whole transaction.....

This is an important vindication of the purpose and integrity of section 16, and will be very welcome to licensed clubs.

