

THE COST-BENEFIT ANALYSIS OF THE ROMANIAN NATIONAL GAMBLING OFFICE

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Abstract: *This paper aims to evaluate the economic effects that the Romanian National Gambling Office has over the gambling industry and to determine whether this public institution brings enough benefits to cover the costs. The aim of the research was to gather information about the Romanian gambling industry, the way that this industry is managed and to make a comparison between its societal costs and benefits.*

Key words: *cost-benefit analysis, gambling industry, economy, Romania.*

1. Introduction

The gambling industry in Romania has shown a significant growth over the last two decades and plays a significant role in the Romanian economy. This article describes the relationship between costs and benefits brought by the existence of the gambling industry in the Romanian economy, but also the social implications generated by the Romanian state through the management and regulation of this industry on economic agencies. One could say that sports betting is the most common type of gambling in Romania. Currently, there are more than 13400 bookmakers in Romania and their number has been on a constant increase since 1996 when there was only one sportsbook in the whole country, according to the Romanian National Institute of Statistics. Researching the theoretical aspects about the most representative type of gambling in Romania could help one understand more about the whole gambling industry and its impact.

2. Analysis of the most Representative Type of Gambling in Romania

Sport provides the basic product to sports betting operators and the sport itself benefits from sports betting, becoming more popular when spectators can add a financial gain to the excitement of watching a sports competition. For this reason, sports entities and betting agencies can be considered natural trading partners because of the

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mutual benefits they offer. However, both in the past and at present, the sports governing bodies have been against such collaboration. The reason is that, from the beginning of the organization of sports competitions, they have feared the manipulation of competitions by those who could benefit from the results that should be uncertain. Currently, existing collaborations are sponsorship contracts that bookmakers offer to the teams to promote the emblem, the name of the agency or a short promotional message, by displaying them on shirts, stadiums and websites, as well as to players to promote them. For example, in the British Premier League, betting agencies are the dominant source of sponsorship.

The correlation of sports betting has both positive and negative effects on society, including sport. For example, the business community benefits from betting because the state budget revenues are increased by betting fees and taxes, and people have the opportunity to make financial gains from these transactions that depend on correctly predicting the results of sporting events. But this also presents socio-financial risks because it can stimulate certain people to interfere with sports integrity in order to obtain financial gains from betting. In this regard, society has to gain from sport, but it loses when the principles of sport are violated because the values that sport represents (competitiveness, teamwork, trust, respect, passion) helps society and provide a way for entertainment for the population. These risks can affect the socio-cultural environment because the values promoted by sport are lost when the principles of sport are violated and sports integrity suffers.

Sport has more to gain from sports betting because of the social experiences it offers than because of the possibility of a financial gain because spectators can enhance the enthusiasm of watching a sporting event, with the desire and suspense to correctly predict the outcome of the event or actions that may occur during the event. Even if in the end the prediction is not correct or the team or the favourite player does not get a favourable result, the spectators are left with the enthusiasm and suspense of the prediction.

However, as beneficial as it could be, the correlation between sports and gambling presents some equivalent risks. Those risks could manifest under the desire to obtain a financial gain, which could lead one to rig sport events. If the risks are not held under control and closely monitored, the rules and sport principles could be violated and the integrity of sports would be afflicted and one of the most popular forms of entertainment could lose its appeal to people. If so, rigging of a sport event would change the essence of the event itself from sport to acting.

The rigging of a sporting event can be considered a financial offense because betting markets are essentially financial markets where subjects participate in financial transactions in which bookmakers undertake to offer winnings to bettors, if the bettors meet the conditions imposed by the agency.

Both bookmakers and bettors decide whether to participate in these transactions based on a set of information available to them. If an event was rigged, then the participants of the bet were misinformed and the money was expropriated from one of the parties and the sporting integrity suffers. Even if the bet has a positive effect on their judgment, in reality, this means nothing if the result was decided by an

arrangement, and the "magic" is lost if the event turns out to be an arranged one. Rigging is considered fraud to the same extent that a person sets his house on fire after insuring it.

A more ambiguous situation arises when an athlete or other person involved sells confidential information or acts on it to win bets. Examples of such information: a person who knows that a player is injured and a coach who rests main players by keeping them as a backup in a less important match because there is another one in an international competition, and these two aspects can lead to the defeat of the team.

Sports organizations have taken preventive measures against organized crime syndicates that could affect sports integrity. For example: the organization that leads football in Europe (UEFA) has introduced a sophisticated system for monitoring betting markets on matches under its jurisdiction or under the jurisdiction of its members. The UK government has established a formal policy requiring sports entities to protect themselves against scammers (Department for Culture, Media and Sport 2010). For these reasons, the safest events are those at international level because everything takes place at a much higher level, and the stakes are much higher. Events in smaller leagues, such as secondary, tertiary or quaternary leagues, or leagues in countries that do not have a competitive sports industry are not covered on the same level as professional competitions and involve much lower cash (salaries, ticket prices, bonuses, club budgets etc.) and therefore the level of protection they receive is lower and the players do not have the same motivation as the top ones. For these reasons, sporting events in lower level competitions are much more susceptible to arrangements than high level ones.

The largest part of the Romanian sports industry is football and Romanian football is not very competitive. Moreover, football is one of the most popular forms of entertainment and, as a result, it is the most gambled one, too. A non-competitive sport does not obtain good results in international competitions and, as a result, it does not attract considerable sponsors. Without results and sponsors, there is little fame and little money for everyone involved in it. If one put together those three key elements (high level of gambling, little fame and little money for anyone involved) on a single type of sport, fixing or rigging of competitions would become very easy because the people involved would not have too much to lose.

All countries in the European Union and international bodies (like the European Union) have established public institutions that regulate sports betting and gambling. In the following sections the authors analyse the costs and revenues of the Romanian National Gambling Office.

3. Analysis of Costs

Between January and December 2019, the Romanian National Gambling Office benefited from an approved budget of 6.56 million Euros, with an execution rate of 82.91%. Compared to the approved budget, the necessary expenditures for the current operation of the institution had almost a complete execution rate, more specifically: 99.37% for staff costs and 93.86% for the goods and services expenditures. However,

the other two categories have an execution rate of 74.06% for "other expenditures" and 0.01% for capital expenditures. From these data, we can conclude that the Romanian National Gambling Office does not require major investments at present, because the budget is used almost entirely for the current operation of the institution, and the fact that 15.85% of the budget was approved for capital expenditures, it means that there is the initiative for development, even if, for the time being, there is no need. Some examples of activities carried out by this institution are: granting licenses and authorizations, regularizations, collection of vice taxes, controls performed at national level, application of sanctions and confiscation of assets. If we relate the execution rate to the open credits, we obtain an execution rate of 99.52%. Therefore, we come to the conclusion that the necessary funds for the institution were used almost completely, and all the necessary expenses were covered.

The average operating costs of the Romanian National Gambling Office for the last four years has been 4.56 million Euros per year, with an average execution rate related to the open credits of 98.94%. The next figure shows the comparison of the evolution of open budget appropriations with that of the used budget appropriations:

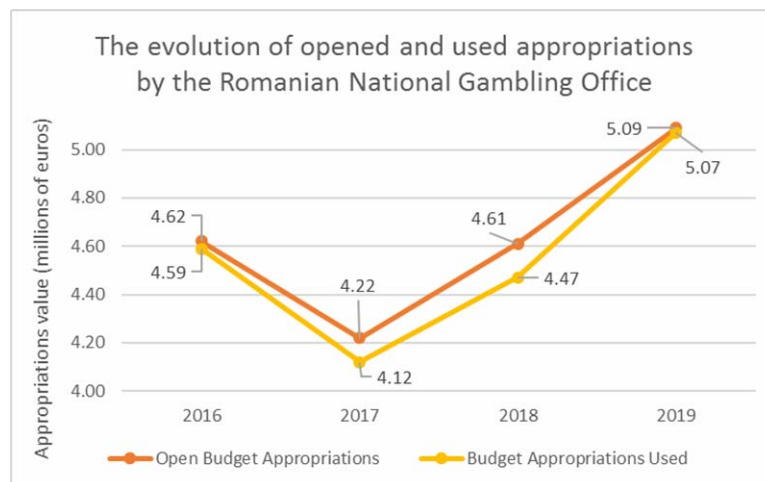


Fig. 1. *The evolution of opened and used budget appropriations*

These budget appropriations show relatively average annual differences, the amount of appropriations varying from one year to another between, approximately four and five million euros per year. Normally, economic increases or decreases are relatively constant and are maintained for longer or shorter periods of time. However, the increase in operating costs of this public institution is not constant. Furthermore, there is a correlation between the evolution of the budget appropriations presented in Fig. 1 and the evolution of the Romanian inflation rate.

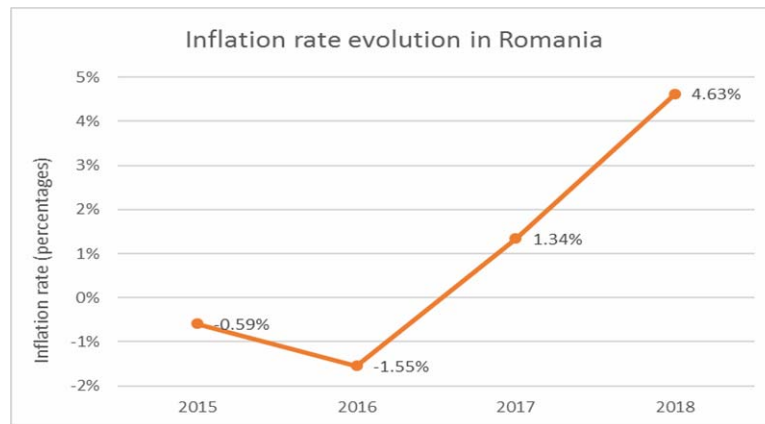


Fig. 2. The evolution of the inflation rate in Romania

If we overlap the evolution of budget appropriations with the evolution of the inflation rate in Fig. 1 and Fig. 2, we notice a similarity. In order to obtain the most accurate results, it is important to analyse and compare the indicators correctly and according to the circumstances. In the current circumstances, we must take into account that at the end of each year, the state allocates the budgets of the public institutions for the following years on the basis of reports and statistics from previous years. For this reason, the comparison of the allocated budget for one year must be made with the inflation rate of the previous year. In this way, the overlap of the evolution of the budgetary credits from 2016-2019 with the evolution of the inflation rate from 2015-2018 presents a significant match. The correlation between the inflation rate and the opened budget appropriations is 98.47% and the value of the correlation between the inflation rates and the used budget appropriations is 97.86%. Whether we refer to the open budget appropriations or the used budget appropriations by the Romanian National Gambling Office, we obtain significant values when we correlate these data with the evolution of the inflation rate in Romania.

4. Analysis of Income



Fig. 3. The evolution of revenues collected by the Romanian National Gambling Office

As we can see, over the past six years, the increase in the contribution to state budgets has been maintained, with lower or higher fluctuations. These revenues generated from the National Gambling Office activity are divided into three large categories, namely: revenues from fees, licenses and authorizations; income from penalties and income from confiscation. Revenues from taxes, licenses and authorizations have the largest share of revenues yielded, the average of the weights in the analysed period being 99.20%, while revenues from fines and confiscations have average shares of 0.69% and 0.11%. The evolution of revenues from fees, licenses and authorizations is almost equivalent to that of revenues from the activity carried out by the National Gambling Office, the graphs being almost identical. The evolution of the confiscation revenues varies from one year to another. It shows significant differences, but no explanations were found for these fluctuations. However, following the evolution, looking over the revenues from the applied sanctions evolution, we notice a significant decrease in the past two years.

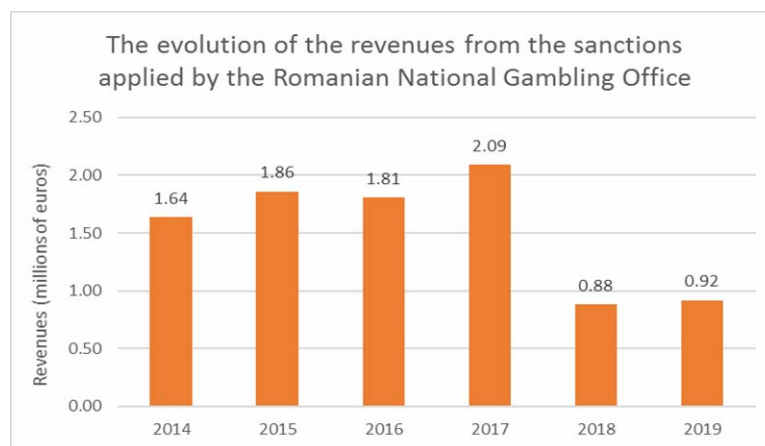


Fig. 4. *The evolution of the revenues from the sanctions applied by the Romanian National Gambling Office*

It can be noted that from 2014 to 2017, revenues from sanctions applied to economic operators increased, with a small fluctuation in 2016. These revenues, which reached their peak in 2017, had a drastic decrease in the following two years. The income from the first four years is almost double compared to those from the last two years. In a more detailed data analysis, one may compare this category of income with the results of the field activity of the National Gambling Office. The field activity consists of controls performed at national level and sanctions applied, where applicable. Comparing revenues from applied sanctions to the number of sanctions, one may notice some similarities.



Fig. 5. *The evolution of the number of sanctions applied by the Romanian National Gambling Office*

Comparing the evolution of the number of sanctions applied to the economic operators and the evolution of the revenues from the sanction applied, we notice a similarity between the high values of the first four years observed and the sudden decrease of the last two years. Calculating the correlation coefficient between the two evolutions, we obtain a correlation of 80.51%. From this result we can formulate the hypothesis that the number of sanctions applied is the main factor that influences the revenues from the sanctions applied. Of course, the alternative was also possible, which would have been just as important, because the rejection of a hypothesis is as important as its assertion, because regardless of the outcome, we find out why the situation unfolds in a certain way. In this situation, if the number of sanctions applied had not been correlated with the revenue from the sanctions applied, we could have concluded that there are not many irregularities, but the existing ones would have been very large, meaning that the few economic operators that would have been sanctioned would have had very serious irregularities, punishable by huge sums. The current situation shows that between 2014 and 2019 the average penalty is 1593.32 euros per sanction applied. That is, the irregularities were numerous and with relatively small values for the size of this market. Returning to the uncorrelated part, there is a percentage of 19.49% of these revenues that is not correlated with the number of sanctions, but with other factors. We can assume that the other factors are: macroeconomic indicators, such as the inflation rate; microeconomic factors, depending on the activity of the operators. Looking further, we can verify the relevance of the number of controls performed at national level by the National Gambling Office for the revenues from the sanctions applied at national level.



Fig. 6. *The evolution of the number of controls performed by the Romanian National Gambling Office*

Figure 6 shows a constant increase starting with 2015, and the highest values being seen in the past two years of the analysed period. These years correspond to the years in which the number of sanctions applied at national level and the revenue from sanctions applied at national level decreased sharply. The evolution of these revenues decreased to the same extent as the evolution of the number of sanctions applied, but one may see that the evolution of the number of controls performed at national level has a negative correlation with the other two evolutions. Checking this hypothesis mathematically, we notice that the correlation between the evolution of the number of controls performed at national level and the evolution of the number of sanctions applied at national level is -84.46%. The evolution of the number of controls performed at national level has direct implications on the evolution of the number of sanctions applied at national level, which in turn has direct implications on the evolution of revenues from sanctions applied at national level. The correlation between the evolution of the number of controls performed at national level and the evolution of revenues from the sanctions applied at national level is -70.39%. Whether we refer to the direct implications between the indicators or to the indirect implication, we obtain significant values regarding the correlations of these implications. From here, we conclude that in recent years the regulation of the gambling industry has become increasingly strict, the activities of economic operators being more and more strongly verified and severely sanctioned, this public institution taking its role seriously in regulating this industry. While the revenues from the ethical conduct of the activity are increasing and those from the violation of the conduct are decreasing, we conclude that the National Gambling Office brings both social and economic benefits from this industry, because the revenues from the ethical conduct of the activity have an average share of 99.20% of revenues, and economic operators violate the rules less and less because their expectations and perceptions are influenced by the National Gambling Office, and the influence has positive effects.

5. Comparison between cost and income

In 2016, the activity of the National Gambling Office brought about sixty times more money to the state budgets, compared to the budget credits used. But, in this comparison, we are talking strictly about the revenues brought to the state budgets from the activity of this public institution. Moreover, the existence of this industry brought about one hundred and twenty times more money to the state budgets, compared to the budgetary expenditures involved in its existence.

The average increase of the used budget expenditures from 2016-2019 is 5.79% (Figure 1), while the average increase of income realized from the activity carried out by the National Gambling Office from the same period is of 14.29% (Fig. 3).

From these comparisons, we observe, first of all, the fact that the economic benefits from the existence of this industry are about one hundred and twenty times higher than the costs and, secondly, that even the average evolution of the increase in benefits is about 2.5 times greater compared to the average evolution of the cost increase.

6. Conclusions

The research of the annual activity reports of the National Gambling Office shows that how the reports are written and the way this public institution is organized is asymmetric, because it differs from one year to another. For example, most reports have an average of a hundred pages, but the 2015 report is only ten pages long and does not present the minimum amount of information needed for research, which the other reports present. On the other hand, the 2016 report is the most complete report and presents the greatest amount of information compared to the others, it even includes a five-year evolution of the total revenue from the gambling industry. Moreover, the 2016 report presents a short text on the management of the institution. For this reason, I concluded that each change in the political environment or the administrative staff of this public institution presents differences both in structure and organization, as well as in official reports and published information. This indicates that, if there is a uniform structure regarding the way things are carried out, it is not complied with, but each person who reaches one of the top positions benefits from a great flexibility regarding the way of organizing the activities conducted, current circumstances indicating a complete lack of a uniform structure.

Overall, the Romanian gambling industry brought about one hundred and twenty times more money to the state budgets, compared to the costs involved, and the institution that has the authority over this industry brought about half of the revenues. Moreover, the growth rate of revenues is three times that of costs. On the one hand, we can conclude that the Romanian economy has a lot to gain from this industry, both through the money collected from state budgets and through the jobs generated in the public and private sectors. On the other hand, following the research of the theoretical aspects regarding this market, we notice that there are also consequences produced by this industry. The consequences are manifested on consumers through a considerable amount of financial losses that continue to develop the industry and through the

psychological implications that can be manifested on consumers, both inside and outside the market, except for the niche of consumers who participate in this industry for any reason other than financial gain. Judging these aspects, we cannot specify the fact that the risks borne by a part of the population are justified by the benefits brought to the Romanian economy, because while the state has to gain, a part of the population has to lose, and the role of the state is to serve the interests of citizens as much as possible and to the greatest extent possible.

7. Proposals

Given the size of the industry, the management and regulation of the gambling industry in Romania must become tougher, but without causing unjustified inconvenience to the economic operators or consumers because it can produce unwanted effects. Moreover, the organization and structure of the reports published by the National Gambling Office must become uniform and standardized, removing the interpretable aspects or a too high degree of flexibility for administrative staff since that flexibility can make it difficult to track the money and to keep a detailed record of it.

The Romanian state should invest more in other industries because we can consider the current situation as “unhealthy”, considering, on the one hand, the growth rate of the gambling industry and, on the other hand, the considerable growth rate of the share of GDP in this industry, while developed countries have minor or even negative values.

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