

**GAMBLING BACKLASH:
TIME FOR A MORATORIUM
ON CASINO AND LOTTERY EXPANSION**

*by
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Thirty years ago, gambling was illegal in most states and was generally considered to be a vice contrary to the American work ethic. Serious gamblers had to travel to Nevada for casino play; states had not yet plunged into lottery mania. Today, however, 29 casinos operate in Mississippi, 14 in New Jersey, and 429 in Nevada; another 260 casinos operate on Indian reservations; and nearly 100 riverboat casinos are chartered in six states.¹ All but three states have legalized some form of gambling. Pari-mutuel gambling, primarily horseracing, is legal in 42 states;² casinos are licensed in 28 states;³ and the lottery is played in 37 states plus the District of Columbia.⁴

Far from discouraging citizens from risking their hard-earned money on gambling, states spend more than \$400 million annually promoting their lotteries with often misleading and deceptive advertising.⁵ In fact, more dollars are spent encouraging citizens to gamble than are spent for any other single state message.

Gambling expansion has swept the nation, with 68 percent of the population reporting they have gambled in the past year. They lost an astonishing \$50 billion in 1998, and there is “no end in sight: every prediction that the gambling market was becoming saturated has proven to be premature.”⁶ This explosion of gambling has produced enticing benefits for some. A new casino brings new jobs and can be very profitable, and most forms of gambling add significant revenue to the public treasury. The revenue can be used to meet community needs such as education or infrastructure development.

But the expansion of gambling carries a high cost. Today, an estimated 15.4 million Americans suffer from problem or pathological gambling, often referred to as gambling addiction.⁷ Gambling addiction can be particularly devastating to the individual, his family, and his employer. The National Academies of Science found that “pathological gamblers engage in destructive behaviors: they commit crimes, they run up large debts, they damage relationships with family and friends, and they kill themselves.”⁸

Furthermore, the National Gambling Impact Study Commission found that state lotteries function as a regressive tax that preys on the poor. Those who can afford it least tend to play the most, while benefits go to those who are better off.⁹ Gambling is capable of addicting and impoverishing those who play.

Perhaps most alarmingly, research shows that increasing numbers of children and adolescents are gambling; they are more likely than adults to become problem or pathological gamblers. For instance, a Louisiana survey of 12,000 adolescents found that 10 percent had bet on horseracing, 17 percent had gambled on slot machines, and 25 percent had played video poker.¹⁰ The Gambling Commission

found that adolescent gambling is “associated with alcohol and drug use, truancy, low grades, problematic gambling in parents, and illegal activities to finance gambling.”¹¹

That gambling expansion has exposed children and adolescents to many forms of gambling is particularly disturbing in light of a recent Harvard study that found that “compared to adults, youth have had more exposure to gambling during an age when vulnerability is high and risk-taking behavior is a norm; consequently, these young people have higher rates of disordered gambling than their more mature and less vulnerable counterparts.”¹² The Gambling Commission learned that such vulnerability could lead to tragic outcomes; one 16-year-old boy attempted suicide after losing \$6,000 on lottery tickets.¹³

How did America become so addicted to gambling? Several factors are clear. First, the lottery states have given a powerfully motivating message to their citizens by declaring that gambling is not only acceptable, but actually the right thing to do because it increases state revenue for good causes. Second, the Indian Gaming Regulatory Act of 1988 opened the floodgate for Native American casinos, which are expanding more rapidly now than any other form of gambling. Third, legislators at the state and federal levels have acted without the benefit of objective information on the full costs and benefits of gambling operations, since nearly all of the previous impact studies have been sponsored by the gambling industry. The Gambling Commission report provides the most comprehensive and objective evaluation of gambling impacts to date. But more research is needed if policymakers are to understand fully the likely consequences *before* moving ahead with gambling expansion initiatives.

The Gambling Commission report, which was unanimously adopted, calls for a moratorium on gambling expansion.¹⁴ This is especially noteworthy because four of the nine commissioners represented or endorsed gambling industry interests. The purpose of the moratorium: to allow policymakers to review what has already been approved and to demand better cost/benefit analyses before moving ahead with any new initiatives.

More than a moratorium, however, will be needed if America is going to manage gambling for the public good as opposed to the public treasury. The Gambling Commission report included 77 far-reaching recommendations, all of which are worthy of consideration. Eight policy recommendations, based upon but not identical to the Commission’s recommendations, should constitute a priority for federal and state/tribal legislators. Legislative action based on these recommendations would jump-start America’s recovery from its addiction to gambling. Before discussing these recommendations in detail, however, a review of the seven major types of legalized gambling reveals the gravity of the current problem.

LEGALIZED GAMBLING IN AMERICA¹⁵

Seven major forms of gambling are legal in America today, each presenting a different array of costs and benefits, and each raising a unique set of issues that must be addressed by policymakers.

COMMERCIAL CASINOS. Commercial casinos (land casinos not owned by Native Americans)—with their table games and slot machines—symbolize the gambling industry for most Americans. Until this decade, casinos were legal only in Nevada and Atlantic City, but during the past 10 years they have expanded into 28 states. In 1997, commercial casinos took in \$26.3 billion in revenue. Destination casinos (those with large hotels) provide an important source of jobs, tax revenue, and entertainment for their localities. Many customers enjoy the associated food, entertainment, and conference facilities.

At the same time, there are costs associated with commercial casinos. The 15.4 million pathological and problem gamblers account for a significant portion of gambling revenues. They often end up hurting not only themselves but also family, friends, and business partners. Direct costs from their bankruptcies, arrests, imprisonments, legal fees for divorce, and so on come to more than \$5 billion each year. Who should be responsible for these costs and liabilities?

A less visible but perhaps more insidious cost involves the political clout that commercial casino interests inevitably develop. Given the vast revenue generated by successful casinos, it becomes increasingly difficult for other voices to be heard in the political process. For instance, non-gambling retailers and restaurant owners may find that their customer base dwindles after the introduction of casinos and that local government turns a deaf ear to their complaints. In fact, once gambling enters a community, local government tends to become “a dependent partner in the business of gambling.”¹⁶

NATIVE AMERICAN CASINOS. Large-scale Indian casino gambling began in the late 1980s. In 1988, Congress passed the Indian Gaming Regulatory Act (IGRA), which set the stage for a rapid expansion of Native American casinos—now numbering about 260. IGRA called for the states and tribes to enter into compacts allowing casinos on Indian reservations to offer whatever form of gambling is legal in the state. It also called for gambling revenue to be used to promote the economic development and welfare of the tribe. Thus, revenues are not subject to state or federal taxation, but are to be used as an economic engine to address tribal needs. In 1997, Indian casinos generated \$6.7 billion in revenue from gambling, much of which went to improve the health, education, and welfare of the casino tribes.

Problem and pathological gambling among tribal members and their customers is, of course, as much a concern here as it is for non-tribal casinos. Concerns also have been raised about the adequacy of Indian casino regulations and the distribution of funds among the tribes that own casinos versus the majority that do not. Furthermore, some states and tribes have not been able to agree on compacts that suit both sides. All of these issues need to be resolved, perhaps within the context of IGRA revisions and amendments.

RIVERBOAT CASINOS. Riverboat casinos are a new phenomenon, having begun in Iowa in 1991 as a means for tourism and economic development. Most of these casinos do not actually sail out on the rivers, but are simply built over water as part of zoning requirements. In 1997, riverboat casinos

brought in \$6.1 billion in revenue from gambling.

Often built deliberately on the borders shared with other states, these casinos initially brought significant additional tax revenues from the citizens of neighboring states. Eventually, however, the adjoining states ended up building their own casinos to recapture the lost revenue. Once the saturation point has been reached by neighboring states, whether the economic benefits outweigh the social costs is not clear. However, for this reason Iowa recently legislated a five-year moratorium on casino expansion in order to better assess the full impacts of gambling.

STATE LOTTERIES. Colonial America used lotteries to help fund public works such as paving streets; since that time, there has been a cyclical aspect to their usage. In the 1870s, gambling scandals involving the bribery of state and federal officials led to lotteries being outlawed altogether, along with most forms of gambling. The current lottery revival began in 1964 with the New Hampshire lottery; today, 37 states and the District of Columbia have lotteries.

Modern lotteries offer an array of products, including instant scratch-off tickets, daily numbers drawings, weekly Lotto and Powerball drawings, and video keno, which involves multiple drawings per hour. In 1997, U.S. lotteries produced \$16.5 billion in revenue from tickets and other sales. This revenue is used to add to the public treasury to address education and/or other needs.

The Gambling Commission contracted with national lottery experts, Drs. Cook and Clotfelter from Duke University, to research the impacts of state-sponsored lottery gambling. They documented conclusively that lotteries function as a regressive tax, taking from the poor and giving to those better off. As Cook stated, “It’s astonishingly regressive. The tax that is built into the lottery is the most regressive tax we know.”¹⁷ Those making less than \$10,000 per year spend more than any other income group, averaging \$597 per year. Furthermore, the top 5 percent of lottery players account for over 50 percent of lottery sales, spending on average \$3,870 per year.

A review of marketing strategies revealed that states advertise in low-income neighborhoods, which tend to be saturated with lottery outlets. They use ads that are “misleading, even deceptive.”¹⁸ Such ads are exempt from the Federal Trade Commission’s truth-in-advertising standards since they come from state governments.

Another concern is the ease with which minors can participate in lottery gambling, despite legal restrictions. For instance, a Massachusetts survey found that minors as young as nine years of age were able to purchase lottery tickets on 80 percent of their attempts, and that 75 percent of the high school seniors reported playing the lottery.¹⁹ Such experiences can function as a gateway to more intensive gambling and to pathological gambling.

All of this raises the fundamental question of whether states should even be in the lottery business in the first place, spending hundreds of millions of dollars each year encouraging citizens—including those who can least afford it—to gamble their money away in order to feed the state treasury. A growing number

of people, such as those citizens who recently rejected a lottery referendum in Alabama, answer “no.” The role of the state is to provide for the public good, not to feed the public treasury at any cost.

PARI-MUTUEL WAGERING. Pari-mutuel gambling consists primarily of horseracing, but includes greyhound racing and jai alai. The term *pari-mutuel* connotes the fact that wagers are put into a common pool, with the odds dependent on the total amount bet on any given horse. Legal in 43 states, several of the major racetracks have been in operation since the 1800s. Total revenue in 1997 amounted to \$3.25 billion. Unique to this form of gambling, the horseracing industry supports a thriving agro-industrial economic sector of trainers, owners, breeders, and stable owners. Although more than 150 racetracks are licensed, most betting takes place through off-track sites or, more recently, through cable and Internet broadcasts directly into the home.

A major policy issue has been raised by those tracks that have attempted to add casino-like gambling devices such as slot machines to their facilities in order to increase revenue. This, in effect, creates a “mini-casino” in an area that was not necessarily zoned for casinos. Additionally, concerns have been raised about the advisability of beaming pari-mutuel gambling into homes via cable and Internet, where children may participate.

SPORTS WAGERING. Sports wagering is illegal in all but two states, Nevada and Oregon, but is nonetheless popular in homes and offices. Oregon only allows lottery players to include a wager on pro football games. Nevada, on the other hand, has 142 legal sports books for wagering on just about any prediction for professional or amateur sports events. These books took in \$77.4 million in 1997. However, Americans wager an estimated \$80 billion each year on illegal sports betting, usually without realizing its illegality.

One reason that sports wagering is so widespread is the easy availability of the Las Vegas “line,” or point spread, published in newspapers across the country. Although some claim that the line increases sports interest, it more likely simply increases sports wagering.

Perhaps the worst effect of sports wagering is its impact on youth and college students. The National College Athletics Association points out that sports wagering seriously threatens the integrity of college sports and puts student-athletes at considerable risk. There are student bookies on most campuses, organized crime is often involved, and consequences can be tragic—including suicide over an unpaid gambling debt. A recent study found that more than 5 percent of male student-athletes had provided inside information for gambling purposes, bet on a game in which they participated, or accepted money for performing poorly in a game.²⁰ Furthermore, sports wagering can function as a gateway to other forms of gambling and to pathological gambling.

INTERNET GAMBLING. First appearing in 1995, Internet gambling is the newest form of gambling. Today hundreds of on-line casinos, lotteries, and sports books advertised on mainline Web sites. With a credit card number, customers can play a video version of blackjack, slot machines, poker, roulette, or other games. One study showed that Internet gambling revenues doubled in only one year, from

\$445.4 million in 1997 to \$919.1 million in 1998.²¹ Some countries, such as Australia and Antigua, have licensed Internet gambling operators within their borders. Their products are, of course, accessible by anyone, anytime, anywhere, via the Internet.

Internet gambling, like Internet pornography, has been perceived as a threat to children and adolescents precisely because it is so easily available in the home and in college dorms. No one uses the Internet more than America's youth, and no one is more vulnerable to its temptations. Now, every parent has to reckon with the fact that commercial gambling is available in the dens and bedrooms of their homes via the Internet.

Internet gambling can be especially destructive for those who are vulnerable to addictions, since it provides high-speed instant gratification together with the anonymity of the home setting. A Harvard researcher stated, "As smoking crack cocaine changed the cocaine experience, I think electronics is going to change the way gambling is experienced."²² In other words, electronic gambling is all the more destructive and addictive.

For these and other reasons, including crime and fraud potential, many policymakers are calling for the outright prohibition of Internet gambling. Several states have passed legislation to that effect, and Congress is considering a bill, introduced by Sen. Jon Kyl (R-Ariz.), titled "The Internet Gambling Prohibition Act." Furthermore, the National Association of Attorneys General has called for the federal government to prohibit Internet gambling, recognizing that the issue cannot be resolved on the state level. The Gambling Commission, as well, recommended prohibiting Internet gambling outright. However, given the difficulty inherent in restricting commerce of any kind, whether Internet gambling will be stopped is not clear.

CONVENIENCE GAMBLING. Convenience gambling refers to gambling machines that have proliferated in communities and neighborhood areas such as convenience stores, truck stops, and bars. These stand-alone machines, which include video poker, video keno, and slot machines, are known as Electronic Gambling Devices, or EGDs. Some states, such as South Carolina, allow EGDs to operate just about anywhere on a 24-hour basis. In other states, EGDs are run by the state lottery. In Nevada, EGDs can be found in the airport, in supermarkets, in sandwich shops, and elsewhere. Many states also have quasi-legal EGDs known as "gray machines" that are not licensed to pay out winnings and are, supposedly, for amusement only. In reality, winnings are often paid out surreptitiously.

Convenience gambling in some ways represents gambling at its worst. Since EGDs can be almost anywhere, avoiding them is difficult. In some Las Vegas neighborhoods, for instance, a resident cannot even buy a gallon of milk without walking past rows of gambling machines. This makes it much more difficult for those who are vulnerable to addictions to avoid playing and significantly increases the incidence of problem and pathological gambling. For instance, South Carolina, with over 34,000 EGDs, is experiencing a surge of problem and pathological gambling.

Furthermore, this is one more form of gambling that is particularly detrimental to children and

adolescents, as it presents them with numerous opportunities to become introduced to gambling experiences at an early age. Many of them will develop into problem and pathological gamblers, having been put at risk for the sake of America's appetite for gambling.

At the same time, economic benefits to the public treasury are minimized since it is usually the local owner—not the state—collects the lion's share of profits. For these reasons, the Gambling Commission recommended not only that states no longer approve convenience gambling, but also that they roll back existing operations. This is precisely what happened in South Carolina, where a recent court decision will likely lead to the removal of that state's 34,000 EGDs.

FEDERAL POLICY RECOMMENDATIONS

Since most gambling laws and regulations are established at the state or tribal level, it is primarily up to policymakers at these levels to take the lead in responding to the tough issues raised by gambling expansion. However, a few areas require federal action. Policy recommendations for the 106th Congress that, if enacted, would greatly support state and tribal efforts to control gambling expansion, include the following:

1. Ban betting on collegiate and amateur athletic events altogether, and prohibit media from advertising the line on those events. Sports wagering, especially on collegiate and other amateur events, undermines the integrity of sports and puts students and athletes at risk. It should be prohibited where currently legal; where illegal, regulations should be more rigorously enforced. Newspapers should be prohibited from printing point spreads for athletic contests in areas where sports wagering is illegal.

2. Amend truth-in-advertising laws to apply to Native American and state lottery gambling ads. Many lottery ads have been found to be misleading or deceptive; truth-in-advertising laws currently do not apply to states or tribal entities.

3. Prohibit Internet gambling not already authorized and develop enforcement strategies. Help foreign governments to prohibit Internet gambling that preys on U.S. citizens. Because of the dangers posed by Internet gambling—especially to America's families and their children and adolescents who are put at risk—Internet gambling sites should be prohibited.

STATE/TRIBAL POLICY RECOMMENDATIONS

Because state and tribal policymakers set most of the nation's gambling laws and regulations, they carry the heaviest burden for assuring that those laws are crafted in the interest of the public good. Following are policy recommendations for state and tribal leaders that would not only go a long way towards reigning in uncontrolled gambling expansion, but also would begin to address costs associated with it:

1. Restrict contributions to state and local campaigns from corporate, private, or tribal

gubernatorial challengers in South Carolina and Alabama has often been cited as a case in point. Indeed it is, but not in the way expected. Consider the surprising outcome in those two states:

C In South Carolina, where 34,000 video poker machines have sprung up in convenience stores since they were surreptitiously legalized in 1991, Governor Hodges was elected promising to hold a statewide referendum to make video poker regulated, taxed, and permanent. Common wisdom expected Hodges's referendum to pass easily. Instead, concern over the soaring cases of gambling addiction and minimal economic benefits from convenience gambling carried the day. Even as Hodges's referendum was unexpectedly heading for defeat, the South Carolina Supreme Court invalidated the referendum as unconstitutional. This will likely lead to the abolishment of video poker throughout the state.

C In Alabama, where Governor Siegelman was elected promising a new state "education lottery," the governor spent a great deal of time and money promoting the lottery referendum to ensure overwhelming approval. Instead, citizen concerns over the regressive taxation inherent in the lottery, as well as over having the government promote get-rich-quick schemes, turned the debate around. The referendum was unexpectedly but soundly defeated.

As the *Weekly Standard* stated in an article about these surprising outcomes, "It turns out voters needn't share the 'private moral views' of a religious conservative before they will reject the public morality of state-sanctioned gambling. It turns out they need only be asked to think about and directly act on the matter."²⁴ The gambling tide may be turning, simply by involving the voters in informed public deliberation—the core of the democratic process.

It is time for policymakers to recognize that the rapid expansion of gambling is putting children and adolescents increasingly at risk and has led to a host of other negative social consequences that have yet to be adequately addressed. Legislators should declare a moratorium on gambling expansion and enact policies to break America's growing addiction to gambling. They must reach out to the many broken lives that have resulted from gambling addiction on a personal level and take action to prevent America's youth from falling prey to gambling's destructive potential. The above policy recommendations will jump-start that process, but the Gambling Commission's Final Report should also be consulted for additional resource data and information.

The question is not so much what can be done—there are many ways to begin, as these recommendations illustrate. The real question is: Do policymakers have the courage to act on behalf of the public good, as opposed to the public treasury?

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ENDNOTES

¹ Final Report, National Gambling Impact Study Commission, 1999, p. 2-6.

² *Ibid.*, p. 2-11.

³ *Ibid.*, p. 2-6.

⁴ *Ibid.*, p. 2-1.

⁵ *Ibid.*, p. 3-15.

⁶ *Ibid.*, p. 1-1.

⁷ *Ibid.*, p. 4-1.

⁸ *Pathological Gambling: A Critical Review*, National Academy of Science/National Research Council, 1999, p. 3.

⁹ *Final Report*, p. 7-10.

¹⁰ *Ibid.*, p. 7-20.

¹¹ *Ibid.*, p. 7-23.

¹² Howard Shaffer, *et al.*, "Estimating the Prevalence of Disordered Gambling Behavior in the United States and Canada: A Meta-Analysis," 1997, p. 5.

¹³ *Ibid.*, p. 7-25.

¹⁴ *Ibid.*, p. 1-8.

¹⁵ Much of this section is derived from chapter two of the Gambling Commission *Final Report*, titled "Gambling in the United States."

¹⁶ *Ibid.*, p. 7-18.

¹⁷ *Ibid.*, p. 7-10.

¹⁸ *Ibid.*, p. 3-15.

¹⁹ *Ibid.*, pp. 3-14, 3-15.

²⁰ *Ibid.*, p. 3-10.

²¹ *Ibid.*, p. 2-16.

²² *Ibid.*, p. 5-5.

²³ *Ibid.*, p. 7-29.

²⁴ David Tell, "A Gambling Backlash?" *The Weekly Standard*, November 15, 1999.