

1 CHAIRMAN JAMES: Commissioners, by now you are used
2 to hearing our presentations from our senior policy director,
3 Doug Seay. He's going to come before us today. He's prepared a
4 brief presentation on gambling and crime.

5 Doug, thank you very much for your concise and
6 informative paper that you've prepared for us today. We look
7 forward to hearing that.

8 And, Commissioners, we will have the opportunity for
9 a few questions or comments after he speaks and then we'll move
10 to our next panel.

11 MR. SEAY: Thank you, Chairman James. I know we're
12 running behind schedule so I'll generously offer to forego my
13 time, if you need that.

14 CHAIRMAN JAMES: It's not going to be that easy,
15 Doug.

16 MR. SEAY: The subject of the next panel is crime.
17 When one looks at the debate over legalized gambling, you can
18 crudely divide it into pro and con.

19 I know it does violence to a lot of the sophisticated
20 arguments but if one were to look at it that way, and the
21 literature I look at, the pros tend to stress the economic
22 benefits of gambling, the cons stress the social costs,
23 pathological gambling and crime being foremost among them.

24 Neither side, however, has uncontested territory in
25 either one of these fields. Crime, in general, people do
26 disagree over what causes it.

27 I, having a very simplistic mind, tend to find
28 simplistic solutions to these types of problems, but in the

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1 literature there's a lot of debate over what is the cause of
2 crime and one can look at a number of different factors.

3 And with a lot of the field of gambling in general,
4 there just isn't a whole lot of hard data out there to resolve a
5 lot of these questions, and the gaps are filled by assumptions,
6 conventional wisdom and even the occasional public relations
7 spinner.

8 I'm reminded of Mark Twain's comments, that there
9 are, in a progressive worsening of hierarchy, there are lies,
10 there are damn lies and then there's statistics. And in this
11 field, statistics are used in all types of questionable ways.

12 There are two general questions on this subject.
13 One: is there a connection between legalized gambling and crime;
14 and within that, there's a more specialized but I think very
15 important question: is there something inherent about gambling
16 itself, especially casinos, which stimulate crime?

17 This is actually part of a larger question that I
18 find fairly interesting. I think it guides a lot of the
19 commission's work and certainly the decision makers in
20 government. Is gambling simply another business and should it be
21 treated as such or is there something inherently different about
22 it that requires special handling?

23 And this, as we can see here in Mississippi, which
24 has taken a much different approach to gambling than some of the
25 other states that we have looked at, especially in the midwest,
26 and Mississippi tends to treat it more as another business that,
27 with special conditions, is free to operate as it wishes.

28 As you remember, the riverboats and others in
29 Illinois and in the midwest, were subject to very specific

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1 conditions because of the fears of the social impacts of
2 gambling.

3 Now, looking at crime, I'm going to divide it into
4 organized crime and then into what is known as street crimes or
5 white collar crimes. And let me look at organized crime first.

There's a definite public image of a link between

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1 Casinos are -- high volumes of cash make that fairly
2 easy in an unregulated environment. In fact, Bugsy Segal was
3 supposedly killed because he was skimming more money than he was
4 supposed to be skimming. So there's a down side to that as well.

5 So this was true, at least through the early 1950s.
6 The question is, is that still the case today? All the
7 information that I have come across, pro and con gambling as well
8 as statements by FBI individuals and other people of law
9 enforcement, is no, it is not.

10 In terms of operation and ownership of casinos in Las
11 Vegas and elsewhere, this apparently is a thing of the past.
12 There are a couple of exceptions, which I'll get to later, but in
13 general it seems to have gotten a very clean bill of health in
14 this specific area of operations and ownership.

15 The reason for this is we look at Nevada, because it
16 has the longest history here, there are two significant changes
17 that brought this about.

18 One was a regulatory change in the '50s and '60s
19 where the regulations were significantly changed to make it far
20 more comprehensive and intrusive and the regulators given far
21 greater authority than they'd had in the past, and that was
22 coupled with a change in the Nevada laws, regulations, whatever,
23 that allowed corporations to own and operate casinos.

24 And the importance of those two things together was
25 quite dramatic. The importance of the second one was twofold of
26 allowing corporations to own and operate casinos.

27 One dramatically increased the number of eyes that
28 were looking at what was going on, from the individual investors
29 to the Wall Street analysts, to the Securities and Exchange

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1 Commission. It just, to a large degree, made it extraordinarily
2 difficult to hide illegal operations.

3 Then, coupled with the far more intrusive regulation
4 from the state authorities, it essentially moved the organized
5 crime out of the ownership and operation of casinos.

6 The other thing that that did was to dramatically
7 increase the financial scale required to own and operate casinos.
8 Organized crime families simply couldn't compete with multi-
9 million dollar corporations in that regard.

10 Now, when New Jersey legalized casino gambling in the
11 late '80s, this record was replicated there. New Jersey had
12 obviously had a long history of organized crime problems with the
13 proximity of New York and the officials, New Jersey officials
14 made public statements.

15 This was going to be one of the highest priorities,
16 keeping organized crime out of the casinos in Atlantic City. So
17 they adopted wholesale, to a large extent, the Nevada regulations
18 but they made them even tighter in certain instances.

19 I was informed the other day that when the casinos
20 opened, even the color of the carpeting and the paint on the
21 walls was subject to regulatory approval. And the effect has
22 been the same there. To all intents and purposes, organized
23 crime has been kept out of the ownership and operation of the
24 casinos.

25 The key here -- I think the lesson here is the
26 effectiveness of the regulation. It's not that the opportunity
27 still doesn't exist or even that the various organized crime
28 families have not attempted to reinfiltrate the casinos, but as
29 long as the regulations are in place and the regulators are on

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1 their toes, that apparently is an effective system for keeping
2 organized crime out of the casino business.

3 However, in the larger sense of the casinos, the
4 organized crime families have still found opportunities in the
5 ancillary industries such as food services, laundry, garbage,
6 whatever. Again here, regulation is the key.

7 A lot of these areas aren't necessarily well covered
8 in some of the states' regulations, and to the extent that they
9 are not or the enforcement is not well looked after, there are
10 opportunities that apparently organized crime families have moved
11 in to and exploited.

12 The one exception I will mention to this general
13 scenario -- and I mention it only because I read it in the
14 reports; I can't really attest to its veracity -- is that a few
15 Native American casinos have been targeted by organized crime and
16 it is unclear whether the regulatory structure that they work
17 under is less efficient than the ones that non-Native American
18 casinos operate under.

19 The press has reported there has been infiltration.
20 I haven't seen any reports from, say regulatory authorities
21 themselves that would say this, but that's the one exception I
22 would make to the general statement I made before.

23 Now, that's organized crime. More generalized crime
24 of street crimes and white collar crimes, those that would affect
25 the average citizen, there's been a different effect altogether.

26 And street crimes are broadly defined as rape,
27 robbery, theft, personal assault, what have you; white collar
28 crimes, such as embezzlement, fraud, forgery, so on and so forth.

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1 I'm not going to look at domestic violence simply
2 because the data on that linking it to gambling is very poor
3 although no, I don't think anybody would doubt, given the
4 testimony we've heard, that there is some connection at some
5 point.

6 Now, on street crime, Las Vegas isn't a good example
7 simply because it is, to a large extent, a one-industry town
8 that's been around for a long town. So it's very difficult to
9 measure trends in crime or to measure gambling in a non-gambling
10 environment.

11 But the legalization of gambling outside of Nevada
12 has produced a number of different types of communities where
13 this can actually be looked at with some interesting results, and
14 I just want to walk through the data very quickly.

15 Atlantic City is the region's most studied for a
16 whole lot of reasons. It's been around longer than most of the
17 other communities and it's had the most dramatic change from a
18 non-gambling to a gambling environment. And these reports --
19 most people who look at all this data base all their findings on
20 the same set of statistics from the FBI Uniform Crime Report
21 Index.

22 Now, if you just look at the aggregate gross figures,
23 the before and after, what was crime in Atlantic City like before
24 casinos were opened and after, very quickly there was a dramatic
25 increase in crime on the order of several hundred percent.

26 The aggregate level went up, depending on who you're
27 talking to, two, three, 400 percent. And that differs quite a
28 bit by category, far greater in the property crimes than in the
29 assault crimes such as rape and what have you.

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1 That isn't in dispute. The fact that the aggregate
2 crimes went up quite dramatically and in a very short order of
3 time in a space of two or three years is -- no one seriously
4 disputes that.

5 So it's pretty clear that if you, in this sense, if
6 one were to say Atlantic City that the opening of casinos led to
7 an increase of crime for the community as a whole, but then you
8 get into these philosophical debates: what does an increase mean
9 and what does an impact mean because what is the impact on the
10 actual individual, any one individual, per se?

11 In Atlantic City's case, if you look at the resident
12 population which has declined over the years, the increase is
13 even greater. It's now less than 40,000.

14 So if you look at the percentage increase of crime
15 per capita, it looks like there's been this dramatic increase and
16 the implication is that life there has become almost unbearable
17 due to crime, but that doesn't take into account the huge influx
18 of tourists and these are not marginal numbers.

19 As I said, Atlantic City's population has fallen
20 below 40,000 the last time I looked. The average daily influx of
21 tourists is about 80,000. So you're talking about a 300 percent
22 increase of the -- or 200 percent increase of the population.

23 And when these are factored into the per capita
24 estimates, obviously the situation is quite dramatically changed.

25 Now if you do that, again, there are many different
26 types of ways to look at this methodologically, but it appears
27 that the per capita increase in crime is either slightly -- just
28 slightly above what it was before the casinos opened or some
29 people have indicated that it has actually dropped in the sense

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1 that your chances of victimization of crime after the casinos
2 opened are less than what they were before. In other words,
3 Atlantic City is safer for the individual.

4 So however you look at it, it's more crime in the
5 community but less crime per capita. One can come to different
6 conclusions about the impact of legalized gambling on crime.

7 This is part of the general debate about the nature
8 of gambling itself, is it the gambling itself causes some crime
9 or is it just the influx of tourists themselves that cause crime?
10 Those are the two sides of the debate.

11 And one way of looking at this is to compare Atlantic
12 City, for example, with other non-gambling communities that have
13 had this huge influx of tourists. And one of the favorite
14 ways -- and you've heard it here before -- is Orlando, Florida,
15 the home of Disneyworld, where you can compare before and after
16 crime rates, compare them to the resident population and compare
17 them to the per capita rate you get out of that.

18 You're very similar in what has happened. You've had
19 these dramatic increases in crime, you've had these dramatic
20 increases in tourism. The resident population hasn't grown all
21 that much, although it has in Orlando a lot.

22 The final result, however, is the same in the sense
23 that once you factor in the huge increases in tourist traffic the
24 per capita increase is either always slightly above what it was
25 before the casinos opened or is even slightly below.

26 And some people who have looked at the figures have
27 said that Orlando actually has a higher per capita crime rate
28 after the opening of Disneyworld than the casinos do. And I see
29 you're signaling me here. Let me just quickly wrap up here.

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1 One other thing that needs to be looked at is just
2 how far you need to look in order to look at the impact on the
3 community. And there is such a thing as a spillover effect. If
4 you look just at Atlantic City, people have said you need to look
5 at the rest of New Jersey.

6 Have the casinos somehow generated crime that has
7 spilled over? Some have found that there's a direct proportional
8 relationship of the nearness of Atlantic City to the other
9 communities for the amount of crime that has increased.

10 And lastly, I'll say there are those who say that the
11 real impact is not even anywhere near Atlantic City.

12 It is in the homes that the people go to, that then
13 they commit the crimes, especially white collar crimes such as
14 embezzlement and what have you when they get the money, perhaps
15 on the other side of the country. And those are never factored
16 into the crime rates that are caused by legalizing gambling in a
17 city.

18 Once you get to that level, however, it's impossible
19 to get any data to resolve these issues and that's where I'll
20 leave it for our expert witnesses.

21 CHAIRMAN JAMES: Thank you very much. Any questions
22 or comments of Doug before we go on? Commissioner Wilhelm and
23 then Commissioner Loescher.

24 COMMISSIONER WILHELM: With the permission of the
25 chair and the indulgence of my colleagues, in Doug's written
26 report, which is in our binders, there's reference to the issue
27 of organized crime and the union that I am privileged to be the
28 president of.

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1 And I also note that there's a couple of other
2 witnesses that we have scheduled who, at least in other contexts,
3 have made somewhat colorful assertions in that area.

4 So the subject having been raised -- and it's a
5 legitimate subject and I have no objection to it having been
6 raised at all -- I wanted to take a couple minutes and address
7 it, if I might.

8 Our union, which is called the Hotel Employees and
9 Restaurant Employees International Union, is the primary union in
10 the gaming industry in this country.

11 We represent many thousands of employees in casinos
12 and parimutuel facilities, card clubs and other kinds of gambling
13 establishments and we're quite proud of what we do.

14 As I've discussed here sometimes in these hearings, I

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1 States government with the explicit purpose of putting those
2 allegations behind us so that we could get on with our real job.

3 In addition, the Nevada Gaming Control Board and the
4 gaming regulators in the State of New Jersey have been quite
5 helpful in this regard.

6 As the final step in that program of cooperation and
7 self-examination, in 1995, our union invited the Federal
8 government to send a monitor into our union with the power to
9 look anywhere in our union and to look at anyone and to take any
10 necessary action with the support of the union to ensure that we
11 have a clean organization.

12 This invitation to the Federal government followed
13 upon the successful Federal court and monitorship of Local 54 of
14 our union in Atlantic City, a subject to which I will return in a
15 moment.

16 The individual that was appointed by the Federal
17 court to conduct this examination is a retired career Justice
18 Department official who headed the Organized Crime Strike Force;
19 in other words, an expert.

20 He had unlimited access to everything in our union,
21 and in his final report he stated that he had the full
22 cooperation of our union throughout his assignment. He spent
23 \$3.5 million which was paid for by our union, not by the
24 taxpayers.

25 And I would suggest to you that no organization that
26 I'm aware of in American life, not only a union but no
27 corporation that I know of and no non-profit has ever given
28 greater freedom to a government official to conduct a search in
29 every nook and cranny of an organization.

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1 And I think the results are instructive for the work
2 of this commission.

3 First, in case any of you have been worrying that I
4 might taint you by being around here, the -- I may taint you but
5 it won't be in this regard. The monitor explicitly found that
6 neither I nor my fellow officers nor my predecessor has any
7 problem of any kind related to organized crime. I leave it to
8 you to list my other problems.

9 The monitor, along with the previous monitor in
10 Atlantic City, identified organized crime issues with eleven
11 individuals in six of our local unions out of the total of 126
12 local unions and thousands of local union officers and staff
13 members in our entire organization.

14 Those individuals have been banned from the union
15 with the support of the union. As the staff report indicates,
16 the monitorship of our union ended in March of this year.

17 Now, what about all of this is instructive for this
18 commission? Simply this. Of the six local unions out of the
19 total of 126 locals that we have, of the six that were found to
20 have at least one individual with an organized crime problem,
21 only one of those was a gaming local union. Two others have a
22 small proportion of gaming members.

23 Our Las Vegas local union, which is the largest in
24 our entire union and the largest gaming union in America, was
25 found to have no organized crime problem at all. And likewise,
26 there was not found to be any such problem in the dozens of other
27 locals of our union that have gaming membership.

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1 The Atlantic City local had some individuals with
2 that problem. They are gone. The monitor in Atlantic City has
3 formally given that local, Local 54, a clean bill of health.

4 And I would point out -- and Doug pointed this out in
5 his report -- that the existence of an organized crime problem in
6 the business community and in the labor community in south Jersey
7 and Philadelphia much predated the advent of legalized gambling
8 there.

9 I'm proud of what we've done here but that's not my
10 reason for bringing it up. So what is my point for the
11 commission? Simply this. When our union opened itself up for
12 really in an unprecedented way for examination, our national
13 union was exonerated of these organized crime allegations which
14 have floated around for a long time.

15 In reality, the problem was confined to a handful of
16 individuals in a few local unions, most of which had nothing to
17 do with gambling. So two things are true as a consequence of
18 that.

19 First, these allegations were greatly exaggerated
20 even though they persisted for a long time. Second, to the
21 extent that an organized crime problem existed, it's not caused
22 by gambling; it's not primarily in gambling and it's been cleaned
23 up.

24 So on this, and on all the issues this commission
25 examines, I hope that we can be guided by facts and I hope that
26 we can look at cause and effect and not rumor and not
27 coincidence. And I appreciate the time to make those comments.

28 CHAIRMAN JAMES: Absolutely. Thank you.
29 Commissioner Loescher?

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1 COMMISSIONER LOESCHER: Madam Chair, I -- when I got
2 on the commission, one of the first things we did was look at the
3 commission's report of 20 years ago and it was led by people who
4 were concerned about organized crime and they dwelt quite
5 extensively in their report in that regard.

6 You know, 20 years later we have, you know, charges
7 by the Congress to fulfill in terms of study. One of them again
8 is crime and it doesn't seem to have as much emphasis as compared
9 to the other issues.

10 But I believe, you know, what I'm -- what I've been
11 reading and what I've been hearing and then this overview I
12 received today, I think we would do our report an injustice if we
13 didn't look at this business of organized crime in a factual way
14 and provided more in-depth information from government agencies
15 and others, maybe at the local level and the state level, than
16 we're doing.

17 These generalizations that I continue to see, read in
18 here, you know, sources the press as the source for facts, you
19 know, I believe does an injustice to the issue.

20 And so I'm hopeful that we will hear testimony
21 that give us more information about the different kinds of crime
22 that surround this gaming industry and have it more on a factual
23 basis because I don't think we're going to do ourselves or the
24 country or the communities any good unless we focus in that way.

25 So I'm not interested in generalisms and hearsay. I
26 hope we have research and testimony that can bear scrutiny and
27 give us a better sense than what I'm seeing in these generalisms
28 presentations that we're receiving.

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1 CHAIRMAN JAMES: Any other questions or comments from
2 commissioners? Thank you very much, Doug. Appreciate that
3 overview.

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