

CHAPTER 1. OVERVIEW

Today the vast majority of Americans either gamble recreationally and experience no measurable side effects related to their gambling, or they choose not to gamble at all. Regrettably, some of them gamble in ways that harm themselves, their families, and their communities. This Commission's research suggests that 86 percent of Americans report having gambled at least once during their lives. Sixty-eight percent of Americans report having gambled at least once in the past year.¹ In 1998, people gambling in this country lost \$50 billion in legal wagering, a figure that has increased every year for over two decades, and often at double-digit rates. And there is no end in sight: Every prediction that the gambling market was becoming saturated has proven to be premature.

THE EXPANSION OF LEGALIZED GAMBLING

The most salient fact about gambling in America—and the impetus for the creation of the National Gambling Impact Study Commission (NGISC)—is that over the past 25 years, the United States has been transformed from a nation in which legalized gambling was a limited and a relatively rare phenomenon into one in which such activity is common and growing. (See Figure 1-1.) Today, all but two states have some form of legalized gambling.² Pari-mutuel racetracks and betting are the most widespread form and are now legal in over 40 states; lotteries have been established in 37 states and the District of Columbia, with more states poised to follow; Indian casinos operate in every region of the country. Non-Indian casino gambling has expanded from Nevada and Atlantic City to the Mississippi Gulf Coast, Midwest riverboats, and

¹National Opinion Research Center, Gambling Impact and Behavior Study, Report to the National Gambling Impact Study Commission, April 1, 1999, p. 6.

²Hawaii and Utah have no legal gambling; pari-mutuel horse racing is legal in Tennessee, but no racetracks are currently operating there.

western mining towns. As gambling sites proliferate on the Internet and telephone gambling is legalized in more states, an increasingly large fraction of the public can place a bet without ever leaving home at all. Universally available, “round-the-clock” gambling may soon be a reality.

Once exotic, gambling has quickly taken its place in mainstream culture: Televised megabucks drawings; senior citizens' day-trips to nearby casinos; and the transformation of Las Vegas into family friendly theme resorts, in which gambling is but one of a menu of attractions, have become familiar backdrops to daily life.

IMPACT AND CONTROVERSY

This massive and rapid transformation clearly has had significant economic and social impacts on individuals, communities, and on the United States as a whole. But what are they? And is the net impact positive or negative?

Not surprisingly, the spread of legalized gambling has spawned a range of public debates, infused with the drama of contests between great interests and sharpened by a visceral emotional intensity. Typically, proponents of gambling choose to stress the potential economic benefits that the gambling industry can produce, such as jobs, investment, economic development, and enhanced tax revenues; whereas opponents underline the possible social costs, such as pathological gambling, crime, and other maladies.

Many of the positive economic impacts are in fact easy to point to if not always to quantify: Sleepy backwaters have become metropolises almost overnight; skyscrapers rise on the beaches at once-fading tourist areas; legions of employees testify to the hope and opportunities that the casinos have brought them and their families; some Indian nations have leapt from prolonged neglect and deprivation to sudden abundance. Gambling has not just made the desert bloom in Las Vegas but has made it the fastest growing city in the United States.

Others, however, tell a different tale—of lives and families devastated by problem gambling, of walled-off oases of prosperity surrounded by blighted communities, of a massive transfer of money from the poor to the well-off, of a Puritan work ethic giving way to a pursuit of easy money.

Which of these images is true? If elements of both exist, how does one weigh them? Assuming an assessment is even possible, what should be done?

These are obvious questions, but few answers suggest themselves as readily, at least not to all observers. Certainties may abound for the respective partisans; but the ongoing public debate is evidence that these viewpoints have not yet settled the matter. It was for this reason that the NGISC was created and given a mandate to investigate and report on the impact of gambling on America. The task set by Congress—one which the Commissioners confirmed in their own deliberations—was not to shoulder the impossible burden of resolving all disputes, but instead to provide far greater clarity regarding what is really happening in our country, in service of the informed public debate that is a prerequisite for decisionmaking in a democratic society.

A Moving Target

Gambling is an ephemeral subject, the study of it is frustrated by the apparently solid repeatedly slipping away. A good starting point is a recognition that the gambling “industry” is far from monolithic. Instead, it is composed of relatively discrete segments: Casinos (commercial and tribal), state-run lotteries, pari-mutuel wagering, sports wagering, charitable gambling, Internet gambling, stand-alone electronic gambling devices (EGD’s) (such as video poker and video keno), and so forth. Each form of gambling can, in turn, be divided or aggregated into a variety of other groupings. For example, pari-mutuel wagering includes the

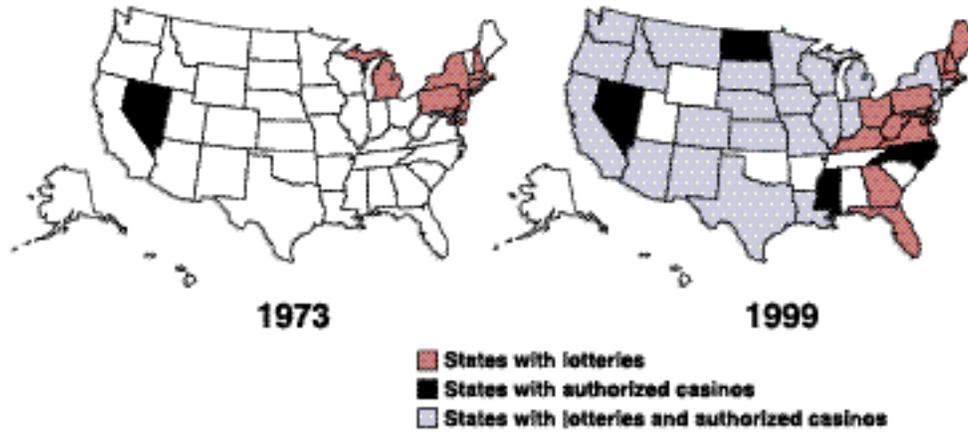
subgroups of horse racing, dog racing, and jai alai. In addition, the terms “convenience gambling” and “retail gambling” have often been used to describe stand-alone slot machines, video keno, video poker, and other EGD’s that have proliferated in bars, truck stops, convenience stores, and a variety of other locations across several states. This term may also be applied to many lottery games. (These groupings will be discussed in greater detail later in this report.)

Each group has its own distinct set of issues, communities of interests, and balance sheets of assets and liabilities. For example, lotteries capture enormous revenues for state governments, ostensibly benefiting the general public in the form of enhanced services, such as education. But critics charge that the states knowingly target their poorest citizens, employing aggressive and misleading advertising to induce these individuals to gamble away their limited means. Casinos spark different discussions. In Atlantic City, the casinos have transformed the Boardwalk and provide employment for thousands of workers. But opponents point to the unredeemed blight only blocks away, made worse by elevated levels of crime that some attribute to the presence of gambling. And so-called convenience gambling may help marginal businesses survive, but at the cost of bringing a poorly regulated form of gambling into the hearts of communities. The Internet brings its own assortment of imponderable issues.

The fortunes of each segment also differ greatly. As a group, the destination casinos have done well. Las Vegas, like America, constantly reinvents itself, with an endless line of new projects. Indian gambling has expanded rapidly, but with enormous disparities in results. Pari-mutuel racetracks have kept their heads above water in the face of increasing competition for gambling dollars, but often only at the price of mutating into quasi-casinos. Lottery revenues have plateaued, prompting some to expand their inventory to include ever-more controversial sources of income, such as video keno.

Figure 1-1

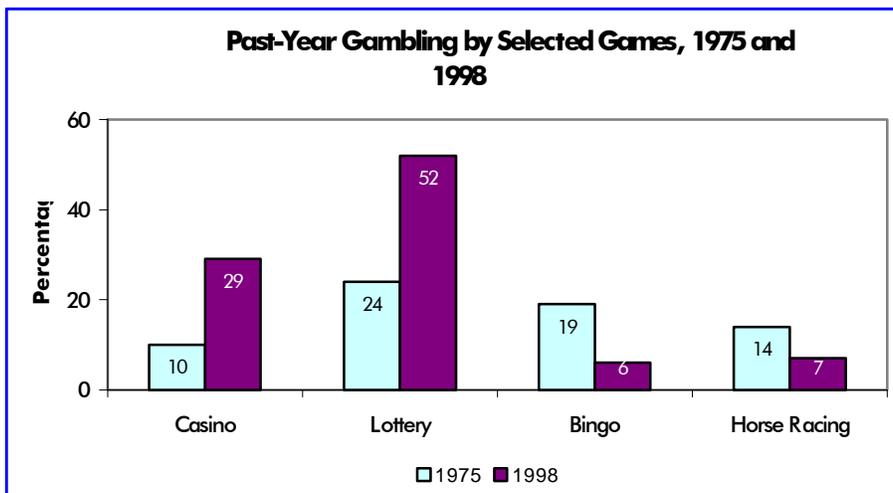
**Increase in states with lottery and casino gambling
1973 versus 1999***



*Excludes pari-mutuel gambling

SOURCES: Gross Annual Wager, International Gambling and Wagering Business Magazine, August 1996, p. 8. Gambling in America, Final Report to Congress, 1975, pp. 78, 144. Casino Business Directory, Reno, Nevada: Nevada Gaming Publishing, 1998 and other sources.

Figure 1-2



SOURCE: National Opinion Research Center at the University of Chicago, Gemini Research, and The Lewin Group. Gambling Impact and Behavior Study. Report to the National Gambling Impact Study Commission. April 1, 1999, p. 7.

The terrain also is becoming more complicated. As gambling has expanded, it has continued to evolve. Technology and competitive pressures have joined to produce new forms, with the onset of the Internet promising to redefine the entire industry.

The participants in the various debates are similarly varied. Even the designations “proponents” and “opponents” must be applied with care because opponents can include those opposed to all gambling, those content with the current extent of gambling but opposed to its expansion, those favoring one type of gambling but opposed to another, and those who simply want to keep gambling out of their particular community, the latter being less motivated by questions of probity than of zoning. Proponents can be similarly divided: Few people in the casino industry welcome the advent of gambling on the Internet, and the owners of racetracks are no friends of the state lotteries. Similarly, if polls are to be believed, a clear majority of Americans favor the continued legalization of gambling (in fact, in any given year a majority of Americans report having gambled; see Figure 1-2) but a clear majority also opposes unlimited gambling, preferring continued regulation. Drawing the line on gambling has proven difficult; and, in fact, most lines in this area become blurred when examined closely. But governments are in business to draw lines, and draw them they do.

THE ROLE OF GOVERNMENT

The public has voted either by a statewide referendum and/or local option election for the establishment or continued operation of commercial casino gambling in 9 of 11 states where commercial casinos are permitted. Similarly, the public has approved state lotteries via the ballot box in 27 of 38 instances where lotteries have been enacted. Whatever the case, whether gambling is introduced by popular referendum or by the decision of elected officials, we must recognize the important role played by government in the industry’s growth and development. Government decisions have influenced the expansion of gambling in

America, and influencing those decisions is the principal objective of most of the public debates on this issue.

Although some would argue that gambling is a business like any other and, consequently, should be treated as such, in fact it is almost universally regarded as something different, requiring special rules and treatment, and enhanced scrutiny by government and citizens alike. Even in the flagship state of Nevada, operation of a gambling enterprise is explicitly defined as a “privilege,” an activity quite apart from running a restaurant, manufacturing furniture, or raising cotton.

Unlike other businesses in which the market is the principal determinant, the shape and operation of legalized gambling has been largely a product of government decisions. This is most obvious in the state lotteries, where governments have not just sanctioned gambling but have become its enthusiastic purveyors, legislating themselves an envied monopoly; and in Native American tribal gambling, where tribal nations own, and their governments often operate, casinos and other gambling enterprises.

But the role of government is hardly less pervasive in other forms of gambling: Governments determine which kinds of gambling will be permitted and which will not; the number, location, and size of establishments allowed; the conditions under which they operate; who may utilize them and under what conditions; who may work for them; even who may own them. All of this is in addition to the normal range of governmental activity in areas such as taxes, regulations, and so forth. And, because governments determine the level and type of competition to be permitted—granting, amending, and revoking monopolies, and restricting or enhancing competition almost at will—they also are a key determinant of the various industries’ potential profits and losses.

No Master Plan

To say that gambling has grown and taken shape in obeisance to government decisions does not imply that there was a well thought-out, overall

plan. All too commonly, actual results have diverged from stated intentions, at times completely surprising the decisionmakers. There are many reasons for this awkward fact.

In the U.S. federalist system, use of the term “government” can easily mislead: Far from a single actor with a clear-eyed vision and unified direction, it is in fact a mix of authorities, with functions and decisionmaking divided into many levels—federal, state, local, and others, including tribal. Each of these plays an active role in determining the shape of legalized gambling. The states have always had the primary responsibility for gambling decisions and almost certainly will continue to do so for the foreseeable future. Many states, however, have delegated considerable authority to local jurisdictions, often including such key decisions as whether or not gambling will be permitted in their communities. And the federal government plays an ever-greater role: Indian gambling sprang into being as a result of federal court decisions and congressional legislation; and even the states concede that only Washington has the potential to control gambling on the Internet.

And almost none of the actors coordinate their decisions with one another. The federal government did not poll the states when it authorized Indian gambling within their borders, nor have Mississippi and Louisiana—nor, for that matter, any other state—seen fit to adopt a common approach to gambling. In fact, rivalry and competition for investment and revenues have been far more common factors in government decisionmaking regarding gambling than have any impulses toward joint planning.

Those decisions generally have been reactive, driven more by pressures of the day than by an abstract debate about the public welfare. One of the most powerful motivations has been the pursuit of revenues. It is easy to understand the impetus: Faced with stiff public resistance to tax increases as well as incessant demands for increased or improved public services from the same citizens, tax revenues from gambling can easily be portrayed as a relatively painless method of resolving this dilemma.

Lotteries and riverboat casinos offer the clearest examples of this reactive behavior on the part of legislatures. The modern history of lotteries demonstrates that when a state authorizes a lottery, inevitably citizens from neighboring states without lotteries will cross the border to purchase tickets. The apparent loss of potential tax revenues by these latter states often gives rise to demands that they institute lotteries of their own, in order to keep this money in-state, for use at home. Once any of these states installs a lottery, however, the same dynamic will assert itself in still other states further afield. This competitive ripple effect is a key reason why lotteries now exist in 37 states and the District of Columbia, with more poised to join the list.

The same pattern surfaced in legislative debates regarding riverboat casinos. As the great majority of these casinos have been sited on borders with other states, they quickly gave rise to charges of one state “raiding” the pocketbooks of its neighbors. This often prompted cries in the affected states to respond by licensing their own riverboats which, when generously distributed along their own borders, in turn, often stimulated similar reactions from other states far removed from the original instigator. For both lotteries and riverboat casinos, the immediate legislative attempt to capture fleeing tax dollars created a powerful yet usually unacknowledged dynamic for the expansion of gambling. Some believe another contributing factor has been the increasing volume of political contributions from interests with an economic stake in virtually every place expansion is sought.

Critics have asserted that this legislative pursuit of revenues has occurred at the expense of consideration of the public welfare, a serious charge indeed, albeit an unproveable one. But advocates have successfully deployed many other arguments for legalizing or expanding gambling: economic development for economically depressed areas, the general promotion of business for the investment and employment opportunities it can bring with it, undermining illegal gambling and the organized crime it supports, and so forth. There is even the eminently democratic motivation of responding

to public demand: A number of election campaigns and referenda have been successfully waged on the issue of legalizing or expanding gambling.

THE LACK OF INFORMATION

Presumably, many of the debates could be settled if either the benefits or costs of gambling could be shown to be significantly greater than the other. But such a neat resolution has evaded would-be arbiters. Efforts to assess the various claims by proponents and opponents quickly encounter gambling's third defining characteristic—the lack of reliable information. Regarding gambling, the available information on economic and social impact is spotty at best and usually inadequate for an informed discussion let alone decision. On examination, much of what Americans think they know about gambling turns out to be exaggerated or taken out of context. And much of the information in circulation is inaccurate or even false, although often loudly voiced by adherents. Add to this the fact that many of the studies that do exist were contracted by partisans of one point of view or another and uncertainty becomes an understandable result. Nevertheless, decisions must be made and governments have shown little hesitation in making them.

The problem is not simply one of gathering information. Legalized gambling on a wide scale is a new phenomenon in modern America and much of the relevant research is in its infancy. Many phenomena are only now beginning to be recognized and defined, a prerequisite to gathering useful information. And many of the key variables are difficult to quantify: Can the dollar costs of divorce or bankruptcy adequately capture the human suffering caused by problem gambling?

The more difficult the measurement; the more the weighing of competing claims retreats from science to art or, with even greater uncertainty, to politics. Nevertheless, the lack of information will not reduce the pressures on governments to make decisions.

To take but one example: What are the economic impacts of gambling? The answer in great part depends on the context selected. On an individual basis, it is obvious that some people benefit and others do not, including both gamblers and nongamblers. The larger the group examined, however, the more ambiguous the possible conclusions. Single communities boasting a positive impact can readily be found, but the radius of their concerns usually does not extend to surrounding areas where negative consequences for others may surface as a direct consequence of this good fortune, such as loss of business, increases in crime, reduced tax revenues, and problem gamblers taking their problems home.

For example, gambling has been touted as an instrument of economic development, especially for poorer areas. In communities like Tunica, Mississippi, the arrival of large-scale gambling has had a highly visible and generally positive role, bringing with it capital investment, increased tax revenues, and enhanced public services, as well as vastly expanded employment opportunities and health-care benefits for many people who formerly were without much of either. But some argue that that prosperity is offset by negative impacts in the surrounding area, including nearby Memphis, a major source of casino patrons. But even if the communities in the immediate area were seen to benefit, or at least not to suffer, what can be said about the impact beyond? Is California hurt, helped, or left untouched by gambling in Nevada? Some claim that Californians leave their spending money and tax dollars in Nevada and bring back a slew of economic and social costs, such as pathological gambling. There are surprisingly few independent studies that have addressed issues such as these. And as for the impact on the national economy, efforts to estimate the net impact of gambling on national statistics such as investment, savings, economic growth, and so forth, break down in the face of our limited knowledge.

But even when the economic benefits are clear and agreed upon, there are other equally important issues to be decided. In fact, the heart

of the debate over gambling pits possible economic benefits against assumed social costs. What are the broad impacts of gambling on society, on the tenor of our communities' lives, on the weakest among us? Because they inevitably involve highly subjective, non-quantifiable factors, assessing these is a more controversial exercise than the more pleasant task of estimating economic benefits. How can one ruined life be compared with the benefits provided to another? How can the actual costs of gambling-related crime be measured? Where is the algorithm that would allow the pursuit of happiness to be measured against the blunt numbers of pathological gambling?

Time for a Pause

It may be that the expansion of gambling accurately reflects the will of the people, as expressed in referenda, state legislatures, tribal reservations, and in Washington. The impressive financial resources already accounted for by businesses, workers, and public officials further strengthen the industry's ability to voice its interests. This Commission, however, believes that gambling is not merely a business like any other and that it should remain carefully regulated. Some Commissioners would wish it to be far more restricted, perhaps even prohibited. But overall, all agree that the country has gone very far very fast regarding an activity the consequences of which, frankly, no one really knows much about.

In an attempt to better understand those consequences, this Commission has examined many issues, received testimony from hundreds of individuals and organizations, and deliberated over a period of 2 years. This broad ingathering of information and discussion of issues will be reflected in the following chapters, which outline the parameters of the many debates, discuss the available evidence, and offer recommendations. Inevitably for a Commission of such diverse makeup, some differences in viewpoint refuse to melt away and the existing evidence is insufficient to compel a consensus. But there is an encouraging breadth of agreement among

Commissioners on many individual issues, such as the immediate need to address pathological gambling; and on one big issue: The Commissioners believe it is time to consider a pause in the expansion of gambling.

The purpose of the pause is not to wait for definitive answers to the subjects of dispute, because those may never come. Additional useful information is, of course, to be hoped for. But the continuing evolution of this dynamic industry has produced visible changes even in the short lifetime of this Commission and indicates that research will always trail far behind the issues of the day and moment. Instead, the purpose of this recommended pause is to encourage governments to do what to date few if any have done: To survey the results of their decisions and to determine if they have chosen wisely.

To restate: Virtually every aspect of legalized gambling is shaped by government decisions. Yet, virtually no state has conformed its decisions in this area to any overall plan, or even to its own stated objectives. Instead, in almost every state whatever policy exists toward gambling is more a collection of incremental and disconnected decisions than the result of deliberate purpose. The record of the federal government is even less laudatory. It is an open question whether the collective impact of decisions is even recognized by their makers, much less wanted by them. Does the result accord with the public good? What harmful effects could be remedied? Which benefits are being unnecessarily passed up?

Without a pause and reflection the future does indeed look worrisome. Were one to use the experience of the last quarter century to predict the evolution of gambling over the next, a likely scenario would be for gambling to continue to become more and more common, ultimately omnipresent in our lives and those of our children, with consequences no one can profess to know.

The Commission, through its research agenda, has added substantially to what is known about the impact of gambling in the United States. The

Commission also has tried to survey the universe of information available from other sources. But it is clear that Americans need to know more. In this context, the Commission's call for a pause should be taken as a challenge—a challenge to intensify the effort to increase our understanding of the costs and the benefits of gambling and deal with them accordingly. Policymakers and the public should seek a comprehensive evaluation of gambling's impact so far and of the implications of future decisions to expand gambling. In fact, state and local versions of this Commission may be an appropriate mechanism to oversee such research. If such groups are formed they will find as did the Commission that the search for answers takes time. Therefore, some policymakers at every level may wish to impose an explicit moratorium on gambling

expansion while awaiting further research and assessment.

Although some communities may decide to restrict or even ban existing gambling, there is not much prospect of its being outlawed altogether. It is clear that the American people want legalized gambling and it has already sunk deep economic and other roots in many communities. Its form and extent may change; it may even disappear altogether. But for the present, it is a reality. The balance between its benefits and costs, however, is not fixed. To a welcome extent, that appears to lie within our power to determine. We can seek to shape the world we live in or simply allow it to shape us. It is in service of the former that this *Final Report* and its recommendations are offered.

