

An assessment of pathological or problem gambling, including its impact on individuals, families, businesses, social institutions, and the economy;

An assessment of the impact of gambling on individuals, families, businesses, social institutions, and the economy generally, including the role of advertising in promoting gambling and the impact of gambling in depressed economic areas;

An assessment of the extent to which gambling provides revenues to state, local, and Native American tribal governments, and the extent to which possible alternative revenue sources may exist for such governments; and

An assessment of the interstate and international effects of gambling by electronic means, including the use of interactive technologies and the Internet.

The NGISC officially began its 2-year study on June 20, 1997. A research agenda based on 42 specific policy questions was unanimously adopted in October 1997, and major research tasks were contracted. A key research task was a National Survey of Gambling Behavior, the first since 1976. At the Commission's request, approximately \$2.5 million of research on gambling was conducted. (Copies of all research reports are available in CD form to be distributed with the *Final Report*.)

In addition to their regularly scheduled meetings, the Commission also conducted site visits in Atlantic City, Boston, Chicago, San Diego, Tempe, Biloxi, New Orleans, and Las Vegas. The Commission listened to presentations on gambling from the federal, state, and local perspectives. It met with experts on state lotteries, casinos, pari-mutuel gambling, sports wagering, and many other forms of gambling. It heard from mayors, senators, city council members, police officers, hotel union representatives, gambling commissioners, problem

gambling treatment counselors, and others. The Commission toured the Atlantic City boardwalk and interviewed casino and non-casino vendors. It was briefed by leading researchers on pathological gambling by youth and adults. The Commission also visited two Native American casinos and heard testimony from the representatives of more than 50 Indian nations. And in a live demonstration of interactive technology, they learned of the most current Internet gambling practices and their law enforcement implications. Finally, the Commissioners heard passionate testimonies from individuals whose lives had been affected dramatically, both positively and negatively, by the gambling industry. (Individuals who provided testimony to the NGISC are listed in the Acknowledgments Appendix of the Final Report.)

From the outset, the Commissioners saw their primary obligation as a civic one: to carry out a fair and objective review of the gambling industry's economic and social impacts. Second, the Commissioners felt that the facts of the mandated research reports should stand on their own merit and that the public's right to draw its own conclusions should be preserved. Third, despite a range of perspectives among Commissioners on how the gambling industry might best evolve over the next quarter century, all members of the Commission agreed that every sector of the industry must remain bound by fair and honest practices, including truth in advertising, accurate disclosure of odds, reliable machines, guaranteed payments to winners, training of employees, responsible use of credit availability, and corporate accountability.

MAJOR ISSUES IN GAMBLING TODAY

The following section of the Executive Summary presents overviews of each of the key chapters of the Final Report. Major issues within the current public debate on gambling were introduced. For a complete understanding of gambling's complex issues, readers are referred to the Commission's full Final Report. Clearly, each of the many discrete segments of the industry—"destination" casinos, riverboat casinos, Indian casinos, lotteries, pari-mutuels, "convenience" gambling, sports wagering, keno, charitable gambling, and Internet gambling—has its own distinct set of issues, communities of interests, and balance sheets of assets and liabilities.

Regulating Gambling

Most citizens agree that the gambling industry needs to be regulated. Simply allowing market forces to guide the growth and direction of gambling is seen as a dangerous course of action. Most people also agree that the government is best suited to protecting the integrity of gambling games, including keeping organized crime out of gambling and limiting the number of gambling sites. The key question is not whether the government should regulate gambling but, rather, to what extent are individual states succeeding in their attempts to regulate various forms of gambling and are the “best practices” being shared and adopted by others?

Gambling is regulated primarily at the state level. Such regulation is generally in the hands of an appointed independent body, sometimes called a “gambling commission” or “lottery board.” Most state statutes specify the qualifications of the members, their powers, the scope of their oversight, and regulations to be administered. In general, gambling regulation is designed to protect people’s income, to preserve the quality of life for the community, to keep the games honest, and to ensure that citizens are free from criminal activities. It usually involves licensing of gambling, standards for licensing, public accessibility, operation of devices and facilities, use of funds, and protection of employees. Some states also incorporate a statement of the need for strict regulation as a matter of public policy for the public good.

Government-sponsored gambling includes both state lotteries and tribal government gambling. (The latter is discussed in the section below under “Native American Gambling.”) Lottery states are free to determine for themselves what the administrative oversight for their lotteries will be. Currently, 14 of the 38 government-sponsored lotteries have placed their operations within the existing administrative structure of the state. In the remaining 24 jurisdictions, states have established a separate agency bound by rules different from the rest of the state government. In some of these jurisdictions, the lottery is an independent, quasi-public entity, not bound by the states’ civil service requirements or their rules for procedure. And in some cases, this independence allows the lotteries to operate more like independent businesses, with some of them choosing to conduct full-blown, glitzy advertising campaigns. Clearly, as lottery activities have continued to expand over the past two

decades, the line between the state as regulator and the state as gambling franchise has grown increasingly nebulous. Indeed, those states running their own lotteries may be subject to a conflict of interest between the desire to maximize revenue and the need to promote the public good. The NGISC views this conflict as a key issue to be resolved by policymakers.

Lotteries have become as much a part of the American scene as apple pie—and they are marketed as just as benign and wholesome. State governments—free of the advertising constraints imposed on commercial gambling—use many forms of media to tout ever-larger jackpots and to celebrate successful gamblers. The beneficial effects of the proceeds from lotteries are similarly oversold. The truth about lotteries receives scant attention from most governors and state legislators. Lotteries, in fact, are highly regressive sources of revenue. Players with household incomes under \$10,000 bet nearly three times as much on lotteries as those with incomes over \$50,000. And although half the adult population plays the lottery in any given year, the degree of involvement is highly heterogeneous. Among those who played in the last year, the top 5 percent of players accounted for 51 percent of total sales. Moreover, the states' pay-out to players represents the smallest "win" percentage of any major legal form of betting. And, since money is fungible and regular taxes are unpopular, research indicates that lotteries fall far short of their promise of extra spending for desirable programs. Close studies of spending in such areas as education and senior citizens' programs suggest no increase due to the existence of lotteries.

Like government-sponsored gambling, commercial gambling—including casino, convenience, pari-mutuel, and sports wagering—is also subject to regulation. Casino gambling, in fact, is the most highly regulated component of the industry. Each state gambling commission is authorized to investigate the operation of the casinos in that state, including the employee work conditions, the conditions for gambling, the amount of money generated, the legal disposition of the money, and proper payment of relevant taxes. State gambling commissions operate under the presumption that ownership of casinos and management of gambling operations will be conducted by those suitable for licensure or other involvement. Regulators usually are authorized to conduct background checks and routine oversight of gambling

⁵Charles T. Clotfelter and Philip J. Cook, *State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission*, April 1, 1999.

establishment operations. In addition, a state regulatory authority may extend to oversight of suppliers, distributors, and others who are involved with gambling enterprises. In Nevada, the State Gaming Commission plays an important role in every aspect of legalized gambling, and many states have used Nevada's regulatory structure as a model.

The regulation of "convenience" gambling—primarily an "electronic device form" of wagering that ranges from slot machines and video keno to video poker—has proven difficult. Such regulation involves licensing, regulation of the placement of machines within an establishment, age restrictions, regulation of operations, and taxation of revenues. Most convenience gambling machines, however, are not located in concentrated spaces, as is the case with casinos. Instead, convenience gambling occurs in locations that exist primarily for other purposes, such as markets, gas stations, truck stops, bars, taverns, and even arcades frequented by adolescents, and there appears to be a gross under-reporting of machines by the owners of many such establishments. In addition, illegal and quasi-legal EGD's offering a similar if not identical gambling experience to legal EGD's are widespread in the bars and fraternal organizations of many states, including West Virginia, New Jersey, Alabama, Illinois, and Texas.

Sports gambling is legal in two states: Nevada, through casino sports books, and Oregon, through a state lottery game based on games played in the National Football League. Although sports wagering is generally illegal, it is nevertheless popular. Clearly, it is important to distinguish between a sports bet between two friends and sports wagering conducted as a business, as in the case of recent attempts to take office pool betting onto the World Wide Web. The NGISC believes that when wagering is used to alter the outcomes of games or when it threatens the integrity of sports or becomes an illegal business, it should be prosecuted to the fullest extent of the law.

A central debate within gambling regulation concerns advertising. On one side of the debate, the American Association of Advertising Agencies is arguing that in as much as gambling advertising is commercial speech, it is protected by the First Amendment. Nevertheless, the Clinton Administration is standing by a federal ban on commercial gambling advertising, citing studies which indicate that gambling advertising contributes to compulsive gambling. In addition, the NGISC was very troubled by the recent upsurge in state lotteries that have