The Gambling Debate

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If we consider games of chance immoral, then every pursuit of human industry is immoral; for there is not a single one that is not subject to chance, not one wherein you do not risk a loss for the chance of some gain. In all these pursuits, you take some one thing against another which you hope to win. These, then, are games of chance. Yet so far from being immoral, they are indispensable to the existence of man, and every one has a natural right to choose for his pursuit such one of them as he thinks most likely to furnish him subsistence.

—Thomas Jefferson, *Thoughts on Lotteries*, 1826

Almost all these pursuits of chance [i.e., of human industry] produce something useful to society. But there are some which produce nothing, and endanger the well-being of the individuals engaged in them or of others depending on them. Such are games with cards, dice, billiards, etc. And although the pursuit of them is a matter of natural right, yet society, perceiving the irresistible bent of some of its members to pursue them, and the ruin produced by them to the families depending on these individuals, consider it as a case of insanity, *quo ad hoc*, step in to protect the family and the party himself, as in other cases of insanity, infancy, imbecility, etc., and suppress the pursuit altogether, and the natural right of following it. There are some other games of chance, useful on certain occasions, and injurious only when carried beyond their useful bounds. Such are insurances, lotteries, raffles, etc. These they do not suppress, but take their regulation under their own discretion.

—Thomas Jefferson, *Thoughts on Lotteries*, 1826
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One of the public figures whose attitude toward gambling has fascinated me for over 15 years is Thomas Jefferson. As the epigraph indicates, Jefferson was quite conflicted about gambling. Although he argues that society can advance only if individuals are willing to take risks, he also realizes that many risk-takers have a tendency to lose their ability to judge that risk and thereby not only get themselves into trouble but also cause their families to suffer. So I need to state that my own attitude toward gambling has much in common with Jefferson’s.

I have been quite fortunate over the years to share my ambivalence about gambling with a number of extremely bright students at Boston College, in my statistics, forecasting, and business policy classes. Without the students in these classes challenging me to think of various ways in which gambling issues could be approached, this volume would not have been possible.

A number of students have served as research assistants for this volume. Ryan Muldowney was the primary research assistant for chapter 1, on the current shape of the gambling industry, and as usual, Ryan had some interesting observations to share on the gambling industry overall. Mike Spinello did yeoman work on the chapter that covers the Internet gambling issue. Chris Robinson spent hours collecting data as well as cataloging numerous sources on the Native American gambling phenomenon. The sports gambling chapter was made possible through the work of Matt Breaux. Brian Muller, a native of the St. Louis area, facilitated the chapter on the location of a casino in St. Louis, whereas Brian Kang, a Connecticut native, did the research for
Introduction

This is the third book that I have written about the gambling industry. Each of these volumes has taken a very different look at the industry. But taken together, all of them illustrate how gambling as a public policy issue has evolved over the 20-plus years that I have been studying the industry.

The first book, State Lotteries and Legalized Gambling (Greenwood Press, 1994), analyzed the rise of the lottery movement in the United States. In 1964 New Hampshire became the first state to operate a lottery since the Civil War era. The rationale behind this lottery was an attempt to raise revenue while avoiding the politically unpopular imposition of either a state income tax or a sales tax. New Hampshire’s would become a familiar scenario, played out throughout the country, for the one constant refrain used by state officials to justify entering into the lottery business was the lottery’s ability to obtain revenue for state operations without the imposition of either new taxes or tax increases. Thirty-seven states, along with the District of Columbia, have followed New Hampshire into the lottery business. The book nevertheless concluded that, because of this search for revenue, the lottery boom was ending, and a new era in the gambling industry was about to commence.

My States and the Transformation of the Gambling Industry (Edgar Press, 2001) described the rise of casino gambling in the United States. In 1975 New Jersey legalized casino gambling in Atlantic City as a means to revitalize that city as a tourist attraction and, of course, to raise revenue to support various benefits for the elderly throughout New Jersey. But this development did not spark a nationwide movement to legalize casino gambling in the way that New Hampshire’s institution of its lottery ignited the lottery movement
across the country. In 1993, however, two events did result in a boom for casino gambling. First, Iowa permitted riverboat gambling for towns on the Mississippi River. Many other Midwestern states followed Iowa’s lead, and they are still competing with each other for this revenue source. But the biggest development was the establishment of the Foxwoods Native American casino in Connecticut. Although Native Americans had been permitted to operate casinos on their tribal lands since 1988, it was Foxwoods that established what a potent source of revenue Native American casinos could be, not only for the tribes but also for the states that negotiated with them what games would be permitted. *States and the Transformation of the Gambling Industry* chronicled the march of casino gambling into 27 states, recounting how casino gambling replaced lotteries as the chief form of gambling in the United States. This book also included statistical analysis investigating whether casino gambling could be as consistent a source of revenue for the states as lotteries and how states were beginning to develop overall gambling strategies.

So, six years later, why write another book on gambling? Is the gambling industry facing any new or unique issues that were not studied in the previous books? Well, the answer to that question is a definite yes! Despite its phenomenal growth over the past 40 years, gambling is still a controversial public policy issue. Public policy officials are still divided over whether to permit additional gambling and over the best means to regulate it—and, of course, profit from it.

This book differs significantly from my previous attempts to examine the gambling industry. Unlike my previous books, which featured statistical analysis examining the effectiveness of gambling revenue as a part of public financing, this current volume features a series of case studies. The book’s goal is to permit readers to debate the merits of additional gambling from the points of view of the various stakeholders, such as government officials, gambling industry executives, and, of course, the gambling public.

The first of the book’s three parts consists of two chapters. Chapter 1 gives the reader an insight into the current state of gambling in the United States, emphasizing the newest segments of the gambling industry. Chapter 2 contains a brief history of the various debates that have surfaced over gambling during the past few years and analyzes the ethical debate confronting public policy makers as they legislate for the gambling industry. Two ways of analyzing ethical issues are delineated, namely, the “ethics of sacrifice” versus the “ethics of tolerance.” The reader is asked to consider how these two ways of examining ethical issues lead to very different attitudes toward the overall gambling issue. Finally, this chapter contrasts the gambling issue with the controversy surrounding the tobacco industry. Using the concepts
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The Current Climate of Gambling in the United States

A look at how gambling revenues stack up against revenues from other recreational/leisure time activity sectors reveals not only that the gambling revenues outweigh both music sales and movies combined, but also that the gambling industry is the only one of the industries in this study to have shown consistent growth in each of the last three years.

—Joseph Greff, “U.S. Gambling” (Bear, Stearns, January 2005)

With a few notable exceptions, it is a great time to be in the gambling industry. The year 2005, for example, was a record-breaking one for Las Vegas casinos, which took in $11 billion from gamblers in casino revenues—excluding hotel, restaurant, and bar revenues. In 2004 alone, U.S. gamblers spent $78.6 billion dollars on commercial gambling, a 7.6 percent increase over the year before. Lottery sales increased by an average of 12.5 percent throughout the United States. Tribal gambling and Internet gambling experienced double-digit growth, a rate not seen anywhere else within the gambling industry.

But can discussions about the gambling industry be painted in such broad, sweeping terms? Can one really talk about “the” gambling industry as a whole without generalizing to the point that trends become half-truths and facts and figures become meaningless? What similarities are there between an Internet sports book based on the Isle of Man and the Massachusetts state lottery’s daily operations? Given the explosive rate of growth in Internet gambling and the gradual decline of horserace betting, can one ignore the fact that the various segments within the industry are at different stages in their life
cycles and should therefore expect very different opportunities and threats in coming years? It is obvious that each segment deserves (or, more accurately, demands) its own assessment in order for any analysis to be fully developed, relevant, and—most important—meaningful.

There are, however, recurring themes that weave throughout each segment of “the” gambling industry and that merit special attention. The most obvious, and perhaps most important, of these themes is that of regulation. Regardless of what type of gambling is being discussed—be it Internet poker, slot machines in Vegas, or a sports book in the United Kingdom—each and every one of these various business enterprises faces some sort of regulation. In some instances, regulation creates state-held monopolies through special gambling licensing. In other jurisdictions more lax regulations allow for numerous firms to compete for consumer dollars. Finally, in the United States, ambiguous legislation and inconsistent activity by the courts regarding Internet gambling create a legal “gray area.” In this type of environment, sites enjoy a surplus of consumers and a scarcity of competitors, often resulting in huge profits for the more daring Internet gambling site operators.

Monopolies in the industry, however, are becoming things of the past. A second recurring and universal theme throughout “the” gambling industry is increasing levels of competition. The forms in which this competition manifests itself are as diverse as ever. California’s tribal casinos now compete with the Las Vegas Strip. Las Vegas bookmakers compete with Internet sports books based in the United Kingdom. These Internet sports books diversify their product offerings and allow users to play poker online, competing with other Internet poker sites. In many instances, gambling operators compete not only with other operators within the same segment (for example, a casino competing with another casino), but with every other form of gambling readily available to its customers.

INTERNET GAMBLING

The rise of Internet gambling has been the primary driver of the intensifying levels of competition within the industry. No longer is consumers’ ability to place wagers limited by their geographic proximity to gambling operators (nor, in some instances, are they limited by the legislation of their country’s jurisdiction—for example, China). Internet gambling operators can serve a truly global customer base, and with the financial barriers to entry relatively low in comparison with the huge profits being reaped through Internet gambling, new entrants can enter at will and attempt to compete with the market leaders. As discussed earlier, these online operators compete not only with each other, but with traditional land-based operators as well. Although both
land-based and Internet gambling operators have done fairly well in recent years, given the explosive growth and successful initial public offerings (IPOs) of several online-only firms, it appears that the Internet sites will ultimately come out ahead. Indeed, players in the gambling industry must be ready to compete in the “borderless global marketplace the Internet has created.”

Regardless of what segment of the gambling industry a particular firm is involved in, be it market leader or new entrant, no firm can afford to underestimate the impact that the Internet will have on its business. Internet gambling has revolutionized the gambling industry, and what we have seen thus far is only the tip of the iceberg. Estimates vary, but for discussion’s sake, one expert estimates that consumers spent over $8 billion on Internet gambling in 2004, and he expects that number to more than triple by the end of the decade. Although this sum represents only a small portion of global expenditures on commercial gambling, certain indicators point toward a bright future for Internet gambling operators. A case in point: PartyGaming plc, operator of PartyPoker, executed a highly successful IPO and listed on the London Stock Exchange with a market cap of almost $8.5 billion. These shares have appreciated significantly since then, and PartyGaming now has a market capitalization larger than Harrah’s Entertainment. In light of the fact that Harrah’s Entertainment is the world’s largest casino operator, the true potential of Internet gambling has become apparent.

The landscape of the online gambling industry is undoubtedly the most challenging to navigate of any of the gambling industry’s segments. In no other segment must an operator navigate such a web of legislative snarls or compete so ferociously for revenues. Unlike for traditional land-based gambling operators, for online casinos, poker tables, and bookmakers, barriers to entry are extremely low. With relatively little initial capital, a firm can purchase third-party software at minimal cost (royalties included) and apply for a license in any of a number of jurisdictions throughout the world. As a result, “given the portability of pure online services,” jurisdictions now compete to draw online operators, resulting in attractive tax regimes for firms willing to be flexible in their location. This leads to increasing levels of competition for consumers, driving up marketing spending. The added complexity of the various legal issues regarding the jurisdiction of the consumers themselves further muddles the legal waters.

A comprehensive discussion of the various issues surrounding Internet gambling appears in chapter 3, but the following is a short summary. Current legislation in various countries runs the gamut from complete prohibition of Internet gambling to its legalization and regulation. In the United States, the Department of Justice (DOJ) holds that all Internet gambling is illegal, under the 1961 Federal Wire Act, which prohibits bets made over telephone...