VOLUME 43, NO. 1 1994

DRAKE LAW REVIEW

ARTICLES

SPEECH

NOTES

DRAKE UNIVERSITY LAW SCHOOL

NOTE:

As you or one of your associates requested, a copy of the recent report in the Drake Law Review is enclosed. The range for the additional socio-economic costs of bringing legalized gambling activities into a population base with little or no pre-existing legalized gambling activities is calculated as a function of the population of the state, city, or county. Please see "Table 3" on pp. 90-91 -- and particularly Footnotes 273-274.

THE ECONOMIC IMPACTS OF LEGALIZED GAMBLING ACTIVITIES

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I. THE STRATEGIC ECONOMIC PERSPECTIVE: REJECTING THE MYOPIC ECONOMICS OF THE LEGALIZED GAMBLING PROPONENTS

The fundamental question regarding legalized gambling activities is whether gambling activities help or hinder the economy. Gambling affects local, state, interstate, and national economies.[1] This Article extrapolates downward from national and interstate economic factors to the state economies and demonstrates how the strategic elements of gambling activities impact state and local economies.[2] Gambling organizations traditionally focus their attention on local economies or specialized factors in those local economies or both. This narrow focus usually gives a distorted view of selected positives that the gambling activities allegedly bring to the local community.

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1. International economies and national economies other than the United States economy are beyond the scope of this analysis. For the classic work on economic theory, see ADAM SMITH, THE WEALTH OF NATIONS (1937).

2. For general discussions of the interface between public policy and economics, see JOHN G. CROSS, A THEORY OF ADAPTIVE ECONOMIC BEHAVIOR (1983).

A common example of a selected positive is the projected tax revenues the gambling organizations present to the local governments. These revenue projections are commonly over-estimated to persuade local government officials to allow the gambling interests into their community.[3] In some instances, the projected tax revenues do not materialize at all,[4] giving rise to the allegation that the legalized gambling organizations sometimes give their projections in bad faith.[5]

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3. *See, e.g.*, BETTER GOV'T ASS'N, STAFF WHITE PAPER: CASINO GAMBLING IN CHICAGO 70-75 (1992) [hereinafter BETTER GOV'T ASS'N]. This impressive report basically destroys the arguments of the proponents of the 1992 plan for a $2 billion casino complex in Chicago.

Gaming operations may experience seasonal slumps, as was the case in the riverboat community of Jo Daviess County, Illinois. "Jo Daviess County received $164,157 in November [1992], down $75,825 from October's $239,982. That's a 32 percent drop in county money." Finn Bullers, *Eagle Boardings Drop 41%*, TELEGRAPH HERALD (Dubuque, Iowa), Dec. 10, 1992, at A3.

Approximately one year after beginning operations, two out of Iowa's five riverboats left Iowa for Biloxi, Mississippi.

> In eastern Iowa communities that had placed large bets on riverboat gambling to develop tourism and to make their cities more attractive to industry, some officials said that they were flabbergasted and that they felt betrayed by [the steamboat company].
>
> ....
>
> Fort Madison had spent $2.2 million on riverfront improvements and residents will be paying off the debt over the next 15 years. "I think people in town will definitely feel betrayed," City Manager John Pick said.

William Petroski & Ken Fuson, *Boats Leaving; Bet Limit Cited*, DES MOINES REG., May 28, 1992, at A1; *see* Thomas Fogarty, *Steamboat Move Stuns Lawmakers*, DES MOINES REG., May 28, 1992, at A1.

In Quincy, Illinois, the company promoting an off-track betting parlor (OTB) projected 1992 tax revenues of $200,000, but the actual tax revenues for the first eight months approximated only $25,000 each to the City of Quincy and to Adams County in which Quincy was located. John Webber, *OTB Revenues Falling Short of Expectations*, QUINCY HERALD-WHIG (Ill.), Jan. 15, 1993, at A1. On a 12-month basis, these amounts constituted only 37% of the "promised" tax revenues. *Id.*

Once the gambling interests are "voted" into a local community, their common tactic is to ask for and get tax waivers. *See, e.g.*, Linda Busche, *OTB Leaps New Hurdle*, DANVILLE COMMERCIAL-NEWS (Ill.), Aug. 15, 1990, at A1; Laura Frank, *State OKs OTB Rebate Plan*, DANVILLE COMMERCIAL-NEWS (Ill.), Aug. 16, 1990, at A1 (waiving permanent "admission tax" and granting 50% five-year tax rebate up to $50,000 per year from Danville and up to another $50,000 per year from Vermilion County, Illinois). Allegations were made that the tax rebate plan violated Illinois statutes. Frank, *supra*, at A1.

The request for a five-year tax waiver has become a standard request, and the granting of such tax waivers has become almost pro forma. *See, e.g.*, Letter from William H. Thurman, President, Inter-Track Partners, to Mayor's Office, City of Champaign, Illinois (May 31, 1990) (on file with City of Champaign, Illinois) (requesting "that the City pass an ordinance whereby the City would not levy an admission [tax] charge anytime during the next five years").

4. *See* INTELLIGENCE BUREAU, ILL. STATE POLICE, HOW CASINO GAMBLING AFFECTS LAW ENFORCEMENT 13 (Apr. 16, 1992) [hereinafter ILL. STATE POLICE].

5. *See supra* note 3 and accompanying text.

In a 1992 proposal for a $2 billion casino complex in Chicago, Illinois, the alleged or projected tax revenues were between $327 million[6] and $500 million,[7] and even up to a more unlikely $625 million to $644 million.[8]

This projection of $625 million was disseminated in what appears to be an undated (but probably the Fall of 1992) press release by the sponsors of the casino complex.[9] As of June 11, 1992, the Illinois press was reporting the $625 million figure.[10] The news release was interesting in that it claimed:

> An economic impact study conducted by Arthur Andersen & Co. concludes the proposed entertainment and casino complex will create up to 100,000 new jobs—37,000 during construction and 66,000 permanent jobs on and off-site—and produce at least $625 million in new tax revenues. The study further predicts the center will draw 10.2 million new tourists to Chicago each year . . . .[11]

These statements by the sponsors of the casino complex should be compared with their internal public relations documents, dated April 16, 1992.[12] These documents urged the sponsors of the casino complex to:

> [b]e proactive on "tax"/"revenue" issues: It probably won't be enough for Arthur Andersen and Northwestern University to develop numbers that are "credible", although that is the essential first step to take.
>
> We must also use these studies to make a compelling and convincing case for the kind of jobs that will be created, with an emphasis on their "quality" and "career" potential.[13]

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6. Editorial, *Economically, Casinos are a Good Bet*, CHI. TRIB., May 24, 1992, § 4, at 2 [hereinafter *Casinos are a Good Bet*].

7. Editorial, *Daley, Developers Raise the Stakes*, CHI. TRIB., Mar. 26, 1992, § 1, at 28 [hereinafter *Developers Raise the Stakes*].

8. In the report sponsored by the proponents of the casino complex, the numbers have to be viewed very favorably for the totals to reach $500 million. *See* CHICAGO GAMING COMM'N, ECONOMIC AND OTHER IMPACTS OF A PROPOSED GAMING, ENTERTAINMENT AND HOTEL FACILITY 270-71 (May 19, 1992) (prepared by Deloitte & Touche, Chicago, Ill.) [hereinafter PROPOSED GAMING]. The $625 million to $644 million in estimated tax revenues resulted from several predictions in a report by Arthur Andersen and Company, which was sponsored by the proponents of the casino complex. Ray Long, *New Casino Studies Bolster Predictions of Big Pot for City*, CHI. SUN-TIMES, May 20, 1992, at 1, 16. *See generally*, ARTHUR ANDERSEN & CO., IMPACT OF THE PROPOSED CHICAGO INTERNATIONAL ENTERTAINMENT CENTER (1992).

9. News Release from Chicago International Entertainment Center, Chicago, Ill., News at a Glance 1 (undated news release, probably Fall of 1992) (on file with *Drake Law Review*) [hereinafter News at a Glance].

10. *See, e.g.*, John Webber, *Chicago Gambling Plan Would Hurt Downstate: Expert*, QUINCY HERALD-WHIG (Ill.), June 11, 1992, at 1, 3 (reporting the complex would "[r]aise more than $625 million in city, county and tax revenue annually after the complex opens").

11. News at a Glance, *supra* note 9, at 1.

12. BETTER GOV'T ASS'N, *supra* note 3, app. P.

13. *Id.* app. P, at 10.

A comparison of these documents reflected poorly upon the sponsors of the casino complex and led to allegations that credible sources were being "manipulated" by the sponsors.[14]

With regard to the issue of jobs, the initial estimates promulgated by the sponsors of the casino complex were reported on March 26, 1992, as 10,000 construction jobs and 20,000 permanent jobs.[15] As one financial commentator in Chicago observed:

> Ten thousand . . . construction jobs are supposed to be created by this project. This may very well be true. However, we could create plenty of construction (and permanent) jobs by building brothels and opium dens. If job creation is the aim of local government, why hasn't the mayor proposed such a project?[16]

By May 24, 1992, the estimated "new jobs" had grown to 38,100[17] (that is, for the year 2001).[18] As criticism of the casino complex increased, the sponsors of the project continued to increase the "jobs ante" from 15,000 to 36,000 to 66,000 jobs.[19] By November 15, 1992, during the fall legislative session in Illinois, the so-called "Coalition for Jobs," apparently associated with the casino sponsors, had raised the estimates to 90,000 jobs.[20] Under the aura of credibility provided by referencing a professor at Northwestern University and Arthur Andersen and Company,[21] the jobs estimate then rose to 100,000 new jobs.[22] Therefore, during approximately an eight-month time frame, job estimates ranged from 15,000 to 100,000—raising serious doubt about the credibility of the sponsors of the casino complex. It should be noted that the entire state economy would probably have lost more jobs than the sponsors of the casino complex promised to create—partially due to the migration of consumer dollars away from the pre-existing Illinois businesses, as concluded by the Illinois governor's office.[23]

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14. *Compare* News at a Glance, *supra* note 9, at 1, *with* BETTER GOV'T ASS'N, *supra* note 3, app. P, at 10. *See generally* BETTER GOV'T ASS'N, *supra* note 3, app. O.

15. *Developers Raise the Stakes*, *supra* note 7, at 28; *see also* Long, *supra* note 8, at 16 (reporting estimated creation of full-time equivalent employees of either 12,000 pursuant to the Proposed Gaming Facility Report or 18,000 pursuant to the report by Arthur Andersen and Company).

16. Mark M. Quinn, *Social Costs of Casino Proposal Are Too High*, CHI. SUN-TIMES, Apr. 4, 1992, at 16.

17. *Casinos are a Good Bet*, *supra* note 6, at 2.

18. PROPOSED GAMING, *supra* note 8, at 14.

19. BETTER GOV'T ASS'N, *supra* note 3 (Personal Statement from the Executive Director).

20. *See* News at a Glance, *supra* note 9, at 1.

21. *Id.*

22. *Id.*

23. Press Release, Office of Illinois Governor James Edgar, Governor Warns Land-Based Casinos Could Bring Crime Surge as Well as Overall Loss of Jobs and State Revenues, Sept. 29, 1992. *See, e.g.*, Webber, *supra* note 10, at 1, 3.

Chicago's financial commentators highlighted similar points. Proponents of the casinos argued that between 15,000 to 45,000 "permanent" jobs would be created not only in the casinos, but also the areas around the casinos.[24]

> To the extent that the casinos attract dollars, either from tourists or residents, which would have been spent in other towns, some jobs will be created in Chicago. However, a large portion of the money that will be spent in the casinos would have been spent elsewhere in Chicago. Those "elsewheres" will consequently suffer, having a decidedly negative impact on employment in the "elsewheres." The net increase in permanent jobs will not be as great as projected. It could conceivably be negative.[25]

Similarly, the range of new tourists fluctuated from an initial estimate of 2.9 million new tourists[26] to estimates of "10.2 million new tourists to Chicago each year."[27] It is even more revealing, however, to analyze the wide variations in theoretical tax revenues ranging from $327 million[28] to $644 million.[29] The most widely-reported estimate was $500 million, and therefore, that estimate should be analyzed in-depth.

Generally, proponents of the casino complex used the higher estimates, particularly the $500 million figure, but they usually failed to mention that this number: (1) was basically a projection for the "tenth year" after the casino complex was initiated;[30] (2) included not only "direct" tax revenues, but also counted all "induced" and "indirect" tax revenues;[31] (3) ranged more precisely between $257 million and $371 million instead of between $500 million and $625 million;[32] and (4) included tax revenues from the categories of corporate income tax (between $28 million and $42 million), sales taxes (between $34 million and $48 million), and withholding taxes (between $26 million and $90 million).[33] The estimate also included tax revenues from alcohol, automobile rental, franchise, fuel, hotel occupancy, licenses, real property transfer, telecommunications, and utilities.[34]

These miscellaneous tax revenues would purportedly yield between $97 million and $212 million in the tenth year.[35] The "preferred" projected "gaming tax" to be paid by the operators of the casino complex was 7.7% or between $121 million and $123 million,[36] whereas an "alternative" 10% gaming tax was pro-

24. Quinn, *supra* note 16, at 16.

25. *Id.*

26. *Casinos are a Good Bet*, *supra* note 6, at 2; *see also* PROPOSED GAMING, *supra* note 8, at 44-51.

27. News at a Glance, *supra* note 9, at 1.

28. *See, e.g.*, *Casinos are a Good Bet*, *supra* note 6, at 2.

29. *See, e.g.*, Long, *supra* note 8, at 16; Webber, *supra* note 10, at 1.

30. PROPOSED GAMING, *supra* note 8, at 270-71.

31. *Id.*

32. *Id.*

33. *Id.*

34. *Id.*

35. *Id.*

36. *Id.* at 271.

jected to yield between $158 million and $160 million.[37] Although most of the public probably believed that the gaming tax was represented by the figure of $500 million,[38] the actual optimistic gaming tax was between $158 million and $160 million,[39] and the actual grand total of all taxes to be paid was apparently somewhere between $257 million and $370 million.[40] The most important aspect of the tax issue, however, was stated by the Better Government Association of Chicago: "Why merely 10%?"[41] By comparison, there were serious suggestions in Colorado to raise its tax rate to 40%,[42] and during 1992 and 1993, state representatives in South Dakota suggested a tax rate of 50%.[43]

In the 1992 Chicago scenario, the public began to recognize the strategic economic negatives associated with casino gambling.[44] The proponents of the casino complex alleged:

> more jobs, greater tax revenues and a floodtide of affluent tourists. But the reality may be something very different. Casino gambling may threaten the very tourist industry the city wants to enhance, create only miserable, low-paying jobs, and attract the mob—in short, negative results that far outweigh the hyped economic benefits.[45]

Furthermore, nothing ensures that gambling operations will continue to make money when "market saturation" occurs. Atlantic City, New Jersey serves as an example—in 1990, only five of its twelve casinos reported profits.[46]

Specific gambling activities might not always continue to make money. "[A] 1991 report by the Atlantic County Division of Economic Development states that for the past two years the Atlantic City casino gaming industry's profitability levels had fallen to less than one percent of gross revenues."[47] Furthermore, the president of the Casino Association of New Jersey, Thomas Carver, has reportedly said, "Atlantic City, a town noted for taking suckers, has become the biggest sucker of all."[48] "Not only does Atlantic City have a sorry record for those concerned about crime, welfare, business decline, home owner-

37. *Id.*

38. *See, e.g.*, *Developers Raise the Stakes*, *supra* note 7, at 28. For examples of the public relations campaign strategies regarding taxes, as conducted by the sponsors of the casino complex, see BETTER GOV'T ASS'N, *supra* note 3, at apps. P, Q.

39. PROPOSED GAMING, *supra* note 8, at 271.

40. *Id.*

41. BETTER GOV'T ASS'N, *supra* note 3, at 2 (Personal Statement from the Executive Director).

42. Marj Charlier, *The Payoff: Casino Gambling Saves Three Colorado Towns but the Price Is High*, WALL ST. J., Sept. 23, 1992, at A5.

43. Chet Brokaw, *Don't Bet Yet on State Lottery Take Fate*, ARGUS LEADER (Sioux Falls, S.D.), Jan. 5, 1993, at B1; Terry Woster, *Pierson to Sponsor School-Aid Bill*, ARGUS LEADER (Sioux Falls, S.D.), Jan. 9, 1993, at B2.

44. Thomas F. Roeser, *Chicago Casino Plan Gambles City Future*, WALL ST. J., Aug. 12, 1992, at A10.

45. *Id.*

46. ILL. STATE POLICE, *supra* note 4, at 13.

47. *Id.*

48. *Id.*

ship, compulsive gambling or community atmosphere, but it has failed to bring economic development."[49] Obviously, the lack of profits significantly reduces tax revenues.

Most importantly, gambling interests often use an improper comparison with projected tax revenues to extrapolate upward from local communities to state, interstate, and even national economies. The gambling interests argue the alleged positive impact on the local community must also be a positive impact on state, interstate, and national economies. These arguments are usually specious, and the impacts are usually negative (even on the local community after a time lag).[50]

Thus, the perspective is crucial to an accurate analysis of the impact of gambling activities on economic, business, social, and governmental issues. Focusing on local economies and short-term impacts is extremely misleading. Hypothetically, if a person walks into a local community and has $1 billion to spend, when the person begins spending money, there will be a short-term appearance of positive economic growth resulting in job creation and new tax revenues. These same short-term impacts would occur even if the $1 billion was spent on illegal activities, such as buying and selling illegal drugs. In the mid-term and long-term, however, there would be largely negative impacts on the local, state, and interstate economies and on their businesses and governments. Admittedly, the local economy would initially appear to benefit, and the tax revenues generated[51] would look promising to government officials. Importantly, local elected officials would look to new tax revenues as a solution to pre-existing governmental problems without having to raise taxes, which could alienate the electorate. United States Senator Paul Simon has criticized elected officials who look to this chimera to temporarily solve their problems of raising new tax revenues.[52] According to Senator Simon, an article by a respected economics professor[53] suggested "to me on a more solid base what my instinct tells me: Communities and States and the Nation should be careful when they look for easy revenue cures that may do more damage than . . . [officials] realize."[54] The mid-term and long-term "social costs" would have to be borne by state governments. Therefore, the states' elected officials would have to shoulder the responsibility of raising taxes to create funds to cover the social-welfare costs

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49. *Id.* at 13-14.

50. *See supra* note 3 and accompanying text.

51. Even in an environment of illegal activities some money will be spent in traditional businesses that generate tax revenues from the sale of legitimate goods. After the initial influx of buying, those same pre-existing businesses would feel the drain of the theoretically negative economic multipliers that the $1 billion of illegal activity was generating as a type of "reverse pump priming." The illegal activity in the hypothetical siphons money from the regular business economy. Similarly, legalized gambling activities siphon money from the regular business economy.

52. 138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (statement of Sen. Simon); *see* Interview with United States Senator Paul Simon, (WMAQ-AM, Chicago, Ill. radio broadcast, June 19, 1992); *Simon Urges Caution on Casino in Chicago*, NEWS-GAZETTE (Champaign, Ill.), June 21, 1992, at A4 [hereinafter *Simon Urges Caution*].

53. 138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (reprinting article of Economics Professor Earl Grinols, University of Illinois).

54. 138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (statement of Sen. Simon).

associated with the illegal (or "legalized") activity.[55] This fact has obviously not been lost on Senator Simon;[56] but unlike Senator Simon, poorly-informed government officials have apparently missed the net drain that legalized gambling has on overall tax revenues:

> Gambling is not the only kind of business that can remove dollars from a local economy, but very few remove proportionally as much money for so marginal an increase in public revenue.
>
> As . . . [some voters] have discovered, state lotteries have not been very successful at raising money. Nationwide, lotteries account for only 3.3 percent of the total revenue raised by lottery states—far below the amount raised by sales and income taxes.
>
> Customers of New York City's off-track parlor wagered $959 million last year, but after paying all its bills, the corporation had only $33 million left over for the city. This year [1992] the figure will be millions lower, according to *Fortune* magazine. Within a decade, some experts believe that the New York operation will be in the red—meaning the city would have to support it. That's an ominous sign for . . . taxpayers.
>
> Given the widespread evidence that gambling hurts a community, what rationale is there for government to act as a conduit for the profits of private promoters?
>
> . . . .
>
> The answer is none. But naive public officials, like addicted railbirds, remained convinced that some day they'll hit the jackpot. It's a delusion as old as gambling itself.[57]

Thus, the maneuver of shifting costs and "passing the buck" is seductive to local elected officials, but this maneuver is poor public policy and is in reality unethical legerdemain.

It is essential to note that the $1 billion that is being hypothetically spent on illegal drug activities also constitutes money that is not being spent in pre-existing traditional businesses. There are also differences between the hypothetical spending of $1 billion for buying and selling illegal drugs and the hypothetical spending of $1 billion by legalized gambling activities. The legalization of an activity, however, does not change the social, economic, business, and governmental costs. In fact, overwhelming field research and authoritative data indicates that the legalization of gambling activities dramatically increases these costs.[58]

Comparing gambling activities to illegal drug activities may appear contentious, but without belaboring the similarities, there appear to be more valid

55. For a discussion of the impact of legalized gambling activities on those who can least afford to gamble, see Irving K. Zola, *Observations on Gambling in a Lower-Class Setting*, 10 SOC. PROBS. 353 (1963). *See also* John R. Livernois, *The Redistributive Effects of Lotteries: Evidence from Canada*, 15 PUB. FIN. Q. 339 (1987). *See generally*, Martin S. Feldstein, *Distributional Equity and the Optimal Structure of Public Prices*, 62 AM. ECON. REV. 32 (1972).

56. 138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (statement of Sen. Simon).

57. *Id.* (reprinting article of Economics Professor Earl Grinols, University of Illinois.)

58. *See generally* CHARLES CLOTFELTER & PHILLIP COOK, SELLING HOPE (1989).

economic and social parallels between the illegal drug trade and legal gambling enterprises than parallels between legal gambling organizations and traditional business enterprises. Historically, the United States has flirted with legalized gambling activities and with gambling philosophies.[59] Generation after generation, the public forgot and then relearned that the large social, economic, business, and governmental costs[60] demanded that all gambling activities be criminalized.[61] As a consequence, gambling activities remained illegal throughout most of the twentieth century.[62] The gambling interests' contention that various forms of gambling should now be legalized because previous generations were less sophisticated and less enlightened and because the economy of the nineteenth century was different is a specious argument. However, an examination of the gambling interests' argument that the economies of the United States in the twentieth century can support legalized gambling activities must be undertaken.[63]

The social costs of gambling have not significantly changed over time because current data shows that when gambling activities are legalized, economies will be plagued[64] with 100% to 550% increases[65] in the numbers of addicted gamblers (probably within one to five years, but almost certainly within fifteen years).[66] The social, economic, business, and governmental costs are enormous.[67] Like alcohol and drug addiction, gambling is recognized as an addiction by the American Psychiatric Association (APA).[68]

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59. *See id.* at 35-37.

60. *Id.*

61. *Id.* at 37.

62. *Id.* at 38. *See generally* Duane V. Burke, *The Legalization of Gambling in the United States: An Analysis and Forecast*, *in* GAMBLING AND SOCIETY 39 (William Eadington ed., 1976).

63. *See generally* Burke, *supra* note 62.

64. 138 CONG. REC. S187 (daily ed. Jan. 22, 1992).

65. *See, e.g.*, CLOTFELTER & COOK, *supra* note 58, at 124-25; ALCOHOL & DRUG ABUSE ADMIN., MD. DEP'T HEALTH & MENTAL HYGIENE, TASK FORCE ON GAMBLING ADDICTION IN MARYLAND (1990) [hereinafter GAMBLING ADDICTION IN MARYLAND]; VALERIE LORENZ, NATIONAL CTR. PATHOLOGICAL GAMBLING, AN OVERVIEW OF PATHOLOGICAL GAMBLING 3 (1990).

66. *See* Henry Lesieur, *Compulsive Gambling*, SOC'Y, May/June 1992, at 42, 43 [hereinafter Lesieur, *Compulsive Gambling*]; Henry Lesieur, Compulsive Gambling: Documenting the Social and Economic Costs 1 (Apr. 23, 1991) (available from Professor Henry Lesieur, Illinois State University, Normal, Ill.) [hereinafter Lesieur, Economic Costs]; *see also* CLOTFELTER & COOK, *supra* note 58, at 124-25; LORENZ, *supra* note 65, at 1-3.

67. Over time, the problems intensify.

> [T]here will continue to be an increase in compulsive gamblers, devastated families, serious emotional and physical complications, suicide attempts by gamblers and/or spouses, loss of work productivity, misuse of funds, crimes and bankruptcy from this very complicated, often hidden, but treatable, mental disorder. This increase will accelerate, as governments continue to legalize and promote gambling. The social and economic costs of compulsive gambling will also increase, unless communities and legislatures take a more active role in combating and preventing this psychiatric disorder.

LORENZ, *supra* note 65, at 10; *see, e.g.*, *CBS Evening News* (CBS television broadcast, May 19, 1992) (interviews with Dr. Valerie Lorenz, Executive Director, Compulsive Gambling Ctr., Inc., and Professor John Warren Kindt, University of Illinois); *The 700 Club* (television broadcast, Oct. 1, 1992) (interviews with Terrence Gainor, Director Illinois State Police, Thomas Grey, Director of

II. CLARIFICATION OF THE DEFINITIONAL PARAMETERS: REVIEWING THE STRATEGIC SOCIO-ECONOMIC COSTS OF LEGALIZING GAMBLING ACTIVITIES

The sociological, psychological, and psychiatric disciplines have their own definitions and debates involving what constitutes a "pathological gambler," an "addicted gambler," or a "compulsive gambler."[69] These terms appear to be interchangeable, but the APA uses the term "pathological gambler."[70] From the business-economic perspective, this analysis uses the term "compulsive gambler" or "compulsive economic gambler" (CEG), and the definitional parameters of these terms are basically the same as the APA's parameters for the "pathological gambler."[71] Therefore, these terms can be used interchangeably.[72]

In the business-economic context,[73] however, the term "problem gambler" or "problem economic gambler" (PEG) refers primarily to anyone who is losing approximately $1000 per year on gambling activities,[74] or more appropriately, to anyone who is a member of the 10% of the public spending 65%[75] (or between

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Legislative Affairs, Illinois Church Action on Alcohol Problems (ILLCAAP), and Professor John Warren Kindt, University of Illinois).

68. *See* AM. PSYCHIATRIC ASS'N, DIAGNOSTIC AND STATISTICAL MANUAL OF MENTAL DISORDERS § 312.31, at 324-25 (3d rev. ed. 1987) [hereinafter DSM-III]. Pathological gamblers exhibit

> a chronic and progressive failure to resist impulses to gamble, and gambling behavior that compromises, disrupts, or damages personal, family, or vocational pursuits. The gambling preoccupation, urge, and activity increase during periods of stress. Problems that arise as a result of the gambling lead to an intensification of the gambling behavior. Characteristic problems include extensive indebtedness and consequent default on debts and other financial responsibilities, disrupted family relationships, inattention to work, and financially motivated illegal activities to pay for gambling.

Id. at 324.

69. For an introduction to the definitional debate, see CLOTFELTER & COOK, *supra* note 58, at 105. *See also* GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 25; BETTER GOV'T ASS'N, *supra* note 3, at 6-7.

70. *See* DSM-III, *supra* note 68, at 324-25.

71. "While the terms pathological and compulsive are technically not synonymous . . . professionals and lay persons use them interchangeably." Lesieur, *Compulsive Gambling*, *supra* note 66, at 43.

72. *Id.*

73. This "economic" differentiation from "sociological factors" is important and has precedent. CLOTFELTER & COOK, *supra* note 58, at 11-12 (citing JOHN ROSECRANCE, GAMBLING WITHOUT GUILT: THE LEGITIMIZATION OF AN AMERICAN PASTIME 117 (1988)).

74. *See infra* notes 199-206 and accompanying text. The actual national average is closer to $900 than $1000 per year, but this amount is expected to rise and using $1000 per year simplifies the calculations for a wider readership.

75. *See* CLOTFELTER & COOK, *supra* note 58, at 92-94 (reporting 1986 data). Most of the older data from the state lotteries suggested that 10% of the public gambled 50% of the gambling dollars to the state lotteries and that 20% gambled 65%. *Id.* at 92. A more recent 1986 poll that is given prominence in the book *Selling Hope* suggested, however, that 10% of the public gambled 65% of the dollars to the state lotteries. *Id.* at 92-93. Because other forms of gambling, legal and

50%[76] and 84%[77]) of the legalized gambling dollars. Therefore, the PEG category includes not only the category of compulsive economic gamblers, or the APA's pathological gambler,[78] but also includes sociological categories of "probable pathological gamblers," "possible pathological gamblers," "problem gamblers" (not to be confused with the PEG category), and other categories. Other than the pathological gambler category that is synonymous with the CEG, the other sociological categories (and academic debates involving their definitional parameters) are beyond the scope of this Article. From a business-economic standpoint, the only categories used are CEGs (consisting of 1.5%-5% of the public) and PEGs (consisting of 10% of the public that spends 65% of the legalized gambling dollars and includes the compulsive economic gamblers).

In this context, every addicted or compulsive gambler negatively impacts between seven[79] and seventeen[80] other people.[81] Although every person is responsible for his or her actions, it is specious to suggest that compulsive gamblers should have "willpower" or that they only hurt themselves.[82]

"There is a general public attitude that if an individual is sufficiently foolish as to lose his or her wealth through gambling, why should society intervene?"[83] A similar question involves the degree to which government should "adopt a paternalistic role in caring for its citizens."[84] On the other hand, if a state government creates and promotes "an industry that affects social

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illegal, involved 10% of the public gambling 84% of gambling dollars and because the state lotteries provided a good benchmark of fairly reliable data, it was reasonable to conclude (given the best data) that 10% of the public in legalized gambling states would gamble approximately 65% of the gambling dollars on all forms of legal (and perhaps illegal) gambling. *Id.*

76. *Id.* at 92 (reporting 1974, 1984, and 1985 data).

77. *Id.* at 93 (reporting 1974 data). Clinical evidence also tends to support the proposition that 10% of the public spends 65% (or more) of the gambling dollars. "[A]ccording to the Field Institute's California Poll, 18 percent of the state's adults bought 71 percent of the tickets" for the California lottery when it began in 1985. Brad Edmondson, *The Demographics of Gambling*, AM. DEMOGRAPHICS, July 1986, at 40. Dr. Robert L. Custer of the Veterans Administration Medical Center noted, "Compulsive gamblers, who become most addicted to fast-action casino and sports betting, make up only 3% to 4% of those who gamble . . . ." Chris Welles, *America's Gambling Fever—Everybody Wants a Piece of the Action—But Is it Good for Us?*, BUS. WK., Apr. 24, 1989, at 112, 120. "But an additional 10% to 15% bet more than they can afford. . . . [T]hese two groups may account for close to half of all money wagered." *Id.* at 120.

78. *See* DSM-III, *supra* note 68, at 324-25.

79. By comparison, the well-documented national statistics of Alcoholics Anonymous conservatively calculate that each alcoholic negatively impacts on seven other people, while the National Center for Pathological Gambling (renamed the Compulsive Gambling Center, Inc., in 1992) and an authoritative Maryland report calculate that 17 other people are negatively impacted by every compulsive gambler. GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 2. The range of 10 to 17 negatively impacted people has also been calculated. *Id.* at 60; BETTER GOV'T ASS'N, *supra* note 3, at 18; *cf.* Susan M. Barbieri, *"The Addiction of the '90s": Compulsive Gambling Comes into Its Own in Recessionary Times*, WASH. POST, Nov. 30, 1992, at D5 ("eight people are adversely affected").

80. GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 2.

81. *See* LORENZ, *supra* note 65, at 5-7.

82. *See* GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 2; LORENZ, *supra* note 65.

83. ILL. STATE POLICE, *supra* note 4, at 12.

84. *Id.*

behavior and leads to addiction, should it be obligated to deal with the consequences?"[85]

> As states legitimize the medical model of pathological gambling and fund treatment facilities, insurance companies will be pressured to do the same. Businesses will also be put in the position of providing resources to deal with employee gambling-related problems including higher health insurance premiums. As a result, the burden of this funding will fall, not only on those who gamble but also on those who neither participate nor approve of the behavior.[86]

Blinded by the allure of legalized gambling's "fool's gold,"[87] few state legislatures have recognized that legalized gambling activities create enormous pressures on social-welfare budgets,[88] as well as large costs for businesses in general[89] and insurance companies in particular.[90] In 1992, for example, insurance fraud apparently related to legalized gambling activities (as distinguished from illegal gambling activities) was already $1.3 billion nationwide.[91]

> Pathological gamblers also borrow from life insurance policies, surrender their policies, and allow them to lapse or be revoked. This is costly for the insurance companies and the insurance buying public as well as the gamblers' families. Gamblers operate uninsured automobiles, get into accidents, and become disabled or die without insurance.[92]

Although these costs have not yet been calculated, one study of Gamblers Anonymous members "found that 47% percent had engaged in insurance related fraud or thefts where insurance companies had to pay the victims."[93] The average amount of the fraud involved was calculated at $65,000.[94]

These numbers are dramatic, but from a strategic perspective, the direct societal dysfunction caused by compulsive gamblers in a legalized gambling state (once gambling is legalized beyond the lottery)[95] involves 1.5% to 5% of the public. The indirect societal dysfunction will be experienced by at least 10% to 25% of the population, according to the most reasonable estimates, up to multiple

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85. *Id.*

86. *Id.* at 12-13.

87. Paul Glastris & Andrew Bates, *The Fool's Gold in Gambling*, U.S. NEWS & WORLD REP., Apr. 1, 1991, at 22.

88. *See generally id.*

89. *Id.*

90. *See* Henry Lesieur & Kenneth Puig, *Insurance Problems and Pathological Gambling*, 3 J. GAMBLING BEHAV. 123 (1987).

91. Lesieur, *Compulsive Gambling*, *supra* note 66, at 45.

92. *Id.*

93. *Id.*

94. *Id.*

95. There is academic debate concerning whether and to what extent the state lotteries contribute to the increase in compulsive gamblers. *See* CLOTFELTER & COOK, *supra* note 58, at 104-05, 126-27.

impacts on 100% of the population. In other words, if every compulsive gambler negatively affects seven to seventeen other people, in a saturated gambling community or state, such as Nevada, 7% to 8% theoretical compulsive gamblers[96] multiplied by seventeen negatively impacted people yields 119% to 136% of the population. In such a scenario, some people are negatively impacted multiple times by compulsive gamblers, and multiple impacts are experienced by a subset of the population. Of course, because taxpayers have to pay for these societal costs, the entire population is negatively impacted by increased taxes. In this regard, Nevada's status as a comparatively low-tax state is misleading because Nevada exports its socio-economic costs to other states, particularly California, when Nevada's tourists return to their home states. This taxpayer scenario reveals only one of several ways in which the taxpayers directly and indirectly subsidize the gambling industry.

Unlike traditional businesses, legalized gambling activities create economic, business, social, and governmental costs by creating addicted gamblers, similar to alcohol and drug addicts. In fact, there are numerous parallels between these three addictions.[97] Clinicians treating the 1.5% to 5% CEGs note that CEGs are likely to have alcohol problems.[98] Skeptics of gambling cite social studies indicating that, like a drug addict, a compulsive gambler is also a type of addict.[99]

One of the most persuasive, but invalid, arguments for legalizing various forms of gambling is that illegal gambling occurs throughout society and that by legalizing the gambling, the gamblers can be taxed. A 1992 Gallup Poll indicated that 61% of the public was still accepting this argument,[100] even though the public trend in general indicated a big decline in approval of legal betting on sports and marginal declines in approval of various games of chance—even the

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96. *See* LORENZ, *supra* note 65, at 3 (reporting 4% to 7.7% of adolescents may be compulsive gamblers). In 1992, the majority viewpoint was that 5% compulsive gamblers was the top percentage for the adult population. *See* GALLUP ORGANIZATION, NEWS SERVICE 3 (Dec. 16, 1992) [hereinafter NEWS SERVICE 12-16-92]. However, some clinical studies were reporting 7% to 8%. ALTA. LOTTERIES & GAMING, GAMBLING AND PROBLEM GAMBLING IN ALBERTA 18 (Jan. 1994) (prepared by Wynne Resources, Ltd., Edmonton, Alta.) [hereinafter ALTA. GAMING]; *see* BETTER GOV'T ASS'N, *supra* note 3, at 30. For the adolescent population, Dr. Durand Jacobs of the Loma Linda University Medical School was reporting 4% to 6%. *See* Durand F. Jacobs, *Illegal and Undocumented: A Review of Teenage Gambling and the Plight of Children of Problem Gamblers in America*, *in* COMPULSIVE GAMBLING: THEORY, RESEARCH, AND PRACTICE 249 (Howard J. Shaffer et al. eds., 1989). Depending on definitional categories, the Gallup Organization in 1992 was reporting 7% of the United States population in 1992 liked to gamble "a lot" and 9% admitted that they "gambled too much." NEWS SERVICE 12-16-92, *supra*, at 3. With a margin of error of .5%, these percentages obviously parallel and support the 1.5% to 5% figure for CEGs and the 10% figure for PEGs.

97. *See* CLOTFELTER & COOK, *supra* note 58, at 96. In the family of the pathological gambler, "almost always there is a parental history of alcoholism." LORENZ, *supra* note 65, at 5.

98. Lesieur, *Compulsive Gambling*, *supra* note 66, at 45-46. In 1992, a study of males in a sample taken from Gamblers Anonymous revealed that 48% "met the criteria for alcohol abuse or dependency." *Id.*

99. *See, e.g.*, CLOTFELTER & COOK, *supra* note 58, at 96.

100. GALLUP ORGANIZATION, NEWS SERVICE 2 (Dec. 5, 1992) [hereinafter NEWS SERVICE 12-5-92].

popular state lotteries.[101] The "thrill factor," as well as the better odds, associated with illegal gambling dictate, however, that once a form of gambling is legalized the "thrill" is generally lost, and the illegal gamblers must then move their dollars into other forms of illegal gambling to recapture the thrill—thereby promoting a vicious cycle toward harder and harder forms of gambling.

The often ignored gravamen of this debate is that the authoritative national statistics and the field research indicate that once gambling is legalized—once gambling becomes sociologically acceptable[102]—the number of compulsive gamblers increases[103] from .77%[104] to between 1.5% to 5% of the population.[105]

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101. *Id.* at 1-3. For analyses of the economic issues inherent in state lotteries, see Roger E. Brinner & Charles T. Clotfelter, *An Economic Appraisal of State Lotteries*, 28 NAT'L TAX J. 395 (1975). *See generally* Gerald F. Kaminski, *Promotional Games and the Ohio Lottery Laws*, 39 U. CIN. L. REV. 163 (1970); David L. Rados, *The Numbers Game: An Economic and Comparative Analysis*, 16 Q. REV. ECON. & BUS. 19 (1976).

102. *See* BETTER GOV'T ASS'N, *supra* note 3, at 2.

103. *See generally* CLOTFELTER & COOK, *supra* note 58, at 124-25.

104. U.S. COMMISSION ON THE REV. OF THE NAT'L POL'Y TOWARD GAMBLING, GAMBLING IN AMERICA 73 (Gov't Printing Off. 1976) (data collected from 1975) [hereinafter U.S. COMM'N ON GAMBLING]; *see* CLOTFELTER & COOK, *supra* note 58, at 124-25; *see also* U.S. COMMISSION ON THE REV. OF THE NAT'L POL'Y TOWARD GAMBLING: FIRST INTERIM REPORT (Gov't Printing Off. 1975).

105. CLOTFELTER & COOK, *supra* note 58, at 124-25. After the legalization of gambling activities, the percentage of the population who will gamble increases. In 1974, a state lottery "was responsible for inducing about one-quarter of the adult population who would not otherwise have done so to participate in commercial gambling." *Id.* at 105. In addition, the number of pathological gamblers began to climb dramatically. "[P]olls conducted in Ohio, the Delaware Valley, and New York State in 1984 and 1985 produced estimates of the prevalence of 'probable pathological gamblers' between 1.4 percent and 3.4 percent." *Id.* at 125 (citing HENRY LESIEUR, REPORT ON PATHOLOGICAL GAMBLING IN NEW JERSEY 1 (1988)).

> More recently, the Minnesota Department of Health estimated that 2% of its adult citizens were suffering from this disorder. In 1986 the Ohio State Lottery Commission set the figure at 2 1/2% in its state, Rutgers University estimated the incidence at over 3% in the Philadelphia/Atlantic City area, and the New York State Office of Mental Health learned that 4.2% of New York state's population could be classified as probable pathological gamblers (National Council, 1988).
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> The rate among teenagers, 0% in 1979, has risen to a range of 4% to 7.7% a decade later.
>
> Both Gamblers Anonymous (a self-help group for compulsive gamblers established in Los Angeles in 1957) and the National Council for Compulsive Gambling (an educational agency incorporated in 1975) consider these figures to be conservative. They believe that there are at least ten million compulsive gamblers in the United States at this time.

LORENZ, *supra* note 65, at 3. Over time, the percentage of the population that is addicted to gambling has risen along with the increased legalization of gambling activities. In 1990, the percentage of the United States population addicted to gambling was approaching or was already within a range of approximately 1.5% to 5% and was continuing to increase. *See, e.g.*, ALTA. GAMING, *supra* note 96, at 17-18; *see also* BETTER GOV'T ASS'N, *supra* note 3, at 28-30. As saturated gambling economies, Nevada and Atlantic City top the range at 3% to 5% (or more) compulsive gamblers. *See* LORENZ, *supra* note 65, at 3.

> Evidence suggests that in areas where more forms of gambling are legal, the incidence of problem and pathological (compulsive) gambling is also higher.

This phenomenon will definitely occur; the only debate is how soon it will happen.[106] This increase could occur within one to five years, but some claim it could also take up to fifteen years before the upper numbers are reached. Furthermore, the next generation consisting of today's teenagers will double this range as they age; in 1992, the range of adolescents who were already problem or compulsive gamblers was between 4% and 15%.[107] Theoretically, to maintain the same "quality of life" after the legalization occurs, social-welfare budgets would have to increase by 100% to 550%. The pressure on elected officials to increase taxes to address these social-welfare costs will be enormous. These costs do not include the costs of rehabilitating any compulsive gamblers. If society should choose to rehabilitate, the costs would be between $17,000 and $42,000 per person.[108]

For example, in a population base of 10 million people (such as the State of Illinois, which is approximately 11.43 million),[109] the number of compulsive gamblers before legalization would be 77,000, while the number after legalization would be 150,000 to 500,000. Because the minimum increase after legalization would double automatically to 150,000, this phenomenon should be referred to as the postlegalization "minimum doubling rule."[110] Nationwide, "it is

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> In 1974, fewer than 1% of the adult population in the United States were recognized as compulsive gamblers while the comparable rate for Nevada was 2.5%. Recent surveys done in New York, New Jersey, Maryland, and Iowa and in Quebec, Canada, revealed that problem and pathological gambling in Iowa, where there is less legalized gambling, was about half that in other states and Quebec, where the studies were made.

Lesieur, *Compulsive Gambling*, *supra* note 66, at 43. Among hospitalized psychiatric patients in one report, 6.5% were pathological gamblers. *Id.* at 45.

106. LORENZ, *supra* note 65, at 3-4. "Slot machine addicts, poker machine addicts, lottery players and bingo addicts tend to 'bottom out' in less time than other types of gamblers, usually within two to three years of starting to gamble on this particular activity." *Id.* at 4; *see* CLOTFELTER & COOK, *supra* note 58, at 124-25.

107. BETTER GOV'T ASS'N, *supra* note 3, at 28; *see also* Art Levine, *Playing the Adolescent Odds*, U.S. NEWS & WORLD REP., June 18, 1990, at 51.

108. *See* GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 29-30, 36-63. In 1990, Maryland already had eight clinics and treatment programs for compulsive gamblers. *Id.* at 38-49. As of 1992, the Compulsive Gambling Center in Baltimore, Maryland charged $17,000 to $20,000 for the first month of treatment while the Philadelphia Psychiatric Hospital, which became the Belmont Center for Comprehensive Treatment in March of 1992, historically charged more. Interview with Dr. Valerie Lorenz, Executive Director, Compulsive Gambling Ctr., Inc., in Baltimore, Md. (Dec. 10, 1992) [hereinafter Lorenz Interview]. Treatment costs of up to $20,000 per week for in-patients have been reported. *Id.* These costs did not include post-clinic/hospital treatments on an out-patient status. *Id.* Therefore, an average cost of $20,000 per person is probably quite reasonable. Outpatient costs are significantly less. For example, "Two facilities supplying outpatient services for pathological gamblers provided . . . estimates of $3,000 to $5,000, and $8,000 to $10,000 as the total treatment costs." BETTER GOV'T ASS'N, *supra* note 3, at 12.

109. CENSUS BUREAU, U.S. DEP'T COMMERCE, 1990 CENSUS, *reprinted in* THE WORLD ALMANAC & BOOK OF FACTS 387 (1993).

110. An example of the minimum doubling rule is theoretically reflected in Maryland which had a doubling in the numbers of both pathological and problem gamblers between 1976 and 1988. GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 55. Of course, Maryland was not entirely gambling-free before 1976, but the legalized gambling then was much less extensive than in 1988.

evident that the prevalence of pathological gambling has doubled during a period of increased access to legalized gambling and significant growth in the legal wagering of Americans."[111] This phenomenon is often identified as the result of both social acceptability and accessibility.[112] The implication is that all of the socio-economic, business, and governmental costs associated with gambling addicts before the legalization of gambling could automatically be multiplied by two, or increased by 100%, because at a minimum these costs will double after gambling is legalized. A reasonable estimate from national statistics would place the number of postlegalization compulsive gamblers in Illinois at an average of about 2%, or 200,000 people. It should also be noted that the type of compulsive gamblers would also change from the romanticized view of unseen people gambling in back alleys to include the elderly,[113] the poor,[114] minorities,[115] housewives,[116] teenagers,[117] and even preteens.[118] All of these categories are particularly susceptible to becoming compulsive gamblers.

From a business perspective, the best employees are Type-A personalities because, by definition, they are aggressive achievers; they also constitute the personalities most susceptible to becoming compulsive gamblers.[119] In 1974, "compulsive gamblers attending Gamblers Anonymous typically were white,

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"This estimate of doubling is also conservative because the gambling industry in Maryland has always exceeded the national norm." *Id.*

111. *Id.* at 56.

112. BETTER GOV'T ASS'N, *supra* note 3, at 2.

113. LORENZ, *supra* note 65, at 3; *see* CLOTFELTER & COOK, *supra* note 58, at 96-97.

114. LORENZ, *supra* note 65, at 3. Regardless of the compulsive gambling issue, the poor lose proportionately more of their disposable income, although the overall percentage of income gambled appears to be a constant, cutting across the socio-economic spectrum. Accordingly, a widespread criticism of legalized gambling activities, including the state lotteries, is that legalized gambling constitutes a "regressive tax" on the poor. CLOTFELTER & COOK, *supra* note 58, at 215, 222-27. Those persons making under $10,000 per year gamble an average of 5.5% of their income (or $550 per year). *See id.* at 99; Earl L. Grinols, Analysis of the Major Impacts of Off-Track Gambling in Champaign, Illinois 3 (Sept. 23, 1991) (referencing this gambling of 5.5% of incomes under $10,000 per year as "sickening to contemplate").

115. LORENZ, *supra* note 65, at 3; *see* CLOTFELTER & COOK, *supra* note 58, at 96-99.

116. LORENZ, *supra* note 65, at 3.

117. The compulsive gambling rate among teenagers is 4% to 8%. *Id.* The trend is toward an increase in this rate. Studies by Dr. Durand Jacobs (reporting 4% to 6%) and other studies place the compulsive gambling rate among teenagers between 4% to 15%. BETTER GOV'T ASS'N, *supra* note 3, at 30, app. G.

118. In the United Kingdom, preteen gambling and preteen addicted gamblers have become a national disgrace, and these problems have had substantial negative impacts on the educational system and the economy. Sue Fisher, *Measuring Pathological Gambling in Children: The Case of Fruit Machines in the U.K.*, 8 J. GAMBLING STUD. 263, 270 (1992) (reporting 9% of the children in one test scored as "probable pathological gamblers"). Legislation designed to make preteen gambling activities illegal was proposed in Parliament; specifically, the 1988 Gaming Machines Bill and the 1989 Amusements Machines (Protection of Children) Bill. *Id.* at 264. Neither bill received a second reading, but the controversy reappeared in 1992. *Id.* In any event, this legislation was like closing the barn door after the horse had already left. The best public policy is for governments to avoid initially becoming infatuated with the gambling seductress.

119. *See* LORENZ, *supra* note 65, at 3-6.

middle aged, middle-class men,"[120] but by 1990 all groups of people were represented.[121] In other words, the addiction of gambling is both nondiscriminatory and an equal opportunity destroyer.

The mix may change, but in a population base of ten million, there will be an estimated 200,000 compulsive gamblers. To go back to the quality of life existing before gambling was legalized, it would be necessary to rehabilitate approximately 200,000 people minus the pre-existing 77,000 compulsive gamblers. At a very conservative cost estimate of $5,000 to $20,000 per compulsive gambler,[122] the total bill would be $665 million to $2.6 billion. From a cost-benefit perspective, the sensible conclusion is that states should never legalize gambling in the first place.

Ironically, once a state legalizes gambling, that state can become addicted to the initial tax revenues. These revenues, however, usually constitute only a minimal part of a state's budget.[123] A one-cent increase in a state's sales tax would generally bring in more revenues than all of that state's lottery revenues.[124] In Illinois, for example, a one-cent increase in the sales tax would more than compensate for the entire revenues from the state lottery (and all other forms of legalized gambling).

By comparison with the $665 million to $2.6 billion rehabilitation cost for a state like Illinois, the entire 1992 budget for Illinois was approximately $26 billion.[125] The cost of rehabilitating compulsive gamblers should be referred to as "rehabilitative cost," and it consists of the cost of making a compulsive gambler "whole again." The estimate of a $20,000 cost per compulsive gambler is a fair and conservative estimate because some estimates are as high as $42,000,[126] even before outpatient costs are included.[127]

If gambling organizations wish to legalize gambling in a particular state, it only makes sense that those organizations should pay at least in part for the rehabilitation.[128] This policy conforms to the well-known principle of "internalizing the externalities," that is, costs should be borne by those organizations creating the costs, not by taxpayers. In South Dakota, for example, legislation permitting legalized gambling also prodded the gambling interests to address the rehabilitative costs.[129] Even so, the amounts involved are obviously inadequate because theoretically those amounts would only pay to rehabilitate a

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120. GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 20; LORENZ, *supra* note 65, at 3.

121. LORENZ, *supra* note 65, at 3.

122 *See supra* note 108 and accompanying text.

123. 138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (reprinting article of Economics Professor Earl Grinols, University of Illinois).

124. *See id.*

125. ILLINOIS STATE BUDGET: FISCAL YEAR 1992 7, 64-65 [hereinafter ILL. 1992 BUDGET].

126. As of 1992, the cost of an in-patient 30-day program at the Philadelphia Psychiatric Hospital was reportedly between $15,000 and $42,000 exclusive of posthospitalization costs. *See* Lorenz Interview, *supra* note 108; *see also supra* note 108 and accompanying text.

127. *See supra* note 108 and accompanying text.

128. Lesieur, *Compulsive Gambling*, *supra* note 66, at 49. Grinols Champaign Report, *supra* note 114, at 5 (Gambling's Negative Externalities).

129. *See generally* S.D. CODIFIED LAWS ANN. § 42-7B (1991).

few people. In Illinois, the Horse Racing Act provides that the Racing Board shall allocate and distribute $750,000 per year directly "to non-profit organizations that provide medical and family, counseling, and similar services."[130] Under this wording, theoretically nothing need be allocated to the practical treatment programs.

In any event, rehabilitative cost is only one factor in the "quality-of-life" calculations that need to be made before a state legalizes gambling. Projections of increased social-welfare costs also need to be included in quality-of-life calculations. These costs are more difficult to calculate because gambling has been illegal in the United States throughout most of the twentieth century.[131] Therefore, specialized socio-economic data will not be available until after a developing gambling state like Illinois or South Dakota transforms itself into another Nevada—exploiting and being exploited by all types of gambling.

The data from Nevada is not representative for two major reasons. First, Nevada is an anomaly[132] because it is basically a desert state whose economy is based primarily on people who visit Nevada and then take the costs and ramifications of any problems back to their home states.[133] Second, the nonacademic data from Nevada has the reputation of being untrustworthy.[134]

Therefore, a state with a traditional business-oriented economy has to be equivalently given over to gambling before reliable data can be generated. This is a high cost to pay, especially because practically all of the pre-existing economic projections and studies already undermine the promises made by gambling organizations.

Given these constraints, the starting point for determining the increased social-welfare costs must necessarily be a direct calculation involving the anticipated increase in compulsive gamblers from .77% to between 1.5% and 5% of the population. As might be expected, probably 5% to 8% of Nevada's resident population consists of compulsive gamblers, although many Nevada officials are reluctant to admit these numbers, and of course, these numbers do not include the many visitors who come to Nevada and return to their home states as new compulsive gamblers.

Therefore, in a population base of 10 million, the increase in compulsive gamblers from .77% to a postlegalization range of between 1.5% and 5% would mean that social-welfare costs would increase by a multiplier somewhere between 2 and 6.5.[135] The conservative average "3% of the public" multiplier would be 3.9. Theoretically, social-welfare budgets would have to increase between approximately 100% and 550%, with the average being 300%. In

130. ILL. REV. STAT. ch. 8, para. 31.1(a) (1992).

131. *See* COLTFELTER & COOK, *supra* note 58, at 38.

132. *See, e.g.*, ILL. STATE POLICE, *supra* note 4, at 5.

133. "[C]ompulsive gambling is a relatively invisible problem in Nevada and Atlantic City because most of the afflicted are tourists. Consequently, the problems which arise from this addiction are likely to show up at the individual's place of residence and not in the casino city . . . ." *Id.* at 12.

134. *See generally* BETTER GOV'T ASS'N, *supra* note 3.

135. This multiplier as the lowest parameter obviously represents the postlegalization "minimum doubling rule." *See supra* notes 119-12 and accompanying text.

Illinois, for example, the social-welfare and service components[136] of the total 1992 state budget of $26 billion were $7.3 billion.[137] If only 10% of these components were related, directly or indirectly, to compulsive gambling problems, such as lost income or welfare checks,[138] spousal abuse, child abuse and neglect, and associated health costs,[139] the theoretical conservative increase would be from $730 million to between $1.5 to $4.75 billion. If these social-welfare components were utilized by a pure cross-section of society, 10% would be a fairly representative estimate.[140] These social-welfare components, however, are designed to address the very types of problems experienced and reflected by problem gamblers and their families, but usually without directly addressing the compulsive gambling problem per se. Therefore, the 10% estimate is probably too conservative. Furthermore, because every compulsive gambler negatively impacts between seven and seventeen other people,[141] virtually the entire population is negatively affected. Therefore, a 10% impact on social services is too conservative.[142]

Even the conservative projected increases in social-welfare costs are so large that these numbers alarm governmental, charitable, and social-welfare administrators, but because the hard data will follow from those states that first leap into the abyss, these numbers are only starting points. The relative newness of the legalized gambling phenomenon means that the time-lag during which these numbers are reached will vary from state to state and cannot yet be calculated within precise parameters. It is a virtual certainty, however, that these numbers will eventually be reached; the only questions are how quickly, and whether the social-welfare budgets can stay ahead of the increased demands. The

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136. In Illinois, these components include "medical assistance, income support, child and community care programs, and other health and social services." ILL. 1992 BUDGET, *supra* note 125, at 8.

137. *Id.*

138. United States Senator Paul Simon has noted these problems:

> An example is the State lotteries. If you go into the poorest section of Chicago or East St. Louis, you will see people lined up to buy lottery tickets. I am not on a crusade to do away with State lotteries, and if you were to take a vote in those very communities, I think they would want to keep them, because those lotteries represent hope for people.
>
> We have to learn to give people more substantial reasons for hope.
>
> And we have to find way[s] of raising revenue that do not impose on the weakest and poorest in our society.

138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (statement of Senator Simon). One study noted that 18% of compulsive gamblers sought "public assistance." GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 94. Included in this 18% figure were 6% who sought medical treatment public assistance. *Id.*

139. The theoretical sociological costs are enormous. *See generally* Lesieur, *Compulsive Gambling*, *supra* note 66, at 44-48.

140. *See, e.g.*, CLOTFELTER & COOK, *supra* note 58, at 92-94; GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 94 (reporting 18% of pathological gamblers sought public assistance); *see also supra* notes 79-80 and accompanying text.

141. Barbieri, *supra* note 79, at D5. "For every problem gambler, it is estimated that eight people are adversely affected." *Id.*

142. GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 2.

answer to the second question is that even under the most optimistic projections and scenarios, social-welfare budgets will probably not be able to meet 100% of the increased demands. With regard to the first question involving how quickly the increased social-welfare costs will develop, some interesting observations can be made from the experiences in South Dakota.

III. LEGALIZED GAMBLING IN DEADWOOD, SOUTH DAKOTA: A BLACK HOLE OF ECONOMICS IN THE BLACK HILLS

Before 1988, South Dakota did not permit any major form of legalized gambling except for the state lottery, which was initiated in 1987.[143] In 1988, the electorate voted to allow limited casino gambling to begin in 1989 in Deadwood, South Dakota,[144] theoretically to help the local economy.[145] The gambling interests made their traditional promises to persuade the electorate, including the promises that only a few casinos would be allowed and only in Deadwood.[146] Beginning November 1, 1989, the casinos were moving into Deadwood, and by 1990, gambling had been initiated on the South Dakota Indian reservations as a direct byproduct of the vote for the casinos.[147] Video-lottery terminals (VLTs),[148]

143. The 1986 public vote was 60% in favor of a state lottery, and the lottery began operation in 1987. CLOTFELTER & COOK, *supra* note 58, at 146; *see* I. Nelson Rose, Gambling and the Law: 1992 Elections Endless Fields of Dreams (1992) (unpublished manuscript, on file with Professor I. Nelson Rose, Whittier Law School).

144. Jeffry Bloomberg, State's Attorney for Lawrence County, S.D., Speech before the Coalition of Concerned Citizens Against Gambling in Jo Daviess County, (Nov. 17, 1991) [hereinafter Speech by Jeffry Bloomberg]; Letter from Jeffry Bloomberg, State's Attorney for Lawrence County, S.D., to John Warren Kindt, Professor, University of Illinois (Jan. 4, 1993) (containing crime statistics for Lawrence County, S.D.) [hereinafter Letter from Bloomberg to Kindt].

145. Speech by Jeffry Bloomberg, *supra* note 144; Richard Jameson, Speech before the South Dakota Citizens Forum Against Video-Lottery Terminals (Oct. 18, 1992). Two of the most potent, but invalid, arguments used by the proponents of legalized gambling are that gambling activities will help the economy and contribute substantial revenues to education. This latter argument has been used since 1964, when it was used in an unsuccessful campaign for a state lottery in California. CLOTFELTER & COOK, *supra* note 58, at 151. In fact, legalized gambling directly attacks educational interests both philosophically (*e.g.*, "get rich quick") and fiscally, because education funding in state budgets usually shrinks proportionately as it is diverted to social-welfare programs as they are pressured by the increasing social ills caused by legalized gambling activities.

146. "The voters were told the casinos would be isolated, low-stakes tourist attractions—mountain towns in Colorado; Deadwood, South Dakota; riverboats in Iowa." Rose, *supra* note 143, at 5.

147. Pursuant to *California v. Cabazon Band of Mission Indians*, 480 U.S. 202 (1987), once a state legalizes gambling, that state cannot prevent the Indian reservations located in that state from developing the same type of legalized gambling enterprises. *Id.* at 210-12. This case prompted the Indian Gaming Regulatory Act of 1988, Pub. L. No. 100-497, 102 Stat. 2467 (1988) (codified at 25 U.S.C. §§ 2701-2721, 18 U.S.C. §§ 1166-1168).

148. Video-poker machines in South Dakota were initiated on October 21, 1989. Video-machine gambling is known as the "crack-cocaine" of legalized gambling. It is not uncommon for a person who begins video-machine gambling to become addicted within one year. The South Dakota Lottery Commission reported a 1.4% compulsive gambling rate by October 1991, which was within two years of its inception. Another 1991 report that specifically referenced two years of

which were allowed under the same legislation as the lottery, began operating on October 21, 1989, and were commonplace throughout South Dakota by 1992. The residents of South Dakota were apparently unfamiliar with the basic principle driving the legalized gambling interests—that is, gambling organizations continually need to ensure their survival via rapid expansion, finding unexploited geographic areas or new market shares, or both.[149] In most cases, legalized gambling activities constitute reverse pump-priming and drain the economy, eventually pulling everything into what has been described as a "black hole of economics."[150]

The legislators in Colorado apparently did not monitor the South Dakota experiences because a referendum was passed in 1990 allowing casino gambling in Colorado. Restrictions were built into the new Colorado law and were supposed to limit casino activities, but failed.[151]

> Certainly, . . . [three Colorado towns] have gotten more than they bargained for. Instead of a few slot machines, full-blown casinos owned by Las Vegas veterans and real-estate developers have swept in, swallowing many mom-and-pop businesses along the way. Water, sewer and traffic systems have been overwhelmed, crime has increased, non-casino businesses face huge tax increases and the relative calm of local politics has been shattered.[152]

One longtime resident, John Starkey, a NASA electronics specialist, who helped organize the campaign to allow casinos and who even stood on street corners gathering signatures, regretted his former support despite a part-time job at a casino and planned to move out of town.[153] Mr. Starkey's reasoning was not atypical of similar scenarios. "We moved here because we liked the small town," he said. "We wanted a helping hand, but we didn't want devastation."[154]

These objections and the business-economic scenario are almost identical to the experiences of Deadwood, South Dakota, two years earlier.[155] The business-economic environment caused by the Colorado casinos forced so many of the pre-existing local businesses to close that by 1992 residents of Central City and Black Hawk, Colorado, had to drive forty miles for a quart of milk.[156]

In any event, the Deadwood, South Dakota experience serves as a microcosm of a developing gambling community—a black hole of economics in the

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VLTs calculated that over 2.5% of the South Dakota public was already addicted to gambling. BETTER GOV'T ASS'N, *supra* note 3, at 10.

149. *See* 138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (reprinting article of Economics Professor Earl Grinols, University of Illinois).

150. *See, e.g.*, Alf. Siewers, *Casino Hopes and Fears*, CHI. SUN-TIMES, Apr. 12, 1992, at 1, 67 (referring to I. Nelson Rose of the Whittier School of Law "who likened gambling to a 'black hole sucking all of the money out of the local economy'").

151. Charlier, *supra* note 42, at 1, 6.

152. *Id.* at 1.

153. *Id.*

154. *Id.*

155. Speech by Jeffry Bloomberg, *supra* note 144.

156. Charlier, *supra* note 42, at 6.

Black Hills of South Dakota. Given the limitations of its geographic location and the demographics of its population, South Dakota as a whole serves as a good example of what some other states and locales might expect if they accept gambling activities and the gambling philosophy. The Deadwood scenario also sheds light upon the time-lag problem involving the speed with which a socio-economic area is impacted and social-welfare costs increase. Although Deadwood was obviously not in a pristine economic petri dish and although arguments can be made that the influx of casino people impacted on the results, as of 1993, the South Dakota scenario served as the best case history of a rapidly developing casino economy.

Shortly after the advent of legalized casino gambling, the Deadwood casino economy lurched forward. The state attorney's office in Deadwood[157] indicated that within approximately two years:

1. Child abuse cases had increased 42% to 43% (from 350 to 500 cases);[158]
2. Police costs had increased 80% to 100%[159] with a virtual doubling of the number of police officers;[160]
3. Although national statistics had increased only slightly,[161] crime in the Deadwood area had increased overall by 10% (although prior to 1989 the crime rate had been declining) with a 50% increase in felonies.[162] Furthermore, there were 614 Class One misdemeanors or felonies in 1988, and 1070 in 1992, a 75% increase in four years;[163]
4. Domestic violence and assaults had risen 80%;[164] and
5. Burglaries and writing of bad checks had increased,[165] while illegal drug, prostitution, and drunk driving cases had remained relatively the same.[166]

It should be noted that these statistics have not peaked and will probably increase. Although the statistics relating to social problems are dramatic, the main point is that the time lag between the initiation of a gambling economy and the advent of large social-welfare costs and police costs can be quite short, contrary to what

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157. Speech by Jeffry Bloomberg, *supra* note 144.

158. *Id.* In one study, 8% of compulsive gamblers and 37% of their spouses physically abused their children. Lesieur, *Compulsive Gambling*, *supra* note 66, at 47 (referencing a study by Dr. Valerie Lorenz).

159. Speech by Jeffry Bloomberg, *supra* note 144.

160. Even though casino gambling began late in the year (on November 1, 1989), "[t]he police force has almost doubled, from five officers in 1989 to eight in 1991" with another officer to be added in 1992. Carl Noga, *Deadwood, S.D., A Model for Jo Daviess*, FREEPORT JOURNAL-STANDARD, Nov. 25, 1991, at 1, 5.

161. Speech by Jeffry Bloomberg, *supra* note 144.

162. *Compare* BENCHMARK 1988: ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 35 [hereinafter BENCHMARK 1988] *with* SOUTH DAKOTA COURTS, STATE OF THE JUDICIARY & 1990 ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 35 (Jan. 1991).

163. *Compare* BENCHMARK 1988, *supra* note 162, tbl. 15, at 35 *with* SOUTH DAKOTA COURTS, STATE OF THE JUDICIARY & 1992 ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM, tbl. 15, at 43 (Jan. 1993); *see also* Letter from Bloomberg to Kindt, *supra* note 144.

164. Speech by Jeffry Bloomberg, *supra* note 144.

165. *Id.*

166. *Id.*

many local government officials anticipated. In this instance, the economy was primarily a casino economy, which the public generally considers to be one of the "harder" forms of gambling, as distinguished from a state lottery, which is "softer." Even so, the time lags between the initiation of gambling and the large increases in the demand for local governmental services were definitely short and caught several government officials by surprise.[167]

Significantly, within the same two-year span, the Deadwood state attorney's office reported it had noticed that 3% to 5% of the population already appeared to be on the way to becoming problem gamblers and compulsive gamblers.[168] This was a chilling observation and a reminder that the compulsive gambling population could form rapidly,[169] and if this phenomenon were in fact occurring, it would help explain the dramatic increases in the social and criminal problems reported by the state attorney's office.[170]

Field research supports these observations. Fortunately, specific field research was being conducted in South Dakota and Iowa during relatively the same time frame. Given the strategic variables associated with state economies, the following results are not definite, but they support what socio-economic theories would find in a developing gambling state, such as South Dakota.

"One of the few available approaches to estimating the impact of gambling legalization on gambling problems in the general population is to contrast prevalence rates in geographically and demographically similar states where gambling availability is different."[171] Although the states obviously cannot be observed in a laboratory, a comparison of the states of South Dakota and Iowa may be one of the better examples because the strategic variables are more alike than in comparisons between most other states. "While this approach suggests the potential size of the impact of gambling legalization, it does not in any way *prove* such an impact."[172] Given these constraints, it is still quite revealing to compare South Dakota and Iowa with regard to the prevalence of pathological gamblers pursuant to the South Oaks Gambling Screen.[173] As summarized by Dr. Rachel Volberg, President of Gemini Research:

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167. *Id.*; Noga, *supra* note 160, at 1.

168. Speech by Jeffry Bloomberg, *supra* note 144.

169. Interestingly, there is some evidence that casino, racetrack, and sports gamblers do not become compulsive gamblers as quickly as some other categories of gamblers. "Slot machine addicts, poker machine addicts, lottery players and bingo addicts tend to 'bottom out' in less time than other types of gamblers, usually within two to three years of starting to gamble on this particular activity." LORENZ, *supra* note 65, at 4. Because all of these categories were represented in the Deadwood scenarios, in addition to casino gambling, the national data tends to support the observation of the development of a problem of compulsive gamblers within a two-year span. Furthermore, because addiction to casino gambling generally occurs more slowly than in the case of VLTs, Deadwood can probably anticipate higher percentages of the public to become addicted in the future. *See id.*

170. *See supra* notes 157-66 and accompanying text.

171. Letter from Dr. Rachel Volberg, President, Gemini Research, to Professor John Warren Kindt, University of Illinois 2 (Dec. 23, 1992) [hereinafter Letter from Volberg to Kindt].

172. *Id.*

173. The South Oaks Gambling Screen was developed to identify when persons became pathological gamblers. Henry R. Lesieur & Sheila B. Blume, *The South Oaks Gambling Screen*

As an example, we can compare the prevalence rates of problem gambling in Iowa and South Dakota. These two states are contiguous and their demographics are similar. The adult population in both states is predominantly Caucasian.[174] Similar proportions of the adult population in each state are under the age of 30, high school graduates, unmarried, and have annual household incomes under $25,000.[175] Analysis shows that lifetime gambling participation was 84% in Iowa in 1989 and 86% in South Dakota in 1991. The available legal forms of gambling in Iowa and South Dakota at the time of each survey were as follows:[176]

Iowa (1989)	South Dakota (1991)
Bingo	Bingo
Card Games	Card Games
Charitable Games	Charitable Games
Lottery (Instant, Lotto)	Lottery (Daily, Lotto)
Dog Racing	Dog Racing
	Horse Racing
	Pulltabs
	Video Lottery Terminals
	Casinos[177]

If horse racing is considered to be subsumed somewhat by its similarities to dog racing, then South Dakota has basically adopted pulltabs, casinos, and VLTs between 1989 and 1991. Specifically, the VLTs began operating on October 21, 1989, and the casinos began operating shortly after the VLTs on November 1, 1989. "The lifetime prevalence rate of problem and probable pathological gambling, as measured with the South Oaks Gambling Screen . . . was 1.7% in Iowa and 2.8% in South Dakota."[178] It is important to note that this field research reveals what socio-economic theorists would expect to find when extrapolating from other less complete, tangential, or related field research. Specifically, "[t]hese findings suggest that the introduction of widespread legal gambling, including pulltabs, casinos and video lottery terminals, was associated with a 1% increase in the prevalence rate of problem and probable pathological gambling over a 2-year period."[179] While these findings only suggest that the introduction of widespread legalized gambling caused a 1% increase in problem and pathological gamblers in the adult population, the national statistics show that increases

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(the SOGs): A New Instrument for the Identification of Pathological Gamblers, 144 AM. J. PSYCHIATRY 1184 (1987).

174. The similarity in adult populations reduces one major variable. *See* CLOTFELTER & COOK, *supra* note 58, at 95-104. (Footnote added).

175. These similarities in population demographics further reduce several major variables. *Id.* (Footnote added).

176. For ease of comparison, these categories have been placed in slightly different order from the original. *See* Letter from Volberg to Kindt, *supra* note 171, at 2. (Footnote added).

177. *Id.* (emphasis added).

178. *Id.*

179. *Id.*

will in fact occur until they reach between 1.5% and 5% of the population.[180] The only real debate is how long this process will take. In South Dakota, the increase of 1% occurred during a dramatically short two-year period. This phenomenon can be explained by South Dakota's introduction of VLTs, which sociologists widely regard as the "crack-cocaine" of gambling addiction.[181] Furthermore, the clinical observations by the state attorney's office in Deadwood, South Dakota, support the results of this field research.[182]

Considering that the socio-economic costs to South Dakota for each compulsive gambler is conservatively estimated at $52,000 per year,[183] a 1% increase in an adult population of 500,000 would result in 5000 new problem and probable pathological gamblers. This increase would cost South Dakota an added $260 million over a two-year period. This decline in the quality of life, combined with similar drains on the state economy,[184] would undoubtedly be noticed by the electorate.

The field research indicates that the adolescent population shows prevalence rates of 4% to 6% for compulsive gambling,[185] which is higher than the rates among the adult population. Because the adult population of South Dakota was 500,000 in 1991[186] and the total population was approximately 700,000[187] (ensuring that the correct census numbers are used for the same years),[188] the adolescent population probably constituted about one-third of the difference, or about 70,000.

The legalized gambling interests argue that it is illegal for the teenage population to gamble; therefore, the teenage population should not be included in these calculations. Studies show, however, regardless of the laws prohibiting teenage gambling, teenagers still gamble. Despite laws in Atlantic City restricting the casinos to persons twenty-one years and over,[189] a survey of teenagers in an Atlantic City high school revealed 64% of the teenagers had gambled in a casino, 21% had visited casinos more than ten times, and 9% still gambled at least once a week.[190] Studies between 1985 and 1987 indicated that 20% to 86%

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180. *See, e.g., id.*; BETTER GOV'T ASS'N, *supra* note 3, at 30 (reporting four studies with a range between 1.7% to 4.5%); *see also* CLOTFELTER & COOK, *supra* note 58, at 124-25.

181. *See* LORENZ, *supra* note 58, at 4. "Slot machine addicts [as well as] poker machine addicts . . . tend to 'bottom out' in less time than other types of gamblers, usually within *two to three years* of starting to gamble on this particular activity." *Id.* (emphasis added).

182. Speech by Jeffry Bloomberg, *supra* note 144.

183. BETTER GOV'T ASS'N, *supra* note 3, at 14.

184. *Id.* at 14-17.

185. The widely-accepted 4% to 6% range for compulsive gambling among the teenage population is reported by Dr. Durand Jacobs of the Loma Linda University Medical School. The overall range of prevalence rates for the teenage population is 4% to 15%. *See, e.g., id.* at 30.

186. *See infra* Appendix, Table 2.

187. CENSUS BUREAU, U.S. DEP'T OF COMMERCE, 1990 CENSUS, *reprinted in* THE WORLD ALMANAC & BOOK OF FACTS 389 (1992).

188. Of course, refining the population demographics for the same years enhances the accuracy of the results. From a strategic governmental perspective, however, the approximations are probably accurate enough given the cost and benefits of further refining the data.

189. ILL. STATE POLICE, *supra* note 4, at 15.

190. *Id.* (reporting the results of a 1985 study by Arcuri, Lester, & Smith).

of high school students had gambled for money within the previous year.[191] Studies between 1985 and 1987 also revealed that 4% to 32% of high school students in different studies (32% in New Jersey) reported gambling weekly or more often.[192] These studies and others[193] directly and indirectly support the widely accepted prevalence rates that 4% to 6% of the teenage population gamble compulsively.[194]

Accordingly, these higher prevalence rates among the teenage population support the extrapolation of the prevalence rates among the adult population into the rest of the population. From a strategic governmental perspective, these extrapolations constitute figures that are quite representative of the problems, given the extensive research costs and time constraints associated with further refining the data. Specifically, the South Dakota adult population of approximately 500,000 would indicate that a 1% increase in the prevalence rate of problem-probable pathological gamblers would cost $260 million. By comparison, the teenage prevalence rates would be approximately two to three times the adult rates, that is, at least 4% to 6% for teenagers nationwide compared to 2.8% for adults in South Dakota. Therefore, the "increase" in the prevalence rate among teenagers could be extrapolated at approximately two to three times the increase in the adult prevalence rates. The Connecticut prevalence rate of 15% for teenagers who are problem gamblers indirectly supports this proposition.[195] The result is that the rate of increase among teenagers yields approximately the same result as extrapolating the adult increase of 1% to include the entire population of South Dakota. Added to $260 million per year in costs for the South Dakota adult population is an approximately 2.5% increase in the teenage population of 70,000. This increase equals 1750 teenagers multiplied by $52,000 per year for an additional cost to South Dakota of approximately $91 million per year. The total of $341 million per year is approximately the same as taking the increase in the adult population of 1%, multiplying that increase by the overall population of 700,000, and multiplying the resultant 7000 by the costs of $52,000 per year, which equals $364 million per year.

From a strategic governmental perspective, the slight differences between the $341 million and $364 million estimates are probably not worth the added costs of refining the numbers. In either case, the costs to the state are still extremely large, particularly when compared to the projected tax revenues—approximately $50 million in the case of South Dakota.

This dramatic socio-economic impact perhaps explains why the November 1992 ballot in South Dakota reflected a referendum question that was designed to

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191. BETTER GOV'T ASS'N, *supra* note 3, at 23.

192. *Id.* at 26.

193. *See generally* ILL. STATE POLICE, *supra* note 4, at 15; *see also* BETTER GOV'T ASS'N, *supra* note 3, at 21-30.

194. *See supra* notes 117, 185 and accompanying text.

195. BETTER GOV'T ASS'N, *supra* note 3, at 30, app. G (reporting data from the Connecticut Council on Compulsive Gambling, Hamden, Connecticut).

ban VLTs.[196] Although this referendum question failed,[197] the mere fact that within less than one year the petition drive was mounted and successfully placed the question on the November ballot demonstrated that a substantial number of the electorate was alert to the economic negatives of VLTs.

IV. HOW LEGALIZED GAMBLING INTERESTS "PEG" THE TEN PERCENT MARKET CREAM OF THE GAMBLING PUBLIC

Regardless of these considerations, the most shocking statistic is that although the number of compulsive gamblers is between 1.5% and 5% of the population in states with legalized gambling,[198] the number of PEGs is approximately 10% of the population, even in those states that have only state lotteries.[199] PEGs are gamblers who are in the process of becoming problem or probable compulsive gamblers, or who are already compulsive gamblers. Therefore, even if the percentages of compulsive gamblers are challenged as being incorrect, the compulsive gambling statistics are confirmed by, and are subsumed in, the fact that 10% of the population[200] consists of PEGs in states with legalized gambling.[201] This observation is supported by studies that "strongly suggest that the introduction of a state lottery brings a large fraction of the adult population into commercial gambling."[202]

Nationwide, PEGs lose an average of approximately $900 annually.[203] In Illinois, for example, PEGs gamble and lose approximately 13.1%[204] more dollars than the national average—that is, approximately $1018 per year per Illinois PEG. If the population is conservatively estimated at 10 million, then 10%, or 1 million people in Illinois, are gambling approximately $1 billion.[205] This marketing group constitutes the primary "target group" or is "pegged" for the efforts of all gambling interests. Another 42% of the public gamble recreationally (approximately $500 million in Illinois), although the rest of the public (48%) do not gamble at all.[206]

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196. Richard Jameson, Speech before the South Dakota Citizens Forum Against Video-Lottery Terminals (Oct. 18, 1992).

197. The vote to keep VLTs was 205,640 (62.8%); the vote against VLTs was 121,848 (37.2%). Rose, *supra* note 143, at 1.

198. *See supra* notes 102-06 and accompanying text. These percentages of CEGs were paralleled by percentages in a 1992 Gallup poll. The poll indicated that 5% of the public admitted "gambling caused family problems" and 7% enjoyed gambling "a lot." NEWS SERVICE 12-16-92, *supra* note 96, at 1-3.

199. *See* CLOTFELTER & COOK, *supra* note 58, at 92-94. Interestingly, 10% of the public in a 1992 poll admitted they "gamble too much." NEWS SERVICE 12-16-92, *supra* note 96, at 3.

200. *See* CLOTFELTER & COOK, *supra* note 58, at 92-94.

201. *Id.* at 104-05.

202. *Id.* at 104.

203. *See id.* at 26-27.

204. *See id.*

205. These percentages are reflected in the Illinois state lottery numbers of approximately $1.5 billion in sales per year. *See* ILL. 1992 BUDGET, *supra* note 125, at 64-65. State lottery figures are used because there are fewer variables, the data is more straightforward, and the data is less subject to reporting errors.

206. CLOTFELTER & COOK, *supra* note 58, at 93.

According to Thomas Grey, Director of Legislative Affairs for the Illinois Church Action on Alcohol Problems (ILLCAAP), persons do not have to be "rocket scientists"[207] to understand that gambling activities have large negative impacts on society and the economy. In fact, gambling activities are highly negative to the welfare of the strategic economy and traditional pre-existing businesses. The socio-economic numbers support what many people instinctively realize: gambling activities are inherently parasitic, feeding on and causing harmful side effects to portions of the population in interstate, state, and local economies. Because populations are economically interrelated, the socio-economic costs eventually span those population bases directly and indirectly associated with legalized gambling activities. In this regard, gambling is different from other business endeavors.

V. CLAIMS OF UNFAIR COMPETITIVE ADVANTAGES ENJOYED BY LEGALIZED GAMBLING ORGANIZATIONS

Traditional businesses are at a competitive disadvantage when pitted against legalized gambling interests. It is difficult enough for one business to meet its normal competition, but it is extremely difficult to compete for consumer dollars with gambling enterprises that are advertising a well-recognized addictive activity.[208] Furthermore, "[g]ambling is not a fundamental right."[209] According to economics professor Earl Grinols of the University of Illinois, gambling "is a state-regulated monopoly allowed for the convenience of the state,"[210] and according to sociology professor Vicki Abt of Pennsylvania State University,

> Casinos compete too well in a capitalistic society. Land values are inflated by speculation; skyrocketing real estate taxes overwhelm local residents who do not sell out to speculators; and existing institutions and recreation facilities cannot match the attraction and economic clout of the casinos.[211]

Furthermore, consideration needs to be given to the economic impact on the individual. "In the case of state lotteries, the vast majority of those who play will never see a return on their investment; in their case, the lotteries feed illusions, not dreams."[212]

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207. Thomas Grey, Dir. Legis. Affairs for Illinois Church Action on Alcohol Problems, Speech before the Seminar on Gambling Issues in Illinois (May 20, 1992); *see The 700 Club* (television broadcast, Oct. 1, 1992) (interview with Thomas Grey, Dir. Legis. Affairs for Illinois Church Action on Alcohol Problems).

208. In 1979, the World Health Organization officially recognized pathological gambling as an addiction.

209. Grinols, Champaign Report, *supra* note 114, at 3.

210. *Id.*

211. Vicki Abt, *Is Gambling Fiscally Respectable?*, CHI. TRIB., July 21, 1990, § 1, at 11.

212. *Id.*

In addition, the guaranteed geographic market areas allowed in some states, such as in Illinois for both riverboat gambling[213] and off-track betting parlors,[214] are slowly being recognized by traditional businesses as constituting unfair competitive advantages legally granted by state governments to the gambling organizations.[215] Furthermore, the legalized gambling interests apparently wish to avoid competition, particularly between different gambling organizations or between specialized gambling markets. One of the sponsors of the $2 billion casino complex which was proposed for Chicago, President J. Terrence Lanni of Caesars World, reportedly indicated in an attempt to gain legislative approval for the complex, "We would give up the right to operate a sports parlor in the state of Illinois."[216]

> We would offer that to the racing industry to operate in our facility for their benefit, *and we would not compete with them.* We would turn that over to them, as we would the race book, both in the casino complex and anywhere else in Illinois. . . . It certainly can be big money. We do very well in race and sports books in Nevada.[217]

Traditional businesses resent that they must compete with the gambling interests not just for the so-called "entertainment dollar" or "recreational dollar," but for other consumer dollars as well. Generally, traditional businesses were slow to recognize the way in which legalized gambling organizations captured dollars from across the entire spectrum of the various consumer markets. Although these businesses were not naive, the ban on legalized gambling for most of the twentieth century meant that they had never operated in a gambling environment. Therefore, the manifestations and promises of the gambling interests had to be taken at face value—although the elected government officials who cavalierly allowed or endorsed legalized gambling should have done their homework. In particular, United States Senator Paul Simon of Illinois criticized and chastised local and state officials for their shortsightedness.[218]

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213. *See* ILLINOIS ECON. & FISCAL COMM'N, WAGERING IN ILLINOIS 49 (1992) [hereinafter ILL. ECON. COMM'N].

214. *Id.* at 26.

215. *See generally id.* at 52; *East St. Louis Loses Casino Guarantee*, NEWS-GAZETTE (Champaign, Ill.), May 8, 1992, at A5 [hereinafter *Casino Guarantee*].

> Cook County Judge Edwin M. Berman ruled . . . that it was unconstitutional for the state to guarantee East St. Louis a license when it wrote legislation on floating casinos.
>
> Berman said the Gaming Board may not consider that portion of the law but could award a license to East St. Louis based on other guidelines in the law.

Id. Critics of legalized gambling claim that this scenario exemplifies the silliness of the litigation and legislative efforts that are based on faulty economic presumptions. *See* Thomas Grey, Address at the National Anti-Gambling Conference (May 14, 1994).

216. Fran Spielman, *Casino Ultimatum*, CHI. SUN-TIMES, July 10, 1992, at 1, 34.

217. *Id.* (quoting Caesars World President J. Terrence Lanni) (emphasis added).

218. 138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (statement of Sen. Simon); *see* Interview with U.S. Senator Paul Simon, WMAQ-AM, Chicago, Ill., June 19, 1992; *Simon Urges Caution*, *supra* note 52.

The public slowly began to recognize the extent and impacts of these protected competitive advantages and the word "monopoly" began to appear in the press,[219] even by supporters of the legalized gambling interests.[220] These supporters suggested that there was "no reason the state should protect *sanctioned monopolies* such as the lottery and horse tracks or quasi-private off-track betting parlors and gambling boats and other favored enterprises."[221] Furthermore, the supporters twisted the argument that these monopolies should not be legalized into the argument that they should be legalized, but regulated by the state to protect the public. Those regulations, however, were often drafted by the gambling interests themselves.[222] Under the guise of protecting the public, these interests allegedly included regulatory elements that guarantee allegedly unfair competitive advantages to the gambling organizations.[223]

In addition, the marketing conducted by gambling enterprises sells hope,[224] and thereby cuts across all spectrums of consumer spending. Gambling interests are competing not just for the consumer's "entertainment dollar" as they claim, but for all consumer dollars, including the savings dollars. Once discretionary income is exhausted, 10% of the public will draw on their savings accounts (including dollars normally directed to mortgage principal, interest, real estate taxes, and homeowners' insurance). Subsumed in this 10% are the 1.5% to 5% of the public who are compulsive gamblers and will exhaust an average of $15,000 per year[225] over a maximum fifteen-year period before "bottoming out."[226] In addition, compulsive gamblers also go into debt an average of $80,000 to finance their compulsive gambling.[227]

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219. *See, e.g.*, Editorial, *Legalize Casino Gambling*, DECATUR HERALD & REV. (Ill.), Apr. 21, 1992, at 2 [hereinafter *Legalize Casino Gambling*].

220. *Id.*

221. *Id.* (emphasis added).

222. For example, concerning the 1992 proposed casino complex for Chicago, Mayor Richard Daley's "mayoral allies confided [to the Chicago Sun-Times] that a casino bill [was] being drafted by City Hall for introduction [to the Illinois state legislature's 1992 spring session]." Fran Spielman, *Daley Blasts Crime Panel*, CHI. SUN-TIMES, June 19, 1992, at 3.

223. *See, e.g.*, ILL. ECON. COMM'N, *supra* note 213, at 52. *See generally Legalize Casino Gambling*, *supra* note 219, at 2.

224. *See generally* CLOTFELTER & COOK, *supra* note 58.

225. *See* GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 156.

226. *Id.*

227. *Id.* at 2.

> Researchers have reported on different rates of indebtedness of pathological gamblers in treatment. The mean gambling-related debt (excluding auto loans, mortgages, and other "legitimate" debt) of individuals in treatment ranges from $53,350 to $92,000. Female Gamblers Anonymous (GA) members have a lower level of gambling related debt averaging almost $15,000. This is only the debt that they accumulate and does not include the debt they pay off. For an estimated 18 percent of males and 8 percent of females in studies of treatment samples and members of Gamblers Anonymous, this eventually led to bankruptcy.

Lesieur, *Compulsive Gambling*, *supra* note 66, at 44 (citations omitted). During a twenty-year period in New Jersey, "over $514 million dollars was accumulated in debt by compulsive gamblers in that state alone *per year*." *Id.* at 44-45. As a function of state population, this parallels the

Over a seven-year period, the theoretical loss to a population base of ten million people ranges from $28 to $93 billion.[228] Most of these dollars are lost to the economy of the population base because the dollars are spent on gambling activities instead of on consumer goods and services. Real resources are shifted out of traditional goods and services. Once again, the time period during which this phenomenon occurs is difficult to calculate. The evidence from Deadwood, South Dakota suggests, however, that the "hard forms" of gambling associated with casino gambling constitute a virulent catalyst to this phenomenon, because 3% to 5% problem and pathological gamblers had begun to manifest themselves in Deadwood within a two-year period.[229] Additionally, video gambling has been commonly known to addict gamblers within a one-year period or less; hence, sociologists and medical communities widely refer to video-gambling as the "crack-cocaine" of gambling addiction.[230]

VI. THE INVALID ARGUMENT OF LEGALIZING GAMBLING ACTIVITIES TO CAPTURE TAXES FROM PRE-EXISTING ILLEGAL GAMBLING

According to sociology professor Vicki Abt, "the fiscal respectability of legalized gambling is largely a sham."[231]

> The myth [of legalized gambling] also presumes that legalization, rather than enforcement of anti-gambling laws, will eliminate the seamier, underground forms of gambling, thus directing proceeds into the right hands. However, it is illogical to assume that either casinos or lotteries will divert a substantial amount of existing wagering from illegal channels.[232]

Despite the myth that legalizing gambling activities captures taxes from pre-existing illegal gambling, a 1992 Gallup poll suggests that 61% of the public still believe it, while 38% do not.[233]

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formula of the range to be expected in New Jersey. The calculation is: $80,000/15 years x 1.5% x (state population) = $5,333/year x 1.5% x (7.7 million) = $616 million/year.

228. Compulsive gamblers will eventually pump their discretionary asset base (over an average seven-year period) and their credit base into gambling pursuant to the following formula: ($15,000 x 7 years) (1.5-5% x population base) + $80,000 (1.5-5% x population base) = total projected loss to economy of the population base.

In a population base of 10 million, this formula yields parameters of $16 billion to $53 billion plus $12 billion to $40 billion, which equals $28 billion to $93 billion. *See generally* GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 59-61, 156.

229. *See supra* notes 168-70, 178-82 and accompanying text.

230. A scenario similar to the Deadwood scenario might also explain the large returns generated by the Excalibur Hotel in Las Vegas from 1990 to 1991. James Coates, *Vegas' Tip to Chicago: Casino is Family Fun*, CHI. TRIB., Apr. 10, 1992, § 1, at 1, 10.

231. Abt, *supra* note 211, at 11; *see also* VICKI ABT ET AL., THE BUSINESS OF RISK: COMMERCIAL GAMBLING IN MAINSTREAM AMERICA (1985).

232. Abt, *supra* note 211, at 11.

233. NEWS SERVICE 12-5-92, *supra* note 100, at 2.

Theoretically, in a gambling-free state of ten million, .77% of the population are compulsive gamblers who spend $1.15 billion on illegal gambling. Once gambling is legalized, this number doubles (under the minimum doubling rule) to approximately $2.25 billion (and could go as high as $7.5 billion). As a case example, Illinois's numbers parallel what might be expected; specifically, about $2 billion bet legally in Illinois. Conservatively, the $1.1 billion could equal 65% of the legal wager (if only compulsive gamblers are considered and not problem gamblers). Therefore, the state lottery "handle" or gross should be $1.1 billion (65%) + $.6 billion (35%) = $1.7 billion. The actual 1992 Illinois handle for the state lottery was $1.6 billion.[234] The small difference (from a strategic perspective) can be explained by the fact that other forms of legalized gambling were rapidly developing in Illinois during 1992. It should be noted that the $1.15 billion in illegal gambling may or may not have been "captured" somewhat by the legalization of gambling.

Gambling is generally legalized for the purpose of capturing tax revenues, but the pre-existing illegal gambling dollars have a tendency to go to harder forms of gambling that are usually still illegal for the simple marketing reasons that the odds are better and the "thrill factor" is greater Merely legalizing some forms of gambling will not induce illegal gamblers to convert en masse to legalized gambling. To pre-existing illegal gamblers, the thrill of gambling is lost somewhat by legalized gambling, and therefore, the propensity of illegal gamblers is strongly toward continued illegal gambling. If the illegal gambling market was moving en masse into legalized gambling, the total handle, or gross, on a 1992 population base of 10 million, such as in Illinois, would be [$15,000 x 1.5% x (state population)] / .65 = $3.5 billion. Illinois's approximately $1.6 billion bet in the state lottery and $.8 billion in other legalized gambling supports the proposition that the illegal gambling market is still much the same as it has always been. What the legalization of gambling really accomplishes is to seduce a whole new market segment of the public into gambling activities.[235] Therefore, legalizing gambling probably does little or nothing to capture and tax the illegal gambling market.

Although these calculations are largely theoretical, they must necessarily be so because it is virtually impossible to conduct research in the area of *illegal* gambling activities. There is no authoritative evidence, however, showing that illegal gambling activities are captured or taxed by legalizing gambling activities. Conversely, the landmark United States Commission on the Review of the National Policy Toward Gambling reported in 1976 that there was "some evidence that the existence of gambling sanctioned, licensed, or run by the various States—and the attendant publicity—tends to increase citizen participation in *illegal* as well as legal gambling."[236] More conclusively, in 1988 the New Jersey Governor's Advisory Commission on Gambling "heard from law enforcement officials in New Jersey who contended[ed] that legalized gaming has not only

234. ILLINOIS ECON. COMM'N, *supra* note 213, at 3, 71.

235. CLOTFELTER & COOK, *supra* note 58, at 104-06; *see* Lesieur, *Compulsive Gambling*, *supra* note 66, at 43.

236. U.S. COMM'N ON GAMBLING, *supra* note 104, at 49 (emphasis added).

failed to curb illegal gambling but in fact has been conducive to its growth."[237] The Commission ultimately concluded that legalized gambling did not decrease the illegal gambling in New Jersey.[238]

Once in full operation, the legalized gambling enterprises will drain a minimum of \$2.25 billion per year out of a population base of 10 million.[239] Almost all of these gambling dollars will continue in gambling activities. Without legalized gambling, approximately 50% of that \$2.25 billion (or \$1.1 billion)[240] would be spent annually in the regular economy on services and on durable and nondurable goods—which would act as a positive multiplier, generate more orders for durable and nondurable goods, and create more service jobs and production jobs. These numbers do not include the other 42% of the public who will gamble, but gamble only 35% percent of the gambling dollars,[241] while the 10% PEGs gamble 65% of the gambling dollars.[242]

VII. AN OVERVIEW OF THE MEGAPROFITS STRATEGIES OF THE LEGALIZED GAMBLING ORGANIZATIONS

When gambling organizations capture the 10% PEGs, the market cream, the return on investment that those gambling organizations can expect is several times what a normal corporation or business could expect. The enormous profit margin to be anticipated explains why (unlike another \$2 billion proposal from, for example, a department store chain) the sponsors of the proposed \$2 billion Chicago gambling complex—Hilton Hotels, Caesars World, and Circus Circus—appeared to be willing to pay up front for all of the Chicago land and infrastructure needed for the complex and not pressure for concessions in these areas. Such a policy would help assure that the current landowners and nearby Chicago businesses would be supportive of the proposal. The sponsors of the casino complex, however, wanted a 50% tax reduction (from 20% down to 10%)[243] that would transfer the costs away from Chicago and to the Illinois taxpayers. The "leaked" public relations documents of the sponsors of the casino complex indicated they were highly confident in their ability to reduce any potential state and local taxes by 50%.[244] Arguably, the sponsors also pressured for a partial five-year tax waiver because they knew that most of their monies would be made during the first five years.

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237. N.J. GOVERNOR'S ADV. COMM'N ON GAMBLING, REPORT AND RECOMMENDATIONS 19 (1988).

238. *Id.*

239. The basic calculation is: \$15,000/year x 1.5% x (state population) = \$2.25 billion.

240. The basic calculation is: \$15,000/year x (1.5% - .77%) x (state population) = \$1.1 billion.

241. *See* CLOTFELTER & COOK, *supra* note 58, at 92-94.

242. *Id.*

243. BETTER GOV'T ASS'N, *supra* note 3, app. Q, at 24.

244. *Id.* The pre-existing tax rate was 20%. According to the public relations firm working for the sponsors of the casino complex, "those [citizens] who persisted in arguing the unfairness of a 10% vs. 20% rate of taxation were dispensed with by comments such as . . . 'Would you rather have 10% of something than 20% of nothing?'" *Id.*

The enormous profits (and returns on investment) generated during the first five years[245] made it a savvy strategy for the sponsors of the casino complex to lobby for tax concessions.[246] Relevant examples of these large profits were common:

> Circus Circus opened the Excalibur [in Las Vegas] in 1990, adding another 4,000 hotel rooms in a project that made the Excalibur the biggest hotel in the United States. [In 1991] the company stunned market analysts by announcing it had already paid off the Excalibur mortgage from operating revenues.[247]

It is astounding for any business to be able to pay its entire mortgage in less than two years. A fortiori, it is almost unbelievable that the source of the funds was operating revenues, which by definition includes net profits, the mortgage amount, and all other expenses. By comparison, traditional businesses are quite satisfied if they make an annual 5% to 10% "return on investment." Accordingly, it is remarkable for an organization, such as the Excalibur, to make over a 100% return on investment over a short period of time (especially if that return was over a one to two year period).

The megaprofits expected to be generated during the first five years of operation explains why the sponsors of the Chicago casino complex wanted a permanent 50% tax reduction from 20% to 10% (or even 7.7%)[248]—perhaps combined with a partial five-year tax waiver. The state of Illinois could hypothetically raise the tax rate from 20% to 50% with no tax waivers, and it would still be profitable for any sponsors of a potential casino complex to come to Chicago, particularly because they would be the first large casino-style gambling to tap the 10% market of PEGs and newly generated compulsive gamblers.

Of course, the key for the gambling organization is to control that 10% of the market. This 10% prime market explains why gambling interests do not like to compete with each other. For example, the off-track betting parlors and the riverboats in Illinois lobbied incessantly for, and received, specified geographic markets.[249] This phenomenon also explains why gambling interests are extremely eager to establish themselves quickly in areas where there are no legalized gambling enterprises already—that is, they wish to skim the cream off the top of the market, which consists of the 52% of the public who will gamble, but especially the 10% PEGs (included in the 52% total). If the gambling enterprise

245. The partial or total waiver of taxes for five years is a common strategy of gambling organizations, and it has been remarkably successful. For examples of the off-track betting organizations' use of five-year tax waivers in Danville and Vermilion County, Illinois, see *supra* note 3 and accompanying text.

In Fort Madison, Iowa, the riverboat left after a few months, leaving the city with a 15-year, $2.2 million tax bond obligation. Petroski & Fuson, *supra* note 3, at 2. John Pick, City Manager of Fort Madison, stated, "I think people in town will definitely feel betrayed." *Id.*

246. *See* Petroski & Fuson, *supra* note 3, at 2.

247. Coates, *supra* note 230, at 10.

248. *See* PROPOSED GAMING, *supra* note 8, at 270-71.

249. *See* ILLINOIS GAMING BOARD, ANNUAL REPORT AND WAGERING STUDY 1991, app. D (illustrating the geographic markets for Illinois riverboats).

cannot be the first legalized gambling activity into a given geographic market area, then it wants to be the hardest form of gambling in that area because gambling dollars (especially the 10% PEGs) tend to migrate from the softer forms of gambling to the more thrilling or harder forms. Theoretically, the normal progression in which the dollars will move is from the state lottery to:

1. race tracks (both dog and horse tracks);
2. off-track betting parlors (because they take the betting to the geographic markets instead of waiting for the gamblers to come to the tracks);
3. riverboat gambling (if geography permits);
4. land-based casino gambling;
5. video-machine gambling; and
6. harder and more accessible forms of gambling.[250]

Gambling interests must continually expand, provide greater thrills, or otherwise get harder forms of gambling to keep attracting players. More and more marketing gimmicks, including so-called "family entertainment centers," must continually be used to lure people temporarily back into a softer form of gambling. Therefore, a gambling organization wants to be first into a pristine geographic market and wants a guaranteed geographic market so there is no other gambling competition. If these conditions are not possible, the gambling organization wants to be the hardest form of gambling in its own geographic market.

VIII. A SUMMARY OF THE UNIQUE SOCIAL COSTS ACCOMPANYING LEGALIZED GAMBLING ACTIVITIES

Unlike any other type of business activity, there are many social costs that invariably accompany the introduction of legalized gambling enterprises into a pre-existing economy. In addition to the socio-economic costs that have already been discussed, there exist many other costs that are in the initial stages of being identified and studied. For example, once all of their assets and credit have been drained into gambling activities, compulsive gamblers are tempted to engage in embezzlement or other illegal activities to finance their habits,[251] and approximately 20% of compulsive gamblers attempt suicide.[252] Studies indicate that 15% to 25% of all compulsive gamblers have attempted suicide, which is five to ten times higher than the percentage for the general population.[253]

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250. *See, generally*, Richard Thalheimer, An Analysis of the Impact of Intra-State Intertrack Wagering, a State Lottery and Casino Gambling on Parimutuel Horse Race Wagering: New Jersey—An Expanded Analysis (School of Bus., Univ. Louisville) (highlighting the movement of gambling dollars from horse racing to casinos).

251. LORENZ, *supra* note 65, at 4, 6-7.

252. *See* Lesieur, *Compulsive Gambling*, *supra* note 66, at 46. The suicide rates of compulsive gamblers are in the range of 11% to 24%. Between 11% and 14% of the spouses of compulsive gamblers attempt to commit suicide, which is "three times higher than the reported rate of suicide attempts in the general population." *Id.*

253. GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 27 (25%); BETTER GOV'T ASS'N, *supra* note 3, at 20 (15% to 20%); Lesieur, *Compulsive Gambling*, *supra* note 66, at 45 (15% to 24%).

The negative financial and sociological impacts on family members, friends, and others, between seven and seventeen people per compulsive gambler, are enormous and must be borne by charities, social-welfare organizations, and federal, state, and local governments. Aside from the asset losses or rehabilitative costs, each compulsive gambler is estimated to cost society at least $45,000 per year.[254]

Legalized gambling has often been described as a black hole of economics,[255] which begins by slowly draining the financial viability out of communities and then picking up speed as the dollars disappear. Similarly, it should not be surprising that many charities have identified the 10% PEGs as a "tithe of people" being sacrificed to the idols of gambling.[256] In Nevada, the 5% of the public who appear to be compulsive gamblers plus the 5% who are in the process of becoming compulsive gamblers[257] support this contention.

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254. GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 2 ($30,000 per year in embezzled and abused dollars plus $15,000 per year in lost work productivity).

255. *See generally* Siewers, *supra* note 150.

256. *See* Bishop R. Sheldon Duecker, Address at the National Anti-Gambling Conference (May 13, 1994); *see also* ALTA. GAMING, *supra* note 96, at 18.

257. From a business-economic perspective, the CEG is basically the same as the pathological gambler. The PEGs, however, consist of the 10% of the public who lose 65% (or by some estimates 50% to 90%) of the legalized gambling dollars. The PEG category subsumes the CEG category. Sociologists, psychiatrists, and psychologists should not interchange or confuse their category of problem gambler with the problem economic gambler. The PEG 10% category subsumes the categories of the pathological gambler, the probable pathological gambler, the possible pathological gambler, the problem gambler, and similar categories.

APPENDIX

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Table 1

Increased Crime After the Advent of Casino Gambling[258]
Lawrence County, South Dakota, Case Filings[259]

					Casino Gambling Begins 11/1/89		
	1986[260]	1987[261]	1988[262]	1989[263]	1990[264]	1991[265]	1992[266]
Class 2 Misdemeanors[267]	3997	3878	3683	3758	4325	4279	5309
Class 1 Misdemeanors[268]	629	591	483	507	569	685	900
Felonies	127	129	131	132	197	178	170

258. These increased crime statistics might be explained in part by increases in the numbers or types of persons attracted to the community with casino gambling. *See* Speech by Jeffry Bloomberg, *supra* note 144. This table is modified from a table contained in Letter from Bloomberg to Kindt, *supra* note 144.

259. Source: South Dakota Supreme Court annual reports.

260. BENCHMARK 1986: ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 37.

261. BENCHMARK 1987: ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 35.

262. BENCHMARK 1988: ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 35.

263. BENCHMARK 1989: ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 35.

264. SOUTH DAKOTA COURTS, STATE OF THE JUDICIARY & 1990 ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 35 (Jan. 1991).

265. SOUTH DAKOTA COURTS, STATE OF THE JUDICIARY & 1991 ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 39 (Jan. 1992).

266. SOUTH DAKOTA COURTS, STATE OF THE JUDICIARY & 1992 ANNUAL REPORT OF THE SOUTH DAKOTA UNIFIED JUDICIAL SYSTEM tbl. 15, at 43 (Jan. 1993).

267. "Class 2 Misdemeanors" include insufficient funds checks. "[T]he bulk of the increase from 1989 to 1992 . . . [appears to be] a result of increased bad check prosecutions." Letter from Bloomberg to Kindt, *supra* note 144.

268. "Class 1 Misdemeanors" subsumes "simple assaults and DWI's and it appears that both categories have increased since 1988." *Id.*

Table 2

Comparison of Prevalence Rates:
Problem and Probable Pathological Gamblers[269]

Jurisdiction	Prevalence Rate in Population (%)[270]	Date	Sample Size	Researcher(s)
California[271]	4.1-4.5	1990	1250	Jacobs
Connecticut	6.3	1991	1000	Volberg
Iowa	1.7	1989	750	Volberg
Maryland	3.9	1988	750	Volberg/Steadman
Massachusettes	4.4	1989	750	Volberg
Minnesota	2.4	1990	1251	Laundergan, et al.
Montana	3.6	1992	1020	Volberg
New Brunswick	6,0	1992	800	Baseline
New Jersey	4.2	1988	1000	Volberg/Steadman
New York	4.2	1986	1000	Volberg
New Zealand	6.9	1991	4000	Abbott/Volberg
North Dakota	3.5	1992	1517	Volberg
Quebec	3.8	1989	1002	Ladouceur
South Dakota	2.8	1992	1560	Volberg/Stuefen
Texas	4.8	1992	6308	Wallisch
Washington	5.1	1992	1502	Volberg
		Adolescent Population (Under 18)		
California[271]	4.0	1985	843	Jacobs, et al.
California[271]	4.0	1987	257	Jacobs, et al.
Connecticut[271]	15.0	1988	573	Steinberg
New Jersey	5.7	1987	892	Lesieur/Klein
Quebec	3.6	1988	1612	Ladouceur/Mireault
Texas	12.4	1992	924	Wallisch
Virginia[271]	12.0	1987	212	Jacobs, et al.
Washington	8.0	1993	1054	Volberg

269. Source: Modified from ALTA. GAMING, *supra* note 96, at 18; *see also* Durand F. Jacobs, *Illegal and Undocumented: A Review of Teenage Gambling and the Plight of Children and Problem Gamblers in America*, in COMPULSIVE GAMBLING 252, 256 (H. Shaffer, et al. eds. 1989); TEXAS COMM'N ALCOHOL & DRUG ABUSE, GAMBLING IN TEXAS 1, 4-5 (1993).

270. Some of these prevalence rates are calculated for localized areas and may not be representative of the entire population base of the jurisdiction.

271. Jacobs, *supra* note 269, at 256-57. The diagnostic criteria and demographics between studies vary somewhat, but these numbers appear to be representative of the criteria established pursuant to the South Oaks Gambling Screen for determining problem and probable pathological gambling. *See* Lesieur & Blume, *supra* note 173.

Table 3

Taxpayer Costs[272] Formulas[273]
Strategic Business/Economic Costs of Legalized Gambling to State[274] Economies

Column 1	Column 2	Column 3	Column 4
State Without Legalized Gambling	After Gambling Has Been Legalized		
Number of Compulsive Economic Gamblers[275]	Initial Increase in Compulsive Economic Gamblers (1-5 years)[276]	Conservative Projected Increase in Compulsive Economic Gamblers (5-20 years)[277]	Conservative Average Estimate of Compulsive Economic Gamblers (1993)[278]
.0077 x State Population *PLUS*	.0073 x State Population	.0423 x State Population	.02 x State Population

272. These taxpayer costs constitute real costs to taxpayers and state governments. To compensate for these costs, taxes must theoretically be increased dollar for dollar. Because state governments are unlikely to raise taxes dollar for dollar, the alternatives are (1) to divert dollars from education to address the increased social-welfare and crime costs, (2) to transfer many of these costs to "charitable organizations," (3) to adjust to a decline in the pre-existing "quality of life" values, (4) to raise taxes somewhat, (5) to transfer many of the societal costs such as "rehabilitative costs" to businesses, or (6) to implement some or all of these strategies to some extent. This last scenario is the most likely. It should be noted, however, that all of these increased costs to taxpayers and state governments can be avoided by simply not legalizing gambling activities.

273. To utilize these formulas, take the numbers from columns one, two, three, or four and multiply by the numbers in column six (or column seven) to estimate the total costs in a particular "cost category." Of course, all of these numbers will be modified as new data becomes available, but they are predicted to increase in the future. The most conservative and frequently utilized cost of a compulsive gambler is $52,000 per year.

274. Obviously, to calculate these costs for any city, county, or other population, substitute those census numbers for the state population. For population numbers, see THE WORLD ALMANAC (1993). It should be noted that in legalized gambling states, 10% of the public are already spending approximately $1000 per person per year on state lotteries. *See generally* CLOTFELTER & COOK, *supra* note 58.

Table 3 (continued)

Column 5 Cost Category	Column 6 Average Cost Per Compulsive Gambler Per Year[279]	Column 7 Average Cost Per "Bottomed-Out" Compulsive Gambler Per Year
Lost Consumer Dollars[280]	$29,000	$34,000
Lost Work Productivity[281]	$23,000	$27,000
White-Collar Crime Costs[282]	?	$4,123
Intermediate Incarceration Costs[283]	?	$21,000
Subtotals	$52,000[284]	$86,123
Long-Term Imprisonment Costs[285]	?	$3,750
Rehabilitative Costs[286]	?	$20,000
Debt Accumulation[287]	?	$75,000
Other Socio-economic Costs[288]	?	?
Commonplace Crime Costs[289]	?	?
Gambling System Crime Costs[290]	?	?

275. *See* U.S. COMM'N ON GAMBLING, *supra* note 104.

276. Once gambling is legalized, the number of compulsive gamblers doubles within one to five years because of the accessibility and acceptability of gambling. Accordingly, the "minimum doubling rule" provides that all of the costs associated with compulsive gambling will increase by at least 100% once gambling is legalized. BETTER GOV'T ASS'N, *supra* note 3, at 2. Pursuant to the field research, the "findings suggest that the introduction of widespread legal gambling, including pulltabs, casinos and video lottery terminals, was associated with a 1% increase in the prevalence rate of problem and probable pathological gambling over a 2-year period." Letter from Volberg to Kindt, *supra* note 171, at 2. This observation was made of the adult problem and probable pathological gamblers. This type of increase and the prevalence rates seem to be somewhat more intense among the teenage population, and, therefore, it would be conservative to extrapolate the adult prevalence rates into the teenage population to get theoretical rates reflecting all of the population (except children). *See infra* note 277.

Once more long-term field data becomes available, a formula for projecting the future number of compulsive gamblers might be:

$$N_G = N_O e^{mt}$$

Of course, N_G would be the projected growth in the number of compulsive gamblers. The number of compulsive gamblers in the initial period would be N_O. Taking the baseline 1975 prevalence rate of .0077 multiplied by the population (or more precisely, the adult population of an area in 1975) would give the N_O. The exponent is represented by e and time in years is represented by t. The rate of growth of compulsive gambling is represented by m, which might be zero (or some low number) before gambling is legalized in a state (or in a particular population base) and some positive number thereafter. Letter from Economics Professor Jane Leuthold, University of Illinois, to Professor John Warren Kindt, University of Illinois (Feb. 25, 1993) (copy on file with the author) [hereinafter Letter from Leuthold to Kindt].

The previous equation may be placed in linear form by taking the logarithms of the equation and placing it in estimation form as follows:

$$\ln N_G = \ln N_O + mt$$

Id. at 1. Because more extensive field research must be conducted to calculate m, the more precise numbers await future research results. The 1975 baseline prevalence rates, however, are quite well-established and the recent prevalence rates can be and have been accurately calculated. The *rate* of growth in compulsive gambling may await future research, but the *increase* in the numbers of compulsive gamblers, once gambling is legalized, is well-established.

For analyses of the social and economic aspects of compulsive gambling, see HENRY R. LESIEUR, REPORT ON PATHOLOGICAL GAMBLING IN NEW JERSEY, (1988); Robert M. Politzer et al., *Report on the Cost-Benefit/Effectiveness of Treatment at the Johns Hopkins Center for Pathological Gambling*, 1 J. GAMBLING BEHAV. 131 (1985); I. Sommers, *Pathological Gambling: Estimating Prevalence and Group Characteristics*, 23 INT'L J. ADDICTIONS 477 (1988); Rachel Volberg, Estimating the Prevalence of Pathological Gambling in the United States (1992); Rachel Volberg & Henry J. Steadman, *Refining Prevalence Estimates of Pathological Gambling*, 145 AM. J. PSYCHIATRY 502 (1988); Rachel Volberg & Henry J. Steadman, Problem Gambling in Iowa (research study funded by Nat'l Inst. Mental Health & Iowa Dep't Human Serv. 1989); Rachel Volberg & Randall M. Steufen, Gambling and Problem Gambling in South Dakota (1991).

277. As of 1993, the majority of experts were estimating that 1.5% to 5% of the populations of legalized gambling states and/or state locales were compulsive gamblers. Accordingly, to project this figure into the next five to twenty years is extremely conservative—particularly because the next generation, the teenage population, is already evidencing gambling addiction rates of 4% to 15% of the teenage population. *See, e.g.*, BETTER GOV'T ASS'N, *supra* note 3, at 30. Dr. Durand Jacobs of the Loma Linda University Medical School has reported a more widely-accepted range of 4% to 6% of the teenage population evidencing gambling addiction. *See* Jacobs, *supra* note 96. For prevalence rates among the adult population, see Letter from Volberg to Kindt, *supra* note 3, Table: "Comparison of Lifetime Prevalence Rates of Problem and Pathological Gamblers by State" (reporting 13 studies with a range of 1.5% to 6.3%). The compulsive gambling percentages parallel percentages in a 1992 Gallup poll. NEWS SERVICE 12-16-92, *supra* note 96, at 1-3. The percentage of the population admitting that "gambling caused family problems" was 5%, the percentage who enjoyed gambling "a lot" was 7%, and the percentage admitting they gambled "too much" was 10%. *Id.*

278. This 2% applies to states with widespread legalized gambling, such as state lotteries. There is academic debate about the degree to which state lotteries contribute to this problem. Without state lotteries the problem would be less. There is little doubt, however, that states will reach these numbers much more quickly once they legalize the "harder" forms of gambling such as riverboat gambling, casino gambling, and video-machine gambling (*i.e.*, the "crack-cocaine" of compulsive gamblers).

279. "Average" compulsive gamblers consist of those compulsive gamblers "who are at the beginning stages of their gambling addiction." BETTER GOV'T ASS'N, *supra* note 3, at 15 (quoting

Robert M. Politzer et al., *Report on the Societal Cost of Pathological Gambling and the Cost-Benefit/Effectiveness of Treatment*, *presented at* THE FIFTH NAT'L CONFERENCE ON GAMBLING AND RISK TAKING, at 8-10 (1981)). By comparison, the larger social costs are reflected in those compulsive gamblers who are in the later stages of gambling addiction and have "bottomed-out." *Id.* (citing Politzer et al., *supra*, at 9-10); *see also* GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 59-61. It should be noted that virtually all of these estimates are based on male subjects as recorded in GAMBLING ADDICTION IN MARYLAND. When adjusted for inflation as of 1992, the $52,000 per year cost for each compulsive gambler increases to $53,000 per year. BETTER GOV'T ASS'N REPORT, *supra* note 3, at 14.

These cost estimates can also be viewed in a longer term analysis. The marginal costs of legalizing gambling activities can extend years (and even generations) into the future. A standard cost/benefit analysis could project these costs into the future, and an appropriate discount rate could be used to sum the discounted values of the costs associated with legalizing gambling. Letter from Leuthold to Kindt, *supra* note 276, at 1-2. The following formula might be used:

$$C = \sum C_t / (1+r)^t$$

In this formula, C constitutes the present value of discounted future costs. The C_t would consist of the annual projected cost in year t, while the rate of discount is represented by r. *Id.* at 2; *see generally* CLOTFELTER & COOK, *supra* note 58.

280. "Lost consumer dollars" equate with the sociological concept of "abused dollars" and are defined as "[e]stimates of the average annual amount obtained legally and/or illegally by the pathological gambler which otherwise would have been used by the pathological gambler, his family, or his victims for other essential purposes." BETTER GOV'T ASS'N, *supra* note 3, at 15 (quoting Politzer et al., *supra* note 279, at 9). "These abused dollars include earned income put at risk in gambling, borrowed and/or illegally obtained dollars spent on basic needs and/or provided to the family which otherwise would have been used for gambling, and borrowed and/or illegally obtained dollars for the partial payment of gambling related debts. *Id.* at 15 (quoting Politzer et al., *supra* note 279, at 9).

For purposes of this table, "lost consumer dollars" are the equivalent of "consumer dollars lost traditional business sales" (which is also the equivalent of "gambling dollars gained by gambling organizations"). The "lost consumer dollars" figure includes $15,000 per year in lost liquid assets.

281. "Lost work productivity" equates to the sociological concept of "lost productivity" and is defined as "[e]stimates of percent of time *not* engaged in the production of goods and services for which the individual was employed, multiplied by the average gross annual salary." *Id.* at 8 (quoting Politzer et al., *supra* note 279, at 8). Characteristic problems of the compulsive gambler include "inattention to work." DSM-III, *supra* note 68, at 324.

For purposes of this table, "lost work productivity" includes only direct losses to businesses.

282. "White-collar crime costs" equate with the sociological concept of "crime costs" and are defined as "[e]stimates of the average annual law enforcement, adjudication, and detention costs for the typical type of 'white collar' crime committed by pathological gamblers multiplied by the average number of violations of the law per pathological gambler." BETTER GOV'T ASS'N, *supra* note 3, at 15 (quoting Politzer et al., *supra* note 279, at 8). The compulsive gambler evinces "financially motivated illegal activities to pay for gambling." DSM-III, *supra* note 68, at 324. It should be noted that the high "regulatory costs" of administering and monitoring the legalized gambling activities are not included in these formulas, but these costs should be incorporated into the overall costs. Because of the large number of private security guards traditionally associated with casino gambling, these "security costs" might also be factored into future modifications of these cost estimates. Private security guards around casinos generally tend to move some types of criminal activities away from casino areas.

For purposes of this table, "white-collar crime costs" include costs due to forgery, check forgery, embezzlement, employee theft, tax evasion, tax fraud, and insurance fraud. These subcategories are used because they correlate with the crimes most frequently committed by compulsive gamblers. *See* Lesieur, Economic Costs, *supra* note 66, Table 2, at 21; *see generally* Lesieur & Puig, *supra* note 90.

283. "Intermediate incarceration costs" equate with the sociological term "incarceration costs" and are defined as "[e]stimates of the average confinement costs for a typical crime committed by pathological gamblers multiplied by the average number of such crimes committed per pathological gambler." BETTER GOV'T ASS'N, *supra* note 3, at 15 (quoting Politzer et al., *supra* note 279, at 9). These costs would be higher, but courts tend to divert compulsive gamblers to treatment programs and/or require restitution. Since successfully completing the treatment program and/or making restitution often results in "clearing the record" of the compulsive gambler, it is quite difficult to calculate some of the costs in this area. However, it should be noted that there is a high recidivist rate among compulsive gamblers.

284. The most conservative and frequently utilized cost of a compulsive gambler is $52,000 per year.

285. "Long-term imprisonment costs" are defined as the long-term costs of incarcerating a compulsive gambler per year. These costs are $25,000 per year for young prisoners, but due to the increased medical costs and other factors, these costs climb to $50,000 per year for elderly prisoners. Lorenz interview, *supra* note 108. Since 13% to 15% of all compulsive gamblers are incarcerated long-term, the total costs as a function of "all compulsive gamblers" would be $3,750 per year for younger prisoners and $7,500 per year for elderly prisoners. *Id.* These costs may somewhat overlap the category of "incarcerated costs," although the incarceration costs might be more appropriately considered to be predominantly short-term or intermediate incarceration costs. *See supra* note 283.

286. "Rehabilitative costs" are defined as the costs of making the compulsive gambler "whole again." These costs vary from estimates of $5,000 to $20,000 total costs for out-patient treatment to costs of $17,000 to $42,000 per month for in-patient treatment.

287. GAMBLING ADDICTION IN MARYLAND, *supra* note 65, at 60-61 (calculating a range of $72,000 to $83,000 with a weighted average indebtedness of $75,000). "Average gambling debt of callers to the New Jersey Compulsive Gambling Hotline: $41,848." U.S. NEWS & WORLD REP., Mar. 25, 1991, at 12. "It is of interest to note that, as a rule of thumb, when a compulsive gambler state the amount of debt he/she has due to gambling, an accurate figure is arrived at by multiplying by 3." Letter from Elizabeth George, Executive Director, Minnesota Council on Compulsive Gambling, Inc., to Professor John Warren Kindt, University of Illinois, (December 21, 1992). Other experts believe that a multiplier of "2" is more accurate. Compulsive gamblers have characteristic problems which "include extensive indebtedness and consequent default on debts and other financial responsibilities." DSM-III, *supra* note 68, at 324.

288. For purposes of this table, "other socio-economic costs" include costs due to child abuse, child neglect, and spousal abuse.

It should be noted that after casino gambling came to Lawrence County, South Dakota, the State Attorney's Office reported an increase of 42% to 43% in the number of child abuse cases during less than 2 years. Speech by Jeffry Bloomberg, *supra* note 144; *see also supra* notes 157-170 and accompanying text. By definition, compulsive gamblers evince "disrupted family relationships." DSM-III, *supra* note 68, at 324. A 1982 study of members in Gam-Anon, which constitutes the family organization which parallels Gamblers Anonymous, reported that with regard to spouses of compulsive gamblers, "[e]motional, verbal, and physical abuse was noted in 43% of all cases." Valerie Lorenz & Duane E. Shuttlesworth, *The Impact of Pathological Gambling on the Spouse of the Gambler*, 11 J. COMMUNITY PSYCHOL. 67, 69 (1983). "In about 10% of the cases the children were being physically abused by the gambler." *Id.* "Significant behavioral or adjustment problems" were experienced by 25% of the children. *Id.*

A dollar value of the socio-economic costs of spousal abuse has not yet been calculated. Preliminary data indicate that 15% of the wives of compulsive gamblers are "battered" or physically abused. In various samples, 43% to 50% of the cases involving spouses of compulsive gamblers reported physical, verbal, or emotional abuse. *Id.*

289. For purposes of this table, "commonplace crime costs" include larceny, burglary, armed robbery, pimping, prostitution, selling drugs, and fencing stolen goods. These subcategories are used because they correlate with the crimes most frequently committed by compulsive gamblers. *See* Lesieur, Economic Costs, *supra* note 66, Table 2, at 21; *see generally* Lesieur & Puig, *supra* note 90.

290. For purposes of this table, "gambling system crime costs" include costs due to bookmaking, working illegal games, hustling at pool or other sport, hustling at cards or dice, running a "con game," swindling "suckers," and other criminal fraud. These subcategories are used because they correlate with the crimes most frequently committed by compulsive gamblers. *See* Lesieur, Economic Costs, *supra* note 66, Table 2, at 21; *see generally* Lesieur & Puig, *supra* note 90.