



NATIONAL GAMBLING IMPACT STUDY COMMISSION

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TO THE PRESIDENT, CONGRESS, GOVERNORS, AND TRIBAL LEADERS:

At the inaugural meeting of this Commission two years ago, I stated that we had been charged by Congress with “a very broad and very difficult task – to conduct a comprehensive legal and factual study of the social and economic implications of gambling in the United States.” We have now completed that task. This Report presents the principal findings of that effort and the recommendations we believe provide a coherent framework for action.

The Commission devoted considerable attention and resources to discharging its responsibilities, efforts which included holding a series of hearings around the country in which the Commission and its Subcommittees received testimony from hundreds of experts and members of the public; making several site visits; commissioning original research; conducting surveys of the existing, wide-ranging literature; and soliciting and receiving input from a broad array of individuals and organizations.

Despite these extensive efforts, we have not exhausted the topic: the subject of gambling’s impact is too extensive to be fully captured in a single volume. Through our contracted research, we have added important new information in several fields; but the need for additional research remains. In fact, one of our most important conclusions is that far more data is needed in virtually every area. But even though the need for additional information cannot be contested, this cannot be allowed to become an excuse for inaction. It is likely that necessary information will always be in short supply and insufficient to compel agreement on controversial issues or to lay out a road map for the future. However, it is our belief that we have substantially reduced the uncertainties that are an inevitable part of that process.

Two years ago, I also stated that this Commission had a diverse make-up, representing broad differences of opinion, and that I expected that diversity to be fully and forcefully voiced. I believe anyone who has been present at any of our proceedings will acknowledge that that was an accurate forecast. That diversity did not necessarily make for quick decisions or easy consensus, but it did ensure a healthy representation of a wide range of interests and perspectives. One need not claim perfection for the process to understand that this approach is the foundation of representative democracy.

In the end, however, the unanimous adoption of this Report speaks for itself. That is not to say that every Commissioner has agreed with every point or recommendation. Even in areas of agreement, each Commissioner brought to our work his own point of view, some of which is reflected in the individual statements appended to this Report. But the determination of the Commissioners to search for common ground without sacrificing a vigorous advocacy of their perspective is a testament to their dedication to public service.

This is the Report of a national Commission to the President, Congress, State Governors, and Tribal Leaders. But although the growth of gambling is a national phenomenon, gambling itself is of greatest concern to the individual communities in which it operates or is proposed to operate. It is at that level that its impact is felt most keenly and where the debates surrounding this issue are most energetically contested. Those communities form no common front: one community may welcome gambling as an economic salvation, while its neighbor may regard it as anathema. As such, there are few areas in which a single national, one-size-fits-all approach can be recommended.

Thus, with only a few exceptions in areas such as the Internet, we agree that gambling is not a subject to be settled at the national level, but is more appropriately addressed at the state, tribal, and local levels. It is our hope that this Report will help spark a review and assessment of gambling in those same communities and jurisdictions. For that reason, we have recommended a pause in the expansion of gambling in order to allow time for an assessment of the costs and benefits already visible, as well as those which remain to be identified. The only certainty regarding these reviews is that any results will be as individual as the communities undertaking them: some will decide to curtail the gambling they already have, others may wish to remove existing restraints. Still others may conclude that their situation requires no change. What is most important, however, is that these reviews take place and that whatever decisions are made are informed ones.

The recommendations in this Report are not self-enacting. In the end, the usefulness of the Commission's work can only be measured by the actions of others, be they in government or in the private sector. Regardless of whether or not their actions draw directly upon the recommendations in this Report or are the result of other efforts that this Commission may help prompt, it is our hope that those who bear the responsibility for protecting and promoting the public's welfare will find this Report useful toward that end. That alone would be sufficient reward for our efforts.

I want to express my deep appreciation to the members of this Commission for their perspective, sacrifice, and commitment to a fair, balanced, and objective analysis of the issue. Our ability to come together with a unanimous Report is indicative of their diligence, as well as the outstanding support provided by the Commission's staff.

On behalf of my fellow Commissioners, thank you for the opportunity to serve the American people.



Kay C. James
Chairman



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INTRODUCTION

Since the mid-1970's, America has evolved from a country in which gambling was a relatively rare activity—casinos operating only in the distant Nevada desert, a few states operating lotteries, and pari-mutuel gambling relatively small scale and sedate—into a nation in which legalized gambling, in one form or another, is permitted in 47 states and the District of Columbia. Commercial gambling has become an immense industry. Governments are now heavily involved and increasingly active in pursuit of gambling revenues, either directly through state-owned lotteries and Native American tribal gambling or through the regulation and taxation of commercial operators. Tribal governments, in particular, have become the pacesetters for the rapid growth of gambling activities. Yielding more than \$50 billion in gross revenues and still growing, and with little end in sight to the proliferation of gambling, our country stands at a crossroads. Do we allow gambling to continue to expand, or do we halt its growth until we more fully understand its effects on individuals, communities, and the nation?

There was no single, overarching national decision to turn the United States into a world leader in gambling. Rather, games of chance spread across the map as a result of a series of limited, incremental decisions made by individuals, communities, states, and businesses. Little by little, lotteries expanded, aided by increasingly sophisticated advertising campaigns. Over time, Las Vegas-style casinos multiplied, first in Atlantic City, then on riverboats and Indian reservations. Often with little notice, so-called “convenience” gambling, including such games as video poker, cropped up in corner stores, in gas stations, and on main streets in towns across America. And today the Internet—an unlimited frontier in the proliferation of gambling—beckons millions of existing and would-be gamblers from around the world.

In the next 25 years, gambling could, at its present rate of growth, become more and more like other common and legal, but somewhat restricted, business activities, such as the sale of alcohol or cigarettes. Of course, over time, the basic rules of our economic system would be expected to play a greater role in shaping the pattern of gambling, as

the quasi-monopolistic circumstances of the present are replaced by more routine competition. But with little stretch of the imagination, it is conceivable that someday gambling enterprises may be franchised and, at least in parts of the country, become as common as fast food outlets are today.

The rapid acceleration in the growth of gambling begs a host of questions. How much do we know about the social and economic impacts of gambling? Do its benefits outweigh its costs? Will bringing in gambling help struggling local economies, or will it sap the very citizens it is intended to help? To what extent, if any, does gambling create jobs? Cut welfare rolls? Raise or lower crime rates? How widespread is problem and pathological gambling? Does more gambling automatically mean more problem and/or pathological gambling? No one has definitive answers to these and other questions about gambling, least of all our policymakers, who are now caught short and, in some cases, may be flying blind as they attempt to formulate rational, informed gambling policies.

In 1996, Congress responded to the urgent need for more information about gambling's impact on people and places by mandating the National Gambling Impacts Study Commission (NGISC). Congress instructed the NGISC, within a 2-year period, to "conduct a comprehensive legal and factual study of the social and economic impacts of gambling in the United States." This *Executive Summary* provides an overview of the *Final Report* of the NGISC. It describes the size, scope, and nature of the gambling industry as well as gambling's most problematic issues. It also presents recommendations on gambling to the President, Congress, governors, tribal leaders, and a broad range of individuals within the public and private sectors.

GROWTH OF GAMBLING IN AMERICA

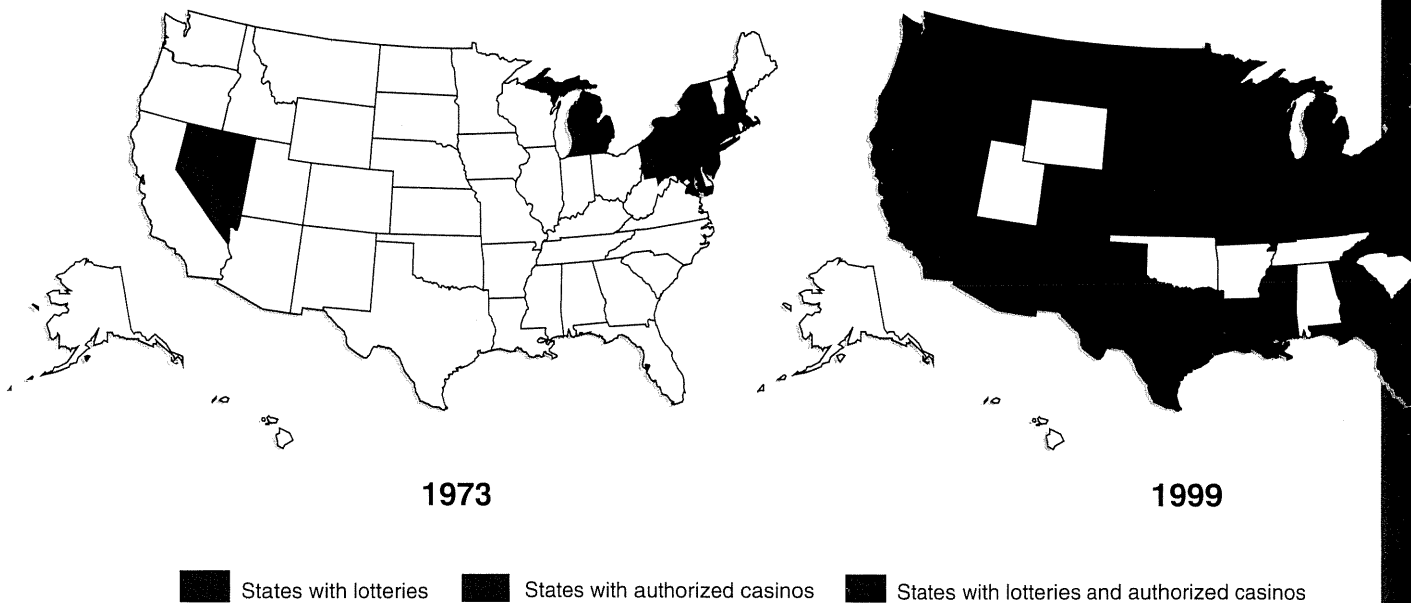
The gambling industry in the United States has grown tenfold since 1975. Today a person can make a legal wager of some sort in every state except Utah, Tennessee, and Hawaii. Thirty-seven states and the District of Columbia have lotteries, 28 states authorized casino gambling (including both commercial casinos and Class III Indian casinos), and 43 states have pari-mutuel betting. Between 1976 and 1997, revenues from legal wagering grew nearly 1,600 percent, and gambling expenditures more than doubled as a percentage of personal income

from 0.30 percent to 0.74 between 1974 and 1997. Especially striking is the increase over time in states with lottery and/or casino gambling.

In 1982, gross gambling revenues (dollars wagered minus payouts) totaled \$10.4 billion. In 1997, gross gambling revenues had increased to more than \$50 billion.¹ The amount of money spent on gambling compared with amounts spent on other leisure activities is notable. In 1997, Americans spent \$495.9 billion on leisure goods, services, and activities; more than \$1 in \$10 (\$50.9 billion) was spent on gambling, not including monies spent by gamblers on hotels, food, transportation, and other expenses. In terms of "destination leisure"

¹These numbers must be viewed with caution. For a fair and accurate understanding of the actual size and potential profitability of the entire industry or any of its segments, it is critical to note the difference between the figures for "total money wagered," known in the trade as "handle," and "gross gambling revenue." The two terms are not interchangeable. The ratio between them is on the order of 10 to 1 for the entire industry and 25 to 1 for casino gambling. It is easy to see how, taken out of context, figures for "money wagered" and for "gross gambling revenue" might be easily misinterpreted, especially by the layman.

INCREASE IN STATES WITH LOTTERY AND CASINO GAMBLING: 1973 VERSUS 1999*



*Excludes pari-mutuel gambling

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

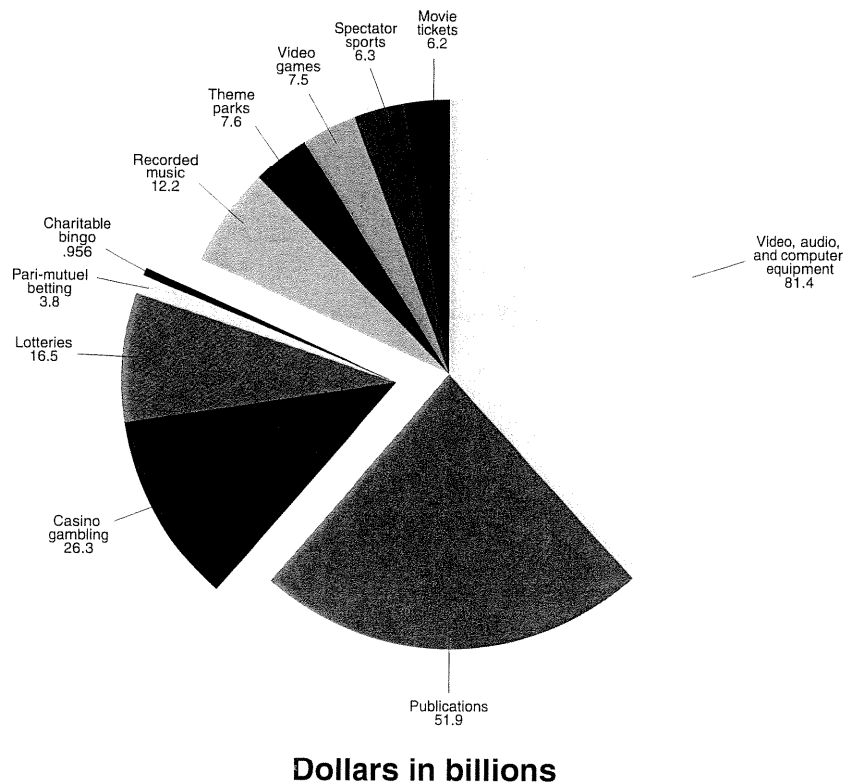
(e.g., spectator sports, cruise ships, theme parks, concerts), the 1997 figure is \$81.8 billion, with “destination” gambling accounting for \$30.1 billion, or more than one-third of those revenues.²

Before the beginning of this decade, legalized casinos operated in just two jurisdictions: Nevada and Atlantic City. Currently, casinos are authorized in 28 states and have created over 700,000 direct and indirect jobs with wages of approximately \$21 billion.³ With the multiplication of locations, there was a metamorphosis of the types of casinos:

²The 1997 Gross Annual Wager, International Gambling and Wagering Business Magazine, August 1998, p. 33.

³A. Arthur Andersen, *Economic Impacts of Casino Gaming in the United States: Volume 1: Macro Study*, December 1996, p.8.

COMPARISON OF AMOUNTS SPENT IN 1997 ON GAMBLING VERSUS OTHER LEISURE ACTIVITIES

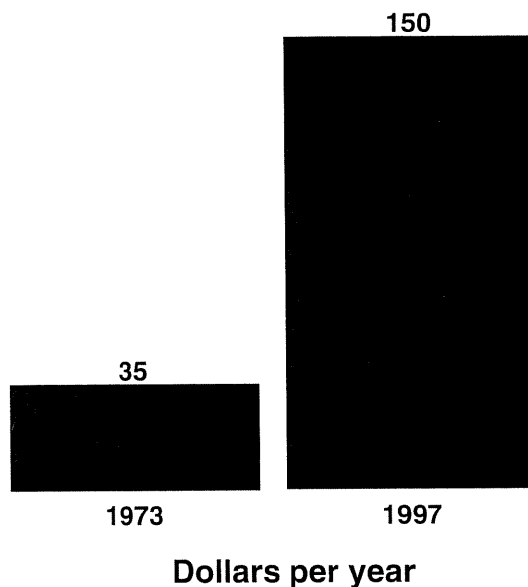


SOURCE: *Gross Annual Wager*, International Gambling and Wagering Business Magazine, August 1998, pp. 13, 17-18.

In addition to “destination” casinos in Nevada and Atlantic City, there are nearly 100 riverboat and dockside casinos in 6 states and approximately 260 casinos on Indian reservations. The expansion of gambling to these new sites is seen by one leading researcher as “the most significant development” in the industry in the 1990’s.

The number of state lotteries—the second largest type of gambling in terms of revenues—has expanded rapidly during the last quarter century. In 1973, seven states had lotteries, with total sales of \$2.0 billion. By 1997, state lotteries operated in more than five times as many states and garnered \$34 billion in sales, not including money from the new and fast-growing electronic gambling device (EGD) segment. Perhaps most dramatic, per capita lottery sales climbed from \$35 in 1973 to \$150 in 1997.

PER CAPITA LOTTERY SALES IN STATES WITH LOTTERIES: 1973 VERSUS 1997*



*Per capita based on total lottery sales/population of all states with lotteries.

NOTE: Sales in billions stated in current dollars.

SOURCES: Charles T. Clotfelter, et al. State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission, 1999, p. 2.

Pari-mutuel gambling—horse racing, dog racing, and jai-alai—has not enjoyed the high level of growth that many other segments of the industry have, and its percentage of total gambling revenues has declined significantly over past decades. Of the three segments, horse racing is by far the largest component and has performed the best financially. Legal in 43 states, with over 150 racetracks in the United States, pari-mutuel horse racing generates annual gross revenues of approximately \$3.25 billion, based on a “handle” or wagers of \$15.3 billion. While comparatively small in terms of revenue, the industry has an extensive network of connections throughout the economy, with hundreds of thousands of individuals owing their jobs to the industry.

From informal, illegal office pools to legal bookmaking in Nevada, wagering on sports events is a pervasive activity in our culture. Many gamblers are avid and knowledgeable followers of sports, tracking point spreads on major, and even minor, sporting events by consulting newspapers, radio talk shows, television programs, on-line services, and other sources. There is growing concern regarding increasing levels of sports wagering by adolescents in high school and by young adults on college campuses. A 1996 study sponsored by the National Collegiate Athletic Association found that of the over 2,000 student athletes surveyed in Division I basketball and football programs, 25.5 percent admitted betting on college sports events while in school.

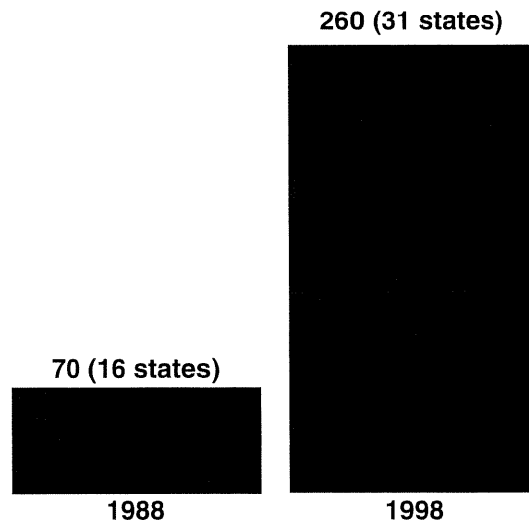
The terms “convenience gambling” and “retail gambling” have been used to describe legal, stand-alone slot machines; video poker; video keno; and other EGD’s that have proliferated in bars, truck stops, convenience stores, and a variety of other locations across several states. However, these terms do not adequately convey the range of locations at which EGD gambling takes place, nor do they describe the spectrum of laws and regulations that apply (or fail to apply) to EGD’s. Some states, including Louisiana, Montana, and South Carolina, permit private sector businesses to operate EGD’s; in other states, such as Oregon and California, this form of gambling is operated by the state lottery. In South Carolina, this form of gambling is increasingly widespread, with 34,000 licensed video poker machines operating at some 7,500 locations.

In 1988, Congress passed the Indian Gaming Regulatory Act (IGRA), providing a regulatory framework for casino gambling on Indian reservations. From 1988, when IGRA was passed, to 1998, tribal gambling revenues grew more than thirtyfold, from \$212 million to

\$6.7 billion. As of 1998, approximately 260 facilities were operating in 31 states. It is important to note that over two-thirds of Indian tribes do not have any gambling at all and that not all gambling tribes benefit equally. In fact, the 20 largest revenue generators in Indian gambling account for 50.5 percent of the total revenue.

The Internet represents a new frontier in the spread of gambling, with the number of on-line bettors continuing to grow every year. The gross revenues of Internet gambling doubled between 1997 and 1998, when they reached an estimated \$651 million. One estimate predicts that Internet gambling will exceed \$2 billion by 2001. Adding to the concern regarding Internet gambling is the issue of access by adolescents and the recent licensing of Internet gambling operators by several foreign governments, including Antigua and Australia, with sites accessible to users worldwide.

INCREASE IN NUMBER OF INDIAN CASINOS AND INDIAN BINGO HALL FACILITIES: 1988 VERSUS 1998

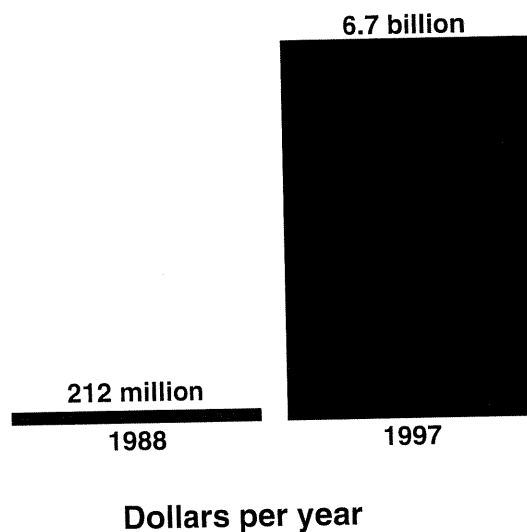


SOURCES: See charts entitled "States with Tribal Gaming in 1988" and "States with Tribal Gaming in 1998." For 1988, there was no centralized information source, and the data were compiled from numerous sources, including the National Indian Gaming Commission; the Bureau of Indian Affairs; newspaper and magazine articles; and the *Indian Gaming Magazine, Directory of North American Gaming*, 1999. For 1998, see National Indian Gaming Commission, "Report to the Secretary of the Interior on Compliance with the Indian Gaming Regulatory Act," June 30, 1998.

With the sharp increase of legal gambling in the past 20 years, there is increased concern about problem and pathological gambling. Clearly, more people are gambling, and they are wagering more. Problem and pathological gamblers are distinct from recreational or social gamblers: They cannot control their impulse to gamble and often bring ruin on themselves and their families. Problem and pathological gamblers often lose their jobs, their savings, their relationships, and their dignity. Researchers estimate that between 2.5 and 3.2 million adults in the United States have met the criteria in their lifetime for pathological gambling. Between 1.7 and 2.6 million adults have met the criteria in the past year. Especially troubling, 1.1 million adolescents between the ages of 12 and 18 are also estimated to be pathological gamblers.⁴

⁴This figure should be viewed with caution, however, since adolescent measures of pathological gambling are not always comparable to adult measures and different thresholds for adolescent gambling may exist.

INCREASE IN TRIBAL GAMBLING REVENUES: 1988 VERSUS 1997



SOURCES: See chart entitled "Trends in Tribal Casino Gaming Revenues, 1988-1997." Amounts are in constant 1997 dollars based on the CPI-U-X1 index in the *Economic Report of the President*, February 1999, p. 398. For Indian gaming revenues from 1988 and 1995, see U.S. General Accounting Office, *Tax Policy: A Profile of the Indian Gaming Industry*, May 1997, p. 6. For Indian gaming revenues in 1996 and 1997, see *Gross Annual Wager*, International Gambling and Wagering Business, August, 1998, p. 9.

1976 FEDERAL REPORT ON NATIONAL POLICY TOWARD GAMBLING

It has been 23 years since the gambling industry and the gambling behavior of Americans have been reviewed by a federal commission. In 1976 the Commission on the Review of the National Policy Toward Gambling issued its Final Report, "Gambling in America." At the time, only 13 states had lotteries, 2 states (Connecticut and New York) had approved off-track wagering, and there were no casinos outside of Nevada. The 1976 Report marked the first time that a national commission had sought to provide methodologically sound research and recommendations on gambling. In its efforts, the Commission conducted and oversaw 3 years of in-depth research and extensive hearings.

An excerpt from the Commission's 1976 Report reveals that gambling was then, as it remains today, a controversial and divisive subject:

"Gambling is an issue so fraught with ingrained moral and philosophical dichotomies and unresolved social questions that no disposition of the subject can ever come close to being universally accepted. Attitudes toward gambling encompass the most sincere and high-minded ethical beliefs as well as the basest kinds of acquisitive instincts and exploitation."

The Commission's 1976 Final Report adhered to a pragmatic approach. There was primarily a single question: Since gambling is inevitable, who should regulate gambling and how? Furthermore, inasmuch as gambling was also recognized as a social issue, the Commission determined that "gambling policy is the proper responsibility of the government entity closest to the lives of citizens—the State." The 22 key recommendations of the Commission focused on the enforcement of state and local gambling statutes, the regulation of legal gambling industries, and the issues surrounding illegal gambling industries.

NATIONAL GAMBLING IMPACTS STUDY COMMISSION: 1996–1999

The NGISC was established on August 3, 1996, when President Clinton signed Public Law 104-169. The nine members of the Commission were appointed by the President, the Speaker of the House, and the Senate Majority Leader. They represent diverse backgrounds, regions and, indeed, viewpoints.

By the time that the NGISC was created in 1996, legalized gambling had grown nationally to a multibillion-dollar-per-year industry with \$50 billion in gross revenues. Indeed, as the NGISC was launching its initial efforts, the gambling issue was playing an increasingly prominent role in political elections and preelection spending wars. More than ever before, policymakers, business executives, and voters needed reliable information about the benefits and costs of all forms of gambling.

Congress charged the NGISC with the task of “conducting a comprehensive legal and factual study of the social and economic impacts of legalized gambling in the United States.” The study was to include the impacts on communities, social institutions, and individuals, as well as the role of government.

The following excerpt from Public Law 104-169 outlines the NGISC’s six mandated topics of inquiry:

A review of existing federal, state, local, and Native American tribal government policies and practices with respect to the legalization or prohibition of gambling, including a review of the costs of such policies and practices;

An assessment of the relationship between gambling and levels of crime, and of existing enforcement and regulatory practices that are intended to address any such relationship;