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THE ECONOMIC IMPACTS OF LEGALIZED GAMBLING ACTIVITIES

*John Warren Kindt**

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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

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.

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In a 1992 proposal for a \$2 billion casino complex in Chicago, Illinois, the alleged or projected tax revenues were between \$327 million⁶ 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 year¹¹

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

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 38,100¹⁷ (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

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 tourists²⁶ 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 million²⁸ 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.*

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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 generated⁵¹ 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 professor⁵³ 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

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 costs⁶⁰ 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 plagued⁶⁴ with 100% to 550% increases⁶⁵ 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

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. DEPT' 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*, SO C'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

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

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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 seven⁷⁹ and seventeen⁸⁰ 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

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 general⁸⁹ 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

85. *Id.*

86. *Id.* at 12-13.

87. Paul Glasris & 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.

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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 gamblers⁹⁶ 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

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 acceptable¹⁰²—the number of compulsive gamblers increases¹⁰³ from .77%¹⁰⁴ to between 1.5% to 5% of the population.¹⁰⁵

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 I (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).

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.

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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

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,

"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.

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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

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 anomaly¹³² 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.

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Illinois, for example, the social-welfare and service components¹³⁶ 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

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

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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

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 Jeffrey 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 Deadwood¹⁵⁷ 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

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

165. *Id.*

166. *Id.*

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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:

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

168. Speech by Jeffrey 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]

<u>Iowa (1989)</u>	<u>South Dakota (1991)</u>
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

(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.*

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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 1991¹⁸⁶ and the total population was approximately 700,000¹⁸⁷ (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 others¹⁹³ 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

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).

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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 population²⁰⁰ 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

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

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.*

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In addition, the guaranteed geographic market areas allowed in some states, such as in Illinois for both riverboat gambling²¹³ 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

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 year²²⁵ 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

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

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impacts of these programs to appear in the estimates.²²⁰ These supplemental protect sanctioned state off-track betting.²²¹ Furthermore, the state should not be legalized by the state to proceed by the gambling public, these interests directly unfair competi-

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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

formula of the range to be expected in New Jersey. The calculation is: $\$80,000/15 \text{ years} \times 1.5\% \times (\text{state population}) = \$5,333/\text{year} \times 1.5\% \times (7.7 \text{ 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: $(\$15,000 \times 7 \text{ years}) (1.5-5\% \times \text{population base}) + \$80,000 (1.5-5\% \times \text{population base}) = \text{total projected loss to economy of the population base}$.

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.

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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 \times 1.5\% \times (\text{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).

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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.

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 years²⁴⁵ 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).

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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

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 gamblers²⁵⁷ support this contention.

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.

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APPENDIX

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Table 1

Increased Crime After the Advent of Casino Gambling²⁵⁸
Lawrence County, South Dakota, Case Filings²⁵⁹

	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 Jeffrey 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.*

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Table 2

Comparison of Prevalence Rates:
Problem and Probable Pathological Gamblers²⁶⁹

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
Massachusetts	4.4	1989	750	Volberg
Minnesota	2.4	1990	1251	Laudergan, 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.

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Table 3

Taxpayer Costs²⁷² Formulas²⁷³
Strategic Business/Economic Costs of Legalized Gambling to State²⁷⁴ Economies

<u>Column 1</u>	<u>Column 2</u>	<u>Column 3</u>	<u>Column 4</u>
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.

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Table 3 (continued)

State ²⁷⁴ Economies	<u>Column 5</u>	<u>Column 6</u>	<u>Column 7</u>
<u>Column 4</u>	<u>Cost Category</u>	Average Cost Per Compulsive Gambler Per Year ²⁷⁹	Average Cost Per "Bottomed-Out" Compulsive Gambler Per Year
<u>alized</u>	Lost Consumer Dollars ²⁸⁰	\$29,000	\$34,000
Conservative Average Estimate of Compulsive Economic Gamblers (1993) ²⁷⁸	Lost Work Productivity ²⁸¹	\$23,000	\$27,000
.02 x State Population	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:

$$N_G = N_0 e^{nt}$$

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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_0 . 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_0 . 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:

$$\ln N_G = \ln N_0 + mt$$

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

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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

THE WHITE HOUSE

WASHINGTON
October 5, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: ABNER J. MIKVA *ajm*
Counsel to the President

ELENA KAGAN *ek*
Associate Counsel to the President

THROUGH: LEON PANETTA, GEORGE STEPHANOPOULOS

SUBJECT: PROPOSAL FOR NATIONAL GAMBLING COMMISSION

Rep. Frank Wolf (R. Va.) and Sens. Paul Simon and Richard Lugar have introduced bills to establish a federal commission to study the extent and effects of gambling and the adequacy of current regulation. Rep. Wolf's bill was the subject of a hearing in the full House Judiciary Committee last week. No action has yet been taken in the Senate.

Both bills would establish a commission of nine persons, three to be appointed by the President, three by the House Speaker, and three by the Senate Majority Leader. The bills charge the commission with undertaking a study of gambling in the United States, including the economic effects of gambling on other businesses and surrounding communities, the relationship between gambling and crime, the extent and impact of pathological gambling, and the costs and effectiveness of current regulatory policy.

Supporters of the proposal note that it does not impose any new restrictions on gambling, but merely recognizes the need for greater information on the scope and effects of the gambling industry. Gambling is one of the fastest growing businesses in the nation. One recent study found that \$330 billion was wagered legally in 1992 (including in lotteries), up 1800% since 1976. Casinos now operate in 25 states, and in 1993 Americans made more trips to casinos than to major league baseball parks. As you said at the Sperling lunch, the introduction of gambling in a community, though providing a quick way to raise revenues, may impose hidden social, economic, and political costs, including those associated with corruption, crime, and addictive behavior. Supporters of these bills argue that we should take a hard look at such matters to ensure sensible regulatory policy.

Opponents of the proposal allege that it is a sort of stalking horse for the religious right -- a first step in a moralistic effort to prohibit gambling altogether. (The Christian Coalition is indeed a fervent supporter of this legislation, but so are many representatives and newspaper editorial writers not associated with that organization.)

Opponents also claim that a national commission will serve little purpose because conditions vary so much from state to state and community to community; sometimes opponents go so far as to frame this argument in terms of "states' rights." Finally, of course, opponents dispute the notion that gambling is linked to corruption or crime and claim it is a boon to local economies.

The only groups so far to oppose the legislation are industry associations, including most prominently the American Gaming Association, headed by Frank Fahrenkopf, former Chair of the RNC. The National Indian Gaming Association, which believes gaming by Indian tribes to be essential to tribal economic development, has indicated that it would not oppose the bills so long as the Commission includes an Indian tribal representative and addresses state lotteries as well as other forms of gambling. Senators and representatives from Nevada are vehement in their opposition to the bills; those from New Jersey, though less openly hostile at this time, may be subject to similar pressures. Finally, state governments may oppose the proposal if they believe it represents a threat to state lotteries.

Recommendation

We recommend that you endorse the idea of a commission to study gambling. Such a commission can perform a useful function in collecting information about the effects of gambling and thus enabling better decisions -- whether on the federal, state, local, or tribal level -- as to appropriate regulation. To the extent formation of such a commission suggests a sort of moralistic discomfort with gambling, this may be perfectly appropriate. We thus believe an endorsement of a national gambling commission is warranted.

1. Oppose the creation of a gambling commission
2. Take no position on the creation of a gambling commission
3. Endorse the creation of a gambling commission
4. Let's discuss

The Price for Home Rule

IT MAY make some House Republicans feel good-hearted, but their decision not to trash D.C. home rule as mightily as originally announced has a heavy price tag: \$260 million to be cut from the budget for this fiscal year *beyond what the control board had recommended*. That's also \$260 million above what the Senate subcommittee had agreed to. It's also a decision made without consulting D.C. Del. Norton or Mayor Barry. It was dropped on the control board chairman, Andrew Brimmer, who said he had no choice but to go along. How's that for Hill respect for the control board and home rule?

There is no question Speaker Gingrich saved the city from a long list of intrusive demands that Chairman James Walsh of the House Appropriations subcommittee on the District was prepared to jam into the budget—most of which should not be on an appropriations bill in the first place. Mr. Gingrich has repeatedly argued that Congress should not meddle in purely local matters, and he has pointed out that a budget bill shouldn't be a vehicle for all manner of changes in city ordinances, laws or ways of doing business.

So what is Chairman Walsh's response? It's a "compromise": They won't kick the city in the teeth as they had thought of doing, but the city

and the control board will have to take another \$260 million out of the budget right away.

We have long argued for tough cuts in spending, well beyond those that city officials have grudgingly made over the years. And there's more to pare. But GOP House members are now ignoring the recommendations of the control board that Congress itself charged with getting good budget numbers and cleaning up the mess in four years.

There are vendors to be paid. There are the costs of layoffs and buyouts already in progress. There are cuts that will be recommended by the control board as it reviews the city's books. And there is the Senate version of the budget that upholds the control board budget. The Senate should stick with this figure. Why have a control board if House Republicans are going to second-guess it?

The House floor will be loaded with land mines anyway, with an open rule that allows bad ideas to be loosed at any turn. There is also a possibility that many of the worst provisions that are being removed from the budget bill will find their way back on some other legislation. The idea of the control board was to effect an enormously important mission in a tough—but orderly—fashion. Congress should give this good idea a chance to work.

Gambling and the GOP

IT TURNS out that among the many interests that are kicking in to the Republican Party is the gambling industry. In the two years leading up to the Republicans' 1994 victory, those connected to gambling contributed nearly \$1 million to the Republican Party in unrestricted donations, according to Common Cause and Gerald Seib of the Wall Street Journal. That's 30 percent more than went to the Democrats. Since last year's Republican victory in the congressional elections, the industry has kicked in another \$156,000 to the GOP, five times what went to the Democrats.

The gambling folks are doing particularly well by the party's leaders. For example, Mr. Seib notes that at a single fund-raiser in June organized by Stephen Wynn, chairman of Mirage Resorts Inc., at his Las Vegas golf club, Senate Majority Leader Bob Dole took in \$477,450 for his presidential campaign.

Rep. Frank Wolf (R-Va.) has written GOP Chairman Haley Barbour about "an insidious gambling industry" that "is even gaining a voice within our party." Mr. Wolf is raising an important question here. For some Republicans—including the Christian Coalition—gambling is a moral issue. Such Republicans worry that their party is more than willing to talk a good game on

"traditional values" until the moment when it finds itself confronted with an interest group that has large amounts of money to give away at election time. The irony here is large, as the New York Times' William Safire has pointed out, since gambling is in fact one moral issue "that the next President and Congress can actually do something about."

Our concerns are not with the morality of gambling as such but with its social and economic impact, the fact that it is becoming so widespread and the often exaggerated claims made on gambling's behalf as a generator of economic activity. Congress is already being confronted with a substantial list of issues related to gambling, ranging from questions of taxation and regulation to a useful proposal by Mr. Wolf and Sens. Richard Lugar and Paul Simon to create a national commission to study the impact of the spread of gambling.

The gambling industry has billions riding on this argument. It is not only better organized in Washington than its critics but has also demonstrated a willingness to plow a lot of money into political campaigns. Which raises the question: When the gambling debate begins in earnest in Congress, will the game be rigged?

The Washington Post

AN INDEPENDENT NEWSPAPER

The Big Flip

PRESIDENT CLINTON made two speeches—one last week and one on Tuesday—in which he tried to shed responsibility for the tax increase he pushed through Congress in 1993. Then he held a news conference yesterday in which he tried to shed responsibility for the speeches. The speeches were misleading with regard to what occurred in 1993. The news conference then was equally misleading with regard to what was said in the speeches.

"If anything I said was interpreted by anybody to imply that I am not proud of that program, proud of the people who voted for it, that I don't believe it was the right thing to do, then I shouldn't have said that because I am very proud of it," the president said yesterday.

Then came a question: "Mr. President, did you mean to say what you said, that you regret having raised taxes as much as you did?"

The president: "What I said was—what I meant to say is—I think nobody enjoys raising taxes. . . . That's what I meant to say. . . . I believe all the people who've heard me talk about it knew what I meant to say."

Indeed they did know, which is why the president is in such deep trouble just now, and deserves to be. In trying to curry political favor while having the tax issue both ways, he has succeeded in trashing his own principal accomplishment while in office, trashing the fellow Democrats who at some considerable political cost to themselves (and at his insistent urging) helped him achieve it, and undercutting the supposed position of both his party and his own administration in the current debate with the Republicans over the budget. That's some package.

Last Friday the president spoke to the Business Council, the principal officers of the nation's largest corporations. In 1993, "I had to raise your taxes more and cut spending less than I wanted to, which made a lot of you furious," he said. Tuesday night he said much the same at a fund-raiser in Houston. "Probably there are people in this room still mad at me . . . because you think I raised your taxes too much. It might surprise you to know that I think I raised them too much, too."

His explanation was that the Republicans made him do it; the elephant ate his homework. It goes like this: Because the Republicans wouldn't deal with him on the budget, he had to look entirely to that other party, whatever its name is, for votes,

and of course you know the people in that party, all they're interested in is T (for tax) & S (for spend), and what was a new president to do anyway but yield, and so he did. You say no president would demean himself or his party with such an explanation, and you are wrong.

In fact, the 1993 tax increase was (a) more modest than current lore would have you believe and (b) absolutely the right thing to do. It reduced the deficit—helped to reverse 12 years of reckless fiscal policy in which just two administrations managed to quadruple the national debt—and restored a progressive edge to the tax code. After the president proposed his budget, only three major changes were made. The Republicans knocked out some of the spending he proposed, the part he called a stimulus package. Conservative House Democrats suppressed other spending by insisting, as the price of their support, on lowering the limits on future appropriations. And conservative Senate Democrats from oil states helped kill a proposed energy tax. The principal tax increase that remained—for about the top 5 percent of income-tax payers—was not that much discussed.

The president rightly observed during the debate and afterward that this was a tax increase for the highest-income people in the country only, which he said was only fair since those were also the people who had been the big winners in the tax roulette of the 1980s. Yet now it's precisely those taxpayers with whom, in his speeches, he is commiserating on grounds that their taxes are too high. In Congress, however, his administration is leading or pretending to lead an attack on the Republicans for cutting the taxes of whom? Of the rich. We've heard this attack over and over again in recent weeks and seen it played out repeatedly in television commercials as the administration's main political pitch. Does the president believe this message, which he has (or had) done so much to amplify? In a word: Does he think those taxes are too high, or too low? Answer: He seems to think both those things in sequence and depending on the audience he's speaking to; he has two positions, which means he has none.

Mr. Clinton says he is proud of those who voted with him on this tough and right issue in 1993. They can't be very proud of him, or very certain of him either.

States Take 'River' Out of Riverboat Gambling

By BRUCE ORWALL

Staff Reporter of THE WALL STREET JOURNAL

The riverboat gambling industry is paddling for shore.

Four years after several Midwestern states began to allow casino gambling during riverboat cruises, some states are making one not-so-small adjustment to the rules: The boats no longer have to go anywhere. They simply tie up at the dock

GAMBLING

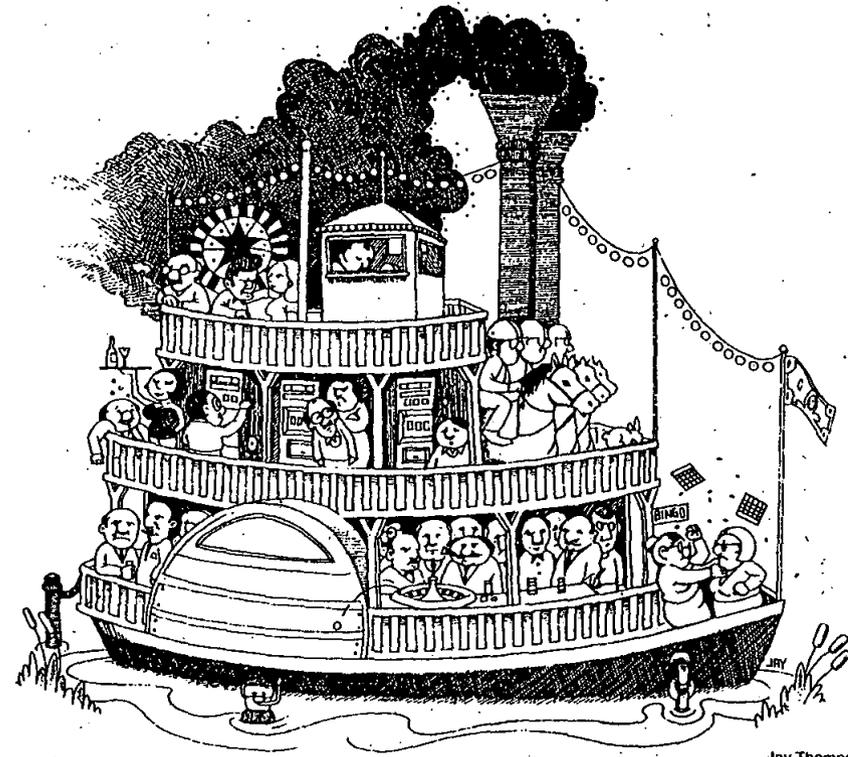
and let the games begin. Sometimes the riverboats don't even have engines.

"They're Coast Guard-certified vehicles and they do float," says Larry Lacaiff, president and chief operating officer of Harrah's Entertainment Inc.'s riverboat division. The Harrah's Northstar casino in North Kansas City, Mo., isn't even really on the Missouri River; it sits in a man-made pool that could pass for a huge bathtub.

Politicians initially saw the riverboats as a way to give casino gambling a gentle introduction to the heartland and allay fears about the industry's impact on communities. Gambling, they said in passing legislation, would be easier to control within the confines of a cruise. Rides could be limited to two hours and a cap on losses could be enforced. Now lawmakers are moving toward the day where the nautical aspect of the experience will be stripped away almost entirely.

The reason? Customers don't like being cooped up on a boat for two hours when they are trying to focus on gambling. If they are winning, gamblers complain about being forced to leave after two hours; losers are stuck until the boat returns to shore.

"Baby, I didn't come here for a scenic ride," one Missouri gambler told Tom Irwin, executive director of the Missouri Gaming Commission. "Most of the people on a boat don't even know whether it gets out there on



Jay Thompson

the river or not," Mr. Irwin says.

Iowa and Missouri, two states that have led the way in easing riverboat regulations, have already begun to allow people to win or lose more money with fewer restrictions. Operators in those states generally have seen admission-fee and gambling revenue rise as their boats have spent less time on the water. The states get higher tax revenues. And regulators say they're also reducing the potential for a disastrous accident on the river.

"The wave of the future will be permanent dockside," says Raymond Avansino Jr., president and chief operating officer of Hilton Hotels Corp., which operates river-

boats in Missouri and Louisiana. Hilton's 322-foot Flamingo Casino in New Orleans still has a cruising requirement. But on days when bad weather or choppy waters prevents the Flamingo from cruising, admission revenue rises 40% and gambling revenue increases as much as 20%.

Cruise schedules "will go away as time goes on," Harrah's Mr. Lacaiff predicts. Mississippi has begun riverboat gambling with no cruise requirement at all. Indiana, Illinois and Louisiana are all being pitched by the riverboat industry on the advantages of dropping anchor for good, and are expected eventually to follow suit.

The changes in riverboat gambling are

an indication of the strength of gambling's popularity around the nation. State officials who once believed that they had to act tough in regulating a morally dubious business now are comfortable in loosening their hold a bit. They're also keen to keep gambling alive as a development tool.

In 1991, Iowa became the first state to allow riverboat gambling. By putting the games on boats, Iowa was able to easily limit how long gamblers could stay at the table (two hours), and how much they could lose at one sitting (\$200).

"The riverboats gave an opportunity for legislators to rationalize an entree for casino gambling and also to control where it was going to be located," says Jack Ketterer, administrator for the Iowa Racing and Gaming Commission. "It would not be next to a school or a church, it would not be in anybody's backyard. It was out there on the river where it wouldn't bother anybody."

And where few would bother with gambling. Iowa's first casino operators complained bitterly that the restrictions doomed them to failure. The situation was exacerbated when Illinois introduced riverboat gambling with a cruising requirement, but without a loss limit. Last year, Iowa lawmakers eliminated the \$200 limit and now require boats to cruise just once a day, for 100 days each year. Those cruises are usually devoted to early-morning excursions by senior citizens. The rest of the time, the Iowa boats are parked while their Illinois counterparts cruise.

"Illinois had enjoyed the majority of the market," says Mike Belletire, administrator of the Illinois Gaming Board. "It pretty much flipped over when Iowa changed its rule."

The President, a riverboat on the Mississippi River based in Davenport, Iowa, saw its monthly admission revenue rise 67% after the new rules took effect. Monthly gross revenue jumped to nearly \$7 million from about \$2.5 million. Its competitor

Please Turn to Page B5, Column 3

Continued From Page B1

across the river in Illinois, the Casino Rock Island, felt the change, too. Admission revenue there dropped 17%, and monthly gross revenue dropped to \$1.5 million from \$2.5 million.

Missouri has allowed its eight casino operators to cite safety as a reason for staying docked. Mr. Irwin of the state gaming commission says that water depth and fast currents on the Missouri River have prompted worries about an accident. "You do have to figure out what kind of risk is involved," he says. "How do you get people off the boat? How do you get ambulances down to the shore?" So earlier this year, the state began allowing riverboat operators to petition for safety exemptions; seven of the eight operators quickly came up with the appropriate paperwork and are now docked.

But in a bow to the old rules, Missouri still requires a "simulated cruise," meaning that gambling sessions still last just two hours before customers have to leave or reboard. Gamblers, however, are allowed to come and go at certain points during the "cruise."

"It's just dumb," says Dennis Forst, an analyst with Sutro & Co. in Los Angeles. "There's just no logical reason to have a two-hour schedule when the boat doesn't leave the dock."

Industry Output Declined 0.2% In September

By JUSTIN DINI

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON—Industrial production fell 0.2% in September, the first decline in five months, hurt mostly by a plunge in electricity usage, the Federal Reserve said.

Cooler fall weather finally let consumers switch off their air conditioners, causing utility output to drop 5.4%. That followed a 1.1% surge in August, when consumers cranked up their air conditioning to cope with unusually hot, sticky weather.

Even without the weather-sensitive utility sector, however, manufacturing reported only a tepid 0.2% increase in production, the government said. Economist Gordon Richards of the National Association of Manufacturers called the rise "rather anemic," and said that companies "are being very cautious to avoid" bloating their inventories.

Factories were stuck with too many goods when demand softened earlier this year, causing prices to flatten and the economy to falter. "Demand isn't picking up as rapidly as you would hope," Mr. Richards said. "There is nothing in these numbers," he added, "to suggest we are getting out" of the slow-growth mode.

In yet another good sign for inflation, however, the Fed said that industries operated at 83.8% capacity in September, compared with 84.2% in August. That indicates that factories have plenty of room to increase output should demand increase, relieving any immediate pricing pressures. "I think inflation is being rung out of the system," said Gary Ciminero, chief economist with Fleet Financial Group in Providence, R.I.

Though production of such nondurable goods as clothing and paper slipped 0.2% in September, other sectors were more encouraging. Car production, for example, rose a moderate 0.3%, while computer production remained strong, rising at a 2% clip. "It tells me that the recovery is on a straight line since the soft landing," Mr. Ciminero said.

All figures have been adjusted for seasonal variations.

Tax Court Says IRS Can Tax Holders Of Some Munis

By JOHN CONNOR

Dow Jones Capital Markets Report

WASHINGTON — In an important test case, the U.S. Tax Court handed the Internal Revenue Service a victory by upholding the agency's right to tax holders of municipal bonds that flunk the tax code's tests for tax exemption.

The court rebuffed a challenge by a California bank and a California couple to the IRS's right to tax certain of their municipal bond holdings. The IRS previously said the court's decision in the case would serve as precedent for the resolution of a broader range of muni tax disputes.

The case involves bonds issued nearly a decade ago by the Housing Authority of Riverside County, Calif. The agency's \$30 million of bonds were among a batch of munis underwritten by Matthews & Wright Inc. that were declared taxable by the IRS and that figured in enforcement actions by other federal agencies.

The Tax Court ruled that the bonds were taxable arbitrage bonds, and that the IRS acted appropriately in moving to tax the bondholders. Arbitrage is earned in the muni market by investing bond proceeds in higher-yielding instruments. Muni issuers are required by the 1986 Tax Reform Act to rebate arbitrage profits to the Treasury. The court said the Riverside

County bonds are su...

The IRS typically disputes by reaching bond issuers under which revenues and agrees to let taxed at the bondholder level, however, the bond issuer refused into such a pact, and the IRS mo bondholders.

Separate challenges were brought Harbor Bancorp, a Long Beach, Cal. banking concern; and Edward and Elea Keith, a California couple; and were consolidated into one case by the Tax Court. The court rejected the petitioners' technical arguments that the bonds should be tax-exempt and their bottom-line argument that the IRS lacked the authority to tax bondholders under a non-discrimination taxpayer rule.

Mary Reichert, a lawyer for the challengers, said the Tax Court's ruling will be appealed to the federal appeals court in San Francisco.

"The simple fact is that the statutory requirements for exempting the interest earned on the bonds have not been met," said the Tax Court opinion, written by Judge Robert Ruwe.

The case has been closely watched by tax authorities and muni bond participants.

In a brief filed earlier, the IRS said the court's decision would "constitute precedent for the resolution of the tax-exempt status of not just this bond issue but more than 30 bond issues nationwide." Since then, the IRS has launched a beefed-up enforcement effort that eventually could result in hundreds of muni bond issues being audited.

THE WALL STREET JOURNAL WEDNESDAY, OCTOBER 18, 1995 A5

U.S. Denies Archer-Daniels Is Target Of Probe About Payments to Executives

By GLENN R. SIMPSON

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — The Justice Department said that, contrary to a published report, its criminal fraud section is not investigating Archer-Daniels-Midland Co. for alleged unorthodox payments to some of its top executives.

"The Criminal Division does not have an investigation currently into Archer-Daniels-Midland," said chief Justice Department spokesman Carl Stern. He confirmed the existence of a previously reported criminal price-fixing inquiry into the food additives industry, of which Archer-Daniels is a prominent member.

Mr. Stern's unusual denial, the second of its kind by the Justice Department in recent weeks involving Archer-Daniels, came in response to a recent article in Fortune magazine asserting that the agency's criminal fraud section is investigating whether a dozen Archer-Daniels executives received secret payments from the company.

"I don't know the basis for that article," Mr. Stern said. Asked if ADM had requested that the department clarify the situation, he said, "I think it's fair to say they brought to our attention press reports that were inaccurate."

However, as previously reported, the Justice Department is investigating payments received by former Archer-Daniels executive Mark Whitacre, who worked as an undercover witness for the Justice Department in the price-fixing inquiry. Mr. Whitacre has told others that he received at least \$6 million in secret payments from the company, and has alleged that other company officials received payments in a similar manner with the knowledge of top management. Archer-Daniels, which says it fired Mr. Whitacre for allegedly stealing from the company, has de-

nied approving of any illegal-compensation schemes.

Fortune and Archer-Daniels didn't respond to calls about the Justice Department statement.

Separately, the district attorney in Zurich, responding to a complaint filed by Archer-Daniels, has begun an inquiry into whether Mr. Whitacre stole from Archer-Daniels. Prosecutors are looking into whether documents or funds related to the alleged theft remain in a Zurich bank, where Mr. Whitacre has said he deposited money from Archer-Daniels, according to a person familiar with the inquiry.

A person familiar with the events said Archer-Daniels filed a petition in Switzerland seeking to recover \$6.25 million which the company contends Mr. Whitacre stole through phony corporations and Swiss bank accounts. The company is seeking to attach more than \$4 million of Archer-Daniels funds believed to still be in Mr. Whitacre's Swiss account; the company's petition accompanies a criminal complaint the company filed in Switzerland.

Mr. Whitacre declined to comment.

Support for public schools in jeopardy, researchers say

High school diploma deemed no guarantee of literacy

By Carol Innerst
THE WASHINGTON TIMES

Public support for public schools is more fragile than educators would like to believe, with almost half of Americans believing a diploma from a local high school is no guarantee a student has mastered the basics, a study released today by the Public Agenda Foundation shows.

"When almost six in 10 parents with children in public school say they would send their children to private schools if they could afford to do so, it's time for reformers to take heed of citizens' concerns with the public school system," said Deborah Wadsworth, executive director of the nonpartisan, nonprofit public opinion research and education organization.

"Citizens are not yet ready to abandon the public system, but unless schools begin to deliver on what the public considers to be the essential elements of education, support for public schools is in jeopardy," she said.

Americans surveyed for "Assignment Incomplete: The Unfinished Business of Education Reform," are poised for flight because they think private schools do a better job than public schools in areas they are most concerned with: school safety, higher standards, order and smaller classes.

They reject the notion that private schools succeed because of their selectivity, arguing instead that it's because their approach to education is more effective.

But public school critics have not reached consensus on alternatives. Only 28 percent embrace the concept of school vouchers, and 10 percent support privatization. Additionally, 28 percent want to overhaul the public schools and 20 percent want to give schools more money.

"Findings . . . show a public dissatisfied with public school policies and practices, but a public still desirous of fixing the schools," observed Michael Usdan, president of the Institute for Educational Leadership, which collaborated with the Public Agenda on the study.

"For the reform movement to be successful, the public's remaining support cannot be squandered," he

PUBLIC VS. PRIVATE SCHOOLS

People asked to compare public and private schools in various areas said private schools do a better job promoting academics and safety than public schools. Figures do not include answers of "not sure."

	General public			Parents		
	Public	Private	Equal	Public	Private	Equal
Better teachers	26%	33%	22%	30%	26%	23%
Higher academic standards	24	53	8	26	45	9
Good work habits	22	45	19	25	38	19
More safety and security	20	51	13	19	46	15
More discipline and order in the classroom	18	61	8	18	54	10
Promotes honesty and responsibility	17	54	16	19	46	20
An environment that teaches kids how to deal with people from diverse backgrounds	53	22	7	54	19	8
A better education for kids with special needs, such as physically handicapped	51	23	6	49	22	6

Source: Public Agenda Foundation

The Washington Times

said. "Public priorities must be addressed, and soon."

The survey also revealed that Americans want their children to succeed socially and academically, but many are skeptical of the value of high academic achievement, fear "elitism" and view highly educated people as "too big for their britches."

Other key findings:

- Sixty-one percent of Americans say private schools are more likely to provide order and discipline in the classroom.

- Fifty-three percent say private schools have higher academic standards.

- Fifty-four percent say private schools are better at promoting values such as honesty and responsibility.

- Seventy-five percent of teachers say public schools in their community are better than private ones.

- Ninety-two percent of Americans say teaching the basics is "absolutely essential," as do 99 percent of leaders, 98 percent of teachers and 100 percent of school administrators.

- Eighty percent feel teaching computer skills is "absolutely essential." Sixty-three percent feel the same about American history and geography, and 59 percent add biology, physics and chemistry.

- Eleven percent of teachers say academics are the most important factor in career success. Fifty percent say inner drive is most important, and 33 percent give priority to "knowing how to deal with people well."

- Seventy-one percent of Americans agree with the statement, "People who are highly educated often turn out to be 'book smart' but lack the common sense and understanding of regular folks."

Pollsters queried 1,200 respondents by telephone over the summer, including 439 parents with children in the public schools and 237 public school teachers.

Results also are based on a mail survey of 734 decision makers in business, government, the media and other sectors. It explored views of 417 educational administrators and draws on results from a dozen focus groups in different parts of the country.

Stiff competition

The 10 Republican candidates for president had better work on their acts if they hope to compete with the televised fare tonight.

Then again, it probably wouldn't make any difference.

CNN will be televising a live, 90-minute forum of the GOP candidates starting at 8 tonight from the studios of WMUR-TV in Manchester, N.H.

That's the same time NBC begins airing a three-hour special on O.J. Simpson, which includes a live interview starting at 9 p.m.

It's also the same time ABC will televise major league baseball playoff games.

"That's life," shrugged New Hampshire GOP Chairman John Stabile. "Obviously, show business is big business. We've got a baseball game, we've got O.J. . . ."

Disappointment

New York Times columnist A.M. Rosenthal expresses disappointment in Colin Powell for supporting "the purpose" behind Louis Farrakhan's Million Man March.

Mr. Rosenthal had thought the retired general would live up to the standard cited in his autobiography, where Mr. Powell wrote about speaking at Howard University not long after representatives of the Nation of Islam had denounced Jews there.

"I knew the message I had to deliver," Mr. Powell wrote. "I pulled up something from the marrow of my beliefs as a black living in a white-majority society."

Then he said it: "African-Americans have come too far and we have too far yet to go to take a detour into the swamp of hatred."

This time, Mr. Powell told Mr. Farrakhan that he has a scheduling conflict preventing him from attending the march.

The Times columnist had hoped Mr. Powell "would tell the man leading blacks into that swamp that he would not march with him ever, even if his sched-

Blood and myth

"My impression of modern-day black Republicans is they have to pass a litmus test in which all black blood is extracted," said Rep. Cynthia A. McKinney.

The Georgia Democrat made the comment to USA Today's Richard Benedetto, who had asked what she thought of retired Gen. Colin Powell.

Ron Walters, Howard University political science professor, said whites like Mr. Powell because he confirms "the American myth that you can make it even if you are black."

Dogged rivalry

The rivalry between Democratic Reps. Ron Wyden and Peter A. DeFazio has grown so bitter that the latter is accusing the former of running over a dog 20 years ago.

Both Oregonians are seeking the Democratic nomination to replace former Sen. Bob Packwood, who resigned his position after a long-running sexual-harassment scandal.

"It is fair to say they despise each other," a Hill aide told Associated Press writer Scott Sonner. "They were always circling each other, trying to one-up the other one on almost everything. It goes back to the fact they both wanted the Senate seat for many, many years."

Mr. Wyden is considered the front-runner in the Dec. 5 primary, AP said.

Never said that

Marianne Gingrich, wife of the House speaker, says she was misquoted in a Vanity Fair article by Gail Sheehy.

The quote in question: "I don't want Newt to be president."

"I never said that," Mrs. Gingrich tells Arianna Huffington in an article in the current issue of Ladies' Home Journal.

"I never said I would not support my husband if he runs for president. I have always sup-

Inside Politics



Compiled by Greg Pierce

was completely misquoted by her. What I said was that if Newt decided to run for president, I would be in the room when the decision was made — something I would have thought any wife would expect. And then I joked that if I wasn't in the same room, there would be trouble! She even admitted in her piece that I was giggling when I said it."

As for her husband's supposed womanizing, Mrs. Gingrich said: "I found it incredible that anyone would think I would be affected by Newt's previous relationships. What matters to me is our relationship now. They are trying to paint Newt as a womanizer, but he just isn't! They can paint him as a workaholic, but they can't paint him as a womanizer."

Point of view

Sen. Paul Simon, who spent much of the past year trying to curb TV violence, acknowledges that what is considered objectionable varies from one person to another.

"I think a speech by Phil Gramm is objectionable content, but I don't want to keep him off television," Mr. Simon said.

Mr. Simon is a liberal Democrat from Illinois. Mr. Gramm is a conservative Republican senator and presidential candidate

A smashing prediction

Steve Forbes vows to "smash" New York's labyrinthine ballot-access laws so he can compete in the March 7 Republican presidential primary.

"It's never really been openly challenged [in court] in a sustained way with plenty of lead time," Mr. Forbes told the New York Post. "We're going to smash it open."

New York requires candidates to gather signatures in every congressional district, witnessed by residents or notaries, between Nov. 28 and Jan. 4. That figures to cost about \$1 million, unless your name is Bob Dole.

The Kansas senator and GOP presidential front-runner has the active support of Sen. Alfonse M. D'Amato, the New York strongman, and Gov. George Pataki and will have no trouble getting on the ballot statewide.

Crowded field

While former Rep. Mel Reynolds starts his new job washing pots and pans at Vienna Correctional Center in southern Illinois, 14 persons are vying to replace him in Washington, United Press International reports.

Ten Democrats and four Republicans had filed nominating petitions by Monday afternoon's deadline to get on the ballot in

trict.

A special primary is scheduled Nov. 28, followed by an election two weeks later.

Reynolds now is serving a five-year prison term for sexual misconduct and obstruction of justice. He was found guilty of having sexual relations with an underage campaign worker and then attempting to hamper the investigation.

State Senate Minority Leader Emil Jones Jr., state Rep. Monique Davis, state Sen. Alice Palmer and Jesse Jackson Jr. are considered Democratic front-runners. The Democratic field also includes Ronald Cummings of Chicago, James Williams of Riverdale, Arvin Boddie of Chicago, John Morrow of Park Forest and Craig Ford of Chicago.

Mr. Jones is viewed as an early favorite in the Democratic primary. He has been endorsed by local party officials and has long ties to Mayor Richard Daley.

Chicago Heights lawyer Thomas Somer, Bill Moran of Calumet City, Anthony Cisneros of the Far South Side and Lionel Pittsman are running in the Republican primary. The 2nd Congressional District has not been represented by a Republican for more than 40 years.

The gambling issue

Pat Buchanan has become the second GOP presidential candidate to criticize legalized gambling.

The conservative commentator and ex-White House aide, stumping in New Orleans for the Republican presidential nomination, said gambling "corrupts communities, beginning with the politicians" and Louisiana in particular needs to shut down its gambling industry.

A federal grand jury is investigating gambling there.

"I hope Louisiana will send a message to America by ousting all these characters in the state legislature who are involved in gambling elements," he said

gambling "a blight and a cancer."

Another GOP presidential hopeful, Indiana Sen. Richard G. Lugar, last month called for a national study of gambling's impact on crime and social spending.

Nunn's reasoning

Robert Robusto, a reader from Abingdon, Md., passed along a letter he received from Sen. Sam Nunn. Mr. Robusto had written to the Georgia Democrat suggesting he switch to the Republicans.

Mr. Nunn, who later announced his retirement, said:

"I am a Democrat, and I am proud of the party's traditions of inclusiveness of a wide diversity of people and opinions and of concern about the well-being of all Americans. At the same time, I have always been candid in my criticism of the policy positions of some of my fellow Democrats, including party leaders.

"I often find myself in disagreement with positions of the national Democratic Party and my voting record reflects that. On occasion, after attending some of the Senate Democratic caucus meetings, I leave wondering why I remain a Democrat. Then I hear some of my Republican colleagues talking about their own caucus meetings and wondering aloud about the wisdom of their own party's positions."

To the max

Now that Democratic Sen. Sam Nunn has decided to retire, the National Republican Senatorial Committee intends to donate the maximum allowed by law in next year's Georgia Senate race — \$640,000.

That word comes from Sen. Lauch Faircloth, North Carolina Republican and the No. 2 senator at the NRSC. New York Sen. Alfonse M. D'Amato heads the group.

Mr. Faircloth, in an interview, also said the NRSC would donate the maximum amount — which varies by state population — in Nebraska, New Jersey and Kansas where incumbents

Telecom Barbara Chew 10/10

Lucien JPS?

Simon would love.

After it comes out of Tror Office,

Be would like chance to make some

"Congressional notifications"

Also, should get Harold involved - re Lucien's.

Make sure the endorsement looks right -

of basic idea

not every got + little.

Simen's office -

- David Carl

- Vicki Otter - AA

Business Bulletin

A Special Background Report On Trends in Industry And Finance

A ERs 'R' US? Hospitals plunge into consumer advertising with gusto.

Staten Island University Hospital, which has run radio and print ads for its cancer treatments since 1992, says it now counts some 27 similar campaigns. In Los Angeles, Centinela Hospital Medical Center bills itself as the "hospital of choice for the L.A. Lakers, Dodgers, Kings" and others. Beth Israel Hospital in Boston says it has yet to have a campaign fail. Among its successes is the slogan: "It's the nurses."

Newspaper ads for St. Joseph Medical Center, Joliet, Ill., offer new moms "one extra day of rest with our compliments" if insurance doesn't meet certain guidelines. A New Jersey hospital promises emergency-room patients prompt service or it pays the bill. Barron Lerner, an ethicist at Columbia-Presbyterian Medical Center in New York, says consumer ads can work, even in an era of HMOs and managed care. "There's probably a very complex kind of feedback system," he says.

Dr. Lerner notes that people who work in hospitals may feel "uncomfortable" about such ad campaigns, but the advertisements "are here to stay."

FLYING ARCHES may be next as McDonald's prepares to take to the skies.

McDonald's and two Swiss companies are teaming up to launch the world's first airborne fast-food restaurant. Swissair's Crossair unit and Hotelplan, a tour operator, plan to turn one of Crossair's 161-seat jetliners into a flying McDonald's with Golden Arches colors, decor and garb. The idea is to create a sort of theme flight to attract families traveling on vacations to nearby countries.

Hotelplan officials jokingly dub the plane "the ketchup flight." McDonald's has already outfitted some European trains and ferries to serve up its fare. But many hurdles loom for airborne cooking. Chief among them: Can french fries fly? In the U.S., McDonald's supplies Happy Meals for youngsters on United flights. But the meals are prepackaged with carrots and other vegetables since fries don't travel well.

PLAYING POST OFFICE in the future may be a different game for businesses.

Is it time to privatize the U.S. Postal Service? Postmaster General Marvin Runyon tells a conference at the Cato Institute, a think tank in Washington: "America doesn't want a different Postal Service — it wants one that's more businesslike." Others discuss the benefits of privatizing. Steve Gibson of the Bionomics Institute, a San Francisco think tank, notes communication increasingly is between people, not places. He can get e-mail at the podium, he adds.

While the Big Thinkers debate, companies such as InterPost, an international-mail joint venture of KLM Royal Dutch Airlines and the Dutch Post, step up activity in the U.S. InterPost adds financial-services mailings to its core business of sending periodicals overseas. One new client: Prudential Securities. Meanwhile, Alternate Postal Delivery Inc., Grand Rapids, Mich., which delivers second, third and special fourth-class mail, recently went public.

But Mr. Gibson of Bionomics warns: "Poaching on the post office is like paying the cannibals to eat you last."

A HOCKEY BUCK doesn't go as far as it used to. The average ticket price for the National Hockey League season about to begin rises 6.2% to \$34.79 from \$32.75 last season, says Chicago-based Team Marketing Report. The cost for a family of four to attend, park, eat hot dogs and buy some souvenirs increases 5.5% to \$203.63.

'PC VIDEO LETDOWN' is the title of a report from Forrester Research, Cambridge, Mass. Among other things, it says video conferencing using desktop PCs will languish until at least 2000, due to high cost, which it puts at more than \$6,000 a desk.

AN M.B.A. UPGRADE from Syracuse University's School of Management, New York, touts a certificate entitling grads "to upgrade their M.B.A.s on their resumes." The program, for businesspeople who got an M.B.A. from any college in the '60s, '70s or '80s, is done in six Friday sessions. The first program is in Washington this month and will be offered in other spots next year.

TRADING IN TRASH may be only the tip of the heap, so to speak, for exchanges.

The CBOT Recycling Partnership, a venture of the Chicago Board of Trade, government agencies and recycling groups, plans to start on-line trading of glass, plastic and paper Oct. 17. If it succeeds, can futures on recyclables be far behind? No, says Richard Sandor of Centre Financial Products, New York. He adds: "This is one more building block in commodity exchanges becoming environmental exchanges."

Already, U.S. companies trade pollution credits. Next, Mr. Sandor and others aim to define carbon dioxide as a property right and trade emission permits for CO₂ and other greenhouse gases. The idea, which is under study at the U.N., is to fight global warming by trading in such permits down the road. "We're seeing the commoditization of the environment," says Mr. Sandor, who is working on the global project. Still, just creating such emission permits doesn't guarantee a market, he acknowledges.

One study estimates that annual volume in CO₂ permits could be over \$8 billion, a U.N. report says.

BRIEFS: The New Repertory Theatre in Newton, Mass., adds a baby-sitter hot line during performances. . . . Hartz Mountain Corp., Harrison, N.J., noting 75% of surveyed people view pets as family, offers Halloween-theme toys for dogs and cats.

—PAMELA SEBASTIAN

The Odds Squared

GOP Faces Tension As Gambling Interests Meet Family Values

Religious Conservatives Decry Gaming, but Its Dollars Fill Republican Coffers

Sen. Dole Hits the Jackpot

A

By GERALD F. SEIB

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — Of all the explosive social issues that might haunt them—abortion, welfare, school prayer—it's a safe bet that few Republicans wagered on the one that is beginning to open a divide within the GOP.

It is gambling, which is turning out to be a subject with a unique potential to split Republicans along religious, ideological and even geographic lines. Worse yet, it leaves the GOP trapped between its love of "family values" themes and its quest for political contributions.

To sense how the booming gambling industry is beginning to roil Republicans, consider the urgent tone of the letter Republican National Chairman Haley Barbour received a few weeks ago from a fellow GOP leader, Rep. Frank Wolf of Virginia. "I want to tell you of my concern about an insidious gambling industry which encroaches on America's landscape and which is even gaining a voice within our party," the legislator wrote.

Opposition Builds

For months, Rep. Wolf, who watched his home state debate legalizing casinos, has been crying for a halt to the spread of gambling from state to state. Suddenly, he is getting lots of company, particularly among religious conservatives who form a powerful wing of the Republican Party.

The Christian Coalition has been working around the nation to defeat local and state gaming initiatives. At its convention here last month, the group conducted an antigambling workshop called "Gambling — Rolling the Dice on America's Future." Ralph Reed, the coalition's politically astute executive director, says his organization may help finance an antigambling office in Washington. "We're out there at the grass roots, pounding away at these casinos, these lotteries," he says.

Focus on the Family, a Colorado Springs, Colo., conservative religious organization, has just published a tract titled: "You Bet Your Life: The Dangerous Repercussions of America's Gambling Addiction." GOP presidential candidate Richard Lugar has pushed the issue into

What's News—

* * *

A

* * *

Business and Finance

FORD REPORTED its September sales fell 8.9%, the first decline in nearly four years. It cited model and parts shortages and transportation problems. Ford's drop helped push total U.S. sales of cars and light trucks for the month down 3.1% from a year earlier. The slump follows a strong August, when a slew of rebates and incentives helped clear out 1995 models.

(Article on Page A3)

Apple said its chief financial officer will leave the computer maker by year's end and resigned from its board after it rejected his suggestion that Apple sell or merge the company.

(Article on Page B1)

The economy will grow at a moderate but not extraordinary pace, as the government's index of leading indicators rose 0.2% in August from a 0.2% drop in July. Factory orders jumped 2.6% in August, a nine-month high.

(Article on Page A2)

Boeing is bracing for a possible strike at midnight by 33,000 union machinists demanding assurances of job security and a better package of wages and benefits than Boeing is offering.

The aerospace concern plans to make phased-array antennas, which can draw signals from existing satellites and will allow passengers to watch real-time television on a plane.

(Articles on Pages A4 and B1)

The largest industrial economies slowed this year after central banks raised interest rates, an IMF survey found. For most, this may bring sustained growth with little inflation, but the IMF cut its forecasts for Japan.

(Article on Page A2)

The Nasdaq Stock Market stumbled hard over a selloff led by the technology sector. The Nasdaq Composite tumbled 1.8% to 1002.27, while the market's computer index dropped 2.9%.

The NASD board will discuss whether Joseph Hardiman should still lead both the Nasdaq Stock Market and its parent, the NASD, when it meets next month on a restructuring.

(Articles on Pages C7 and C1)

Teledyne directors seem to be leaning against selling the company or its units, about seven months after placing Teledyne on the auction block to fend off a \$1.2 billion takeover bid.

(Article on Page A3)

Daiwa Bank denied media reports that its president will resign to take responsibility for the \$1.1 billion loss by a Daiwa bond trader in New York.

(Article on Page A11)

An unexpected shortfall in tax revenues is plaguing France, Germany and other European nations as they struggle to meet fiscal requirements for a European monetary union.

(Article on Page A10)

Some analysts are questioning whether AT&T will go through with a costly plan to build a global satellite communications service, partly because changes sweeping the industry may make the network unnecessary.

(Article on Page A6)

Fleet Financial is refunding \$1.4 million to about 17,000 customers who were charged excessive fees on home mortgage loans, marking another mis-cue in Fleet's customer dealings.

World-Wide

A HURRICANE LASHED Florida's Panhandle and coastal residents fled.

Hurricane Opal came ashore just east of Pensacola, becoming the third hurricane to strike the Panhandle this season. The storm, with gusts up to 144 mph, flooded homes, knocked down piers and caused the evacuation of tens of thousands of residents. One Florida woman died in a hurricane-spawned tornado. Opal's maximum sustained winds were reported to be 125 mph, down from 150 mph earlier in the day.

Opal, which left 10 people dead in Mexico, was expected to spin off more tornadoes and cause flooding from storm surges as high as 15 feet. The hurricane was moving toward the northeast.

NATO JETS BOMBED Bosnian Serb targets as a U.S. envoy held peace talks.

The NATO warplanes fired missiles at three Serb radar sites in southern and central Bosnia after anti-aircraft radar locked onto the jets, NATO officials announced. The airstrikes could complicate U.S. efforts to keep up momentum for a Bosnian peace plan just as the efforts appear to be paying off. U.S. Assistant Secretary of State Holbrooke reported progress in his quest for a cease-fire.

After meeting with officials in Sarajevo, Holbrooke spoke of a "serious proposal" by the Bosnian government but he didn't give details.

Pope John Paul II proclaimed himself "a pilgrim of peace" as he arrived in Newark, N.J., for a five-day U.S. visit that will include his first address to the U.N. in 16 years. He was greeted at the airport by Clinton, who praised the pontiff for his many peace initiatives, including those in Northern Ireland, Haiti and southern Africa.

Annual poverty figures will be released today by the Census Bureau, which also will release household-income statistics. The numbers, which the bureau concedes are flawed, are used to fix eligibility for 27 federal programs, including food stamps, Medicaid, Head Start and school lunches.

Prison statistics show that almost one in every three young black men is serving a criminal sentence—either prison, probation or parole, according to a study by an advocacy group. The findings represent a dramatic increase from five years earlier, when the proportion was one in four, according to the Washington-based Sentencing Project.

Members of NATO have agreed to stall plans to expand the alliance into central and eastern Europe in an attempt to buy time to win Russian consent, diplomatic sources said. The decision to postpone any real progress on enlargement until early 1997 was taken at a series of high-level meetings in Williamsburg, Va., sources said.

Lower back pain can be treated by a orthopedist or a chiropractor for more than what a family doctor would charge, but the results aren't much different, researchers said. Regardless of the type of doctor the patients sought out, about 70% had recovered completely within six months, according to the study.

Some 700 firefighters battled a fast-moving wildfire on the northern California coast that has consumed about 20 homes on parts of Point Reyes National Seashore, national park. The blaze, which reportedly was caused by the embers of an illegal campfire, has burned more than 2,000 acres, fire officials said.

Macedonia appointed an acting president amid fears its leader was too badly wounded in a Tuesday car-bomb attack to resume his duties. Parliament Speaker Andov took over as interim head of state while 78-year-old President Gligorov, who already underwent brain surgery, had an operation to try to save his sight.

Russian Premier Chernomyrdin said he won't run for president in 1996. As leader of a new political party, Chernomyrdin has become one of Russia's most popular politicians and has lately emerged as a potential rival to President Yeltsin. The announcement came amid rumors that Yeltsin was going to fire him.

A French mercenary handed over the deposed Comoros president to French troops, ending a six-day coup in the island nation off Africa's east coast. The mercenary, Bob Denard, said he planned to surrender today. About 600 French troops had landed in the former colony to dislodge the veteran soldier and his mercenary force.

the 1996 campaign, delivering a speech and congressional testimony on the evils of gambling. The Indiana senator has signed on to a bill sponsored by Rep. Wolf to set up a national commission to study the matter.

But at precisely the same time, the Republican Party is being tugged in the opposite direction by another powerful force: the growing lure of donations.

Clear Lead in Contributions

In the two-year election cycle that culminated in the GOP takeover of Congress last year, the gambling industry contributed nearly \$1 million to the Republican Party in unrestricted donations, according to an analysis by Common Cause. That is 30% more than went to the Democrats for the same period and almost eight times what the GOP collected during the previous two years. In the first half of this year, the industry kicked in another \$155,500 to the GOP, almost five times the amount that went to Democrats, the Common Cause analysis shows.

On top of that, the gambling industry has been generous in promoting the leading GOP presidential candidates. Sen. Robert Dole of Kansas has cashed in the most chips. At a single June fund-raiser organized by Mirage Resorts Inc. Chairman Stephen Wynn at his exclusive Las Vegas golf club, Sen. Dole took in \$477,450, aides say.

Sen. Phil Gramm of Texas also has held a Las Vegas fund-raiser, his campaign says. And Mr. Wynn has contributed to projects undertaken by the Empower America conservative advocacy group, officials there say. He declines to comment.

To Rep. Wolf, big gambling money means big trouble. "I am absolutely, positively, categorically opposed to the Republican Congressional Campaign Committee or the Republican National Committee taking any gambling money," he says. The GOP is positioning itself as the pro-family party, and "pro-gambling is not pro-family," he argues.

But GOP Chairman Barbour says he has no desire to screen out gambling money. "It's not my place to be judgmental about issues when it comes to allowing people to support us," he says. "You don't have to agree with the Republican Party on every issue to support us."

Money vs. Morality

There is more than a simple debate between money and morality at work here. In its own way, gambling is emerging as just the latest issue to reveal the kinds of fissures that inevitably will emerge as the Republican Party tries to broaden itself to become the nation's majority party.

Gambling drives a wedge between the GOP's social conservatives, who worry above all about the condition of society, and its business proponents, who are inclined to clear the way for private enterprise of all kinds. Gambling also tends to divide laissez-faire Westerners from more socially conservative Midwesterners and religiously focused Southerners.

Perhaps nobody personifies these di-

Please Turn to Page A8, Column 1

Continued From First Page

vides more clearly than Frank Fahrenkopf, a nattily dressed Nevada lawyer who rode into Washington during Ronald Reagan's revolution and eventually became party chairman. These days, he heads a gambling-industry trade group, the American Gaming Association.

Mr. Fahrenkopf now finds himself fighting off growing challenges to his industry from fellow Republicans. "It is a legitimate and legal business," he says. "The people who work in the industry, they go to church. They are God-fearing." He estimates that 500,000 people are directly employed — and another 500,000 or more indirectly employed — because of gambling enterprises in the continental U.S. To those who criticize gambling on moral grounds he says the "morally wrong" position would be to deny these people their means of livelihood.

Of course, Democrats also are grappling with pressures from the growth of gambling, as shown by a recent gambling scandal in Louisiana in which Democratic politicians are accused of taking payoffs to protect gaming interests. But an odd combination of business trends, Clinton administration decisions and quirky personal connections has pushed gambling onto the GOP's doorstep as a hot issue.

For years, the industry focused its lobbying on the few state governments that made most decisions affecting the industry. To the extent it got involved in national politics, it tended to support Democrats.

'A Wake-Up Call'

That changed in early 1994, when the Clinton administration began openly considering a 4% tax on gaming-industry receipts as a way to finance a welfare-overhaul plan. "The 4% gross-receipts tax really was a wake-up call to an industry that never was really represented at the federal level," Mr. Fahrenkopf says.

It told the industry something fundamentally important: The spread of casinos around the country inevitably will make gaming companies an increasingly attractive tax target for a federal government hungry to close its deficit. In addition to the many states that offer lotteries, casinos now operate in 23 states, and the gambling industry handles \$482 billion in wagers annually. Gross industry revenues last year rose to \$39.9 billion, a 15% increase in just one year.

In addition to scaring gambling executives, the tax idea pulled them toward the Republican Party, which seemed more likely to hold the line against new federal levies. By chance, a personal connection helped cement this emerging bond.

John Moran, the party finance chairman in 1993 and 1994, is a successful businessman who happened to take an interest in research into eyesight problems and helped fund a research center at the University of Utah. That brought him together with Mirage's Mr. Wynn, who has suffered from eye problems, and the two became friends.

Mr. Wynn, who once supported Democrats generally and President Clinton in particular, began raising money for Republicans. These days, Mr. Moran has moved from raising money for the party to raising money for the Dole campaign.

Growing Agenda

Though the idea of a gambling tax fell by the wayside, the industry now finds it has a growing agenda of Washington issues to worry about. Besides trying to hold off new taxes and regulations, some companies have been pushing Congress to begin taxing the exploding gambling revenue pulled in by Indian reservations. Until now, tribal revenue has been exempt from federal taxation, and gambling firms that aren't involved in Indian gambling consider the situation unfair. The House Ways and Means Committee is considering legislation to change it.

Republicans who get gaming-industry money say it is simply philosophical agreement on business and tax issues that has attracted donations to the party. "I think this has more to do with Bob Dole's opposition to tax increases than any sup-

port for gambling," says Nelson Warfield, press secretary for the Dole campaign. "I think a lot of people out in Las Vegas remember Bob Dole's opposition to the Clinton administration's proposal for a gaming tax."

But, he adds, Sen. Dole isn't necessarily supporting the spread of gambling, noting that he voted for a 1991 measure limiting betting on amateur sports.

Other Republicans have decided they don't want gambling money falling into their kitties. Mississippi Gov. Kirk Fordice, even though he credits tax revenue from riverboat gambling for wiping out a state deficit and spurring development, has said he won't take gaming-industry donations in his re-election bid this year to avoid conflict-of-interest charges. Similarly, South Carolina Gov. David Beasley, a Republican with ties to Christian conservatives, has fought expansion of video poker, and his office says he wouldn't accept contributions from the industry.

Antigambling Convention

Meanwhile, antigambling activists are planning their first national convention in Orlando, Fla., at the end of this month, and GOP lawmakers will have a prominent position. Rep. Wolf will deliver the keynote speech and Sen. Lugar is sending a video, says the Rev. Tom Grey, an Illinois minister who is helping to organize the gathering. Mr. Grey says candidates such as Sens. Dole and Gramm "are going to have to take a position on whether gambling money is appropriate," adding that gambling "is the family-values issue of this presidential campaign."

Charles Black, top strategist for the Gramm campaign and a lobbyist who himself has represented gambling interests, says, "I don't know of anybody who has ever switched his vote because of a \$1,000 contribution or a \$5,000 [political-action committee] contribution Given our system, with strict limits on contributions and full disclosure, most of the time people ought to take contributions" when they are offered.

For their part, Republican critics of gambling in Washington aren't so much focusing on moral questions as asserting that the industry stunts real economic growth. "Gambling does not produce a value-added product or reinvestment in the market economy," Sen. Lugar said last week. "Other businesses in the region often lose as consumer spending for all sorts of goods and services shifts to spending at casinos"

For him and Rep. Wolf, the top priority is their bill to create a national gaming commission, which they hope would prove this point and also show the high social and law-enforcement costs of gambling. That, they hope, would give like-minded local officials a stronger hand to play. "I think the public as a whole, until they have some idea of what the lay of the land is, may take the position that these are legitimate businesses," Sen. Lugar says.

But the gambling industry's Mr. Fahrenkopf, who argues that the federal government should let basic decisions on gambling continue to be made by the states, says those pushing for a commission don't simply want to disseminate information. "They want to abolish gambling," he says. "They want to abolish it on moral grounds."

Fixed Income?

Charities That Offer Gift Annuities Catch Flak for Uniform Rates

Trade Group That Suggests How Much to Pay Out Faces Civil Antitrust Suit

Setting a 'Level Playing Field'

A

By STEVE STECKLOW

Staff Reporter of THE WALL STREET JOURNAL

When the United Jewish Appeal Federation of New York launched a major fund-raising drive last year, the world of big-time charity was dismayed.

In full-page ads, the UJA of New York invited donors to "invest" with it through a gift that would return an annual income "that often beats the current yield on your assets." On a \$1 million gift, a 65-year-old donor could get \$73,000 a year for life from the UJA and still deduct part of the gift from taxable income. When the donor died, the UJA would keep what was left.

Although virtually all big charities offer such "gift annuities," few had marketed them so aggressively. The ad bothered some charities, mindful that they aren't allowed to sell commercial financial instruments. But even more unsettling to some, the UJA was offering rates as much as a percentage point higher than most other charities — threatening to set off a philanthropic price war.

The American Council on Gift Annuities swung into action.

Peer Pressure

The council publishes a set of recommended rates on gift annuities. And although it makes clear that compliance by the council's members is voluntary, deviations don't pass unremarked. The council's chairman wrote to UJA official Neal Myerberg on July 14, 1994, reiterating that the recommended rates are voluntary but stating in part: "We urge you to offer gift annuity rates no higher than the current suggested maximum annuity rates of the American Council on Gift Annuities."

Mr. Myerberg also was called to a meeting attended by officials of several other charities, where, he says, one official — he can't recall who — suggested they all offer the same rates. He says he told them he "thought fixing rates or fixing prices was wrong."

He isn't the only one who feels that way. The council is facing a lawsuit in Texas accusing it of violating federal antitrust law.

The civil case arose last December after Louise T. Peter, now 96 years old, of

Wichita Falls obtained two gift annuities from the Texas Lutheran Foundation in return for \$200,000. A grand-niece who is an heir filed suit claiming that Ms. Peter would have gotten a better rate but for price fixing. (The suit also alleges undue sales pressure by the Lutheran foundation.)

Important Source

Gift annuities bring charities large and growing sums. In a council survey last year, 705 nonprofit organizations said they had raised \$1.2 billion this way through 1993, and \$316 million that year alone. The total is doubtless higher, as the survey was answered by only about half of the council's approximately 1,500 members.

The UJA is no longer the only nonprofit pushing gift annuities hard. The Boy Scouts of America recently ran magazine gift-annuity ads picturing stacks of money and headlined, "Get into Scouting and you'll find yourself making something."

A gift annuity allows a donor to name the recipient for a chunk of money but obtain income from it while alive, plus an immediate tax deduction. Imagine that a person obtains a \$200,000 gift annuity with a 7% rate. The charity now is committed to paying the donor 7% a year for life. If the donor lives longer than expected — or if the charity set the rate too high — the charity will end up with less than \$200,000 when the donor dies. In fact, charities usually don't end up with the full amount; the council says its rates are designed to provide a 50% "residuum," on average.

What the Suit Seeks

The risk that charities could be found to be violating antitrust law has cast something of a cloud over gift annuities. One defendant in the Texas suit, the University of Colorado's fund-raising foundation, has stopped offering the annuities pending resolution of the suit.

Robert Elkin, a lawyer for the plaintiff, argues that adherence by many council members to a set of recommended rates is just as if "the banks got together and they agreed to only pay 3% on CDs." He says many donors would get higher returns if all charities competed on rates. The suit asks the court to assess triple damages — in accordance with the Sherman Act barring agreements in restraint of trade — and to give donors the right to refunds; on Oct. 20, the court will consider whether to make the suit a class action representing thousands of gift-annuity holders.

There are now 41 defendants, among them United Way of America, the Salvation Army, Vassar College, the General Conference of Seventh-Day Adventists and the Southern Baptist Convention. They deny any wrongdoing.

The chairman of the Dallas-based American Council on Gift Annuities, Tal Roberts, calls the suit "totally meritless" and says it is costing charities hefty legal fees that could otherwise go to worthy causes.

Antitrust experts say the suit will be hard for the plaintiff to win. William E.

Please Turn to Page A9, Column 1

1/2

Telecon w/ Michael Stevenson (Sen. Simon)

S. bill - Simon/Lugar

HR 497 (WSPK)

18 mo. comm. Sen. budget (250,000)

Lugar asked for hearings - letter just went out.

Pro-family gps for the leg

Oppos: gaming industry

Christian gps

? Concern by Amer Ind. gps - bec some talk - states issue.
Don't want reg. passed to states. Also don't want
income from gambling taxed. Neither for or agt.

Just getting started - not a lot of talk one way or
the other.

Dickson 462

224-7016

Get it to
their mind

THE WHITE HOUSE

WASHINGTON
October 5, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: ABNER J. MIKVA ^{asM}
ELENA KAGAN ^{EK}

THROUGH: LEON PANETTA, GEORGE STEPHANOPOULOS

SUBJECT: PROPOSAL FOR NATIONAL GAMBLING COMMISSION

Rep. Frank Wolf (R. Va.) and Sens. Paul Simon and Richard Lugar have introduced bills to establish a federal commission to study the extent and effects of gambling and the adequacy of current regulation. Rep. Wolf's bill was the subject of a hearing in the full House Judiciary Committee last week. No action has yet been taken in the Senate.

Both the ~~House and Senate~~ bills would establish a commission of nine persons, three to be appointed by the President, three by the House Speaker, and three by the Senate Majority Leader. The Senate bill provides that the Speaker and Majority Leader consult with the Minority Leaders of the House and Senate; the House bill provides that one member should be a state governor.

Both versions of the bill ^{US} charge the commission with undertaking a study of gambling in the United States, including the economic effects of gambling on other businesses and surrounding communities, the relationship between gambling and crime, the extent and impact of pathological gambling, and the costs and effectiveness of current regulatory policy. The bill does not specifically mention lotteries (speaking only of "gambling"), but presumably includes them.

Supporters of the proposal note that it does not impose any new restrictions on gambling, but merely recognizes the need for greater information on the scope and effects of the gambling industry. Gambling is one of the fastest growing businesses in the nation. One recent study found that \$330 billion was wagered legally in 1992 (including in lotteries), up 1800% since 1976. Casinos now operate in 25 states, and in 1993 Americans made more trips to casinos than to major league baseball parks. ~~The growth of this industry may have adverse consequences.~~ As you said at the Sperling lunch, the introduction of gambling in a community, ^{privy} though seeming to provide ^{the} a way to raise revenues and ^a jolt the economy, may impose hidden social, economic, and political costs, ^{to} including those associated with corruption, crime, and addictive behavior. Supporters of these bills argue that we should take a hard look at such matters to ensure sensible regulatory policy.

Opponents of the proposal allege that it is a sort of stalking horse for the religious right -- a first step in a

2
Newspaper
editorial

moralistic effort to prohibit gambling altogether. (The Christian Coalition is indeed a fervent supporter of this legislation, but so are many representatives and ~~press entities~~ not associated with that organization.) Opponents also claim that a national commission will serve little purpose because conditions vary so much from state to state and community to community; sometimes opponents go so far as to frame this argument in terms of "states' rights." Finally, of course, opponents dispute the notion that gambling is linked to corruption or crime and claim it is a boon to local economies.

The only groups so far to oppose the legislation are industry associations, including most prominently the American Gaming Association, headed by Frank Fahrenkopf, former Chair of the RNC. The National Indian Gaming Association, which believes gaming by Indian tribes to be essential to tribal economic development, has indicated that it would not oppose the bills so long as the Commission includes an Indian tribal representative and addresses state lotteries as well as other forms of gambling. Senators and representatives from Nevada are vehement in their opposition to the bills; those from New Jersey, though less openly hostile at this time, may be subject to similar pressures. Finally, state governments may oppose the proposal if they believe it represents a threat to state lotteries.

X

Recommendation

We recommend that you endorse the idea of a commission to study gambling. Such a commission can perform a useful function in collecting information about the effects of gambling and thus enabling better decisions -- whether on the federal, state, local, or tribal level -- as to appropriate regulation. To the extent formation of such a commission suggests a sort of moralistic discomfort with gambling, this may be perfectly appropriate. We do not recommend that you sign on wholesale to either of the current bills, given issues that already have arisen and may arise in the future as to such matters as the Commission's membership. But we believe an endorsement of the basic idea of the bills (Option #3, below) is warranted.

?? What
issues

1. Oppose the creation of a gambling commission
2. Take no position on the creation of a gambling commission
3. Endorse the creation of a gambling commission
4. Let's discuss

THE WHITE HOUSE

WASHINGTON
October 5, 1995

OLD DRAFT

MEMORANDUM FOR THE PRESIDENT

FROM: ABNER J. MIKVA *asM*
ELENA KAGAN *EK*

THROUGH: LEON PANETTA, GEORGE STEPHANOPOULOS

SUBJECT: PROPOSAL FOR NATIONAL GAMBLING COMMISSION

Rep. Frank Wolf (R. Va.) and Sens. Paul Simon and Richard Lugar have introduced bills to establish a federal commission to study the extent and effects of gambling and the adequacy of current regulation. Rep. Wolf's bill was the subject of a hearing in the full House Judiciary Committee last week. No action has yet been taken in the Senate.

Both the House and Senate bills would establish a commission of nine persons, three to be appointed by the President, three by the House Speaker, and three by the Senate Majority Leader. The Senate bill provides that the Speaker and Majority Leader consult with the Minority Leaders of the House and Senate; the House bill provides that one member should be a state governor.

Both versions of the bill charge the commission with undertaking a study of gambling in the United States, including the economic effects of gambling on other businesses and surrounding communities, the relationship between gambling and crime, the extent and impact of pathological gambling, and the costs and effectiveness of current regulatory policy. The bill does not specifically mention lotteries (speaking only of "gambling"), but presumably includes them.

Supporters of the proposal note that it does not impose any new restrictions on gambling, but merely recognizes the need for greater information on the scope and effects of the gambling industry. Gambling is one of the fastest growing businesses in the nation. One recent study found that \$330 billion was wagered legally in 1992 (including in lotteries), up 1800% since 1976. Casinos now operate in 25 states, and in 1993 Americans made more trips to casinos than to major league baseball parks. The growth of this industry may have adverse consequences. As you said at the Sperling lunch, the introduction of gambling in a community, though seeming to provide a way to raise revenues and jolt the economy, may impose hidden social, economic, and political costs, including those associated with corruption, crime, and addictive behavior. Supporters of these bills argue that we should take a hard look at such matters to ensure sensible regulatory policy.

Opponents of the proposal allege that it is a sort of stalking horse for the religious right -- a first step in a

moralistic effort to prohibit gambling altogether. (The Christian Coalition is indeed a fervent supporter of this legislation, but so are many representatives and press entities not associated with that organization.) Opponents also claim that a national commission will serve little purpose because conditions vary so much from state to state and community to community; sometimes opponents go so far as to frame this argument in terms of "states' rights." Finally, of course, opponents dispute the notion that gambling is linked to corruption or crime and claim it is a boon to local economies.

The only groups so far to oppose the legislation are industry associations, including most prominently the American Gaming Association, headed by Frank Fahrenkopf, former Chair of the RNC. The National Indian Gaming Association, which believes gaming by Indian tribes to be essential to tribal economic development, has indicted that it would not oppose the bills so long as the Commission includes an Indian tribal representative and addresses state lotteries as well as other forms of gambling. Senators and representatives from Nevada are vehement in their opposition to the bills; those from New Jersey, though less openly hostile at this time, may be subject to similar pressures. Finally, state governments may oppose the proposal if they believe it represents a threat to state lotteries.

Recommendation

We recommend that you endorse the idea of a commission to study gambling. Such a commission can perform a useful function in collecting information about the effects of gambling and thus enabling better decisions -- whether on the federal, state, local, or tribal level -- as to appropriate regulation. To the extent formation of such a commission suggests a sort of moralistic discomfort with gambling, this may be perfectly appropriate. We do not recommend that you sign on wholesale to either of the current bills, given issues that already have arisen and may arise in the future as to such matters as the Commission's membership. But we believe an endorsement of the basic idea of the bills (Option #3, below) is warranted.

1. Oppose the creation of a gambling commission
2. Take no position on the creation of a gambling commission
3. Endorse the creation of a gambling commission
4. Let's discuss

*Don't know
Olson*

Frank R. Wolf

A Close Look at Gambling

The Post recently wrote in an editorial on the subject of gambling that this country "is in the presence of a powerful and growing industry and an important social phenomenon." Twenty years ago, gambling was legal only in Nevada and New Jersey. Today, only Utah and Hawaii have no form of legalized gambling.

A week ago, the House Judiciary Committee held a hearing on legislation I have introduced to establish a National Gambling Impact and Policy Commission. The bill does not outlaw gambling. It does not tax gambling. It does not regulate gambling. It places no new mandates on gambling. It merely recognizes that gambling is spreading throughout the country like wildfire and concludes that it's time to take a hard look at its effects on business, crime, local governments and families.

Many communities have been misled and duped into accepting gambling—left to defend themselves against a well-financed industry that often hires prominent lawyers, lobbyists and political consultants.

In a New York Times column, William Safire wrote, "State-sponsored gambling is a banana-republic abomination that undermines national values." I think he's right—government is supposed to be the protector of society, not a predator upon it. But many cash-strapped local governments find it difficult to resist claims of quick cash to bolster revenues.

True, casinos pay taxes on their revenues. But a casino's gain is a legitimate business's loss. Consider that within a year of Atlantic City's casinos' offering free food to their patrons, over a third of Atlantic City's restaurants went out of business. Consider that last year gamblers in Mississippi wagered \$29.7 billion, while all taxable retail sales were \$27.6 billion.

Gambling creates no new wealth. Rather, it consumes income that is otherwise spent on tourism, services, movies, recreation and clothing. But how is a small community considering legalizing gambling to know these facts?

Almost every day, we hear about another public official under investigation, under indictment or going to jail because of illicit ties to gambling. Last week, the Associated Press reported that "four vacancies now exist in the 39-member Louisiana Senate after two more senators stepped aside . . . one of them a key figure in the FBI's investigation into the legislative influence wielded by the gambling industry."

In August 1991, 17 South Carolina legislators, lobbyists and other officials were convicted of accepting bribes. In 1990, six Arizona legislators pleaded guilty to accepting bribes in exchange for key votes on gambling. In Kentucky, seven legislators, including the speaker of the Kentucky House of Representatives, were found guilty of accepting bribes, extortion, racketeering under RICO and making false statements. A former West Virginia state lottery director was recently convicted of perjury, mail fraud and wire fraud in the rigging of a state contract for video lotteries. In Pennsylvania, a former state attorney general pleaded

guilty to accepting bribes in exchange for lax enforcement of state gambling control laws.

How can Congress sit idly by as this scenario repeats itself time after time across the nation? The Florida Department of Law Enforcement recently opposed casino gambling because "casinos will result in more Floridians and visitors being robbed, raped, assaulted and otherwise injured." Don't we have an obligation to at least look into gambling's impact and help our communities get all the facts?

In 1993, more people made trips to casinos than to major league baseball parks, in essence, replacing America's pastime with gambling. And that doesn't even count the more than 200,000 minors ejected from casinos. Sports Illustrated recently ran a three-part series chronicling the shocking impact gambling has had on our nation's youth in high schools and colleges. On April 11, The Post described how law-enforcement authorities uncovered a "sophisticated betting operation run by student bookies who not only mimicked the Mob, but also worked with it." Gambling is beginning to take a toll on our nation's youth, too.

Do local governments think that a casino's taxes can cover the cost of additional police, regulators and social services to put back

together the families and lives that casinos shatter?

Maybe they do, but more likely, they aren't sure. The National Gambling Impact and Policy Commission will give them the facts. It will take an objective, credible and factual study of the effects of one of our nation's fastest growing industries.

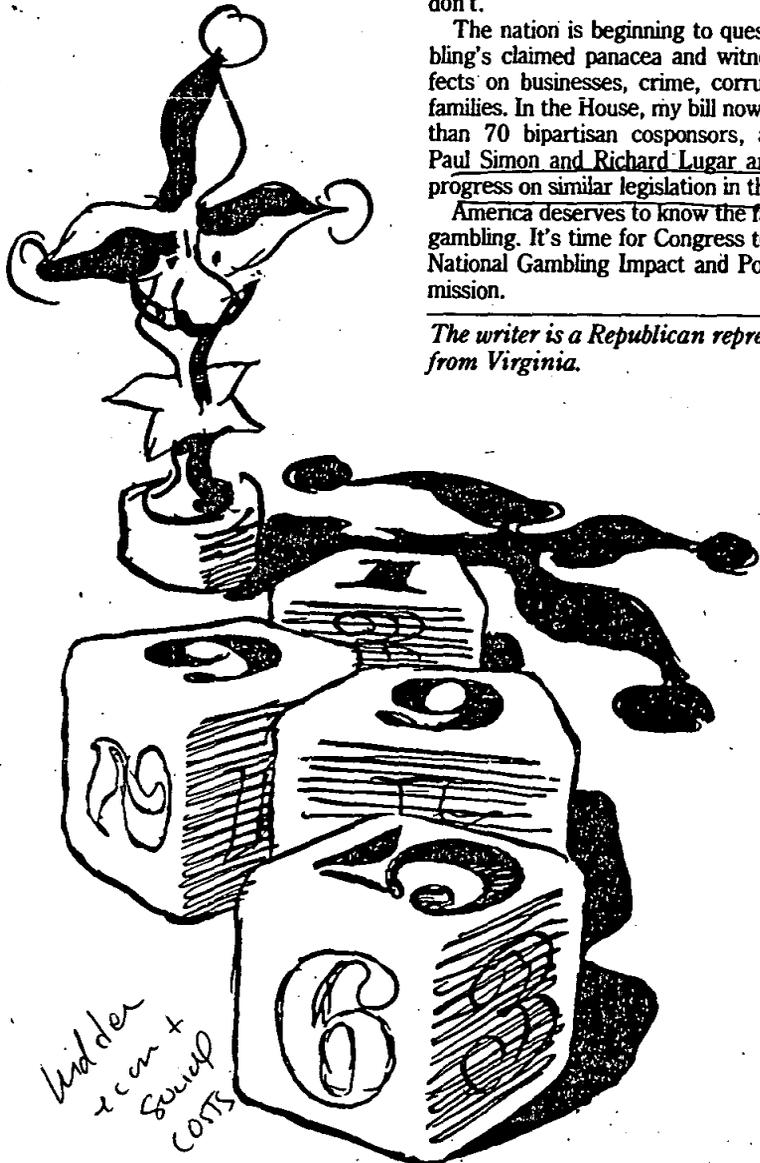
This commission will have three years to study the effects of casino, riverboat, on-line computer and Indian-sponsored gambling in our communities. Local governments should know if tax revenues from casinos will cover the additional crime bill, cover the lost productivity of workers, cover the costs to hire more regulators, bring back the restaurant that has been on the corner for 50 years or stop people like the Illinois mother of two who shot herself because she couldn't pay her gambling debts and the 19-year-old Iowa boy who did the same.

The responsible government that we all strive for, and we tell our constituents we are part of, ought to jump at the opportunity to provide people with a good, honest and objective study about gambling's effects. And why not? What's there to hide? If gambling and casinos are good for our nation's communities, the gambling interests ought to support the commission, which would presumably vindicate them. But they don't.

The nation is beginning to question gambling's claimed panacea and witness its effects on businesses, crime, corruption and families. In the House, my bill now has more than 70 bipartisan cosponsors, and Sens. Paul Simon and Richard Lugar are making progress on similar legislation in the Senate.

America deserves to know the facts about gambling. It's time for Congress to create a National Gambling Impact and Policy Commission.

The writer is a Republican representative from Virginia.



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COTS*

*memo - pros + cons
Surren include
Press Office - Spelling should endorse?*

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Congress of the United States
House of Representatives
Washington, DC 20515-4610

CONGRESSMAN FRANK R. WOLF
Statement on H.R. 497, the
"National Gambling Impact and Policy Commission Act of 1995"
Before the House Judiciary Committee
September 29, 1995

Chairman Hyde, members of the committee, I appreciate the opportunity to testify on H.R. 497, legislation which would create a national commission to study the effects of gambling. This legislation is simple. It would charge the National Gambling Impact and Policy Commission to make an objective, comprehensive, and impartial legal and factual assessment of gambling.

Mr. Chairman, this legislation does not outlaw gambling. It does not tax gambling. It does not regulate gambling. It merely recognizes that gambling is spreading throughout the country like wildfire and it needs a hard look. This is our responsibility as federal legislators to create a commission to bring together all the relevant data so that governors, state legislators, and citizens can have the facts they need to make informed decisions.

Why should this committee and the Congress be concerned about gambling? There is growing evidence that gambling has harmful side effects. Members should be concerned about reports that the rapid proliferation of gambling has caused the breakup of families, suicides, an increase in teenage gambling, and the cannibalization of businesses. When I read the story about Jason Berg, a 19-year-old from the small Iowa town of Elkader ending his life after running up a large gambling loss and leaving a note that read, "I'm out of control," I get concerned. How many other teenagers have taken their lives because of gambling debts? When I hear about a 41-year-old suburban salesman, Howard Russell, who shot himself in the parking lot of the Grand Victoria Casino in Elgin, Illinois, after losing more than \$50,000, I get concerned. When the police found him he reportedly had \$13 in his pockets. How many other compulsive gamblers' turn to violence after losing their life savings? Congress should act now to investigate these reports instead of waiting, as it did with the budget deficit, until there is an almost insurmountable problem. It is time this issue be given national attention through a comprehensive study.

*states rts
inf.*

Critics of this commission claim that gambling is a state issue and that the Congress should not be involved in studying it. Let me dispel that myth up front. First, gambling is commerce and as such is subject to Congress's commerce power under Article 1, Section 8 of the Constitution. Also, public corruption and other criminal cases associated with gambling are investigated by the Federal Bureau of Investigation. Furthermore, gambling is a nationwide phenomenon. Gambling in one state impacts the citizens of another. Lastly, gambling interests have their hooks into the state political structure making it difficult for states to make objective studies of gambling. We recognized the states' role in this issue, and that is why section 3(a) of the bill states that one member of the Commission should be a governor. It is time for the federal government to take a leadership role so that state and local communities have the facts when gambling interests come knocking on their doors.

Gambling interests also criticize this legislation as the moral musings of the religious community. Supporters of H.R. 497 include: 47 Republican and 23 Democrats, many states' attorneys general, governors, and newspapers such as The Washington Post and The Cincinnati Enquirer. This is a bipartisan, non-ideological coalition joined because of their concern about the impact of gambling.

amplitude

Gambling is one of the fastest growing industries in the nation and is becoming America's pastime. In 1993, according to U.S. News and World Report, Americans made more trips to casinos than they did to Major League ballparks. At the turn of the century, gambling was prohibited. Today, however, there are 37 state lotteries, casinos operate in 23 states, and 95 percent of all Americans are expected to live within a three- or four-hour drive of a casino by the year 2000. Only two states, Hawaii and Utah, forbid wagering.

✓

Last year, Virginia blocked gambling interests' \$1.1 million bid to bring riverboat gambling to the Commonwealth and voters in Florida rejected a \$16 million effort to legalize casinos. Voters in Minnesota, Nebraska, Rhode Island, and Wyoming did the same. Why are gambling interests willing to bet so much on legalizing gambling? Why, according to The Boston Globe, are they hiring politically connected consultants to convince state legislators that gambling is a sure bet? Why have they hired some Massachusetts lobbyists at \$65,000 per month plus expenses to "consult" on the legalization of gambling? I am concerned that the flood of casino money into the states will drown out the voices of ordinary citizens, and overwhelm state public officials.

Crime is a subject that the Commission would study. The Florida Department of Law Enforcement recently opposed legalizing casino gambling because "casinos will result in more Floridians and visitors being robbed, raped, assaulted, and otherwise injured." Jim Moody, chief of the Organized Crime Section, FBI, in a "60 Minutes" interview stated, "[G]ambling itself ... is probably the biggest producer of money for the American La Cosa Nostra [that] there is."

organized crime children

Organized crime does not only target adults. An April 11 Washington Post article explained how law enforcement authorities uncovered "a sophisticated betting operation run by student bookies who not only mimicked the Mob, but also worked with it." The article detailed how three New Jersey high school students "forced a 14-year-old schoolmate into a car, drove him to a housing project in Newark and dumped him there for failing to pay \$500 in gambling debts . . ." In another case, a 16-year-old "prostituted his girlfriend around school to raise money to pay his debts."

Political corruption is another problem and not one confined to gambling's tawdry history which the commission should review. Federal law enforcement agents are currently investigating possible political corruption in Louisiana tied to gambling. Four Louisiana state senators have reportedly stepped aside because of an FBI investigation into the legislative influence wielded by the gambling industry. Similarly, the speaker of the Missouri House of Representatives has resigned in a cloud of gambling related political corruption. In August 1991, FBI agents in Columbia, S.C., wrapped up "Operation Lost Trust," a sting that resulted in the convictions of 17 South Carolina legislators, lobbyists and other officials for accepting bribes during the 1990 legislative session in exchange for their votes to legalize horse and dog track racing. Six Arizona legislators pleaded guilty in 1990 for accepting bribes on a bill to legalize casino gambling. Seven Kentucky legislators, including the speaker of Kentucky's House of Representatives, were found guilty of accepting bribes, extortion, racketeering under RICO and making false statements. In 1990, a former West Virginia Governor pleaded guilty to taking a bribe from racing interests. In 1994, a West Virginia lottery director was sentenced to federal prison for rigging a video lottery contract.

Political corruption

Because of crime associated with casino gambling, regulatory agencies in New Jersey spend over \$59 million annually to monitor the city's casinos. In 1992, the Wall Street Journal reported that since 1976, Atlantic City's police budget has tripled to \$24 million while the local population has decreased 20 percent. During the first three years of casino gambling, Atlantic City went from 50th in the nation in per capita crime to first. Overall, from 1977 to 1990, the crime rate in that city rose by an incredible 230 percent.

Crime

The Commission would make a demographic study of gambling including determining to what extent teenagers are gambling. In 1991 New Jersey casino security ejected 21,838 persons under the age of 21 from casinos, and prevented another 196,707 from entering. Research indicates that as many as 7 percent of teenagers may be addicted to gambling. Sports Illustrated recently ran a three-part series explaining that gambling has infiltrated college sports, is popular and pervasive on college campuses and is destroying young lives. Local Washington, D.C., area papers have chronicled the sad story of the University of Maryland standout quarterback who was suspended by the NCAA for betting on college sports events. Legalized gambling would increase pressure on students to place bets with money they often don't have.

children

The Commission would make detailed findings of gambling's impact on other businesses. Various studies indicate that income spent on gambling is not spent on movies, clothes, recreation services or other goods or services. An editorial from the Northeast Mississippi Daily Journal indicated that more money was bet in casinos (\$29.7 billion) than was spent on all taxable sales (\$27.6 billion) in the state. As gambling proliferates, job-creating wealth is shifted from savings and investment.

impact on other businesses

Gambling may cannibalize other businesses. For example, the number of restaurants in Atlantic City declined from 243 in 1977, the year after casinos were legalized, to 146 in 1987. In the four years following the introduction of casinos in Atlantic City, the number of retail stores in that city declined by about a third. Recent news reports indicate that attendance and revenues at the Iowa State Fair declined by over 10 percent this year due in part to the establishment of a horse track and a slot machine casino near Des Moines.

↓

One reason this objective study is needed is because states, using gambling generated studies, frequently overestimate the financial impact of gambling revenues. Professor Robert Goodman of the University of Massachusetts/Amherst found that of 14 state studies of gambling, most were written with a pro-industry spin and only four were balanced and factored in gambling's hidden costs. In New Jersey horse racing alone accounted for about 10 percent of state revenue in the 1950s. Today, despite the addition of a lottery and 12 casinos, the state earns only 6 percent of its revenue through gambling. In a study about casinos in Florida, the Executive Office of the Governor concluded that annual projected state tax revenues related to casinos are sufficient to address only 8 to 13 percent of annual minimum projected costs related to casinos. That means for every \$1 in tax revenues, the costs to taxpayers to pay for gambling is \$8 - \$13. It also projects that crime and social costs attributable to casinos would total at least \$2.16 billion annually. States considering legalizing gambling need to know the truth about gambling tax revenues.

states overest impact of gambling revenues (see footnote)

The Commission would study the impact of pathological, or problem gambling on individuals, families, social institutions, criminal activity and the economy. Gambling's social costs include direct regulatory costs, lost productivity costs, direct crime costs (including apprehension, adjudication, and incarceration costs), as well as harder-to-price costs such as suicide, family disintegration, and even increased car accidents. Problem and pathological gambling is tearing at the social fabric of American families--much like drug and alcohol abuse. A recent article written by a Kansas City Star reporter told the tragic story of how gambling addiction led a mother of two to kill herself because she gambled the family savings and house away on Illinois casino riverboats. Within two years of legalizing video lottery

pathological gambling
nb - this

terminals, the tiny province of Nova Scotia in Canada went from zero to 12 chapters of Gamblers Anonymous. Outraged over widely publicized reports of broken marriages and wrecked lives, Nova Scotians forced the government to remove 2,400 machines.

Evidence shows that pathological gamblers engage in forgery, theft, embezzlement, drug dealing and property crimes to pay off gambling debts. Various studies indicate that the mean gambling related debt of people in compulsive gambling therapy ranged from about \$53,000 to \$92,000. Compulsive gamblers in New Jersey were accumulating an estimated \$514 million in yearly debt. They are responsible for an estimated \$1.3 billion worth of insurance-related fraud per year which is borne by the rest of us in the form of increased premiums, deductibles, or copayments.

The Commission should also review the costs and effectiveness of state and federal gambling regulatory policy, including whether Indian gaming should be regulated by states as well as the federal government. Indian gaming accounts for about 5 percent of all casino gambling and that figure is growing at an extraordinary rate. Unlike New Jersey and Nevada which have extremely costly, mature, and seemingly effective regulatory structures, the federal effort to regulate Indian gaming to prevent the infiltration of organized crime is scanty at best. There are less than 30 staff persons to regulate Indian gaming operations throughout the country. The Commission should recommend whether or not Indian gaming should be regulated by the states.

Indian gaming - neg.

Mr. Chairman, noted columnist William Safire recently called state-sponsored gambling "a \$40 billion-a-year cancer ravaging society, corrupting public officials and becoming the fastest growing teen-age addiction." Government is supposed to be the protector of society, not the sponsor of its ruin. It is not supposed to be the predator or invite the predator into America's communities. When I hear stories of mothers dragging their young children into casinos to plead with dealers to turn their husbands away from the tables, I get concerned. When I receive a phone call from a man whose wife committed suicide because she gambled their life savings away, I get concerned. And when I receive a letter from a Nevada man who is housing a young construction worker who gambled away his life's savings and whose gambling addiction led to drug use and divorce, I get concerned.

Mr. Chairman, again I reiterate: this legislation does not outlaw gambling. It does not tax gambling. It does not regulate gambling. It merely recognizes that gambling is becoming so pervasive in our society, it needs a hard look. We have a responsibility as federal legislators to bring together all the relevant data so that governors, state legislators, and citizens can have the facts they need to make informed decisions. Why do the gambling interests oppose this legislation? Is there something to hide? Let's find out through this commission's comprehensive review.

Again, I appreciate your holding this hearing and ask unanimous consent that my full statement and extraneous materials be included in the record.

is - nec to common law?

Telecon w/ JK

10/27/97

Decision memo to Pres from Counsel's Office
- Is inclined to do.

- Time frame is today -

w/ Recommendation

Stake outs

left
miss

Tom Diaz
225-7087

Ben Cluvar -

Only a study - who could be apt it?

Way to bash
& hit out of
depression →

87-88
Cing screwed up w/ 16A - created gaming in every state

Hyde supports.

Really piss off NV delegatic -
"states rights" NV Sen.
calling Cluvar directly

Christian Coalition - very into this initiative.
Moral values - what does this say abt our
country

→ Louis of states that are heavily into lotteries

Tom Diaz -

Another motive? Religious right

stalking here to shut down gambling

NV delegatic - attached

NJ concerned. ←

Moralists to
impose new
prohib on
gaming

Schumer - just what it purports to be

↳ want to play it down the middle

Let's look at all of it - incl. lotteries

Chips fall ~~in the~~ where they may.

Columnist articles last wk.

Not so easy to bade

May actually move this bill

We'll clear
Do studies cost-by-it
basis - more helpful

Jim Ryan - NV
224-6985

Sen Reid.

File - Will Maschella (F. W. W.'s office)

W. W.'s statement bet Jud Centre

copy of bill - area is sec. 4 - what can we
of eds will do.
background studies.

Only opposition thus far

Amer Gaming Association - Frank Fahrenkopf.



Maj whip - min whip are
in the bill

75 or so co-sponsors.

Oppos on Hill - those who rep gambling
states (Nev + NJ)

(The Reid may be starting to come around -
no long as gamb. rep. in union.)

National
Indian
Gaming
Assn.

Indian gaming. Plus - did not oppose.

Suggesting ^{ed} 2 changes

- ought to include state lotteries
- reps in union (looked for 2 out of 9)

Comments
at
i. me?

Joseph Gibson
in Jud Centre -
full centre
held on to
it.

Bill - 3 applied by Pres

maj ldr

(1 who should be given
sphere or House)

Simon - 3 by Pres

maj ldr - after consultation
sphere - " " " "

Bob Healey



Lynch/Barker

Simon's bill - introduced - ~~S. 208~~ S 701
pending before Gen Govt Affs Cmte
no hearings have been held
sitting vt news.

House -

Hearings last Friday. Full Ind Cmte
Good reception from both sides. There -
looks as if Hyde ^a supportive. Carpenter.

Tahndee

Schumer
SCOTT

Bryant

Mark-up before end of yr, hopefully.
Talk to Joseph Gibson.

We haven't written Pres.
We'd like to wh w/ you -
keep bipartisan.

- Nox in the door of regulation -

— Indian staff

Status

~~Who makes it up?~~

Who's on the com 'n?

Call W.D. staff
Simon's staff

Barbara Cline

Call - Schumer's office
Barbara Chou

Think re Apartment Clause

FRANK R. WOLF
10TH DISTRICT, VIRGINIA

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COMMENTS: I hope this is useful to
you. More to come.

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CONGRESSMAN FRANK R. WOLF

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"National Gambling Impact and Policy Commission Act of 1995"
Before the House Judiciary Committee
September 29, 1995

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Gambling is one of the fastest growing industries in the nation and is becoming America's pastime. In 1993, according to U.S. News and World Report, Americans made more trips to casinos than they did to Major League ballparks. At the turn of the century, gambling was prohibited. Today, however, there are 37 state lotteries, casinos operate in 23 states, and 95 percent of all Americans are expected to live within a three- or four-hour drive of a casino by the year 2000. Only two states, Hawaii and Utah, forbid wagering.

Last year, Virginia blocked gambling interests' \$1.1 million bid to bring riverboat gambling to the Commonwealth and voters in Florida rejected a \$16 million effort to legalize casinos. Voters in Minnesota, Nebraska, Rhode Island, and Wyoming did the same. Why are gambling interests willing to bet so much on legalizing gambling? Why, according to The Boston Globe, are they hiring politically connected consultants to convince state legislators that gambling is a sure bet? Why have they hired some Massachusetts lobbyists at \$65,000 per month plus expenses to "consult" on the legalization of gambling? I am concerned that the flood of casino money into the states will drown out the voices of ordinary citizens, and overwhelm state public officials.

Crime is a subject that the Commission would study. The Florida Department of Law Enforcement recently opposed legalizing casino gambling because **"casinos will result in more Floridians and visitors being robbed, raped, assaulted, and otherwise injured."** Jim Moody, chief of the Organized Crime Section, FBI, in a "60 Minutes" interview stated, **"[G]ambling itself ... is probably the biggest producer of money for the American La Cosa Nostra [that] there is."**

Organized crime does not only target adults. An April 11 Washington Post article explained how law enforcement authorities uncovered **"a sophisticated betting operation run by student bookies who not only mimicked the Mob, but also worked with it."** The article detailed how three New Jersey high school students **"forced a 14-year-old schoolmate into a car, drove him to a housing project in Newark and dumped him there for failing to pay \$500 in gambling debts . . ."** In another case, a 16-year-old **"prostituted his girlfriend around school to raise money to pay his debts."**

Political corruption is another problem and not one confined to gambling's tawdry history which the commission should review. Federal law enforcement agents are currently investigating possible political corruption in Louisiana tied to gambling. Four Louisiana state senators have reportedly stepped aside because of an FBI investigation into the legislative influence wielded by the gambling industry. Similarly, the speaker of the Missouri House of Representatives has resigned in a cloud of gambling related political corruption. In August 1991, FBI agents in Columbia, S.C., wrapped up "Operation Lost Trust," a sting that resulted in the convictions of 17 South Carolina legislators, lobbyists and other officials for accepting bribes during the 1990 legislative session in exchange for their votes to legalize horse and dog track racing. Six Arizona legislators pleaded guilty in 1990 for accepting bribes on a bill to legalize casino gambling. Seven Kentucky legislators, including the speaker of Kentucky's House of Representatives, were found guilty of accepting bribes, extortion, racketeering under RICO and making false statements. In 1990, a former West Virginia Governor pleaded guilty to taking a bribe from racing interests. In 1994, a West Virginia lottery director was sentenced to federal prison for rigging a video lottery contract.

Because of crime associated with casino gambling, regulatory agencies in New Jersey spend over \$59 million annually to monitor the city's casinos. In 1992, the Wall Street Journal reported that since 1976, Atlantic City's police budget has tripled to \$24 million while the local population has decreased 20 percent. During the first three years of casino gambling, Atlantic City went from 50th in the nation in per capita crime to first. Overall, from 1977 to 1990, the crime rate in that city rose by an incredible 230 percent.

The Commission would make a demographic study of gambling including determining to what extent teenagers are gambling. In 1991 New Jersey casino security ejected 21,838 persons under the age of 21 from casinos, and prevented another 196,707 from entering. Research indicates that as many as 7 percent of teenagers may be addicted to gambling. Sports Illustrated recently ran a three-part series explaining that gambling has infiltrated college sports, is popular and pervasive on college campuses and is destroying young lives. Local Washington, D.C., area papers have chronicled the sad story of the University of Maryland standout quarterback who was suspended by the NCAA for betting on college sports events. Legalized gambling would increase pressure on students to place bets with money they often don't have.

The Commission would make detailed findings of gambling's impact on other businesses. Various studies indicate that income spent on gambling is not spent on movies, clothes, recreation services or other goods or services. An editorial from the Northeast Mississippi Daily Journal indicated that more money was bet in casinos (\$29.7 billion) than was spent on all taxable sales (\$27.6 billion) in the state. As gambling proliferates, job-creating wealth is shifted from savings and investment.

Gambling may cannibalize other businesses. For example, the number of restaurants in Atlantic City declined from 243 in 1977, the year after casinos were legalized, to 146 in 1987. In the four years following the introduction of casinos in Atlantic City, the number of retail stores in that city declined by about a third. Recent news reports indicate that attendance and revenues at the Iowa State Fair declined by over 10 percent this year due in part to the establishment of a horse track and a slot machine casino near Des Moines.

One reason this objective study is needed is because states, using gambling generated studies, frequently overestimate the financial impact of gambling revenues. Professor Robert Goodman of the University of Massachusetts/Amherst found that of 14 state studies of gambling, most were written with a pro-industry spin and only four were balanced and factored in gambling's hidden costs. In New Jersey horse racing alone accounted for about 10 percent of state revenue in the 1950s. Today, despite the addition of a lottery and 12 casinos, the state earns only 6 percent of its revenue through gambling. In a study about casinos in Florida, the Executive Office of the Governor concluded that annual projected state tax revenues related to casinos are sufficient to address only 8 to 13 percent of annual minimum projected costs related to casinos. That means for every \$1 in tax revenues, the costs to taxpayers to pay for gambling is \$8 - \$13. It also projects that crime and social costs attributable to casinos would total at least \$2.16 billion annually. States considering legalizing gambling need to know the truth about gambling tax revenues.

The Commission would study the impact of pathological, or problem gambling on individuals, families, social institutions, criminal activity and the economy. Gambling's social costs include direct regulatory costs, lost productivity costs, direct crime costs (including apprehension, adjudication, and incarceration costs), as well as harder-to-price costs such as suicide, family disintegration, and even increased car accidents. Problem and pathological gambling is tearing at the social fabric of American families--much like drug and alcohol abuse. A recent article written by a Kansas City Star reporter told the tragic story of how gambling addiction led a mother of two to kill herself because she gambled the family savings and house away on Illinois casino riverboats. Within two years of legalizing video lottery

terminals, the tiny province of Nova Scotia in Canada went from zero to 12 chapters of Gamblers Anonymous. Outraged over widely publicized reports of broken marriages and wrecked lives, Nova Scotians forced the government to remove 2,400 machines.

Evidence shows that pathological gamblers engage in forgery, theft, embezzlement, drug dealing and property crimes to pay off gambling debts. Various studies indicate that the mean gambling related debt of people in compulsive gambling therapy ranged from about \$53,000 to \$92,000. Compulsive gamblers in New Jersey were accumulating an estimated \$514 million in yearly debt. They are responsible for an estimated \$1.3 billion worth of insurance-related fraud per year which is borne by the rest of us in the form of increased premiums, deductibles, or copayments.

The Commission should also review the costs and effectiveness of state and federal gambling regulatory policy, including whether Indian gaming should be regulated by states as well as the federal government. Indian gambling accounts for about 5 percent of all casino gambling and that figure is growing at an extraordinary rate. Unlike New Jersey and Nevada which have extremely costly, mature, and seemingly effective regulatory structures, the federal effort to regulate Indian gaming to prevent the infiltration of organized crime is scanty at best. There are less than 30 staff persons to regulate Indian gaming operations throughout the country. The Commission should recommend whether or not Indian gaming should be regulated by the states.

Mr. Chairman, noted columnist William Safire recently called state-sponsored gambling **"a \$40 billion-a-year cancer ravaging society, corrupting public officials and becoming the fastest growing teen-age addiction."** Government is supposed to be the protector of society, not the sponsor of its ruin. It is not supposed to be the predator or invite the predator into America's communities. When I hear stories of mothers dragging their young children into casinos to plead with dealers to turn their husbands away from the tables, I get concerned. When I receive a phone call from a man whose wife committed suicide because she gambled their life savings away, I get concerned. And when I receive a letter from a Nevada man who is housing a young construction worker who gambled away his life's savings and whose gambling addiction led to drug use and divorce, I get concerned.

Mr. Chairman, again I reiterate: this legislation does not outlaw gambling. It does not tax gambling. It does not regulate gambling. It merely recognizes that gambling is becoming so pervasive in our society, it needs a hard look. We have a responsibility as federal legislators to bring together all the relevant data so that governors, state legislators, and citizens can have the facts they need to make informed decisions. Why do the gambling interests oppose this legislation? Is there something to hide? Let's find out through this commission's comprehensive review.

Again, I appreciate your holding this hearing and ask unanimous consent that my full statement and extraneous materials be included in the record.

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H.L.C.

104TH CONGRESS
1ST SESSION

H. R. 497

IN THE HOUSE OF REPRESENTATIVES

Mr. WOLF introduced the following bill; which was referred to the Committee
on _____

A BILL

To create the National Gambling Impact and Policy
Commission.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "National Gambling Im-
5 pact and Policy Commission Act".

6 **SEC. 2. ESTABLISHMENT OF COMMISSION.**

7 There is established a commission to be known as the
8 National Gambling Impact and Policy Commission (in this
9 Act referred to as the "Commission").

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1 SEC. 3. MEMBERSHIP.

2 (a) NUMBER AND APPOINTMENT.—The Commission
3 shall be composed of 9 members appointed from persons
4 specially qualified by training and experience, of which one
5 should be a Governor of a State, to perform the duties
6 of the Commission as follows:

7 (1) three appointed by the Speaker of the
8 House of Representatives;

9 (2) three appointed by the majority leader of
10 the Senate; and

11 (3) three appointed by the President of the
12 United States.

13 (b) DESIGNATION OF THE CHAIRMAN.—The Speaker
14 of the House of Representatives and majority leader of
15 the Senate shall designate a Chairman and Vice Chairman
16 from among the members of the Commission.

17 (c) PERIOD OF APPOINTMENT; VACANCIES.—Mem-
18 bers shall be appointed for the life of the Commission. Any
19 vacancy in the Commission shall not affect its powers, but
20 shall be filled in the same manner as the original appoint-
21 ment.

22 (d) INITIAL MEETING.—No later than 30 days after
23 the date on which all members of the Commission have
24 been appointed, the Commission shall hold its first meet-
25 ing as directed by the President.

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1 (e) MEETINGS.—After the initial meeting, the Com-
2 mission shall meet at the call of the Chairman.

3 (f) QUORUM.—A majority of the members of the
4 Commission shall constitute a quorum, but a lesser num-
5 ber of members may hold hearings.

6 SEC. 4. DUTIES OF THE COMMISSION.

7 (a) STUDY.—

8 (1) IN GENERAL.—It shall be the duty of the
9 Commission to conduct a comprehensive legal and
10 factual study of gambling in the United States and
11 existing Federal, State, and local policy and prac-
12 tices with respect to the legalization or prohibition of
13 gambling activities and to formulate and propose
14 such changes in those policies and practices as the
15 Commission shall deem appropriate.

16 (2) MATTERS STUDIED.—The matters studied
17 by the Commission shall include—

18 (A) the economic impact of gambling on
19 the United States, States, political subdivisions
20 of States, and Native American tribes;

21 (B) the economic impact of gambling on
22 other businesses;

23 (C) an assessment and review of the politi-
24 cal contributions and influence of gambling

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1 businesses and promoters on the development of
2 public policy regulating gambling;

3 (D) an assessment of the relationship be-
4 tween gambling and crime;

5 (E) an assessment of the impact of patho-
6 logical, or problem gambling on individuals,
7 families, social institutions, criminal activity
8 and the economy;

9 (F) a review of the demographics of gam-
10 blers;

11 (G) a review of the effectiveness of existing
12 practices in law enforcement, judicial adminis-
13 tration, and corrections to combat and deter il-
14 legal gambling and illegal activities related to
15 gambling;

16 (H) a review of the costs and effectiveness
17 of State and Federal gambling regulatory pol-
18 icy, including whether Indian gaming should be
19 regulated by States instead of the Federal Gov-
20 ernment; and

21 (I) such other relevant issues and topics as
22 considered appropriate by the Chairman of the
23 Commission.

24 (b) REPORT.—No later than three years after the
25 Commission first meets, the Commission shall submit a

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1 report to the President and the Congress which shall con-
2 tain a detailed statement of the findings and conclusions
3 of the Commission, together with its recommendations for
4 such legislation and administrative actions as it considers
5 appropriate.

6 **SEC. 5. POWERS OF THE COMMISSION.**

7 (a) **HEARINGS AND SUBPOENAS.—**

8 (1) The Commission may hold such hearings,
9 sit and act at such times and places, administer
10 such oaths, take such testimony, receive such evi-
11 dence, and require by subpoena the attendance and
12 testimony of such witnesses and the production of
13 such materials as the Commission considers advis-
14 able to carry out the purposes of this Act.

15 (2) **ATTENDANCE OF WITNESSES.—**The attend-
16 ance of witnesses and the production of evidence
17 may be required from any place within the United
18 States.

19 (3) **FAILURE TO OBEY A SUBPOENA.—**If a per-
20 son refuses to obey a subpoena issued under para-
21 graph (1), the Commission may apply to a United
22 States district court for an order requiring that per-
23 son to appear before the Commission to give testi-
24 mony, produce evidence, or both, relating to the
25 matter under investigation. The application may be

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1 made within the judicial district where the hearing
2 is conducted or where that person is found, resides,
3 or transacts business. Any failure to obey the order
4 of the court may be punished by the court as civil
5 contempt.

6 (4) SERVICE OF SUBPOENAS.—The subpoenas
7 of the Commission shall be served in the manner
8 provided for subpoenas issued by a United States
9 district court under the Federal Rules of Civil Pro-
10 cedure for the United States district courts.

11 (5) SERVICE OF PROCESS.—All process of any
12 court to which application is to be made under para-
13 graph (3) may be served in the judicial district in
14 which the person required to be served resides or
15 may be found.

16 (b) INFORMATION FROM FEDERAL AGENCIES.—The
17 Commission may secure directly from any Federal depart-
18 ment or agency such information as the Commission con-
19 siders necessary to carry out the provisions of this Act.
20 Upon request of the Chairman of the Commission, the
21 head of such department or agency shall furnish such in-
22 formation to the Commission.

23 **SEC. 6. COMMISSION PERSONNEL MATTERS.**

24 (a) COMPENSATION OF MEMBERS.—Each member of
25 the Commission who is not an officer or employee of the

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1 Federal Government shall be compensated at a rate equal
2 to the daily equivalent of the annual rate of basic pay pre-
3 scribed for level IV of the Executive Schedule under sec-
4 tion 5315 of title 5, United States Code, for each day (in-
5 cluding travel time) during which such member is engaged
6 in the performance of the duties of the Commission. All
7 members of the Commission who are officers or employees
8 of the United States shall serve without compensation in
9 addition to that received for their services as officers or
10 employees of the United States.

11 (b) TRAVEL EXPENSES.--The members of the Com-
12 mission shall be allowed travel expenses, including per
13 diem in lieu of subsistence, at rates authorized for employ-
14 ees of agencies under subchapter I of chapter 57 of title
15 5, United States Code, while away from their homes or
16 regular places of business in the performance of services
17 for the Commission.

18 (c) STAFF.—

19 (1) IN GENERAL.—The Chairman of the Com-
20 mission may, without regard to the civil service laws
21 and regulations, appoint and terminate an executive
22 director and such other additional personnel as may
23 be necessary to enable the Commission to perform
24 its duties. The employment of an executive director
25 shall be subject to confirmation by the Commission.

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1 (2) COMPENSATION.—The executive director
2 shall be compensated at the rate payable for level V
3 of the Executive Schedule under section 5316 of title
4 5, United States Code. The Chairman of the Com-
5 mission may fix the compensation of other personnel
6 without regard to the provisions of chapter 51 and
7 subchapter III of chapter 53 of title 5, United
8 States Code, relating to classification of positions
9 and General Schedule pay rates, except that the rate
10 of pay for such personnel may not exceed the rate
11 payable for level V of the Executive Schedule under
12 section 5316 of such title.

13 (d) DETAIL OF GOVERNMENT EMPLOYEES.—Any
14 Federal Government employee may be detailed to the
15 Commission without reimbursement, and such detail shall
16 be without interruption or loss of civil service status or
17 privilege.

18 (e) PROCUREMENT OF TEMPORARY AND INTERMIT-
19 TENT SERVICES.—The Chairman of the Commission may
20 procure temporary and intermittent services under section
21 3109(b) of title 5, United States Code, at rates for individ-
22 uals which do not exceed the daily equivalent of the annual
23 rate of basic pay prescribed for level V of the Executive
24 Schedule under section 5316 of such title.

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1 SEC. 7. TERMINATION OF THE COMMISSION.

2 The Commission shall terminate 30 days after the
3 date on which the Commission submits its report under
4 section 4.

A18 FRIDAY, SEPTEMBER 22, 1995

The Washington Post

AN INDEPENDENT NEWSPAPER

Social Roulette

THE SPREAD of legalized gambling is the political issue that has yet to roar, but may do so soon—and should. In a decade, casino gambling has spread from two states to at least 35. Gambling is done on riverboats, on Indian reservations, in well-established downtowns. Native American tribes (including some that have rediscovered their existence for the primary purpose of setting up casinos) are the best publicized entrepreneurs in this field, partly because they can operate free of many regulations. Estimates on how much money is involved here are all over the lot, depending on what sorts of gambling are counted in, but a study by U.S. News & World Report concluded that counting state lotteries and the like, \$330 billion was wagered legally in 1992, up 1,800 percent since 1976.

Rep. Frank Wolf (R-Va.), along with Sens. Paul Simon (D-Ill.) and Richard Lugar (R-Ind.), thinks the country ought to take a long look as it hurtles toward turning itself into one gigantic open town. They have introduced useful bills to create a national commission that would undertake, as Mr. Wolf puts it, “an objective, credible and factual study of the effects of gambling” on communities, including its impact on crime rates, political corruption and family life, and also to examine its economic costs and benefits.

Those pushing casinos into communities make large claims about their economic benefits, but the jobs and investment casinos create are rarely stacked up against the jobs lost and the investment and spending forgone in other parts of a local economy. The commission's study could be of great use to communities pondering whether to wager their futures on roulette, slot machines

and blackjack. The Wolf bill wants a report from the commission in three years; the Simon-Lugar bill wants it in half that time. We're inclined to think the quicker the better.

The “gaming industry,” as it calls itself, is fighting these proposals. One hopes that at next week's House Judiciary Committee hearing on the Wolf bill, gambling's representatives will be asked why they fear a national commission. If all their claims about gambling's beneficial effects are true, a commission would presumably verify them. If critics of gambling are wrong in seeing it as being linked to crime, corruption and social breakdown, the commission would presumably find that out too. Could it be that those with an interest in the spread of gambling fear what a fair study will find?

True to form, gambling now has its own trade association, and gambling interests—tribal and others—have stepped up their campaign contributions to both parties. To pick a few examples: Golden Nugget, the well-known Las Vegas casino, gave \$230,000 in “soft money” to the Republican Party last year; Frank Fertitta Jr., chairman of Station Casinos Inc., also gave \$230,000 to the GOP; the Mashantucket Pequot Tribe gave \$365,000 to the Democrats in the 1993-94 election cycle and covered its bets with \$100,000 to the Republicans in November of 1994.

The country is in the presence of a powerful and growing industry and an important social phenomenon. At the least, the federal government should help the country figure out what is going on, which is why what Mr. Wolf, Mr. Lugar and Mr. Simon are doing is so important.



A Cincinnati Newspaper

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Don't bet on it

It's time for Congress to find out if the gambling deck is stacked

The push to legalize gambling in the U.S. is a shameless seduction.

In the most brazen episode yet, casino promoters in Washington state are trying to bribe voters into passing a slot-machine initiative this fall. Anyone who votes — turnout could be up to 1 million voters — would get an estimated \$100 a year as long as the slots keep cranking.

If \$100 million a year is the payoff to voters, imagine how high the profits must be for casinos. With stakes that high, communities that don't carefully weigh the odds can wind up big losers.

By now, there should be plenty of evidence about legalized gambling, but the roulette wheels have been spinning too fast to stop and ask for it. Cash-hungry states and cities are clamoring to get a piece of the action. The promise of instant jobs and millions in tax revenues has been irresistible.

Gambling now is legal in all but two states; 25 allow casino gambling, up from only four in the early 1990s. U.S. gamblers bet a record \$330 billion in 1992, according to *Gaming & Wagering Business* magazine.

Some places, like Indian reservations, are raking in big dough. Others, like Atlantic City, are nursing morning-after disillusion and huge losses.

The problem? Governments add up all the winnings, but don't subtract the costs and losses. Urban-planning professor Robert Goodman of the

upon to embrace casino gambling. He concluded that there's a ton of pro-gaming "research" for every pound of objective analysis. The deck was stacked.

He found that nearly everyone, even media reports, relied mostly on industry-generated information and industry-linked sources. Opposition was often limited to religious leaders, leaving the impression that the only negative side of gambling is the morality sermon from zealous do-gooders.

But gambling can bring economic and social problems that outweigh benefits, said Goodman.

Rep. Frank R. Wolf, R-Va. is asking Congress to establish a National Gambling Impact and Policy Commission to objectively examine the long-term consequences of widespread legal gambling.

If the commission is not rigged by gaming lobbyists too, it might find some red-flag warnings for states.

Goodman's 1994 study concludes that gambling's promise as economic development savior is not warranted in many cases. Earlier this year, Michigan Gov. John Engler vetoed Detroit's plan to put a multi-million dollar casino in its blighted downtown. Engler said the deal was over-hyped and not good for the whole state.

Are we being suckered? Let's find out. Our future should be more than a craps shoot. Ask your Congressman and Senator to support a National



The Philadelphia Inquirer

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A20

Thursday, September 28, 1995

EDITORIALS

The wages of wagering

Since no one's ever toted up gambling's impacts in a thorough way, a federal study sounds useful.

With plans to revive Philadelphia's Naval Shipyard in ruins — and the city's economic choices shrinking once again — the pressure to invite organized gambling to town only increases. Of course, Mayor Rendell and key legislative players have been pushing this risky bet.

The citizenry has been treated to glowing "studies" of gambling's supposed benefits. And it has heard selective arguments about its job-generating potential. What has not been on the table are both the larger question — Is big-time gambling the way we want to raise money for the public good? — and a host of smaller, niggling questions — How will this corrupt an already vulnerable political process? What about the social toll? Who will police this thing? What happens to Center City if its existing businesses begin hearing a giant sucking sound to the east?

It is not good enough to hear exquisitely gerrymandered pieces of the story. It is not good enough to read the words of partisan, pro-gambling mouthpieces on the order of former U.S. Attorney Michael Baylson. Nor, for that matter to hear the case against gambling only from not-in-their-backyard neighborhood groups or from reformed addicts with a well-practiced alarmist spiel.

That is why the idea of a National Commission on the Impact of Gambling being proposed in Congress has appeal. A hearing on a House bill proposed by Rep. Frank R. Wolf (R., Va.) is set for tomorrow. A Senate bill calling for a similar commission is

sponsored by Sen. Paul Simon (D., Ill.) and Sen. Richard G. Lugar (R., Ind.), a presidential candidate.

Mr. Wolf says he's seeking "an objective, credible, factual study of the effects of gambling on communities." Hear! Hear! From Louisiana, where retail sales have plummeted in the face of riverboat gambling, to New Jersey, where the downsides of casino gambling are hard not to miss on the streets of Atlantic City, the reality wars with the glowing reports from City Hall.

U.S. Rep. Frank LoBiondo (R., N.J.), whose district includes Atlantic City, says he'll testify against the commission, arguing that it smacks of federal meddling in local issues and that its sponsors really want to abolish "gaming," not study it.

Let it be granted that the sponsors are no fans of gambling. But that need not mean the panel's membership would be hopelessly tilted. It doesn't preclude the commission conducting a more thorough assessment than has been achieved so far of the impact gambling has had on families, crime, state budgets and the economic life of communities.

As to the "local control" objection, the casino-gambling business is hardly local, in its market reach, its ownership or its lobbying power.

The brighter the spotlight that can be cast on its revenues, its social impact, its corruption and, finally, its inflated promise, the better chance local people have of deciding

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STATEMENT OF
RICHARD G. HILL, CHAIRMAN
NATIONAL INDIAN GAMING ASSOCIATION

Before the

United States House of Representatives

Committee on the Judiciary

Hearing on H.R. 497

The National Gambling Impact and Policy Commission Act

10:00 AM

September 29, 1995

Rayburn House Office Building, Room 2141

Washington D.C.

Mr. Chairman, my name is Rick Hill, Chairman of the National Indian Gaming Association. NIGA's membership is composed of 140 Indian tribes whose tribal governments are involved in gaming enterprises to support their governmental operations and programs. NIGA was formed by the tribes to protect their sovereign governmental rights in this area, and to support their gaming interests in the Congress and elsewhere. We also have 43 associate members comprised of entities which have an interest in Indian gaming. On behalf of our member tribes, I want to express our appreciation to you for this opportunity to present our position on H. R. 497, the National Gaming Impact and Policy Commission Act.

GENERAL COMMENTS

Indian gaming represents only about 7% of the entire legal gaming industry in the United States. By way of comparison, Indian governmental gaming is dwarfed by the other form of governmental gaming, State lotteries and associated state-operated gaming, which comprises 37% of the industry. Commercial gaming, including casinos, horse and dog racing, OTB, and jai alai, represents 36% of the industry. The remaining 20% is composed of charitable gaming activities and miscellaneous gaming. Of the 550 Federally recognized Indian tribes in the United States, only 130, or less than one-fourth, have class III Indian gaming enterprises. These class III facilities are located in 25 states, as compared with the 37 states which have lotteries.

We understand that this bill, calling for a study of national gaming activity, may be opposed by the non-Indian commercial gaming industry, by State governments operating lotteries and other forms

of gaming, and by the national charitable gaming industry. We can understand, and sympathize, with that opposition because these groups can see the heavy hand of Federal regulation and taxation arising from such a study.

But, Mr. Chairman, despite unfounded allegations to the contrary, Indian gaming is the most regulated and scrutinized form of gaming in the United States. In 1988, Congress enacted the Indian Gaming Regulatory Act to protect gaming by Indian tribes "as a means of promoting tribal economic development, self-sufficiency, and strong tribal governments". It was also passed to:

"(P)rovide a statutory basis for the regulation of gaming by an Indian tribe adequate to shield it from organized crime and other corrupting influences, to ensure that the Indian tribe is the primary beneficiary of gaming operations, and to assure that gaming is conducted fairly and honestly by both the operator and the player".

Out of the pre-existing power of tribal self-government, and Federal civil and criminal jurisdiction over aspects of tribal activities, and out of IGRA itself has arisen a complex, comprehensive web of regulations affecting Indian games.

Civil regulations and oversight of Indian gaming is maintained by tribal governments themselves, by the Bureau of Indian Affairs and the Secretary of the Interior, by the National Indian Gaming Commission, by the Internal Revenue Service, and by State governments under class III gaming compacts. Criminal jurisdiction over crimes directly related to, or growing out of Indian gaming,

is vested in the tribal law enforcement personnel, BIA law enforcement, the Federal Bureau of Investigation, the Justice Department, the Internal Revenue Service, and the States themselves in certain circumstances. What other form of legal gaming in this country is so infested with government regulation and control?

NIGA, in cooperation with the National Congress of American Indians, has formed a Indian Gaming Task Force to consider pending legislation and other actions affecting tribal gaming, and to develop a general position on such legislation and actions. On August 7, 1995, the Task Force agreed that, in regard to a proposed national study as envisioned by H. R. 497, consideration should be given to the application of Federal minimum standards to all gaming, whether conducted by or for the benefit of private, commercial, state, charitable or tribal governmental interests.

So, Mr. Chairman, while we may sympathize with the concerns of other segments of the gaming industry to the national study proposed by this bill, the tribes would have no objection to such a study if certain tribal concerns were addressed in the bill. First, any such study must remain a national study which will fairly and objectively look at every segment of the industry, including state government gaming activities. Second, as the bill requires that state interests be represented on the study commission by a governor, we insist that there also be an Indian tribal representative on the commission. Finally, the commission, in any consideration it gives to Indian gaming, should be required to consider such gaming in the context of the sovereign powers of tribal

Judge -

Tammy said you wanted
a decision memo to the
President today on the
creation of a National
Gambling Commission.
Here it is - let me know
of any changes you want me
to make.

Eileen

THE WHITE HOUSE
WASHINGTON
October 5, 1995

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MEMORANDUM FOR THE PRESIDENT

FROM: ABNER J. MIKVA
Counsel to the President

ELENA KAGAN
Associate Counsel to the President

SUBJECT: PROPOSAL FOR NATIONAL GAMBLING COMMISSION

Rep. Frank Wolf (R. Va.) and Sens. Paul Simon and Richard Lugar have introduced bills to establish a federal commission to study the extent and effects of gambling and the adequacy of current regulation. Rep. Wolf's bill was the subject of a hearing in the full House Judiciary Committee last week. No action has yet been taken in the Senate.

Both ~~the House and Senate~~ bills would establish a commission of nine persons, three to be appointed by the President, three by the House Speaker, and three by the Senate Majority Leader. ~~The Senate bill provides that the Speaker and Majority Leader consult with the Minority Leaders of the House and Senate; the House bill provides that one member should be a state governor.~~

Both versions of ~~the bill~~ ^{The} bills charge the commission with undertaking a study of gambling in the United States, including the economic effects of gambling on other businesses and surrounding communities, the relationship between gambling and crime, the extent and impact of pathological gambling, and the costs and effectiveness of current regulatory policy. ~~The bill does not specifically mention lotteries (speaking only of "gambling"), but presumably includes them.~~

Supporters of the proposal note that it does not impose any new restrictions on gambling, but merely recognizes the need for greater information on the scope and effects of the gambling industry. Gambling is one of the fastest growing industries in the nation. One recent study concluded that \$330 billion was wagered legally in 1992 (including in lotteries), up 1800% since 1976. Casinos now operate in 25 states, and in 1993 Americans made more trips to casinos than to Major League baseball parks. ~~With this growth may come adverse consequences.~~ As you noted during the Sperling lunch, the introduction of gambling in a community, though ^{help at} ~~apparently providing a way to raise~~ revenues and ^{help at} ~~jolt~~ the local economy, may impose hidden social, economic, and political costs, including those associated with corruption, crime, and addictive behavior. Supporters of the proposal argue that we ought to take a hard look at these matters, to ensure sensible decisions on regulatory policy.

Opponents of the proposal allege that it is a sort of stalking horse for the religious right -- a first step in a moralistic effort to prohibit gambling altogether. (The Christian Coalition is indeed a fervent supporter of this legislation, but so are many representatives and press entities not associated with that organization.) Opponents also claim that a national commission will serve little purpose because conditions vary so much from state to state and community to community; sometimes opponents go so far as to frame this argument in terms of "states' rights." Finally, of course, opponents dispute the notion that gambling is linked to corruption or crime and claim it is a boon to local economies.

The only groups so far to oppose the legislation are industry associations, including most prominently the American Gaming Association, headed by Frank Fahrenkopf, former Chair of the RNC. The National Indian Gaming Association, which believes gaming by Indian tribes to be essential to tribal economic development, has indicated that it would not oppose the bills so long as the Commission includes an Indian tribal representative and addresses state lotteries as well as other forms of gambling. Senators and representatives from Nevada are vehement in their opposition to the bills; those from New Jersey, though less openly hostile at this time, may be subject to similar interests. Finally, state governments may bring pressure to bear against the bill if they believe it represents a threat to state lotteries.

Recommendation

We recommend that you endorse the idea of a commission to study gambling. Such a commission can perform a useful function in collecting information about the effects of gambling and thus enabling better decisions -- whether on the federal, state, local, or tribal level -- as to appropriate regulation. To the extent formation of such a commission suggests a sort of moralistic discomfort with gambling, this may be perfectly appropriate. ~~We do not recommend that you sign on wholesale to either of the current bills, given issues that already have arisen and may arise in the future as to such matters as the Commission's membership. But we believe a strong endorsement of the basic idea of the bills (Option #3, below) is warranted.~~

1. Oppose the creation of a gambling commission
2. Take no position on the creation of a gambling commission
3. Endorse the creation of a gambling commission
4. Let's discuss

Michael Schmidt

back look

Don't know how big it would be.

Just another attach - under strip.

Hearing from tribal ATAs.

If that's what Regime said, less of a problem
? NOT

no -
under
broad. -