

Findings



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Gambling in America

A Summary of the Report of the National Gambling Impact Study Commission

By Stephen Daniels



On June 18, 1999 the National Gambling Impact Study Commission (NGISC) concluded its two-year exploration into the social and economic impact

of legalized gambling in the United States. Their study included among other things, lotteries, electronic gambling devices, casinos, riverboat casinos, tribal gambling and internet gambling. In fulfillment of their responsibilities, the Commission submitted a detailed report of their findings to the President, Congress, Governors and Tribal Leaders.

This report is of particular relevance to North Carolina. As the largest state without a lottery, debate continues to mount about the benefits and costs that could accompany a state lottery. Directly related to a lottery is the topic of problem and pathological gambling—an inevitable side effect of any widespread gambling form. Both of these subjects are examined by the Commission's report. In addition, the Commission made numerous recommendations for state lawmakers to consider.

This summary offers an abbreviated look at the Commission's findings on lotteries and problem and pathological gambling. The recommendations relevant to these areas are included as well.

Lotteries

Lotteries have become a form of gambling that has captured the attention of lawmakers, advocacy groups and citizens all over the country. Because of their popularity and rapid expansion, the Commission sought to better understand how lotteries impact participants, communities, local economies and politicians.

State lotteries are fairly new phenomena here in the United States. The first state lottery was created by New Hampshire in 1964. Following New Hampshire were New York in 1966, New Jersey in 1970 and ten more states over the next five years. Today there are 37 state lotteries operating in the United States.¹

Parallel to growth in the number of state lotteries, has been a remarkable increase in the revenues they have generated. In 1973, \$2 billion had been grossed by the seven states with lotteries. By 1997, \$34 billion in annual revenues were generated by the 37 states operating lotteries.²

The Commission's report points out that lotteries have distinguished themselves in the gambling industry as:

- the most prevalent form of gambling in the United States,
- engaged in by more American adults than any other gambling activity,
- the only form of gambling that is monopolized by government, and
- the type of gambling with the poorest chances of winning but the highest payoff to those who do.³

Lotteries have changed over the last several years. Evolving from the traditional raffle, they have developed into creative games that offer player a wide variety of gambling experiences including instant games, daily numbers games, the Lotto, Video Keno and electronic gambling devices (EGD's).⁴

Regulation

Lotteries are a source of large amounts of revenue for the states that operate them. The Commission's report expresses concern regarding the state's role in regulating lotteries. Every state that has allowed a

lottery has created a state owned monopoly. No state has allowed private-sector lotteries to compete with them. Rationale for such an arrangement has two parts. First, states want to be certain to collect revenues generated by the lotteries. Second, in order to ensure proper regulation and reduce the likelihood of crime, states have claimed sole operation of them.

With states placing themselves at the helm of their lotteries, complications arise. Because elected officials oversee lottery activity and growth, they are the ones putting pressure on lottery directors to maintain or increase lottery revenues. This usually occurs when elected officials have supported the idea of a lottery because the money would help fund and improve services within the state. Many say that such an objective has come at the cost of the public good.⁵

The report points out a possible conflict of interest, and raises the question: "how can a state government ensure that its pursuit of revenues does not conflict with its responsibility to protect the public?"⁶ Some critics go even further by asserting that state government has undercut their commitment to public service by making gaming more easily accessible to the general public, thereby, imposing gambling on a massive scale. Addressing the question of how government can direct an activity that it profits from, the report states:

In an anti-tax era, many state governments have become dependent on "painless" lottery revenue, and pressures are always there to increase them. The evolution of state lotteries is a classic case of public policy being made piecemeal and incrementally, with little or no general overview. Authority is divided between the legislative and executive branches, with the result that

*the general public welfare is taken into consideration only intermittently. Policy decisions taken in the establishment of a lottery are soon overcome by the ongoing evolution of the industry. It is often the case that public officials inherit policies and a dependency on revenues that they can do little or nothing about.*⁷

The report points out that state governments have become dependent on revenues from lotteries and, as a means of justifying the influx of monies, earmark them for specific purposes such as education, general funds, parks and recreation, etc. However, though lottery monies are designated, there is no way to prevent state legislature from diverting general revenues away from the earmarked purposes. This calls into question whether or not earmarked lottery funds actually increase the amount of funds available to specific programs.⁸

Lottery revenues, as a source of state income, represent only a small fraction of state revenues. According to the report, the state with the highest percentage of revenues from a lottery contributing to the state budget is Georgia with 4.07 percent. All of the other 36 states fall below this with New Mexico bottoming out the list at .41 percent.⁹

Under-Age Gambling

Play by minors is a major area of concern expressed in the commission's report. Aside effect of the lottery's widespread availability, lottery participation by minors occurs frequently despite its illegality in every state.¹⁰ In addition to purchasing lottery tickets, minors are also able to purchase tickets from self-service vending machines. In Massachusetts, where these vending machines are legal, the Attorney General has reported that 75% of high school seniors have reported playing the lottery.¹¹

Underage gambling is particularly serious because research indicates that participants who start early are much more likely to become problem or pathological gamblers.¹²

Advertising

Attempts by state lotteries to advertise themselves have generated debate and criticism. At issue is the proper role of state government in luring citizens to participate in their lotteries. Creative marketing strategies used to encourage participation are in stark contrast to most government advertising. Lottery ads have become carefully crafted, ostentatious and persuasive. Such approaches have brought with

them messages that put the state governments who create them in an unusual position. The report raises concern about the messages of luck and instant gratification communicated by the state through lottery advertisements. The report further points out that these advertisements discourage messages that are in the best interest of the public good such as hard work, investment and savings.¹³

Another troubling component of lottery advertising is that much of it is deceptive. Unlike commercial games, states are not bound by the Federal Trade Commission's truth-in-advertising standards.¹⁴ Thus, there are not external constraints to insure accuracy and straightforwardness. The report cites examples of state lottery advertisements giving misleading messages about the chances of winning. One ad running in Texas compared the chances of winning the lottery to everyday events.¹⁵

Another tactic criticized by the report is advertising that encourages participation in the lottery as a way to support state programs. This approach is an attempt to appeal to people's sense of goodwill while promoting the chance of striking it rich. The message is misleading when it equates purchasing lottery tickets with supporting state programs. In response to these concerns some states including Virginia, Minnesota, and Wisconsin have limited the type of advertising lotteries can conduct.¹⁶

Pathological and Problem Gambling

One primary reason for the creation of the Gambling Commission was a growing concern about the increase in destructive gambling behavior among Americans. At the conclusion of the study, the Commissioners were unanimous in their concerns about pathological and problem gambling. Each believed the problem has reached a critical state. They believe public officials, private institutions, and nonprofit organizations must act immediately to curb the current trends towards increased addiction and compulsive gambling. Furthermore, with the increased presence of gambling in different forms, and the lack of reliable data about their impact on society, additional research was necessary to understand what negative effects gambling could be having. Therefore, the National Opinion Research Center (NORC) and the National Research Council (NRC) was contracted to supply current and accurate data to the study.¹⁷

Research

In the past year, 125 million American

adults have gambled. Of those, 7.5 million are either problem or pathological gamblers. Defined, pathological gambling is an impulse control disorder in which a person exhibits five or more of the 10 criteria classified by the American Psychological Association (APA) Diagnostic and Statistical Manual of Mental Disorders (DSM-IV).¹⁸ Such criteria include preoccupation with gambling, lying to family and friends to conceal a gambling habit, experiencing withdrawal when attempting to stop gambling, committing illegal acts in order to fund a gambling habit, needing to increase the amount of money gambled in order to fulfill the excitement, continuing to gamble in order to "chase losses," unsuccessfully attempting to control, stop or cut back one's gambling habit, gambling to escape from other problems, risking important relationships or careers because of gambling, and depending on others to supply money in order to help with financial problems caused by gambling. A problem gambler is one who exhibits several, but less than five of the 10 DSM-IV criteria.¹⁹

The Commission reports no single "root cause" of gambling though it does reference the NRC study citing three behavioral patterns that may lead to gambling problems including: the presence of other behavioral problems such as substance abuse, personality disorders, etc., having parents that gambled, and gambling at an early age.²⁰

In addition to the above findings, the report points out that the prevalence of gambling disorders will also depend on the availability of gambling. NORC discovered that having a gambling facility located within 50 miles roughly doubles the presence of pathological and problem gamblers. Of the nine communities that NORC studied, seven reported an increase in the number of pathological and problem gamblers when a gambling facility was introduced.²¹ At the conclusion of their study, the NRC stated that "some of the greatest increases in the number of problem and pathological gamblers shown in these repeated surveys came over periods of expanded gambling opportunities in the states studied."²²

Adolescent Gambling

The NGISC report discusses the enigma of underage gambling. Most troubling is the fact that individuals who begin to gamble at an early age are at greater risk than adults of developing pathological or problem gambling behaviors. NRC data estimates that up to

1.1 million adolescents ages 12 to 18 are past year pathological gamblers. “Past year refers to gamblers who meet the disorder criteria only during the past 12 months. NRC further reports that 20 percent of all adolescents who gambled in the past year could be classified as problem or pathological gamblers.”²³

The evidence of the dangers gambling poses to youth and adolescents has prompted the Commission to urge elected officials and other to create more effective ways to deal with the growing problem. Their concerns are particularly directed toward advertisements that target youth and gambling facilities that are easily accessible and unregulated.²⁴

Costs

The human costs associated with pathological and problem gambling are hard to put a price tag on. The effect gambling can have on the individual, family and community will differ with each instance. Nonetheless, the consequences are potentially ruinous. The report states:

*Many families of pathological gamblers suffer from a variety of financial, physical, and emotional problems, including divorce, domestic violence, child abuse and neglect, and a range of problems stemming from the severe financial hardship that commonly results from the problem and pathological gambling. Children of compulsive gamblers are more likely to engage in delinquent behaviors such as smoking, drinking, and using drugs, and have an increased risk of developing problem or pathological gambling themselves.*²⁵

In addition to these costs, problem and pathological gamblers can incur great financial costs to themselves and society including crime, loss of a job and bankruptcy.²⁶ NORC estimate that the lifetime costs to society per pathological gambler (includes bankruptcy, legal fees, job loss, imprisonment, etc.) is \$10,550. Lifetime problem gamblers were estimated to \$5,130. The total aggregate cost for pathological and problem gamblers is estimated to be \$5 billion per year.²⁷

Gambling Moratorium Recommended

The above summary has touched on only a few of the many topics covered in the Gambling Commission’s report. Though exhaustive in content and covering two years of research, the report points out that it is not the final work on gambling. There is still much research to be done.

Gambling in America is continually

evolving and growing. It is also a very young phenomenon. Therefore, more research into the impact and consequences must be done. It is because of this uncertainty that the commission has called for a moratorium, a pause in the expansion of gambling. The Commission believes leaders on the state and federal level need to explore this issue more. The report states that “the purpose of the pause is not to wait for definitive answers to the subjects of dispute...instead, the purpose of this recommended pause is to do what to date few if any have done: to survey the result of their decisions and to determine if they have chosen wisely.”²⁸

Recommendations

The Gambling Commission’s review of lotteries produced several recommendations. The Commission recommends that states with lotteries do the following:

- Put all individuals, entities, and organizations involved with managing or supplying the lottery through a rigorous background check and licensing process. (3.8)
- Publicly develop and review model regulations for their lottery in the form of “best practices,” designed to be adopted legislatively. (3.9)
- Disallow instant games that are simulations of live card and other casino-type games. (3.10)
- Ban aggressive advertising strategies, especially those that target people in impoverished neighborhoods or youth anywhere. (3.11)
- Have their lottery voluntarily adopt and follow enforceable advertising guidelines that avoid vulnerable populations including youth and low-income neighborhoods. (3.14)
- Conduct periodic reassessments of the various form of gambling permitted within their borders for the purpose of determining whether the public interest would be better served by limiting, eliminating, or expanding one or more of those forms. (3.16)
- Subject state lottery employees to a cooling-off period that prevents them from working for a supplier of lottery services for a period of 1 year. (3.17)
- Reduce their sales dependence on low-income neighborhoods and heavy players in a variety of ways, including limiting advertising and number of sales outlets in low-income areas. (3.19)

- Create a private citizen oversight board that would make data-based policy decisions on which types of games to offer, marketing strategies to follow, etc. (3.20)
- Enforce harsh penalties for abuse in the area involving underage gamblers. Penalties and enforcement efforts regarding underage gambling should be greatly increased. (3.21)
- Curtail the growth of new lottery games, reduce lottery advertising, and limit locations for lottery machines. (3.22)

The Commission made further recommendations to states that are considering the legalization of gambling. The following are encouraged to be included in any state statute dealing with the legalization of a lottery or any other form of gambling.

- Gambling regulatory agencies should, as a condition to obtain an operating license, require the following of applicants:
 1. a mission statement stating the organization’s policy on problem and pathological gambling
 2. appoint a high-ranking executive to oversee the corporate mission statements
 3. contract gambling treatment professionals to train management and staff to recognize customers that exhibit adverse gambling behaviors
 4. refuse service to customers who exhibit problem or pathological behaviors under a state “hold harmless” statute
 5. provide customers with information listing professional gambling treatment facilities and self help groups under a state “hold harmless” statute
 6. provide insurance that avail treatment for employees that exhibit problem and pathological gambling behaviors. (4.1)
- Each state should enact a Gambling Privilege Tax or other assessment based on the revenues collected by a gambling operation. A significant part of these funds should be dedicated to create ongoing support for research, prevention education and treatment programs dealing with problem gambling. These funds should be used to implement the following:
 1. biennial research by a nonpartisan firm into the presence of problem and pathological gambling among the population including youth, woman, elderly and minority groups

2. initiate public awareness, education and prevention programs directed towards vulnerable populations
 3. create and maintain a list of state approved gambling treatment services and self-help groups
 4. a demographic profile of treatment recipients and services provided (within state and federal laws) that details the effectiveness of the treatment methods offered
 5. subsidize the cost of treatment by state approved gambling treatment professionals when private funds aren't available, therefore ensuring needy persons receive help based on financial status. (4.2)
- States should mandate that private and public insurers and managed care providers cover successful treatment programs under their plans while educating their participants about their options. (4.3)
 - Each gambling facility must implement procedures to allow for voluntary self-exclusion, enabling gamblers to ban themselves from a gambling establishment for a specified period of time. (4.4)
 - Each state-run or approved gambling operation be required to conspicuously post and disseminate the telephone numbers of at least two state-approved providers of problem-gambling information, treatment, and referral support services. (4.6)

The Commission further recommends that states considering the legalization of gambling should:

- Recognize that lotteries, Internet gambling and non-casino electronic gambling devices do not create a concentration of good quality jobs and do not generate significant economic development. (7.4)
- Include in studies of whether to legalize gambling an analysis of gambling industry job quality, specifically income, medical benefits, and retirement benefits, relative to the quality of other jobs available in comparable industries within the labor market. (7.6)

Finally, the Commission recommends:

- All legal gambling should be restricted to those who are at least 21 year of age and that those who are under 21 years of age should not be allowed to loiter in areas where gambling activity occurs. (3.2)
- Warnings regarding the dangers and risks of gambling, as well as the odds where feasible should be posted in prominent locations in all gambling facilities. (3.4)

Conclusion

As the NGISC report points out, pathological and problem gambling have reached almost epidemic proportions in the United States in areas where gambling is accessible. The call of the Commission for a moratorium on gambling expansion is unprecedented and should be taken seriously. There are numerous issues that must be explored before a state creates a lottery. The widespread social impact, advertising techniques, and the States' role in regulation are among the factors needing to be carefully considered. Furthermore, the effects and consequences of problem and pathological gambling cannot be overlooked because of the potential dangers they pose to citizens.

The NGISC report encompasses two years of in-depth study into gambling in the United States. It presents extensive findings that offer relevant information for policymakers in North Carolina. The above findings and recommendations are invaluable to North Carolina's lottery debate and should be strongly considered by all policymakers. The entire report can be accessed at www.ngisc.gov.

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Endnotes:

Each of the following endnote have been taken from the National Gambling Impact Study commission Report. Those that cite an outside source were originally cited by the report in this manner.

1. NGISC Report page 2.1.
2. Charles T. Clotfelter, Philip J. Cook, et.al., "State Lotteries at the Turn of the Century: A Report to the National Gambling Impact Study Commission" at

- 2 (April 1, 1999).
3. NGISC Report page 2.3.
4. *Ibid.*, Clotfelter and Cook.
5. NGISC Report page 3.4.
6. *Ibid.*
7. NGISC Report page 2.4.
8. Charles Clotfelter and Philip J. Cook, *Selling Hope: State Lotteries in America* (1989).
9. Clotfelter and Cook, "State Lotteries," table 4 (April 1999).
10. Robyn Geary, "The Numbers Game," *The New Republic*, May 19, 1997, p. 19.
11. Scott Harshbarger, Attorney General of the Commonwealth of Massachusetts, "Report on the Sale of Lottery Tickets to Minors in Massachusetts," July 1994, pp. 3-4; Scott Harshbarger, Attorney General of the Commonwealth of Massachusetts, "Kids and Keno are a Bad Bet: A Report on the Sale of Keno Tickets to Minors in Massachusetts," October 1996, p. 1; Howard J. Shaffer, "The Emergence of Youthful Addiction: The Prevalence of Underage Lottery Use and the Impact of Gambling," *Massachusetts Council of Compulsive Gambling*, January 13, 1995, p. 9.
12. National Research Council, "Pathological Gambling: A Critical Review," (April 1, 1999), p. Exec-2.
13. NGISC Report pages 3.15 - 3.16.
14. Ellen Perlman, "Lotto's Little Luxuries," *Governing*, December 1996, p. 18.
15. Testimony of Philip Cook, before the NGISC, March 18, 1999, Washington D.C.
16. NGISC Report page 3.16.
17. NGISC Report pages 4.1 - 4.2.
18. NGISC Report page 4.1.
19. National Opinion Research Center, "Gambling Impact and Behavior Study." Report to the NGISC, April 1, 1999. Table 1, p. 16.
20. *Ibid.*, NRC.
21. *Ibid.*, NORC.
22. *Ibid.*, NRC.
23. *Ibid.* (this is the median of a range from 11.3 to 27.7 percent)
24. NGISC Report page 4.12.
25. *Ibid.*, NRC.
26. *Ibid.*
27. *Ibid.*, NORC.
28. NGISC Report page 1.7

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