

“America’s Bad Bet:  
Why the Growing  
Government-Casino  
Partnership Is  
a Deal with the Devil”

— PAUL DAVIES



**ABOUT THE  
AUTHOR**

Paul Davies is the  
Maggie Walker Fellow  
at the Institute for

American Values and the editor of  
[GetGovernmentOutOfGambling.org](http://GetGovernmentOutOfGambling.org).  
His series of editorials on casino gambling  
at the *Philadelphia Inquirer* was  
nominated for a Pulitzer Prize in 2009  
and his investigative series on predatory  
lending at the *Daily News* was  
a finalist for a Gerald Loeb Award.

Propositions  
JANUARY 2012



**N**OT LONG AGO, GAMBLING IN A CASINO IN AMERICA REQUIRED jetting to Las Vegas or taking a bus to Atlantic City. The two remote casino meccas were destination resorts that relied mainly on tourists who came for brief visits and returned home. Today, casinos are popping up in small towns and cities, just a short drive from home or office. Unlike the 122 neon casinos that line the Vegas strip or the twelve casino hotels bunched near the beach in Atlantic City, scores of smaller regional casinos now dot the suburban landscape like discount retailers. These so-called convenience or community casinos depend on repeat gamblers who come several times a week as if they were swinging in to the local 7-Eleven for milk and bread.

Call it casino sprawl.

For the most part, this casino expansion is taking place quietly, one state at a time, with little debate or study regarding the long-term policy ramifications. In fact, the rise of the convenience casino is part of a broader gambling explosion that began about forty years ago but has intensified in recent years. Consider that before 1964, no state had a lottery. Now every state except two has some form of legalized gambling. The choices include slots parlors, video poker terminals, racetracks, Internet cafes, and casinos on Indian resorts. Overall, there are 500 casinos in twenty-seven states.

State after state is scrambling to add new sources of gambling to attract and retain customers. It is fast becoming a gambling arms race. The growth is spurred

“The casino class consists of those who can least afford to gamble.”

by lawmakers in search of new sources of tax revenue. The economic meltdown of 2008, combined with public opposition to tax hikes, has prompted many state leaders to turn to casinos to fill budget holes and create jobs. In effect, lawmakers that lack the will to make tough decisions are instead trying to gamble their states out of the financial crisis.

Behind these efforts is the influential gambling lobby, which has ramped up campaign donations and helps craft legislation, talking points, and studies to win

over lawmakers and the public. Deep-pocketed casino operators, like the Malaysian-based Genting, are pushing bills to legalize casinos in New York and Florida. In a sense, the government is in partnership with the gambling industry. Both need each other in order to succeed.

In 2010, gambling bills were proposed in twenty states. Massachusetts, Ohio, and Pennsylvania are just some of the states that have recently legalized casinos. Lawmakers in Illinois, Maine, and New Hampshire are pushing measures to legalize casinos.

## Little Debate

**F**OR THE MOST PART, THE CASINO EXPLOSION IS TAKING PLACE below the national radar without much debate or analysis. But any in-depth examination of the long-term impact of more and more gambling should raise an alarm. That's because the spread of casinos is like a cancer, quietly eating away at the fabric of the country. Rather than the hard work and innovation that built America into a great nation, casinos thrive on the false promise of getting rich quickly. The lure of something for nothing plays perfectly into the larger societal shift towards instant gratification. Many of the same forces were at work during the housing bubble. But the sad reality is many people are gambling themselves deeper into debt.

In fact, the casino class consists of those who can least afford to gamble. A walk through almost any casino will find the majority of gamblers are senior citizens, minorities, and the working class. Indeed, gamblers with household incomes of less than \$10,000 bet nearly three times as much on lotteries as those with incomes above \$100,000. The democratized gambling culture also brings more social costs. Wherever casinos open, studies show increases in crime, bankruptcy, suicide, and divorce.

The four casinos opening in Ohio are projected to produce almost 110,000 problem and pathological gamblers according to an analysis by the *Cleveland Plain Dealer*. In Maryland, one in thirty residents has a gambling problem, and according to a recent study by the University of Maryland Baltimore County, those most at risk for developing gambling addictions are single men between the ages of eighteen and twenty-nine, either African American or Latino, with less education and income than the overall population.

The rise in problem gamblers will likely get worse. Studies show new high-tech slot machines can be highly addictive. But rather than weigh the costs of creating thousands of problem gamblers, elected officials and casino operators mostly ignore or downplay the impact.

In Pennsylvania, state lawmakers legalized slot machines in a late-night vote just before the July 4th holiday weekend in 2004. In no time, the slots measure that was initially proposed just for race tracks morphed into a law that allowed full-fledged, freestanding casinos with table games, including blackjack and roulette. The weaknesses in the gambling bill quickly became apparent: Two of the eleven initial casino licenses were awarded to convicted felons, including one who was later indicted for lying to state officials about his alleged ties to organized crime. A state grand jury recently found the Pennsylvania Gaming Control Board neglected public policy aims and failed to protect against illegal gaming practices. No charges were filed, but the grand jury recommended twenty-one changes designed to restore public confidence in the state's oversight of the gaming industry.

## The Government-Casino Joint Venture

**D**ESPITE THE PROBLEMS IN THE GAMBLING LAW, THERE IS little support among lawmakers or casino interests for any reform. That's because many of the reforms would undermine the river of money flowing into state coffers via the casinos. Once again, this shows how state governments and the casino industry have essentially entered into a joint venture.

That partnership was on display this spring at a gambling conference in Atlantic City. There, Jim Whelan, a state senator from New Jersey, was introduced as a longtime "friend of the industry." Whelan boasted about recent legislation passed in Trenton that would reduce regulation and oversight of casinos and save operators millions of dollars a year. Linda M. Kassekert, the chair of New Jersey's Casino Control Commission, told casino operators, "We won't be an obstacle to industry."

Gambling operators push to enter states even when they aren't welcome. Texas rejected efforts to legalize casinos, but Penn National Gaming Inc., which operates casinos in twelve states, still bought an ownership stake in three Texas racetracks. Penn National is betting Texas lawmakers will eventually buckle.

## Casino Sprawl Continues

**T**HE AMOUNT OF MONEY SPENT ON GAMBLING CONTINUES TO increase. Americans lost \$91 billion on all forms of gambling in 2006, the most recent figure available. More money was spent on gambling than on recorded music, theme parks, video games, spectator sports, and movie tickets combined according to the National Gambling Impact Study Commission.

The Commission—created by Congress and approved by then President Bill Clinton—recommended a “pause” in any expansion in order to give lawmakers time “to survey the results of their decision and to determine if they have chosen wisely.”

That was in 1999.

More than a decade later, instead of a pause gambling is spreading more rapidly—exactly what the Commission feared. “A likely scenario would be for gambling to continue to become more and more common, ultimately omnipresent in our lives and those of our children, with consequences no one can profess to know,” the study said.

The Commission noted that federal, state, and local governments were responsible for the rapid growth in gambling across the country. That’s because lawmakers are essentially partners with casino operators, overseeing the industry and pocketing up to half of the lost wagers in the form of tax revenues. “Virtually every aspect of legalized gambling is shaped by government decisions,” the Commission study said. “Yet, virtually no state has conformed its decisions in this area to any overall plan, or even its own stated objectives. Instead, in almost every state whatever policy exists toward gambling is more a collection of incremental and disconnected decisions than the result of deliberate purpose.”

If anything, states have made it easier for those who can least afford it to gamble through an increase in the number of so-called “convenience casinos” in smaller markets. Proximity to the casinos makes it easy for locals to stop in several times a week.

Isle of Capri Casinos Inc. operates fifteen casinos in small towns in Mississippi, Iowa, Colorado, Florida, and Missouri. Chief executive Virginia McDowell said the casinos cater to locals by serving good food, cold beer, and live area music. “It’s where you go on a Friday night,” she said at the gaming conference in Atlantic City.

## A Casino in Times Square?

**T**HE NEXT BIG CASINO PUSH IS EXPECTED TO TAKE PLACE IN New York. Governor Andrew Cuomo is expected to announce his support for legalizing commercial casinos.

Like other states, the economic meltdown has forced New York to search for new revenue sources while confronting an angry public opposed to tax hikes. Cuomo tipped his hand in favor of casinos in August when he said it was time for New York to “come to grips” with the proliferation of gambling.

After studying the issue, Cuomo will likely trot out the same flawed arguments for casinos that have been used in other states: Casinos create jobs and tax revenue. Residents are traveling to neighboring states to gamble, so let’s keep the money in New York. Lastly, gambling already exists in the state, so adding commercial casinos isn’t a big leap.

A largely uninformed and unengaged public will likely go along with those assertions, while ignoring the many downsides of gambling. In fact, there probably won't be much debate or dissent since the "gaming" industry has spun gambling as harmless fun. The discussion instead will center on how many casinos to build and where to put them. In Illinois, lawmakers proposed slot machines at O'Hare International Airport, a move the governor rejected.

Could casinos open in Times Square or near Ground Zero? Never mind that such a move would dramatically alter the city's physical landscape. Or the corruption that often follows when lawmakers and the gambling industry intersect. (But not in Albany.) There is a reason the state constitution prohibits gambling. New York's forefathers feared the adverse social and economic impact.

Supporters will argue the constitution has been amended in 1939 to allow race tracks and in 1967 for the lottery. The 1988 federal Indian Gaming Regulatory Act likewise cleared the way for casinos on Indian reservations. But the idea of legalizing casinos because other forms of gambling exist isn't compelling.

## "A Tax on Ignorance"

**I**F ANYTHING, CUOMO SHOULD STUDY WHAT OTHER RESPECTED economists and elected leaders have said about casinos, including his father, former Governor Mario Cuomo. "There is a respectable body of economic thought that holds that casino gambling is actually economically regressive to a state and a community," Mario Cuomo wrote in his book of essays, *The New York Idea: An Experiment in Democracy*.

Mayor Fiorello H. La Guardia's reform legacy included a war against gambling rackets and slot machines, which he called "mechanical pickpockets." Mayor Michael Bloomberg said he has "never liked" gambling. "History shows it really doesn't do much for the neighborhoods around it," Bloomberg said.

To be sure, casinos generate millions of dollars in tax revenue for state coffers—but at a cost. That begs the question: Should states fund budgets on the backs of individuals' gambling losses? Aren't lawmakers sworn to protect the public, not fleece them? Many of the new community casinos don't attract tourists and rely on locals. The result is very little new spending but a reallocation of funds that would have been spent at restaurants, malls, and movie theaters. Or in extreme cases, funds diverted from food, rent, heat, and child support.

Nobel-winning economist Paul Samuelson described gambling as the "sterile transfers of money or goods between individuals, creating no new money or goods." Perhaps Warren Buffet summed up the impact of gambling best when he called it a "tax on ignorance."

Granted, the casinos create jobs. But the majority of jobs are low wage positions. In Atlantic City, the average pay for the unionized workers that do house-keeping, serve the food and beverages, and handle luggage is twelve dollars an hour. That's not a living wage.

What about legalizing casinos to stem the flow of gambling dollars to other states? No doubt many New Yorkers travel to New Jersey, Pennsylvania, and Connecticut to gamble. But making it more convenient for residents to gamble is a ridiculous policy. Increased proximity will lure new gamblers. Those who traveled out of state will just gamble more often.

That's been the case in Pennsylvania where the regional casinos rely on repeat customers who live close by, including many who used to frequent Atlantic City.

## “It is fast becoming a gambling arms race.”

Many gamblers at Parx Casino in Bensalem, PA, come 150 to 200 times a year, according to former Parx president Dave Jonas. One regular was Mike O'Neill, the former Jenkintown mayor turned tax collector, who pleaded guilty last year to stealing almost \$200,000 in tax proceeds to feed a slots addiction he said took hold because of the short twelve-mile drive from his home to Parx. The number of calls to Pennsylvania's problem gambling helpline jumped by 26 percent in the first quarter of 2011.

That's what awaits New York if it legalizes casinos. Rather than follow other states in a revenue race to the bottom, Cuomo could lead by example. Why mimic the desperate public policies of places like Mississippi, Michigan, or Pennsylvania?

Cuomo should aim higher than a public policy that fleeces desperate gamblers. Indeed, lawmakers in other states should examine the broader impact of casino sprawl that is sweeping the country. □

*Published by the Institute for American Values, Propositions is a free, quarterly publication that continues and deepens conversations originating from our Center for Public Conversation.*

*TO SUBSCRIBE TO PROPOSITIONS OR TO LEARN MORE ABOUT THE INSTITUTE, please visit our website at [www.americanvalues.org](http://www.americanvalues.org), email us at [info@americanvalues.org](mailto:info@americanvalues.org), or phone us at 212.246.3942. We are located at 1841 Broadway, Suite 211, New York, NY 10023. We are a non-partisan organization whose mission is to study and strengthen civil society and American values.*



TO ORDER, VISIT: [WWW.AMERICANVALUES.ORG/BOOKSTORE](http://WWW.AMERICANVALUES.ORG/BOOKSTORE)

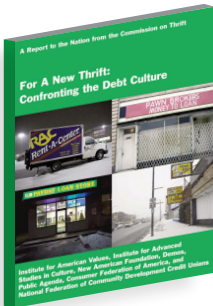
## PUBLICATIONS *from the* INSTITUTE



### An American Declaration on Government and Gambling

[www.stoppredatorygambling.org](http://www.stoppredatorygambling.org)

*After four decades of unfulfilled promises, corrupt deals, and broken dreams, it is time for our government to end its partnership with organized gambling and to embrace a fundamentally different and higher vision of the path to American prosperity.*



### For a New Thrift: Confronting the Debt Culture

A Report to the Nation from the Commission on Thrift (Broadway Publications 2008) \$7.00

*“One of the most important think tank reports you’ll read this year.”*

—David Brooks, *New York Times*, June 10, 2008