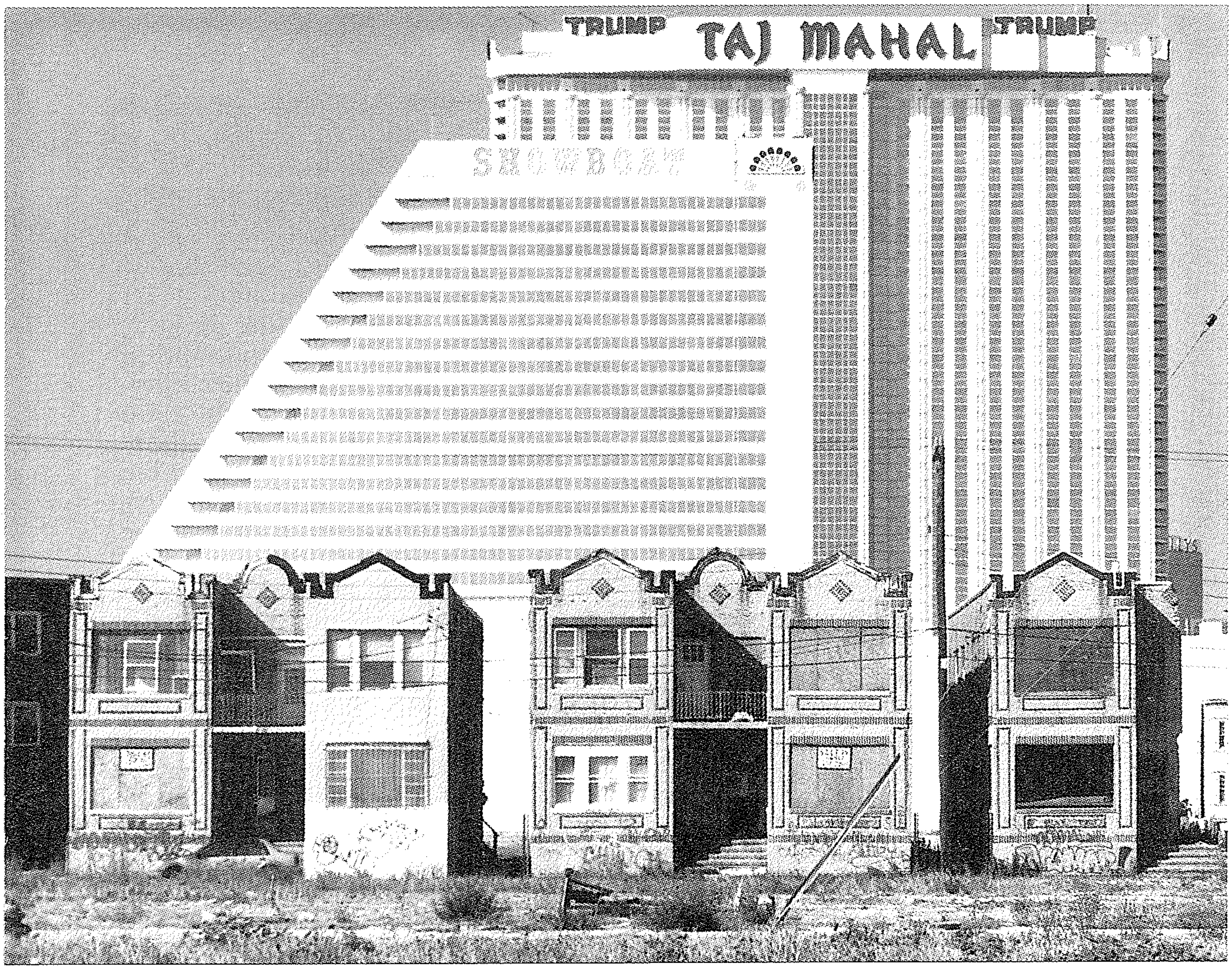


*Dreams and reality remain in uncomfortable contrast 17 years after gambling came to Atlantic City.*

# Grand Illusions

BY ROBERT GOODMAN

The United States has embarked on an unprecedented experiment with legalized gambling. At times in the past, everything from lotteries to roulette was tolerated and even exploited for public revenues. But recognizing the moral and material hazards involved, public authorities generally acted cautiously, subjecting such ventures to tight controls. Today, gambling enterprises of various kinds, including casinos and riverboats, are not only

permitted but actively promoted by many state and city political leaders as a magic bullet for ailing local economies. Indeed, only a belief in magic can explain the willingness of so many people to accept the proposition that legalized gambling can provide jobs and tax revenues at virtually no cost to society. We are only beginning to recognize the real costs.

The rapid spread of legalized gambling has been hard to miss in recent years, insistently announcing itself through clamorous advertisements for lotteries and casino outings. Yet the numbers are still startling. As recently as 1988, casino gambling was legal in only two states: Nevada and New Jersey. By 1994, casinos were either authorized or operating in 23 states, and legalization was being proposed in many others. Casinos sprang up on more than 70 Indian reservations, thanks in large part to powers granted the tribes under the federal Indian Gaming Regulatory Act of 1988. The state of Mississippi alone was home by last year to one million square feet of riverboat casinos—in the four years since legalization Mississippi acquired more gambling space than Atlantic City, New Jersey, did in 16 years. Within three years after the introduction of casino riverboats in Illinois, per capita spending on gambling in that state doubled.

Between 1988 and 1994, casino revenues in the United States nearly doubled—from $8 billion to about $15 billion annually. Overall, Americans wagered $482 billion in casinos and other legal betting venues in 1994, a jump of 22 percent over the previous year. Gambling has expanded at all levels—and has even brought a rise in attendance at church bingo games. The new gambling outlets were impressive for their variety: electronic slot machines in rural South Dakota bars; imitation Wild West casinos in old Colorado mining towns; riverboats along the Mississippi River, from the distressed industrial cities of Iowa to the Gulf of Mexico; and gambling establishments on Indian reservations from coast to coast. New Orleans is now building what promoters tout as the world's largest casino, while the mayors of Chicago, Philadelphia, and other big cities enthusiastically embrace gambling proposals.

Casino companies often enjoy economic advantages that are available to few other businesses. Since they are usually granted exclusive government franchises, they are able to generate short-term profits on a scale that proprietors of other businesses can only dream about. Earnings of five to eight percent of revenues are the norm for most American businesses. In the gambling industry, however, yearly profits between 30 and 50 percent are not unusual. It is not extraordinary for companies to be able to pay off their total investments in one or two years. One Illinois riverboat company reportedly tripled the return on its investment in just six months.

More and more Americans are being persuaded to try their luck. According to casino industry sources, the number of American households in which at least one member visited a casino doubled between 1990 and '93—from 46 million to 92 million. More than three-quarters of this upsurge was the result of people visiting casinos outside Nevada and Atlantic City. In 1994, gambling industry leaders and other business observers were predicting even more spectacular growth. "By the year 2000," said Phil Satre, president of Harrah's Casinos, one of the world's largest casino companies, "95 percent of all Americans will most likely live in a state with legal casino entertainment." By then, according to Mark Manson, a vice president of Donaldson, Lufkin & Jenrette, a stock brokerage firm, lotteries, casinos, and other kinds of legal gambling "could

surpass all other forms of entertainment in terms of total revenue." Manson concluded that "the movement towards gaming appears unstoppable for the foreseeable future."

The amount of money in play is huge. Between the early 1980s and the early '90s, betting on legal games, including the lotteries that were conducted by 37 states and the District of Columbia, grew at almost twice the rate of personal incomes. Last year, legal gambling in the United States generated nearly $40 billion in revenues for its public- and private-sector proprietors.

What has made gambling attractive to politicians and local business leaders is the prospect of new jobs for workers and easy money to fill the coffers of local government and business. An activity that was once feared for its ability to sow moral corruption, its corrosive impact on the work ethic, and its potential to devastate family savings has suddenly been transformed into a leading candidate to revive the fortunes of towns and cities across America. In Chicago, casinos were proposed to bail out the city's overbuilt hotel sector. In Gary, Indiana, they were supposed to offset declines in a once-booming steel industry. In Detroit, they were touted as a way to replace lost jobs in automobile manufacturing. In New Bedford, Massachusetts, gambling was going to provide jobs for fishing industry workers thrown out of work by the exhaustion of Atlantic fisheries.

Advocates eagerly seek to cleanse gambling of its traditional connotations. It certainly looks on the surface more reputable than it once did. An industry created by the likes of "Bugsy" Siegel and Meyer Lansky and financed with laundered drug money and other ill-gotten gains is now operated by business school graduates, financed by conglomerates, and listed on the New York Stock Exchange. "Much of the moral argument against legalization is based upon the belief that gaming is mainly about money or greed," Harrah's president Satre told the National Press Club in 1993. "It is not. It is about entertainment. . . . It is a true social experience. And there are no gender-based, race-based, or physical barriers to access." Politicians and others have joined in the effort to de-moralize the debate over gambling. No longer do they speak of "gambling," with all its unsavory overtones, but in euphemisms such as "gaming" and "casino entertainment."

Legalization tends to have a snowball effect. When one state allows games of chance, other states have a greater incentive to do so as well. If your citizens are going to gamble anyway, why not at least reap some of the benefits by letting them do so at home? In 1985, Montana became the first state to allow slot machines in bars, effectively creating minicasinos throughout the state. Four years later, South Dakota's legislature gave its state lottery agency authority to install "video lottery terminals"—which in reality are little more than slot machines—in bars and convenience stores. Soon afterward, Oregon, Rhode Island, West Virginia, and Louisiana legalized similar machines. By 1991, Oregon had also legalized betting on sports teams and electronic keno machines through its state lottery.

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Iowa took a much bigger leap into gambling in 1991 when it became the first state to legalize casino gambling on riverboats. To ensure that the floating casinos would remain low-key tourist operations, the state government limited stakes to $5 per bet and total losses of any player to $200 per cruise. But these restrictions were soon dropped, after politicians in Illinois, Mississippi, and Louisiana authorized riverboat gambling with unrestricted betting. Iowa had to keep up with the competition.

By late 1994, however, there were signs that the days of expansion without end were over. The casino boom of the early 1990s was not built on a broad base of popular support for legalization. The laws were changed in response to unprecedented, well-financed campaigns by the gambling industry, countered only by the underfunded, ad hoc efforts of opposition groups. But as casinos proliferated and their social and economic costs became more widely recognized, more and more communities rallied to defeat them.

Where statewide referendums have been held on casino gambling, voters have mostly voted no. In 1994, despite the gambling industry's promises of riches to come, not a single one of the four state casino referendums passed. (In seven other states where gambling was already legal, measures to expand it got mixed results.) In Florida, casino companies mounted their costliest promotional campaign ever, yet the voters rendered a decisive no. Where casino gambling has been legalized, it usually has been by direct action of state legislators or by legislature-approved referendums on the town, city, or county level. When the target is a single community starved for jobs and tax revenues, the industry has regularly been able to gain approval.

Yet Americans appear to be recognizing that the promises made by gambling proponents are rarely if ever realized by cash-strapped cities and towns. The municipalities' hopes are based largely on what happened in Las Vegas—a remote desert city that for decades held a virtual monopoly on gambling. The city was able to draw huge numbers of tourists who spent freely, not only at the tables and slots but in local hotels, restaurants, and stores. Something at least remotely similar has been achieved at the reservation-based casinos. The Indian reservations have several things in common with early Las Vegas, notably, remote locations and no existing economic bases to speak of. They have, in short, nothing to lose.

But there aren't likely to be any more Las Vegas-style success stories. With the proliferation of casinos around the country, the nature of the game has changed. Cities and towns entering the gambling market now face fierce competition, and they will be hard-pressed to draw patrons from outside their regions. Most of the people pumping money into their slot machines will be local residents. Instead of bringing in new dollars from outside the local economy, gambling will siphon away consumer dollars from other local businesses. At the same time, these communities will be saddled with enormous new costs as they deal with the economic and social consequences of open gambling. Not the least of these costs is an increase in the local population of chronic gamblers, who bring with them not only their personal tragedies but a host of related problems, from bad debts and family breakups to crime, often of the white-collar variety. Estimates of the annual private and public costs imposed by each problem gambler range from my own $13,200 (in 1993

## The Global Gambling Experiment

The explosion of lotteries, casinos, and other forms of legalized gambling in the United States has had echoes abroad—faint in some places, louder in others. Casinos have opened for business everywhere from Russia to Malaysia to Australia. If casino revenues per capita are a guide, then Australia and Spain are the world's biggest gambling havens. But in most respects, the United States enjoys the dubious distinction of leading the world in legalized gambling.

The same mixture of progambling influences is at work overseas as in the United States: the gradual relaxation of community attitudes toward minor vices and "victimless crimes" and the weakening of religious strictures. Money also matters. Dreams of plentiful tax revenues and tourism are hard to resist. A single government-sponsored casino launched in late 1989 in Winnipeg, Canada, grossed nearly $20 million in its first year. And the likelihood that some other country will snap up any opportunities left unexploited makes gambling that much easier to accept.

Lotteries are less controversial than casinos. The German and Dutch national lotteries date from the Middle Ages; those in Spain, Portugal, and Mexico have been in operation since the 18th century. Elsewhere there have been cycles of legalization and prohibition. Banned in many European countries during the 19th century, lotteries were revived after World War I, often as a means of paying off war debts, and have remained in place ever since.

Last year, lottery sales neared $100 billion worldwide, up 11 percent from the previous year. The United States led the lottery world, with more than one-quarter of those sales. Germany was a distant second, with $9.2 billion in sales, followed by Spain and Japan.

What's new is legalized casino gambling in places outside long-established resort areas such as the Caribbean or Baden-Baden in Germany. Monte Carlo, chartered by Monaco's Prince Charles III in 1856, is the archetype of the traditional casino resort. Catering to a moneyed elite, it was created with the express purpose of attracting foreign money to an area with few economic assets. It was largely off-limits to local residents. The idea was to harvest cash from outsiders without breeding the social ills often associated with gambling.

Over the years, however, scholarly research generally has not established firm correlations between gambling and crime. Indeed, gaming advocates have argued, prohibition can breed crime. When gambling was outlawed in Sweden, for example, many Swedes bet illegally on English soccer games. When gambling was legalized, in 1930, the bookies were wiped out (and Sweden kept more of its kronor at home).

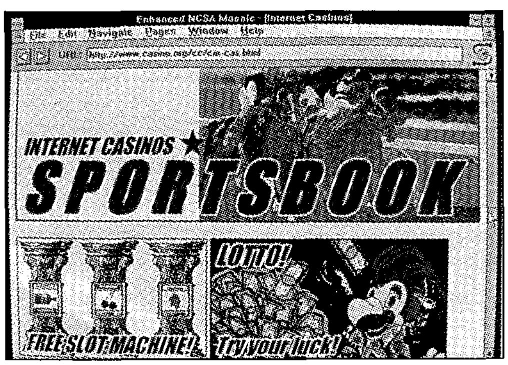
The loosening of the crime correlation has also helped fuel the recent casino fever. Casinos have been legalized (with various restrictions) in many countries, including South Korea (1967), Australia (1973), the Philippines (1977), Spain (1978), New Zealand (1990), Canada (1990), and South Africa (1995).

The old, Las Vegas-style "sin city" existing in gaudy isolation from the rest of society is largely a thing of the past. Many of the new casinos around the world are found close to major cities. Others are located in the heart of the city. Yet access by the local population still tends to be constrained or prohibited.

Moscow, for example, is home to a wild and woolly downtown gambling scene. During the communist era, the state placed severe restrictions on the gaming business, allowing only a few slot machines in tourist hotels. Today, however, about 100 privately owned casinos do a thriving business in Moscow, catering mainly to foreigners. But many of the new emporiums have ties to organized crime.

Southeast Asia, with a long history of tolerance, is another hotbed of gambling. In largely Muslim Malaysia, for example, the Qur'an's edicts against games of chance have been accommodated in unusual ways. After independence was attained in 1957, the government had little hope of stamping out the horse-race betting es-

tablished during British colonial rule, the numbers games popular in the tin mines, or the gambling at hill-station enclaves. In the 1980s, Kuala Lumpur opted to regulate gaming, privatize Malaysia's anemic state-run lotteries, and tax the trade. Ethnic Malays are barred by law from the country's lone casino, the Genting Highlands Resort, located 35 miles outside of Kuala Lumpur. But their ethnic Chinese countrymen—one of whom owns the company—are free to mingle with the foreigners at the tables and slot machines. In a new twist on the old idea of tapping foreigners for gambling revenues, Malaysia has become a home base for companies that operate only in other countries. Malaysia's five main gaming groups account for more than 10 percent of the Kuala Lumpur stock exchange's value.




Indonesia also has few qualms about allowing its citizens to invest in offshore ventures—even if they are not at all far offshore. President Raden Suharto's government banned casinos in 1981 after protests by Islamic groups, but in 1993 a group of investors opened an exclusive "boutique" establishment on Christmas Island, an Australian outpost off Java. Meanwhile, the Suharto regime has also come under intense pressure from Islamic groups to pull the plug on a national lottery launched in 1987.

None of the world's major cultures rival that of the Chinese in its tradition of openness to games of chance. A belief in luck is deeply embedded in Chinese culture, as is the practice of social gambling. Games of *fan tan*, *sic bo*, and *pai gow* (played for small sums with beads, dice, and dominos, respectively) are time-honored pursuits. Mahjong is a favorite family game.

Gambling was targeted for eradication after the communist takeover in 1949, but only in 1992 were all types of gaming (except the five-year-old national lottery) officially banned, a reaction to the increasingly open pursuit of the old pastimes in the countryside. Efforts are already underway to legalize casinos in China. Yet according to William Eadington of the University of Nevada at Reno, the world's most gambling-tolerant culture is governed by one of its most gambling-resistant regimes. Beijing is deeply uneasy about the social impact of gambling—the days when gambling debts reportedly consumed up to one-third of the average farm family's income in some areas have not been forgotten. (Casino gambling is also illegal in Taiwan—and Japan.) If legalized gambling comes to China, Eadington predicts, it will likely be limited to isolated Vegas-style "sin cities."

If China is one step behind the worldwide trend, Britain may be one step ahead. There, gaming of most kinds received the sanction of law in 1963. But the rousing success of public betting and the emergence of organized crime set off alarms, and the clock was partially turned back in 1968. Gambling is permitted but considered a social problem to be repressed. Through devices such as zoning restrictions, a 48-hour waiting period for membership in a gaming club, and a prohibition on live entertainment, gaming has been effectively contained—although public enthusiasm for the new national lottery has stirred talk of loosening up again.

All of the world's debates over legal gambling, however, may soon be rendered irrelevant by technology. Earlier this year Internet Casinos, based in the Caribbean, went on-line with the first full-service "virtual casino" on the Internet. Armed only with a personal computer and a modem, anybody in the world with a credit card and a hankering for action can call up a full sports book and 15 casino games in 10 different languages. Access is now restricted by law. But who is willing to bet that such prohibitions will last?

dollars) up to $52,000. A mere 100 additional problem gamblers, in other words, exact a monetary toll of more than $1 million.

The sad lesson of gambling as an economic-development strategy is that it creates far more problems than it solves. It doesn't even deliver the goods it promises. In Atlantic City, for example, about one-third of the city's retail establishments shut their doors during the first four years after the casinos' arrival. Many could not compete with the low-price restaurants and services offered by the casinos to lure customers. In 1993, unemployment in Atlantic City was double the state average.

One of the worst long-term consequences of legalizing gambling is the difficulty, if not impossibility, of undoing the decision. New gambling ventures create powerful new political constituencies that fight to keep gambling legal and expanding. These operations can radically alter the balance of power in state and local politics.

"Casino gambling is not a 'try it and see' experiment," observes Stephen P. Perskie, the politician who led the battle to legalize gambling in Atlantic City, and a former chair of New Jersey's Casino Control Commission. "Once the casino opens and the dice begin to roll, gambling creates an instant constituency. People depend on it for jobs. Governments depend on it for revenues." Perskie, who went on to become vice president of Players International, a casino development company, elaborates: "You've got economic realities created. You've got infrastructure investments, you've got public policy commitments. . . . The public official who will stand up and say close that casino and put those 4,000 people out of work is somebody I haven't met yet."

Once the novelty of a new casino or a new game wears off, as it inevitably does, revenues tend to fall or flatten, forcing legislators to look for new gambling ventures and gimmicks to keep the money coming in. And as enterprises suffer lower revenues from increased competition or fading consumer interest, they turn to government for regulatory relief and sometimes direct subsidies.

Even in New Jersey, where the casino industry is prohibited by law from lobbying, casino operators wield enormous political power. The state's experience offers an instructive example of the ways in which gambling regulations weaken over time. In Atlantic City, the original rules governing casinos included regulations that sought to reduce problem gambling. They prohibited 24-hour gambling, restricted the amount of floor space that could be dedicated to slot machines (considered by many experts one of the most addictive forms of gambling), outlawed games such as electronic keno, poker, and sports betting, and created rules for jackpots and prizes designed to ensure that players wouldn't be taken advantage of too outrageously. But over time, especially as competition from casinos in other states increased during the early 1990s, casino companies pressed for relief from these restrictions. Gambling got its way. By 1994, all these rules had been dropped, with the single exception of limits on sports betting. (New Jersey's Casino Control Commission ruled that it simply had no legal power to change these rules because federal law restricts sports betting.)

New Jersey's powerful casino constituency was the force behind a number of public projects that were designed to restore Atlantic City's luster as a tourist destination—and thereby bolster the gambling business. In 1993, the state announced plans to spend about $100 million to expand Atlantic City's airport, rebuild the city's convention center, and beautify the approach roads to the casinos and their surrounding Boardwalk areas.


*Las Vegas increasingly competes with Disney World as an all-inclusive family resort. It is not uncommon to see couples shepherding children to theme parks or pushing baby strollers down the Strip.*

The plans had little to do with reversing the massive deterioration of the other Atlantic City beyond the Boardwalk. In fact, they were aimed at concealing the city's mean streets from casino visitors. As an article in the *New Jersey Casino Journal*, a voice for local casino owners, explained, "The need to negotiate passage through a depressed and deteriorated urban war zone is not especially conducive to a memorable entertainment experience."

The public debt that many cash-poor communities must assume to build or improve boat docks, parking facilities, high-

ways, water and sewer systems, and other infrastructure creates problems of its own. The hope is that a continuous stream of revenue from taxes on casino income will help pay off this debt. But the community is also in a trap. To close down or curtail these operations if they falter or prove disruptive would be almost impossible—indeed, the community has every incentive to promote even more gambling.

Some of the biggest costs of gambling expansion are the hardest to quantify. They are what economists refer to as "opportunity costs." The more energy government officials and business leaders expend on gambling as an economic development strategy, the less they can devote to the cultivation of other kinds of business enterprises that may be less flashy and more difficult to establish. Over the long term, such businesses would almost certainly be more beneficial to towns and cities than those built on the exploitation of the gambling itch.

If gambling ventures continue to proliferate and expand, the political power of the gambling industry will grow as well, making it increasingly difficult to control gambling. A taste of what may come was provided in the spring of 1994, when the Clinton administration proposed a four percent federal tax on gross gambling revenues to fund its new welfare reform programs. The industry's response was swift and forceful. Thirty-one governors promptly wrote to the president complaining of the potential damage to their gambling-dependent state budgets. Governor Bob Miller of Nevada flew to Washington and presented President Clinton with a scenario of silent casinos and layoffs by the thousands in the gambling industry. Owners of horse and dog racetracks lobbied Congress with similar visions of economic devastation. The administration quickly withdrew its tax proposal.

The seed planted in the Nevada desert some 50 years ago is now bearing very dangerous fruit indeed. America's unprecedented gambling boom has created grand illusions worthy of the gaudiest and most grandiose Las Vegas casino. Only in one place could the notion flourish that a magical way could be found to create new jobs, generate fresh revenues for public coffers, and revive cities at virtually no cost: a fantasy land.

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