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Gambling in Minnesota

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It is only too obvious that the flaws are entirely my responsibility. The hope of this report is to stimulate a discussion of the broad issues surrounding gambling in Minnesota rather than continue adoptions or deletions on an ad hoc, individual, small frame basis.

Tony Bouza

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EXECUTIVE SUMMARY

Throughout the history of civilization gambling has gone through a cycle of prosperity to prohibition and back. In Minnesota the most recent prohibition began in the early 1940s as Governor Luther Youngdahl and Minneapolis Mayor Hubert Humphrey led drives to eliminate the illegal slot machines that were spinning rampantly throughout the state. About the same time the current gambling prosperity also got its start. A law authorizing bingo, as a social means of fundraising for non-profit groups, was passed.

This legal toe-hold has since grown into a large and complex industry which will see about \$1.6 billion wagered on the state's three legal forms of gambling in 1990. The three forms are: lawful (formerly charitable) gambling, horse racing and the lottery. In addition, there is also gaming taking place on Indian lands, illegal betting (primarily on sports) and junkets to out-of-state casinos.

Lawful Gambling

Starting out as bingo, lawful gambling now takes on many forms--raffles, paddlewheels, tipboards, and the most pervasive, pull-tabs. By far the largest of the three legal forms, estimated at \$1.274 billion in 1990, the industry has been beset with many problems in recent years. The games are conducted by non-profit organizations, which have done a tremendous amount of good--housing the homeless, clothing the naked and feeding the hungry.

Growing unanticipatedly--over tenfold from 1985 to 1989--the industry went unchecked and unregulated. Studies by the Legislative Auditor, the Attorney General, the Director of the Gambling Control Division, the Gaming Commissioner and the media detailed the problems of cheating, skimming and unknowledgable operators. Staffing

for the regulatory agencies remained nearly unchanged during those five years, at incredibly low levels, so there was nobody to catch the dishonest people or to help those who wanted assistance. In 1990 the legislature appropriated many, but not all, of the resources necessary to reform the industry. Questions relating to tax equity and the adoption of electronic and mechanical devices hung in the air.

Horse Racing

Horse racing has had a brief but rocky history in Minnesota. Authorized by a constitutional amendment in 1982, the first horse race took place in the spring of 1985 at the state's only track. Located in Shakopee, Canterbury Downs experienced lower attendance and wagering than predicted. Wagering averaged \$107 million annually from 1985 to 1990. Access to the track, Minnesotans' possible indifference to pari-mutuel wagering, high taxes and marketing are factors that have been blamed for the track's inability to meet its debt payments. Less than expected revenues forced the operators to sell in early 1990.

With little time for planning--the license being granted to the new owners only a few days before the season--the 1990 race meet continued the downward trend in handle and attendance. With an experienced race management team and the bargain basement price, which removed the large debt burden, the future of horse racing nevertheless looks bright.

The Lottery

The state-operated lottery, the most recent gambling expansion in Minnesota, began in April of 1990. The lottery offers three games: scratch-off tickets or instant games; Lotto*Minnesota, a multi-million dollar jackpot game; and Daily 3 an east coast game for guessing a three-digit number. Original estimates for Minnesota's size and demographics predicted Minnesotans would wager about \$200 million annually. Sales estimates are continuously being revised upwards and lottery officials worry that tickets may not be printed fast enough. Sales estimates for 1990 and 1991 are \$230 and \$350 million, respectively. Lottery proceeds go to the Environmental and Natural Resources Trust Fund, the Greater Minnesota Corporation (a rural economic development agency) and the Minnesota Infrastructure Development Fund (higher education institution and environmental capital projects). The flexibility allowed by the enabling legislation, the need to adjust to the market condition and the resources available all argue for both growth and change in this industry. The lottery seems likeliest to adopt innovations, change, experiment and grow.

Indian Gaming

Gaming takes place on 11 Indian reservations in Minnesota. The Federal Indian Gaming Regulatory Act allows tribes to conduct the same gambling that states allow, without restriction, on tribal land. If a state allows non-profit organizations to conduct bingo and places limits on prizes, tribes can conduct bingo without any limits. In Minnesota Indian gaming has taken on three forms: bingo, video games of chance and casino-style derivatives of bingo. The legality of the third form is in question. Suffering initially from growing pains and troubles with non-Indian ownership and management, tribes have turned their games into lucrative economic vehicles for previously impoverished communities. Indian gaming seems certain to grow into a contentious future as prosperity and privilege inspire resentment.

Illegal Gambling

Even with all the legal forms of gambling available in Minnesota, illegal gambling activity still exists. It covers a wide variety of activities including small sports pools, big sports bookmaking operations, organized card games, casino nights and lotteries. No current estimates of illegal gambling handles exist.

Law enforcement agencies have a long and futile history of trying to eliminate illegal gambling. Legalization is also an ineffective method for reducing illegal activity unless the legal games are very similar to the illegal games in terms of type of betting, payouts, availability and credit. They must be competitive.

The National Picture

The explosive growth of gambling in Minnesota is part of a national trend. Legal gambling handles averaged an 11% increase in the 1980s. A fictitious company with sales equal to the gross revenues (total wagering minus prizes) from all legal gambling in the United States would be 14 in the list of Forbes Sales 500. With \$30.2 billion in player losses, the "company's sales" were just behind Texaco and just ahead of K-Mart.

Gambling Behavior

With so much gambling throughout Minnesota and the United States, and given that gamblers in total lose money, there must be reasons other than winning money that motivate people to take a chance. Fun and entertainment appear to be the primary reasons. There are probably just as many, if not more, reasons than the number of

betting activities available. Gambling is a very complex behavior that is practiced globally, yet its origins are poorly understood.

Compulsive Gambling

At its extreme, gambling behavior becomes a compulsion. Gambling overtakes the gambler's mind and actions, destroying the gambler's mental, emotional, financial and physical health. The prevalence rate of compulsive gamblers in Minnesota is somewhere between 2% to 4% of the adult population, which is similar to national averages. As available gambling opportunities increase, compulsive gambling is also likely to increase. Gamblers Anonymous chapters, prevention and treatment programs, research and a hotline are in place, or being developed, to deal with the problems of compulsive gambling.

Social Impacts

Beyond compulsive gambling and the funds generated, gambling has a variety of impacts, many of which are not easily detected. Gambling is both a reflection and developer of societal values and norms. One can see the emerging and shifting trends that shape gambling and that gambling helps to shape. Gambling is changing the way governments and organizations raise funds and the way individuals work and plan for the future.

Gambling & Public Policy

Gambling has many questions which deal with socio-cultural, ethical and moral, economic, tax and revenue, legal and criminal, environmental, regulatory and public policy issues. These questions all need to be asked and debated in order to establish a clear, comprehensive policy dealing with this very complex and controversial issue.

Future Gambling Possibilities

Special interests are bound to promote many proposals for various gambling options in the future. Those possibilities include video games of chance used by the lottery or pull-tabs sellers; casino and riverboat gambling; sports-betting; off-track betting, inter-track wagering and telephone betting for the horse racing industry; and the many future creations that will be offered by inventors and marketers.

Conclusion

The state needs a comprehensive, overall strategy to guide a burgeoning gambling industry. The possible creation of a state body composed of gambling's various elements might help produce some of the much needed coordination.

INTRODUCTION

"Gambling is inevitable." Those are the words that begin "Gambling in America," the final report of the national commission studying the problem.¹ It is a pretty definitive and final assessment. Gambling, as a pervasive and perhaps inevitable human enterprise, has had a cyclical history of legalization, prosperity, scandal, corruption and prohibition, with the viability of the instinct for risk unimpaired. Life is a gamble. Gambling is an apt metaphor for life.

The Bible begins with Adam and Eve's gamble of their life in the garden of Eden for knowledge. The work is dotted with such references to gambling as the Pharaoh betting the Jews' freedom against Moses' ability to perform a miracle. The division of "The Promised Land" and the Roman soldiers wagering for Jesus' robe by lot followed.

All of life is filled with risk--and this implies a gamble. The first fish who ventured onto land was wagering its life underwater for a better life on land. While the fish's foray might have been more of an accident than a gamble, the cave dwellers certainly risked all when they attacked mammoths and sabre-toothed tigers with small, crude spears.

The above examples may not be gambling as it is traditionally viewed. Adam and Eve, Moses, the cave dwellers and the fish were playing with their lives. Risk-taking has, however, been combined with play for at least 4,000 years. The Egyptians gambled on Tau and Atep.² The Romans gambled on dice games and chariot races. Medieval kings rolled dice and bet on horse races. There were lots cast in the ancient histories

¹ Commission on the Review of the National Policy Toward Gambling, "Gambling in America," U.S. Government Printing Office, Washington 1976.

² Tau was a game of pitching discs into a bowl; Atep was a game of guessing how many fingers opponents had outstretched behind their backs.

of Greece, India, China, Japan and Rome. The first pure lottery of consideration, chance and prize, was held in Italy in the Middle Ages, with the first money pot being offered in Florence in 1530.

More recently, Minnesotans have gambled on bingo, pull-tabs, horse racing, the lottery and other legal and illegal gambling activities (e.g., casino junkets and sports betting). The purpose of this report is to examine gambling, in its ramifications and potential, in Minnesota. A proper focus will sometimes require developing a broader contextual background, against which the state's experiences might be more clearly discerned.

Minnesota has, in a very short, recent period, entered several forms of gambling in a big way with varying results. Some of these are visible and obvious, such as the problems of lawful gambling or the good produced through the revenues raised, and some are subtle, long-term and harder to spot.

No report dealing with a subject as broad and complex as gambling can hope to be definitive, but it is the ambition of this effort to raise the relevant issues and to help inform a desperately needed debate. A practice such as the state's heavy involvement in gambling is too fraught with the possibility of serious consequences to be entered into lightly. It seems more than probable that the critical initiatives undertaken in this state, in recent years, have been launched more because they seemed appropriate to accommodate what was perceived as the peoples' will or a lobbyist's interest than because they followed a thoughtful, carefully examined and thoroughly understood course.

The closer one looks at gambling the more insistent becomes the thought that there is something profoundly important in understanding its course and consequences. It is at least possible that this pervasive urge has the power to change our way of life, yet the state drifts along as if it were a series of distinct and independent stops along an unchecked voyage.

The report begins with an examination of the various legal and illegal gambling practices in Minnesota: lawful gambling (bingo, pull-tabs, etc.), horse racing, the lottery, gambling on Indian lands and illegal gambling. Next, the national picture, gambling behavior, compulsive gambling and the social impacts of gambling are discussed. The report concludes with a discussion of gambling policy questions, future gambling possibilities and recommendations for Minnesota.

But first, a definition of gambling, a brief history of gambling, an account of gambling in Minnesota and an introduction to some of the policy issues.

WHAT IS GAMBLING?

Gambling consists of three elements: prize, chance and consideration. When the player wins there is a prize pay-out of some form usually in the shape of a cash award or free opportunity to play again. There is absolutely no skill involved in the player winning a prize. Winning is completely random, depending only upon the statistical odds of the game. In some gambling, for example horse racing and card games, player skill helps but the skill of the horse handicapper or poker player doesn't determine which horse will win or which card will be dealt next. The player pays a consideration for the opportunity to play the game.

These three elements are what distinguish gambling from other similar games of chance. A commercial game (such as McDonald's "Monopoly") is similar to gambling since it has prizes that can be won and chance is involved in winning but since the plays are free, there is no consideration involved.

HISTORY OF GAMBLING

Gambling has been around a long time no matter which version of history you accept. Gambling has its roots in the mystical rituals of primitive people who cast bones or sticks into the air or examined animal entrails to divine the future. Modern dice and playing cards are derivatives of the primitive peoples' bones. The contests of skill, strength or speed that decided many disputes involved the chanciness and unpredictability of life. Two of the primary forms of gambling throughout history have been lotteries and racing. Other styles ebbed and flowed with the societies that spawned them.

Lotteries

A lottery for the building of a bridge over the Sudbury River was described, in October 1759, simply under the rubric "Scheme." The promoters "need not make any long apology to induce persons to be adventurers therein; the Scheme being calculated so much in their favour, . . ." A "Commodious Causeway" would enable travelers to avoid "riding up to their saddle skirts in water. . . ."

The first state run lottery, of the modern sort, took place in Genoa, in 1515, or right about the time that Martin Luther was protesting the Church's sins. It rapidly evolved into Florence's full blown operation 15 years later. Kings in 17th Century England used lotteries to pay war debts and build public works. They were used in Jamestown as early as 1612 and helped raise the Colonial Army in 1775. Ivy League colleges were built with the help of lotteries. George Washington personally signed batches of lottery tickets.

Thomas Jefferson praised lotteries as "salutary instrument(s)" after first opposing them. Other statesmen used the proceeds for all manners of public benefit. As the success swelled, fraud and corruption were drawn in reaching a denouement with a bribery scandal in the privately owned Louisiana Lottery in 1894. The lottery had been granted a 25-year charter in 1868 and aggressively marketed its tickets, selling 90% of them outside the state. It's activities were marked by scandal, bribery of legislators and corruption. The whole enterprise collapsed in a heap of public revulsion, which led to constitutional prohibitions in 36 states, which were to last three-fourths of a century and which required referendums to overturn.

New Hampshire, trying to ease the tax burden yet needing funds for education, began the first modern lottery in 1964. Legal restrictions began to melt under the heat of public favor, fueled by a desire for recreation, the need to fund useful projects and the "painlessness" of raising revenue through gambling. Over succeeding years lotteries have provided a stream of profits for thirsty governments. The elimination of illegal gambling and bookmaking, through state competition, proved an additional impetus for the movement to expand wagering.

Lotteries have proved innovative marketers of their products, as they adjust, invent and change to promote constant growth. Technology has helped propel the industry's thrust. The lottery's great success prompted the growth of other forms of gambling, such as casino and riverboat operations, which quickly came to be adopted in a rush to beat adjoining states to the bonanza. Even the federal government has cast covetous eyes upon this tempting source of revenue.

Horse Racing

Horse racing has its roots in the chariot races which were part of the circuses of Rome. Modern day racing in America began when New York's first English Governor, Colonel Richard Nicolls, built the first race track in 1665.

Because of its regal background, the first cross breedings being undertaken by 17th Century English kings, racing has managed, through its royal cachet, to weather the cycles that have accompanied the many other forms of gambling. It has not, however, been without problems. The history of racing is dotted with attempts to fix races, the operations of illegal horse bookies, and the use of drugs designed to make the horses run faster or slower.

As the century was coming to an end, the racing industry joined its gambling counterparts in a desperate search for marketing and strategic initiatives on which it could base its prosperity. Off-track betting became the inevitable accompanist to the Sport of Kings, as the racing industry attempted to increase its fan base and compete with the many other forms of gambling which are much more accessible, and other

recreations. America's appetite for diversions had to be fed and the competition for discretionary income expenditures proved increasingly fierce.

Other Forms

Gambling, springing from an instinctive sense of the chanciness of life, has long been a principal source of the human's inventive genius. Gaming activities cover the kaleidoscope of human experience. The instinct to gamble seems as secure in our psyches as greed.

As such we can expand the field to encompass any experience whose results contain an element of chance. To satisfy the gambling urge in all types of people, table games (cards, craps, roulette wheels and the exacta of Monte Carlo), slot machines, sports wagering, horse racing, lotteries, bingo and countless other games were created. Enormous and vital energies are now being spent on this industry.

Gambling takes place formally (in casinos, and at the track) and informally (social gambling between friends); legally and illegally; respectably or unrespectably. Literature is full of references to contests, races and other outcome--uncertain events on which fortunes have been staked. The mystical figures of the riverboat gambler and the card playing gunslinger of the west are woven deep into the fabric of America's history. "Never eat at a place called 'Mom's' and never play cards with a guy called 'Doc'."

GAMBLING LOCALLY

Gambling has long been a part of life in Minnesota. One of its more cunning manifestations is the frequent use of the colloquialism "you betcha." An outsider would not easily notice Minnesotans' enthusiasm for gambling. This may be due to what might be termed a penchant for discretion in matters involving sex, drugs, alcohol, gambling or other sins fueled by long winters but suppressed by religious inhibitions and beliefs. Most out-of-staters are shocked to discover not only the many forms of gambling available in the heartland, but the stupendous sums risked by the solid burghers of Minnesota.

Minnesotans bring the same understatement to winning that they do to gambling. According to Howard Mohr, "If winning is your main goal in Minnesota games of chance, you may win, but you certainly will not be taken as a Minnesotan if you make too big a deal out of it."³

³ Howard Mohr, How to Talk Minnesotan: A Visitor's Guide, Penguin Books Inc.: New York, New York, 1987, p. 46.

An article on Australian gaming begins with the following lines: "Australians see themselves as enthusiastic and heavy gamblers. Whilst this self-image is largely mythical in that Australians gamble less per capita than do the people of many of the neighbouring Asian nations, it is a myth which has become a prominent part of the Australian ethos and folklore."⁴

Quite the opposite is true in Minnesota. Reserved Scandinavians, Lutherans and farmers, according to Mohr, keep their gambling very discreet. Many say they do not approve of gambling because of the harm it causes or the money it wastes. Yet Minnesotans are some of the biggest gamblers. Minnesota sells more pull-tabs than any other state; yet a poll by the Minneapolis Star Tribune and KSTP-TV found that Minnesotans admitted to buying fewer pull-tabs than the sales figures suggest. Minnesotans are buying lottery tickets so fast that the lottery worries about its ability to provide enough tickets. Minnesotans are also known for their sports betting and Las Vegas junket habits.

Like the Australians, Minnesotans' favorite game, pull-tabs, is similar to the favorite Australian game, two-up (a penny pitching game). Both are strongly connected to veterans' activities--Anzac Day there and Memorial and Veterans' Days here.

The current gambling cycle in Minnesota has its beginning in the 1940s. Slot machines, which were illegal, were widely played in both the Twin Cities and resort areas. Drives by Governor Luther Youngdahl and Minneapolis Mayor Hubert Humphrey led to their elimination. Legalized gambling has since risen in several forms. Figure 1.1 traces Minnesota's gambling history.

Bingo, for charitable purposes, was legalized in 1945. Local governments were responsible for regulating it and keeping it a "mild form of social recreation designed to raise funds for the benefit of religious, charitable, fraternal or other associations."⁵ Thus was the schizophrenic character of public gaming in the state set--of turning questionable pursuits to altruistic purposes.

In 1967 the legislature authorized a sales tax on bingo receipts and, in 1976, increased the scope of bingo regulation by requiring organizations to obtain a license from the local government, to limit the prizes and compensation paid to workers and to report the receipts and use of proceeds to the organization members and local authority.

⁴ John O'Harta, "Class and Attitudes to Gambling in Australia: An Historical Perspective," in Gambling Research, Proceedings on the Seventh International Conference on Gambling and Risk Taking, ed. William Eadington, University of Nevada: Reno, 1988.

⁵ Much of the information on lawful gambling is taken from John Williams, "Charitable Gambling in Minnesota," Research Department, Minnesota House of Representatives, 1989.

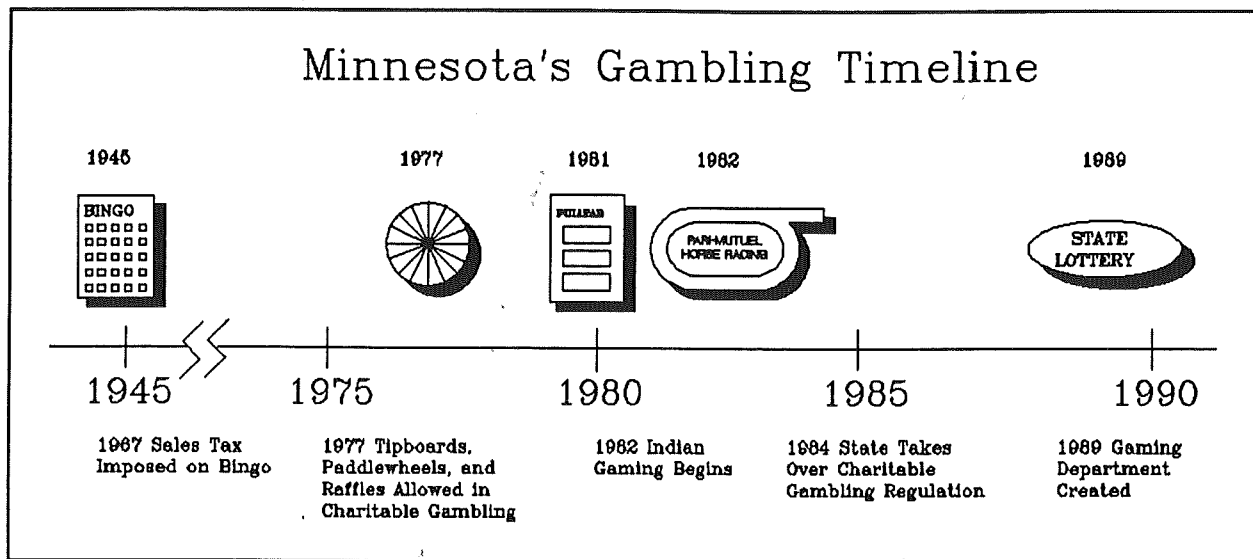


Figure 1.1

Paddlewheels, tipboards and raffles were made legal forms of gambling in 1978. As with bingo, these new forms of gambling--along with pull-tabs which were legalized in 1981, were only allowed to be used for charitable gambling. Pull-tabs rapidly sailed to the front of the activity class, with bingo following a distance behind.

In 1982 the Shakopee Sioux opened the first Indian bingo hall in Minnesota. Other tribes followed suit and opened bingo halls and casinos, some of which produced unprecedented levels of prosperity for their frequently small numbers of eligible participant-members. Until recently gambling on tribal lands was regulated by various court decisions, which generally found that state gambling laws were regulatory, not prohibitory; thus states could not regulate the tribal operations. Currently, the gambling is regulated by the Federal Indian Gaming Regulatory Act. The act states that tribes may conduct gambling (for the general public) that is legal within the state. Indian gaming is not subject to the state regulations as to prize limits and such. Only gambling that is illegal in Minnesota is forbidden on reservations.

Pari-mutuel horse racing was legalized in 1982 through a constitutional amendment and legislation. The first horse race at Canterbury Downs (the only track in the state) was held in June 1985.⁶ A large debt and less than anticipated crowds led to financial troubles at the track, which resulted in the original owners selling the track in early 1990 after a series of ruinous losses.

⁶ Minnesota Racing Commission, "1985 Annual Report."

In 1984 the state took control of charitable gambling from local units of government. Oversight was adopted to ensure uniform enforcement of the laws around the state and to improve collection of the taxes on gambling receipts. The law created the Gambling Control Board which was responsible for establishing gambling rules, licensing gambling organizations, distributing gambling equipment and collecting the taxes on gambling receipts.

In 1988 the Gambling Control Board was merged into the Department of Revenue, following a study by the Department of Administration, in an attempt to gain control over unregulated, runaway operations.⁷

In 1989 the Gambling Control Board was transferred to the newly created Department of Gaming and a state lottery was also created (the constitutional amendment allowing a lottery was approved in the 1988 elections). The Racing Commission was also made a part of the department. The Commissioner of Gaming assumed a sort of hortatory power over gambling operations without formal command authority.⁸

Many pull-tab operators chose to see the lottery as a state plot to supplant their enterprise with a totally government controlled operation. This places too great a burden of orderliness on the processes of government, which tend to be far more ad hoc and episodic than strategic or visionary. And besides, the people voted to amend the constitution to create a lottery and the proceeds go into special funds while pull-tab revenues are placed in the general fund where the legislature can dispose of them. The thought appears to be paranoia--induced by sharp increases in the taxes on pull-tabs and a general sense of malaise attending the state's neglect of the industry. It seemed likely that the lottery would cut into lawful gambling revenues, but the absence of a precedent made assessments of impact impossible.

In addition to the Department of Gaming, several other state agencies are also involved in the conduct, regulation and enforcement of gambling. The Departments of Revenue and Public Safety are responsible for tax and criminal violations related to gambling, respectively. The Department of Human Services is responsible for developing prevention and treatment programs for compulsive gambling. The Attorney General's Office serves as legal counsel for all state agencies involved in gambling regulation and operation. Figure 1.2 lists the state agencies and their involvement in gambling.

⁷ State of Minnesota, Department of Administration, "Reorganization Order No. 152," August 19, 1988.

⁸ Minnesota Laws of 1989, Chapter 334.

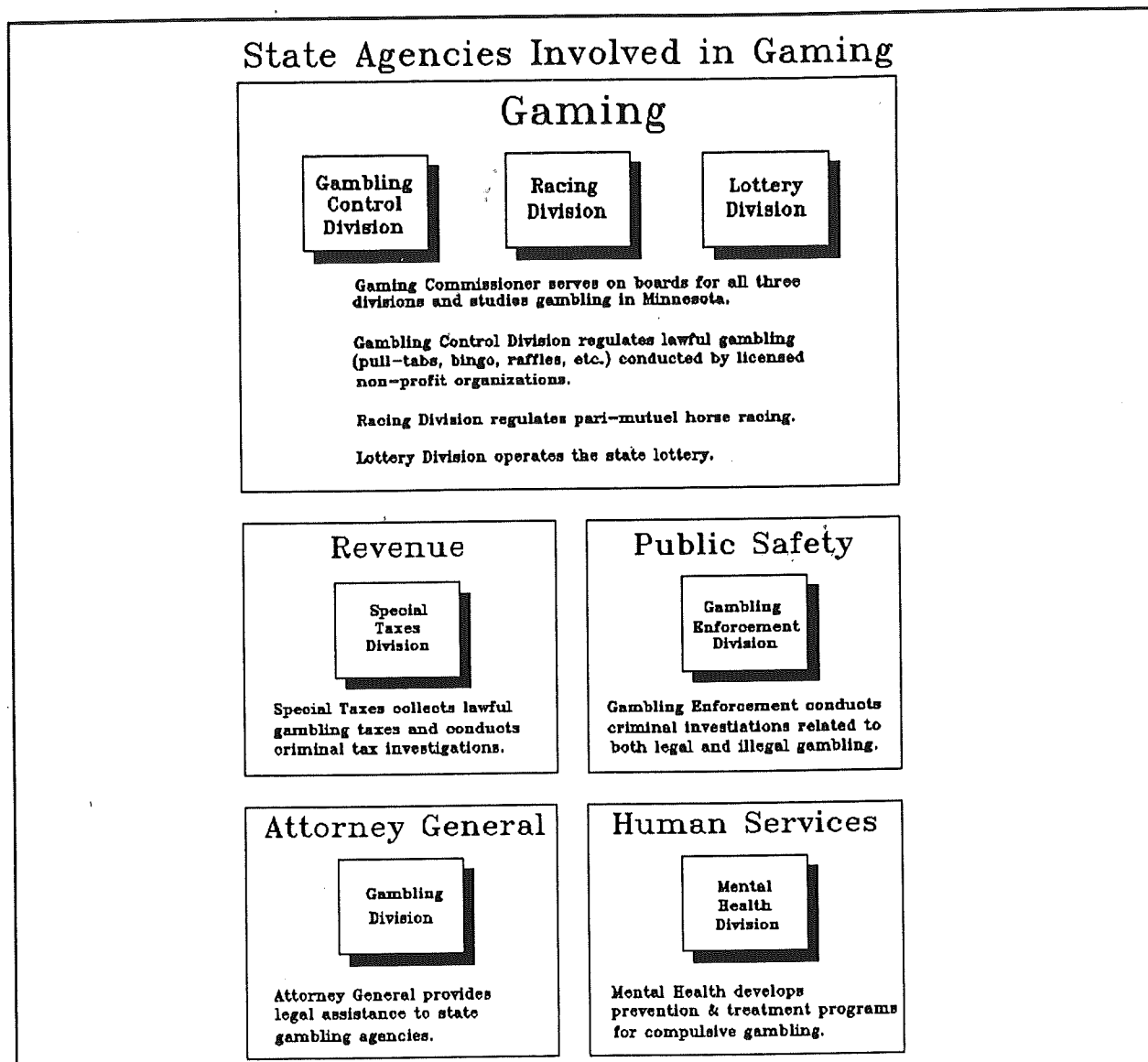


Figure 1.2

The federal government and local units of government are also involved in gambling regulation and enforcement. The IRS and the FBI enforce the laws relating to legal and illegal gambling. Local governments also have the option to regulate and enforce gambling laws.

Figure 1.3 shows the amounts legally wagered in Minnesota from 1985 to 1991 (1990 and 1991 figures are estimates); data for the graph is given in Figure 1.4.

No accurate estimates of the charitable gambling handle before 1984 are available. Estimates however, range from \$500 million to \$1 billion before the state took over regulation, but these may, given the growth during the late 1980s, overstate the case.

Once the lottery is in full operation, there will be approximately \$1.724 billion legally wagered each year in the state. This translates into approximately \$400 wagered for every man, woman and child. Add Indian gaming, social gambling, illegal gambling (e.g., sports betting and cards games) and junkets to out-of-state casinos and the figure may possibly reach \$425 to \$450 wagered per person every year.

A source of "painless revenue" was one of the primary reasons for legalizing gambling. By the end of 1990 the state will have collected nearly \$212 million worth of these painless revenues. Figure 1.5 shows the tax revenues generated through the various legal forms of gambling; data for the graph is given in Figure 1.6. The 1991 estimate includes \$79 million going into the general fund and \$88 million of lottery proceeds going to dedicated funds. These figures do not include the money collected from 1967 through 1984, nor various other taxes generated as a result of the gambling industry (e.g., income and property taxes).

With approximately \$1.6 billion legally wagered in the state (1990 estimate), plus undetermined amounts bet illegally, the gaming industry is a substantial industry in the state. Actual player losses, or the amount turned over to the various operators, will probably exceed \$390 million in 1990 (for lawful gambling, racing and the lottery only). For comparison, the total retail sales in the state for 1990 were \$36.804 billion.⁹ The smallest retail segment, by sales, is apparel, with sales of \$1.164 billion, 73% of gross wagering. The largest segment is auto dealers and gas stations with sales of \$9.226 billion, 5.8 times larger than gambling. Minnesota construction and paper manufacturing industries both have sales of approximately \$1.7 billion.

⁹ Estimates are based on the Department of Revenue's 1988 sales and use tax data, adjusted according to the estimated increase in the Minnesota consumer price index. Retail sales include hardware and building materials, general merchandise, food stores, auto dealers and stations, apparel stores, furniture stores, eating places and other retail stores.

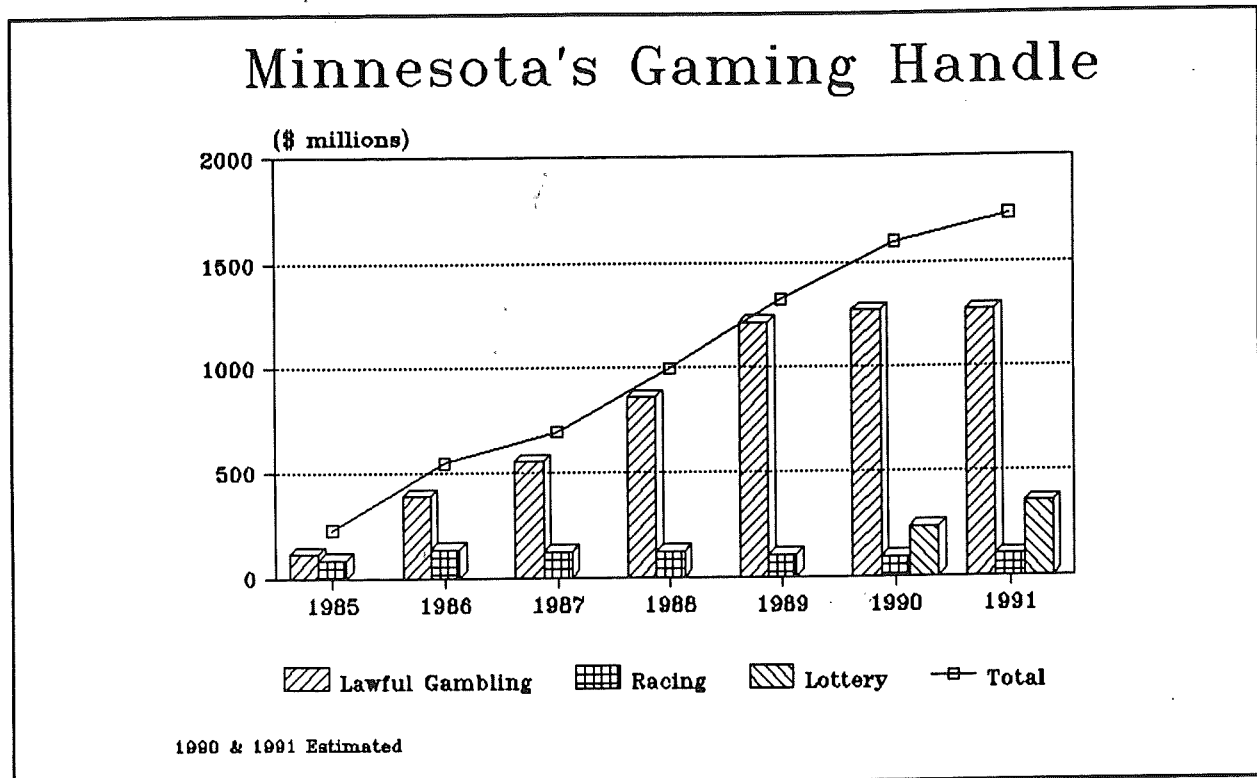


Figure 1.3

Minnesota's Gaming Handle

(\$ millions)

<u>Year</u>	<u>Lawful Gambling</u>	<u>Racing</u>	<u>Lottery</u>	<u>Total</u>
1985	111	84	na	195
1986	386	134	na	520
1987	551	120	na	671
1988	856	121	na	977
1989	1,214	102	na	1,316
1990	1,274	90	230	1,594
1991	1,274	100	350	1,724

1990 & 1991 Estimated

Figure 1.4

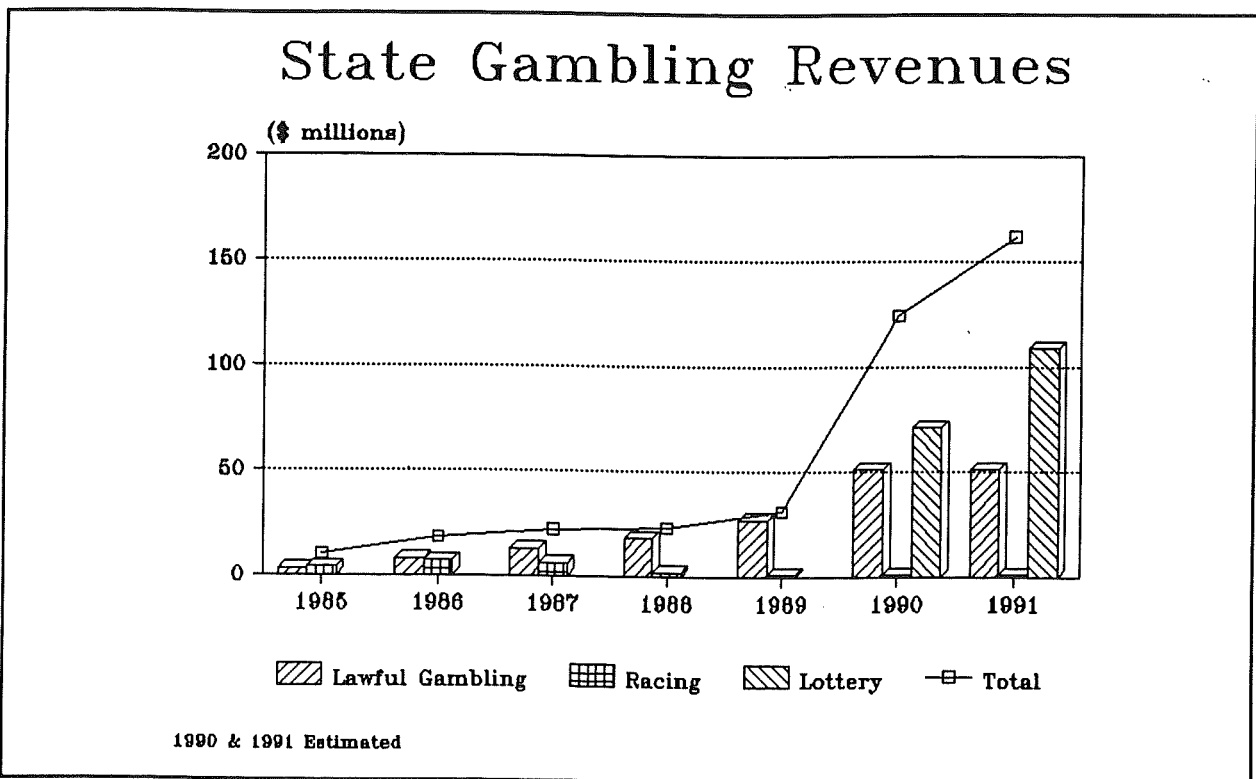


Figure 1.5

State Gambling Revenues

(\$ millions)

<u>Year</u>	<u>Lawful Gambling</u>	<u>Racing</u>	<u>Lottery</u>	<u>Total</u>
1985	3	4	na	7
1986	8	7	na	15
1987	13	6	na	19
1988	18	2	na	20
1989	27	1	na	28
1990	51	1	71	123
1991	56	2	109	167

1990 & 1991 Estimated

Figure 1.6

AN INTRODUCTION TO GAMBLING POLICY ISSUES

Determining which came first, the chicken or the egg, has always been a difficult task. The chicken and egg of gambling are the public's desire for gambling opportunities and the state's imprimatur, or seal of approval. Does the public's will drive the state's approval, or does the state's approval influence the public's will?

America's gambling enthusiasm, especially at the state and local government level, was fueled by a local need to support programs the federal government was abandoning. As the fever spread and the century was coming to an end, a sort of competitive frenzy began to seize the states as they attempted to outdo one another to fatten coffers depleted by the more or less general tax revolt of the Reagan 1980s.

The ethical and religious questions surrounding state involvement in such enterprises tended to be silenced in legislative halls by the public's enthusiasm and the revenue-raising temptations of these approaches. Moralists will speak of values and of gambling's promises of quick riches and its undermining of thrift, planning, postponement, sacrifice and work. Proponents speak of wholesome recreation, innocent divertissements and the promotion of good causes.

Proponents also speak of the painless revenues generated for the state. Opponents speak of the monies raised through gambling, primarily the lottery, as regressive taxes--because the poor play the lottery more than the rich. Both sides have studies supporting their claims of whether or not the poor actually play disproportionately. Even if they didn't the burden would fall disproportionately on the poor since their discretionary income margin is so much thinner. Gambling proponents also question whether or not a gambling tax can be regressive because it is entered into voluntarily.

There has always been gambling in America and law enforcers have always found it impossible to erase it in its illegal forms. Illegal gambling has been a prime source of police and political corruption since its inception. It has contributed to the growth and prosperity of organized crime. The enforcement apparatus has rarely taken illegal gambling seriously because a substantial majority of Americans supported it and saw nothing wrong in engaging in it. In this sense illegal gambling is very similar to our experience with Prohibition, raising important arguments about the feasibility of forbidding what a large majority, in a democracy, seeks to do.

Inherent in any enterprise awash in cash and temptation and fueled by greed, is the reality of bribery of the law enforcers; attempts to corrupt athletes; the possibility of intrusion by organized crime and other forms of chicanery. Legalizing gambling produces a powerful interest group of manufacturers, employees, beneficiaries and operators. It isn't hard for this group to play on the public's tolerance for the activity.

The issues are subtle and complex and get tangled with values, ethics and religious beliefs.

One argument for legalizing gambling is that it will reduce the amount of illegal gambling activity. However, taxes on winnings and operations place legal wagering at a competitive disadvantage with illegal bookmakers who might also offer credit, convenience, freedom from taxes and other services, in addition to better odds. In the numbers racket, for example, the street pay-off was frequently 600 to 1 for a three-digit number, while the government offered 500 to 1 pay-outs. The expectation of a tip does, however, reduce the pay-out of the illegal wager to closer to the government's return.

Legalization very likely goes beyond competition with illegal gambling and increases gambling and the total number of gamblers, rather than just satisfying the existing demand. As more games are legalized, a greater percentage of the public is likely to partake in some gambling activity. Legalization probably doesn't just satisfy an existing demand by shifting the current illegal activities into the legal games. It creates new demands and uses the latest marketing techniques to swell the volume. This is a control issue but one that has received no definitive answer. The answer, though, as with alcohol consumption, would appear to logically follow the premise of heightened activity.

Legalization probably increases the number of compulsive gamblers. The psychiatric profession recognized compulsive gambling as a mental disability and the population of the afflicted, generally pegged at about one point something percent of the adult population, appears to grow to around 4% with the proliferation of gambling opportunities. Adolescent gambling also appears to be a growing problem. There is no limit to the economic havoc a compulsive gambler can wreak, on himself and those around him. A significant percentage of incarcerated prisoners (estimated at about 13%) are there on gambling related offenses.

The National Commission's Report¹⁰ concludes, as this report begins, with a plea for more public information, discussion and involvement in the great national questions surrounding gambling in America. As we examine many of the issues in succeeding pages, the need for a coherent, comprehensive approach by the government and citizens, should become abundantly clear. The fitful, ad hoc growth of the gambling industry bids fair to produce very serious problems for the state and its citizens.

¹⁰ See note 1.

ATTENTION:
 Drawing to be held on Sept. 15, 1960 at Pioneer
 Public TV, Appleton. Pickup may be seen at
 Arvid Beyer Ford - Morris, MIN.

LAWFUL GAMBLING

Lawful gambling is the generic title that embraces bingo, pull-tabs, paddlewheels, tipboards and raffles in Minnesota. Gambling, although illegal prior to 1945 in all forms, nevertheless existed here, as it did elsewhere, sub rosa. It has never been possible to extirpate humankind's instinct for translating life's risks into the thrill of gaming.

Churches saw bingo as a conduit for fund raising and they became vigorous promoters of what was widely seen as an innocent pastime that might be turned to good religious purposes.

This chapter traces the history of charitable gambling, and the recent problems and reform efforts. The economics of lawful gambling, or where the money comes from and where the money goes, are examined. The chapter concludes with an examination of some of the potential future issues and commentary.

HISTORY

Lawful gambling evolved in Minnesota over almost half a century into today's bursting market.¹ It is not possible to predict the impact of the lottery, which began in April 1990, on pull-tabs, but there was bound to be some effect. The evolution of gambling proceeded differentially, accelerating dramatically and unevenly over the last half of the

¹ References for this section include: John Williams, "Charitable Gambling in Minnesota," Research Department, Minnesota House of Representative, 1989; Minnesota Department of Revenue "Chronology of Charitable Gambling Law in Minnesota" Testimony before the Joint Legislative Task Force on Lawful Gambling, December 12, 1989; Minnesota Attorney General "Report on Charitable Gambling in Minnesota," 1990.

decade of the 1980s, into bingo, pull-tabs, racing, and the lottery, with the only constant being expansion. Figure 2.1 traces lawful gambling's evolution.

The first bingo law, passed in 1945, allowed non-profit organizations to conduct bingo as a "mild form of recreation designed to raise funds for the benefit of religious, charitable, fraternal or other associations." To that end, the legislature prohibited profits from going to individuals, gave local government the power to prohibit bingo, limited the level of compensation for bingo workers and allowed only members of the non-profit organization to be paid.

In 1967 a state sales tax was imposed on bingo proceeds. By 1976 the legislature was concerned that bingo was becoming commercialized. Several restrictions designed to prevent commercialization were adopted, including requiring organizations conducting bingo to obtain a license from the local unit of government; limiting the number of bingo games to two per week and setting prize limits; allowing only certain expenses to be deducted from gross receipts and requiring that profits be spent only for specified purposes; requiring organizations to have a gambling manager and to report monthly to members and the local licensing authority on bingo receipts and distribution of profits.

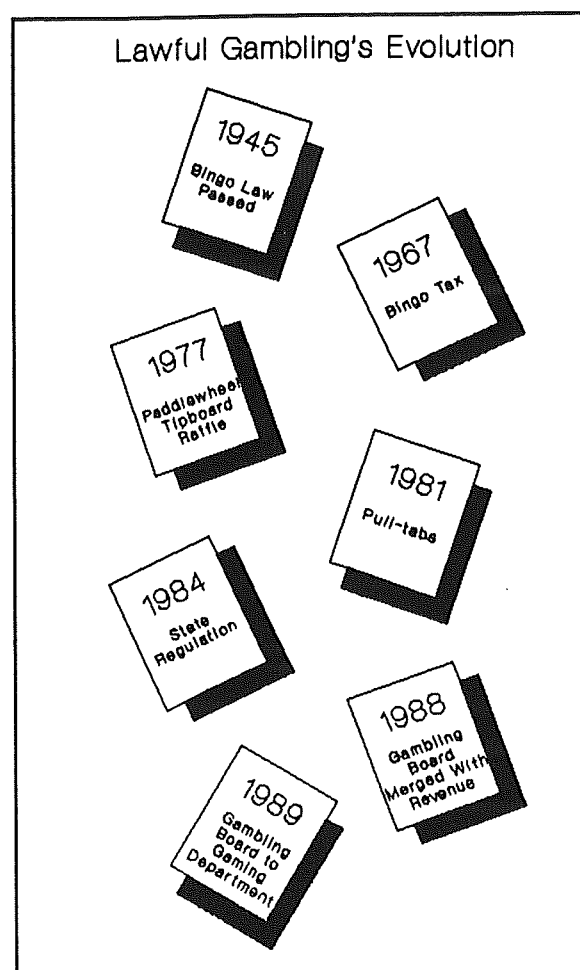


Figure 2.1

Paddlewheels, tipboards and raffles were allowed in 1978. These forms of gambling were to be regulated by local units of government in the same manner as bingo. In 1981 pull-tabs, which are now the biggest game in town, were authorized as legal gambling devices. (Appendix A contains descriptions of the various lawful gambling games.)

By 1984 the legislature was concerned that the gambling laws were not being enforced uniformly by local governments throughout the state. There was also concern that the full amount of sales tax due was not being collected. To help ensure uniformity and

tax collection, the legislature created a state agency, the Charitable Gambling Control Board, to regulate the industry. The board was given the power to issue, suspend and revoke licenses for organizations; license distributors of gambling equipment and develop rules governing gambling activities.

Once centralized and actively encouraged by the operators and beneficiaries, lawful gambling took off. The phenomenal growth of pull-tabs must have been linked to a latent appetite for gaming combined with the sociology surrounding their purchase in bars, clubs and fraternal halls. A powerful constituency of operators, manufacturers, distributors, legislators, beneficiaries and players sprang into being as staunch defenders of the industry.

Centralizing regulation made obtaining gambling licenses easier for many organizations which now had to deal with only one set of licensing criteria and no longer had to wait for local governments to develop ordinances and approve gambling licenses. The 1990 legislature again required local approval of gambling applications, complicating the process.

Over the ensuing years, the growth and popularity of pull-tabs resulted in an industry that saw over \$1.2 billion wagered in 1989--see figures 2.2 and 2.3 for trends and totals. Probably no one could have foreseen the exponential growth that would occur and which would overwhelm the feeble resources allocated to its regulation. The result was an unmonitored industry, awash in money without guidance or supervision, that would be certain to produce serious problems. An important symbolic act took place in 1989 when the title was changed from "charitable" to "lawful" gambling.

During the years of growth, the Gambling Control Board and its staff experienced organizational, managerial and resource troubles. From 1985 to 1988 the gross charitable gambling handle increased over 1,000%--from \$111,389 in 1985 to over \$1.2 billion in 1989. The board's budget increased only 82%--from \$535,000 for fiscal year 1985 to \$976,785 for fiscal year 1988. Personnel was increased from 12 to 21. (A complete budget history for the gambling board and all agencies involved is included Appendix B.)

A study by the Management Analysis Division of the Department of Administration (July 1988) found problems in nearly every aspect of the board's operation, including the organizational purpose and structure, human resource management and systems and processes. The major result of the Management Analysis study was that the board and its staff were transferred to the Department of Revenue where more resources would be available, efficiency could be improved and duplications of effort (between the board and Revenue) would be avoided. Executive Order No. 152 merged the board with Revenue on August 19, 1988.

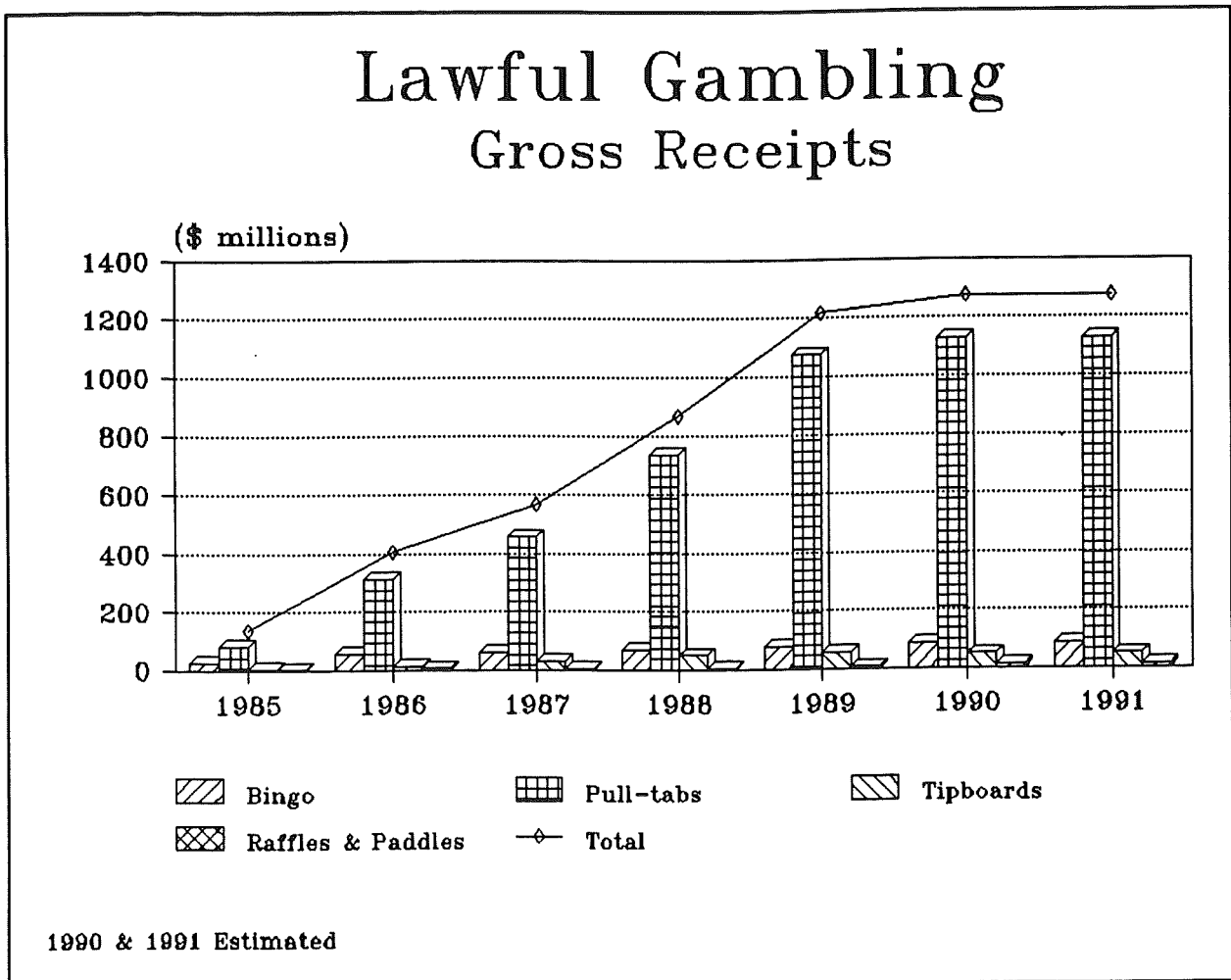


Figure 2.2

The Department of Revenue created a Gaming Division to handle the functions and responsibilities of the Gambling Control Board which was primarily issuing licenses. A Charitable Gambling Unit was also created in the Special Taxes Division. The unit would be responsible for tax collection and auditing.

In 1989 with the creation of the state lottery, the Department of Gaming was created. The Gaming Department contains three separate, autonomous divisions responsible for the regulation and operation of lawful gambling, horse racing and the lottery. The Gambling Control Board along with its staff and licensing function was transferred to the Department of Gaming--see Figure 2.4. The Department of Revenue retained its responsibility for tax collection. The Gambling Enforcement Division of Public Safety was also created to assist the Gaming and Revenue Departments in background checks and criminal investigations of gambling related cases and to train local law enforcers.

Lawful Gambling Gross Receipts (\$ millions)					
<u>Year</u>	<u>Bingo</u>	<u>Pull-tabs</u>	<u>Tipboards</u>	<u>Raffles</u> <u>Paddlewheels</u>	<u>Total</u>
1985	26	80	4	2	112
1986	57	312	13	6	388
1987	60	457	31	3	551
1988	68	735	49	4	856
1989	76	1,075	57	6	1,214
1990	84	1,129	49	12	1,274
1991	84	1,129	49	12	1,274

1990 & 1991 Estimated

Figure 2.3



Figure 2.4

Along with changes in the agencies, the Gambling Control Board was reduced from 13 members to a more manageable seven. The fewer members along with the appointment of new members, brought a fresh focus on establishing policies and delegating duties to staff which resulted in a stronger operation that was, nevertheless, still starved for the resources needed to regulate the industry.

PROBLEMS & REFORM

The growth of bingo and pull-tabs was not accompanied by the budgetary allocations needed to monitor and control the process. A case could have been made, until early 1990, that the growth of the industry outpaced the state's ability to grasp the magnitude of the problem or to deliver the resources needed to control the industry. By early 1990 the issues had emerged into bold relief and the resources needed were identified. These were reduced to a practical, doable, budgetable request that the legislature successfully resisted, at least in part.

Interestingly and bafflingly the Minnesota Poll published in the Minneapolis Star Tribune showed a marked degree of confidence in the integrity of pull-tab gaming in Minnesota and in the state's role in enforcing regulations. These charitable views extended to how altruistically the funds were used and even to the general thought that gambling had not caused at least visible or widespread political corruption.² These findings fly in the teeth of the disclosures made by every agency examining the industry, including the Star Tribune series accompanying the poll. They also demonstrated the reservoir of confidence repositied in a process that, once lost, would be very difficult to recover.

Recent reports from the Attorney General, the Legislative Auditor, and the media have pointed to widespread abuses in the gambling industry. These have been confirmed by the individual investigations of the few local agencies, like the Minneapolis Police Department, actively engaged in inquiring into gambling operations. The problems ranged from poor accounting systems to insider trading (where the pull-tab seller helps increase the winning chances for certain players by selling them the remaining tickets from games that still contain at least one large winner), to illegal donations, to profit skimming and stealing.

In addition to describing the abuses, the reports emphasized the need for additional regulatory and enforcement personnel and the need for the various state agencies to work together to avoid duplication.

² Minnesota Poll, Minneapolis Star Tribune and KSTP-TV, November 1989.

"DRINKS first, then PULL-TABS" read a sign on the bar. The same attitude must have also accompanied the veterans' post gambling management and oversight, for anywhere from \$70,000 to \$130,000 was missing from the gambling fund. Several improper or questionable lawful purpose donations were also made. Some were:

\$58,000	post utilities;
\$21,000	rent to post;
\$20,000	blood donor dinners, jackets & mailings;
\$17,000	post maintenance;
\$11,000	post flagpole repair;
\$10,000	color guard conventions;
\$9,000	maintenance salaries;
\$4,000	janitorial supplies;
\$3,000	gambling convention;
\$1,000	radio messages; and
\$1,000	post historian.

In addition to the missing funds and questionable donations there were several other alleged practices which were violations of gambling laws and rules.

- The post used a formula to determine the percentage of expenses to be paid for out of the gambling account, regardless of the relation to the conduct of gambling. Some of the expenses, such as advertising and laundry and linens, were not even allowable gambling expenses.
- The post reimbursed the general account with gambling funds for certain members meals. Costs were hidden through inflated donations.
- The post used a loan through the same bank that holds the mortgage for back taxes. Payments for both loans with gambling funds are reported as legitimate lawful purpose payments.
- The post held illegal raffles, tipboard and paddlewheel games. Many of the games were used for private parties. Proceeds went into the post's general account. Some of the profits were used to send members on trips.
- The post double counted sweatshirt donations or sold them after using lawful purpose money to purchase them. Many sweatshirts were purchased through a "middleman," the post's commander.
- Shortages in the gambling cash drawer were covered with money from the bar's general till.
- Funds were used, under the individual hardship lawful purpose, to help an individual pay back taxes. The individual then reimbursed the post's general fund at a later date.
- Funds were used, as a lawful purpose, to pay for damages caused by an intoxicated member of the color guard at a convention.

The Attorney General's Findings

The Attorney General's Report contained many useful legislative and administrative recommendations such as imposing felony sanctions for providing inside information to players; computerizing winners' receipts data to identify insider trading; inspection of tickets to insure integrity; more audits; redefine "lawful purpose"; registration of recipients of gambling profits and reporting requirements; licensing of gambling managers; banning or licensing consultants; felony penalty for false application; criminal penalties for unlawful expenditures; criminal penalties for forging, changing, presenting false tickets; criminal penalties for general violations; encourage local enforcement agencies' involvement, allow broader discretion in use of funds and allow use of seized assets; allocate .5% of gross receipts for state level enforcement.³ (It is typical of the state's fragmented and unfocused approach that the legislature added the licensing and registration of many gambling workers but failed to allocate the funds necessary to efficiently document and process the requirement.)

The Legislative Auditor's Findings

The Legislative Auditor's Report, released on January 29, 1990, found problems in lawful gambling almost everywhere it looked.⁴ Among the salient features, observations and findings included are:

- Gambling is growing in the United States and Minnesota.
- Minnesota's regulatory structure is complex and fragmented.
- System to detect fraud and abuse in lawful gambling is lacking.
- Lawful purpose contributions (donations to charity) include questionable payments to lobbies, or to each other or themselves.
- No comprehensive policy on lawful purpose contributions.
- Questionable expenses detected in form of payments of utilities, wages, rent, etc.
- A majority of the organizations not observing requirement that organization members vote on contributions.
- Organizations cannot fully account for gambling funds.

³ Minnesota Attorney General's Final Report on Charitable Gambling in Minnesota, January 1990.

⁴ Lawful Gambling Legislative Auditor's Report, January 1990.

- Millions may be missing from bank accounts and cash reserves as a result of poor controls and sloppy or absent records.
- Theft or error appears to be widespread.
- Use of cash makes skimming and insider trading easier and makes it more difficult to investigate or check.
- No controls over manufacturers.
- As taxes rise, temptation to use unregistered and untaxed pull-tabs rises.
- Paper trail of pull-tab sales not verified. Sales records of manufacturers, distributors and organizations not checked against each other.
- State takeover of distribution system, as required by law, not advised. (This was amended in 1990 although not entirely satisfactorily. It should have been eliminated rather than just postponed.)
- Gambling organizations not complying with state rules generally.
- State licensing has been ineffective in ensuring compliance because of lack of follow through inspections or audits.
- Localities are ill-informed, have little contact with Gambling Board and exercise little control.
- Local enforcement lacking. Uneven levels of involvement.
- Limited audits of organizations by state which leads to wrongdoing and mistakes.
- Regulators need more information on bingo operations.
- Compliance lacking on winners' prize receipts. Identity not always established.
- Guidelines lacking; accountability weak.

The report offered a series of recommendations:

- Need clear policies and field audits.
- Recommend stamp "For Sale in Minnesota Only." (Added in 1990 legislation.)

- Recommend pull-tab manufacturers to report all sales of products sold in state. (Required by new law.)
- Pull-tab distributors should report all sales, including out-of-state ones. (Also required with new legislation.)
- Licensing should be tightened, verifying compliance before issuing.
- Local government should approve license applications. (Mandated by 1990 law.)
- Training and information for local officials.
- Posting of winning tickets; good records on winners; winners over \$50 identified. (Required by 1990 legislation.)
- All checks in gambling account require two signatures. (Added to 1990 law.)
- Organizations pay cash shortages out of own (non-gambling) funds. (Required by new law.)
- Fund losses need to be scrutinized carefully.
- Revise tax form--report cash shortages and bad checks separately.
- Require more details on lawful purpose expenditures. (Added.)
- Pre-numbered sheets of bingo paper and better reporting. (Required by 1990 law larger bingo games.)
- Tighter control over gambling funds.

This extensive and thorough analysis simply confirmed, in detail what every knowledgeable observer has reported, that lawful gambling is out of control, riddled with abuses and wrongdoing and in desperate need of reforms.

The Legislative Auditor's Report also documented the destination of the enormous sums raised. The results are listed in the section on the economics of lawful gambling.

An organization had its license suspended for one year for handing its gambling operation over to a consultant; the law requires that a member of the organization manage the gambling operation. The consultant was given unlimited access to the gambling account, received all gambling regulatory correspondence, prepared or supervised the preparation of all required monthly reports, purchased all gambling equipment and conducted or supervised the hiring of all gambling personnel. The organization had licenses for eight sites. This illustrated how the amateur, volunteer, charitable nature of the enterprises was frequently professionalized and corrupted.

Media Findings

The Minneapolis Star Tribune's report on lawful gambling (February 4-8, 1990) also found widespread abuses. Using a computerized audit screen to review tax returns from 2,000 organizations (January 1987 through February 1989) the paper found:

- 78% of the organizations failed one of the tests in the audit screen, which should trigger a review or audit by the state regulators.
- 32% of the organizations exceeded expense limits.
- 25% of the organizations' cash accounting was too perfect to be true.
- 21% of the organizations had disappearing inventory, the estimated value of which was \$2.1 million.
- 19% of the organizations had large cash shortages. The total of large or unexplained cash shortages (5% of net receipts) was \$2.3 million. The total for all cash shortages was approximately \$6 million.
- 17% of the organizations had disappearing profits totalling \$4.3 million.
- 16% of the organizations made improper utility payments out of their gambling accounts.
- 15% of the organizations paid high compensation to gambling employees, or employees not involved in the gambling operation.
- 1% of the organizations maximized expense payments.

In addition to the problems noted above, the Star Tribune also reported on the problems of compulsive gambling, insider trading, money for lawful purpose donations going to improper or questionable purposes (including political purposes) and little or no regulation and enforcement from the state.

The absence of controls, lack of oversight and proliferation of cash and temptation resulted in such illustrative disclosures as the story attending the arrest of a centrally located figure whose activities ranged between high-level politics and low-level gambling scams. The periodic disclosures of alleged wrongdoing cascaded like giant drops in a water torture of repeated disclosures. The neglect of the industry seemed likely to produce a string of revelations attesting to the human inevitability of succumbing to the opportunities that appeared, for a long time, to be free of risk. The following story is taken from an article by Robert Franklin in the Minneapolis Star Tribune, October 23, 1990.

Piranha Press publisher Gary Diamond was accused Monday of stealing more than \$52,000 in charitable gambling money from one non-profit organization and diverting it through another. The organizations are the local chapter of the Air Force Association (AFA) which won the group's national Chapter of the Year award last month, and a dormant local chapter of Friends of the Israeli Defense Forces (FIDF) which had listed Minnesota's U.S. senators as honorary co-chairmen.

Diamond is best known as the St. Louis Park publisher who paid Senator Dave Durenberger \$100,000 for two books and for speaking engagements at which the books were to be promoted. In denouncing the Minnesota Republican this past summer for "reprehensible" financial conduct, the Senate found that the arrangement violated senatorial limits on outside income. Diamond is also publisher of the Northwest Beverage Journal and other trade publications.

He had "complete control" of the AFA's gambling checking account and of the FIDF account, according to the complaint charging him with two counts of felony theft of more than \$2,500. The complaint said that between May 16, 1989 and May 24, 1990, Diamond wrote \$55,443 in AFA checks to the FIDF. He wrote \$52,012 in FIDF checks to himself, his business, a printing supplier and his son Adam, the complaint said. An additional \$15,000 went to the national FIDF office. Gary Diamond was not authorized to write AFA checks of \$1,000 or more and was not authorized to deposit or withdraw for the FIDF chapter, said the complaint, signed by police gambling investigator Harold Baltzer.

Diamond did not return a telephone call last night, and there was no comment from his attorney. However, Diamond has repaid the AFA \$65,000, according to his attorney. The complaint said Diamond took out two loans to pay back the money this past summer during the investigation.

(continued on next page)

(article continued from previous page)

State Revenue Department investigators and the state Gambling Control Board also participated in the nine-month investigation. It began last spring when authorities questioned the legality of the AFA donations to an organization with foreign ties. FIDF is an international organization described as a volunteer USO-type organization that sponsors recreational and educational programs for the Israeli military.

Durenberger's name was raised in connection with the missing money by Gambling Control Director Tom Anzelc in June at a closed session of the Gambling Control Board's disciplinary committee. Anzelc, a DFLer, said that the question was not political because the board has been "concerned about gambling money being used for political purposes" and that there was a "significant amount of money" that the board and Diamond could not account for. A spokesman for Durenberger said from Washington last night that Diamond has contributed to the senator's campaign as an individual, but he could not say immediately how much or when. No evidence has been produced to suggest that any of the gambling money went to Durenberger, however.

Durenberger's office said the senator, at Diamond's request, agreed to become honorary co-chairman for the FIDF but had no knowledge of its finances. That was in 1987. The complaint said the local chapter has two members, Diamond and Leon Frankel. Frankel is a decorated World War II veteran who later fought for Israel. He has said he had no knowledge of Diamond's financial dealings with the organization.

The local E.W. Rawlings Chapter of the AFA was criticized in April by Baltzer and other Minneapolis police licensing officers. They said Diamond should not have been allowed to sign checks by himself; his son Adam, listed as the gambling manager, did not appear to be involved in administering the gambling; donations were not authorized by the membership as required by law; accounting was deficient; bank charges were excessive, and the group paid \$7,300 for clean up work to the son of the owner of a bar where the AFA sold pull-tabs.

Greg Halbert, attorney for the AFA, said last night that it has elected a new president, appointed a new gambling manager and revised its controls "to ensure that all lawful purpose-gambling law and regulations are fully complied with." He said the \$200,000 raised by the AFA paid for programs that helped it win Chapter of the Year honors among 346 chapters.

Bingo is no longer just an innocent form of social recreation played in the basement of churches and other non-profit organizations. Bingo has become a big business and, as with many other forms of gambling, as the profit potential becomes bigger, so does the potential for mischief.

Bingo can be cheated in many ways by players and operators working individually or in conjunction. Players can often play without paying or alter their cards so they win. Operators and players can work together to win with bogus bingos. The high-cash volume makes tracking difficult. Operators can easily under-report the dollar volume of their games.

Like the other forms of lawful gambling, bingo has also had many problems with consultants. A bingo hall operator will bring in a charity and promise them a check every month, if they just sign the application. The hall operator will then take care of the entire operation, hiring employees, ordering supplies and filing tax returns. The sponsoring organizations then have no way to know how much money they should be getting. If the organizations feel they are being cheated, they are hesitant to report it because the money they get is better than no money at all.

A Study of Canadian Bingo

An inquiry into Canadian bingo produced a report delineating the findings.⁵ Among the major trends and problems discussed were:

- Larger halls affecting smaller, more traditional operations.
- Flow and distribution of the cash and how effectively proceeds got channeled to charities.

They arrived at a number of conclusions and made the following recommendations:

- Increase charitable donations and verify that funds really go to charity.
- Define charity more precisely.
- Increase accountability for funds.
- Impose controls to strengthen smaller, traditional operators.
- Reduce temptation and commercialism.
- Respond to local government concerns about bingo.

⁵ Report of the Saskatchewan Commercial Bingo Inquiry, 1985.

- More controls to prevent crimes and abuses.
- Prizes should be limited (\$3,000 per session).
- No prize accumulations.
- Ban sale of pull-tabs in bingo halls.
- Establish gambling authority to oversee industry.
- Require a sponsoring organization for every event.
- No percentage-of-gross payments to hall owners.

The Commission found that the "social costs of bingo outweighed the social benefits." Yes, charities had been helped but ways had also been found to circumvent requirements and reduce the flow of funds, by about half, to good causes. Proceeds were found to be spent in "frivolous, self-fulfilling and inefficient ways."

Negative factors, from parking problems to spending milk money and unfair competition for horse racing, were cited. Ironically, churches found it hard to compete. Instances of excessive gambling and attendant family problems were cited. "The potential for moral decay and the entrance of organized crime due to the rapid, uncontrolled growth of gambling" were observations included.

The inquiry found a pressing need for controls, investigations, audits, inspections, monitoring and other methods of insuring accountability.

The report concluded with a hope for the return of the good old days of social, church-sponsored, innocent bingo. It referred to the game as being "nearly out of control."

Thus, the experience of our neighbors confirms everything said and written about ours. Despite the noble hopes, the fact is that gambling enterprises need to be closely monitored and carefully controlled.

Plans for Reform

"Success has many parents; failure is an orphan." Thus holds an ancient Chinese proverb. The question of who initiated the impetus towards extensive gambling is the "which came first" query that attends confusing sequences. People want to gamble. The state is thirsty for revenue. Special interests profit from the industry. Beneficiaries can be transformed into lobbyists. Many interests converge and frequently

coalesce to promote gambling. It is, after all, now an enterprise that attracts fraternal, patriotic, charitable, religious and generally altruistic supporters, and these can be persuasive and powerful intervenors.

As the year 1989 ended, pull-tabs stood preeminently highest of all the forms of gambling allowed. It also stood unregulated, undisciplined and unaccountable. The need for reforms was palpable. Every study, those summarized above and others done by the Gaming Commissioner and the Director of the Gambling Control Division, spoke of extensive problems of skimming, theft, insider trading, inappropriate expenditures and contributions and a general blurring of the altruistic purposes envisioned in the origins of the industry.

A general consensus formed around the need to reform the industry and bring it under control. As a result a plan was proposed, in late 1989, that addressed the organizational and administrative aspects, the legislative needs and the resources (human and material) required to bring the industry under control. Inspections, audits and other enforcement tactics would be more widely employed.

The plan envisioned centering similar duties in the appropriate agency and promoting greater coordination and cooperation among the Departments of Revenue, Public Safety, Gaming, Human Services and the Attorney General's Office and the provision of the additional personnel and resources essential to the task of reform. Legislative initiatives also struck at the ills cited in the many studies of the industry. Reforms centered on licensing gambling managers and registering employees, reducing the opportunity for extending credit, greater disclosures to inform the players and other efforts to promote accountability and discipline an out-of-control industry.

It was clear that accountability and compliance would be produced only through such substantial measures as compliance verifications, audits, inspections, investigations and other regulatory and enforcement activities. Still, the 1990 legislature failed to embrace the Governor's proposal for reform and granted only about three-fourths of the personnel needed and adopted only some of the measures required.

Reform Efforts

On May 4, 1990, Governor Rudy Perpich signed the bill passed by the 1990 Legislature to help reform gambling. Forty-two of the 59 personnel recommended by the Governor were authorized. This fairly reflected the over-all approach, one where some movement toward reform is undertaken, without really embracing the process.

Several measures discussed or adopted demonstrated that the legislature was not really serious about reforming the industry. The "sunset clause" which would have eliminated lawful gambling by June 1993, was widely discussed and narrowly missed adoption but

no one took it very seriously. The legislature also failed to approve a pilot video pull-tab project which was approved by the Legislative Task Force studying lawful gambling that would have provided a healthy competition for the paper pull-tab industry and may have helped promote better accountability and record-keeping. There might have been problems with the proposal (in terms of the ownership and connections of the principal players, possibly) but it did offer an alternative to paper pull-tabs.

Some useful provisions, however, were adopted. The unwise requirement that the state serve as the sole supplier of gambling equipment as of July 1, 1990 was sensibly postponed; credit would be limited; disclosure would be promoted; employees would be registered and penalties stiffened. Still the argument could be made that an out-of-control industry was not getting all the reform needed. The 1990 Legislature had gone some part of the way towards correcting the myriad flaws described by the many observers reporting, but the effort could not be described as total.

THE ECONOMICS OF LAWFUL GAMBLING

At nearly \$1.3 billion, lawful gambling is a substantial industry in Minnesota. The non-profit organizations which conduct lawful gambling take the player losses and pass them on to suppliers, the state (taxes) and lawful purpose recipients. While most of the money wagered by players, about 80%, is returned in prizes, players will lose about \$255 million in 1990.

Gambling Sponsors

Gambling licenses are held by four different types of non-profit organizations: veteran (VFWs and Legions), fraternal (e.g., Eagles, Elk and Moose lodges), religious and other organizations (including service clubs, such as Lions, Rotary, Jaycees and Exchange Clubs, athletic organizations, fire departments and health and medical associations).

Figures 2.5 and Figure 2.6 list the number of licensed organizations and the gross receipts by organization type.

Lawful Gambling Sites

Gambling takes place at a variety of sites. Prior to the start of the lottery the most common gambling site in the state was the "jar bar" or pull-tab booth. While the jar bar no longer has the title as the most prevalent gambling site, it still retains the title for generating the largest amount of wagering. Pull-tab sales are strongly rooted in the state and are likely to continue serving as formidable competitors of the lottery.

Number of Gambling Licenses and Organizations by Type		
Type	Number of Gambling Licenses	Number of Organizations
Veterans	780	624
Fraternal	414	279
Religious	183	137
Other	1,692	851
Total	3,069	1,891
Data from 1988		

Figure 2.5

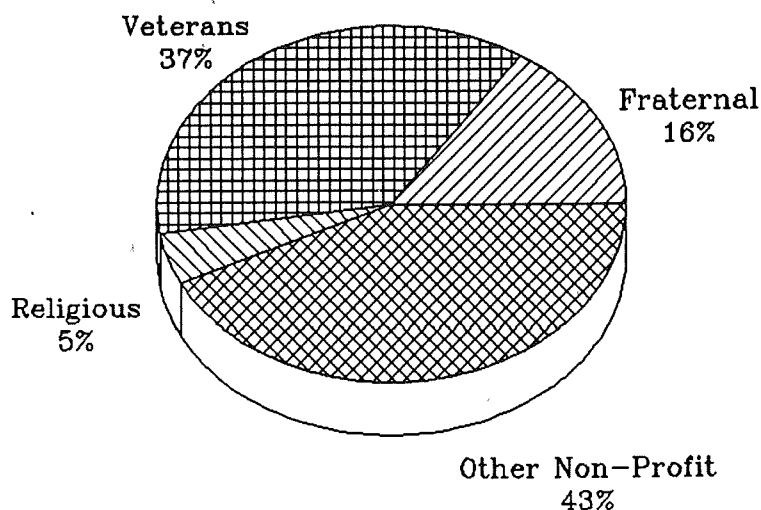
The jar bar is a section of counter-top space where pull-tabs are sold. The space for a jar bar is usually leased in a public on-sale liquor establishment. Veterans and fraternal organizations which own their clubhouses also have jar bars. Clubhouses however, at least in theory, can only serve club members and their guests, making for a distinctly social experience that combines fellowship, dining, drink and organizational activities with gambling.

Most jar bars contain two to eight jars, or plastic containers, holding pull-tabs. Each jar has an accompanying flare describing the pull-tab odds and prizes. Along with the flares are the rules of play and the state gambling license.

Most pull-tabs cost \$1, other prices range from 25 cents to \$2. The largest prize allowed is \$250. The payback on pull-tabs or the percentage of each dollar wagered returned to the players in prizes is around 80%. The figure fluctuates according to market forces. The lower the pay-out the higher the return to the operators; the higher the pay-out the more likely people are to wager.

Most players buy \$5 to \$20 of pull-tabs at a time. After purchasing the pull-tabs, they return to their seats in the bar where they proceed to play their paper-slots by opening up the cardboard tabs which conceal the slot machine like symbols. Winning tickets, those with the proper symbols lined up, are put aside to be redeemed, losing tickets are tossed into a plastic bin for disposal or onto the floor.

Gross Receipts by Organization Type



Based on 1988 gross receipts

Figure 2.6

Small denomination winnings \$1 to \$10, often referred to as play-backs, are generally used to purchase more pull-tabs, in hopes of winning the bigger prize. Larger winnings are generally pocketed with some of the winnings going for more tickets or drinks.

When large winning pull-tabs are redeemed (\$50+), the player must fill out a prize receipt and the winning ticket is "posted." Posting is a method used to publicly disclose the number of winning tickets still remaining in the jar. The prize receipts and the posting help curb insider trading, a practice where the pull-tab seller tells friends and generously tipping customers which jars have more in winning tickets.

Depending on the location of the bar and the clientele frequenting the establishment, jar bars will have customers playing at all times during the day (assuming the jar bar is open). With the many customers that play there are also many styles of play. Some

will consistently play as little as \$1, pocketing any winnings. Others wager large sums--some must be betting incredible sums for the per capita average wager is \$300, and that includes children who can't and adults who don't gamble.

Others play because they like the pay-out structure of the game (lots of small prizes or fewer small prizes and larger top prizes). Some buy pull-tabs only from deals with certain symbols--this is especially true for fraternal club members. Deals that have elks as the winning symbols are played feverishly by Elk Lodge members who would never touch a deal with caribou as the winners. Deals with water buffalo appeal to the likes of Fred Flintstone and Barney Rubble. Deals with candy canes and snowmen always show up around the holiday season.

The more serious players develop some sort of system for playing the game. These players, the jar-hawks, watch the jars and try to keep track of how many winners are redeemed. Some even obtain illegal inside information from the pull-tab sellers. When the jar-hawks determine the jar is hot, they buy-out the game hoping that the value of the remaining winners will exceed the cost of the tickets. Players often confront each other over who gets to buy-out the jar. The posting requirement has eliminated the jar-hawk's advantage.

Two researchers from the University of Minnesota's Center for Addiction Studies, Dr. James M. Schaefer and Dr. Mikal Aasved, studied pull-tab playing behavior. Their report melds perfectly into the mosaic of analyses, audits, evaluations and commentaries offered, in recent months, by other scholars, the press, public officials and practitioners and observers. The findings offer intimate glimpses of complex gambling behavior, by practiced observers who bring scientific understanding and objectivity to the process. The camaraderie involved in playing, as well as the compulsion are examined. One of their suggestions is that pull-tabs dealers, gambling managers and officials from sponsoring organizations be trained to recognize and refer people with gambling problems. They also discuss the suspicions and paranoia involved in playing before the posting requirement took effect. (A complete summary of their work is given in Appendix C.)

In addition to jar bars, many of the veterans and fraternal organizations have tipboard games. The tipboards are often used for what is called a meat raffle or are used in conjunction with pull-tab games, creating a good deal of confusion as to what type of game it actually is and how to regulate it. Meat raffles offer packages and meat (and often time jugs of booze) instead of cash, as prizes. The future of such games is in question because it is difficult to regulate the games and account for the value of the prizes and the number of tickets sold.

Most clubhouses sponsor a weekly or bi-weekly bingo game as well.

Bingo is also played at bingo halls, the largest of the gambling sites. Bingo halls themselves are a separately licensed entity. The bingo hall is then leased to licensed organizations for conducting bingo games. Bingo halls usually have pull-tab jar bars and food stands. They are far removed from the cozy church basement that spawned the activity.

Bingo halls generally hold a few hundred people. Most bingo halls operate seven days a week, with different licensed organizations conducting bingo at different times. Depending on the day, the bingo sessions may go from the wee hours of the morning until well into the night--early-bird and moonlight bingo.

Bingo is also still conducted where it began in Minnesota, in church basements and other such small facilities.

Raffles are conducted by a variety of organizations and, by design, sold at various sites. Paddlewheels are generally conducted in association with special events.

Players: Where the Money Comes From

Anecdotal evidence suggests that the money comes from the following players of the various games:

Bingo - older women, retirees.

Tipboards - veterans and fraternal club members.

Raffles - parents and relatives of school children and church festival-goers.

Pull-tabs - veterans, club members and bar frequenters.

The demographics, which are discussed fully in the chapter on gambling behavior, suggest that some of the anecdotal evidence is correct. Bingo players are more likely to be women, however there are two groups, younger and older women. Pull-tab players are more likely to be younger, working males; this is especially true of the regular players. Lottery players are a wider swath of the body politic and racing fans tend to be more blue-collar regulars.

Besides examining demographics, other data help provide insight into where the money comes from. The per capita wagering by county shows a high volume of gambling around the resort areas of Mille Lacs, Crow Wing, and Cass counties. At first glance, one expects the high per capita wagering is probably due to the influx of tourists in the area. Examining the counties more closely, however, shows that some counties with high per capita wagering (e.g., Pine, Polk and Pennington) probably do not attract a large number of vacationers. High per capitas are also found in Iron Range counties.

The monthly sales figures for lawful gambling, which appear to be leveling off, show declines in summer and around the holiday season. As the total gambling dollar amount continues to increase, the seasonal fluctuations appear to be even greater. The six-month moving average of the monthly handle, a statistical smoothing technique, shows that the growth in gambling has leveled off, with an average monthly total of approximately \$106 million per month--see Figure 2.7.

The height of the ceiling, however, continued to remain in doubt. Will the lottery cut into lawful gambling? Will the increased taxes require lower pay-outs, causing less play? Will the public become bored with pull-tabs, as they do with lottery scratch-off tickets, requiring new games to keep revenues up?

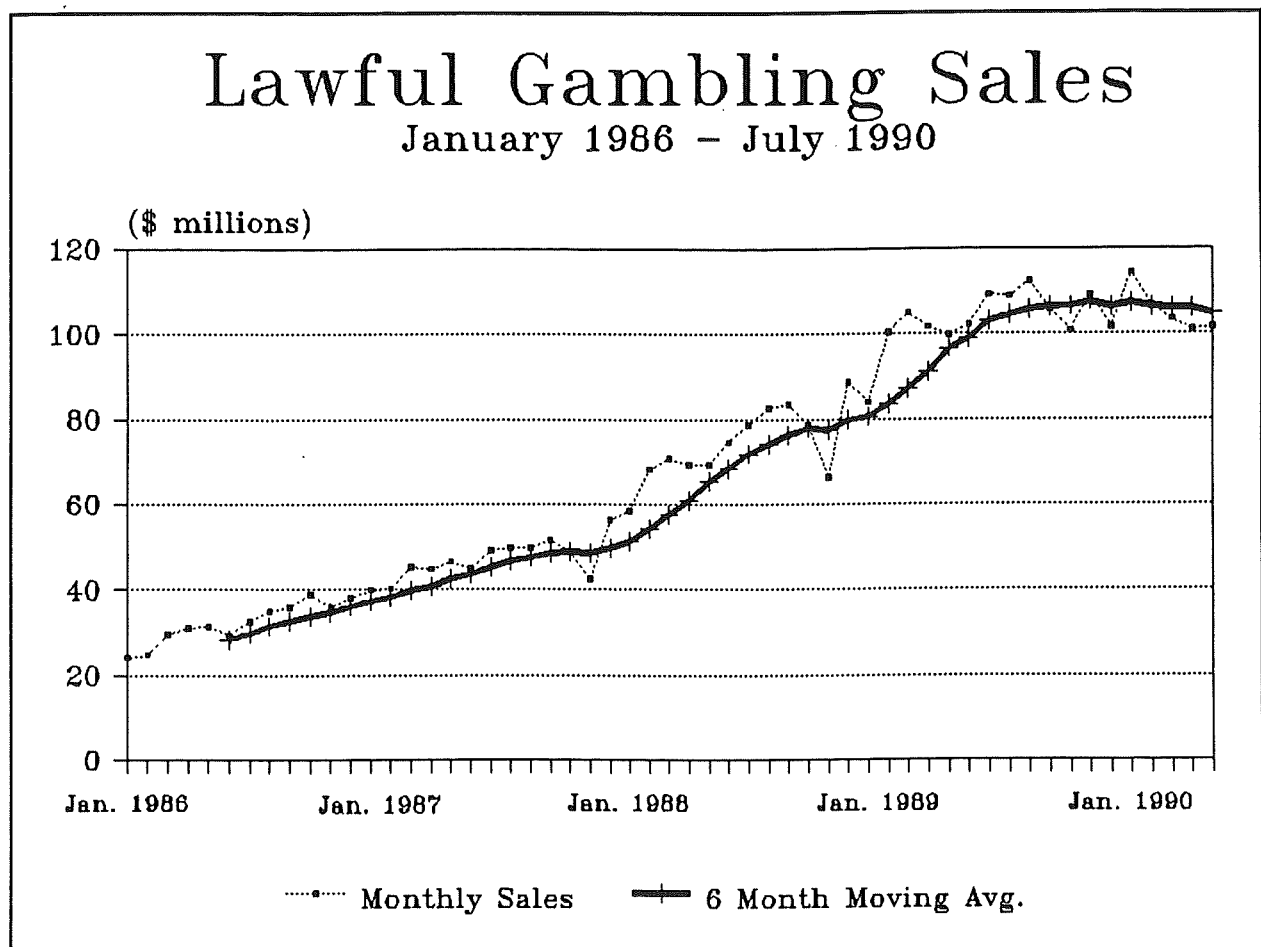


Figure 2.7

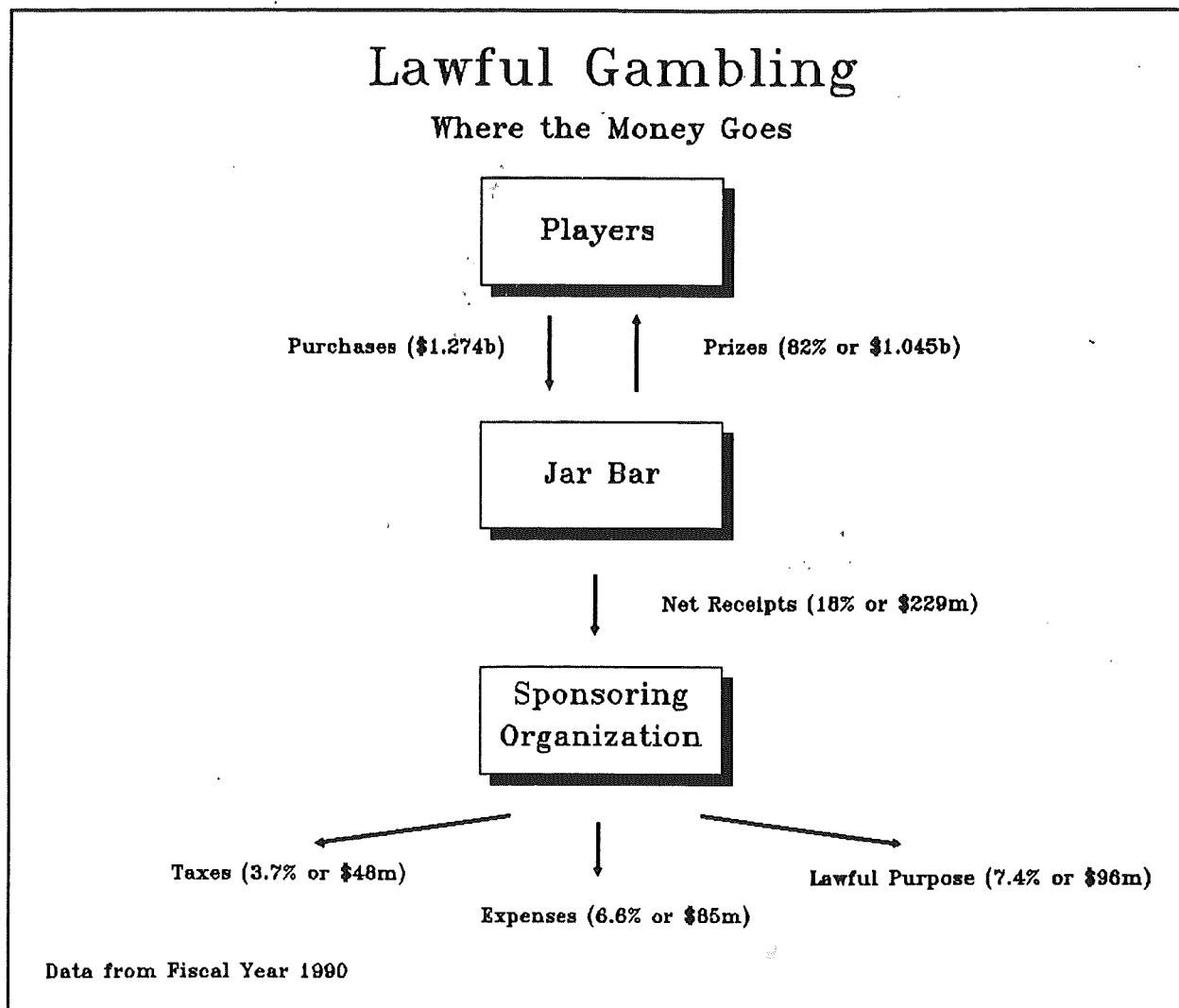


Figure 2.8

Where the Money Goes

Before the sponsoring organizations see the lawful gambling wagerings, most of the money is returned to the players in prizes. The rest goes to expenses, taxes and donations. Figure 2.8 shows how the money flows from the players through the organizations to the suppliers and recipients. Figure 2.9 shows where the lawful gambling dollar has gone for the last six years; data is given in Figure 2.10.

The high return to players, about 80 cents, may be one of the reasons that Minnesota's lawful gambling industry is so large. Minnesota's lottery which will pay back about 50 to 60 cents of each dollar is predicted to gross about \$350 million a year. The return on pull-tabs in the state of Washington is about 60 cents of each dollar. Washington, which is second to Minnesota in total handle, grosses about half of Minnesota's total.

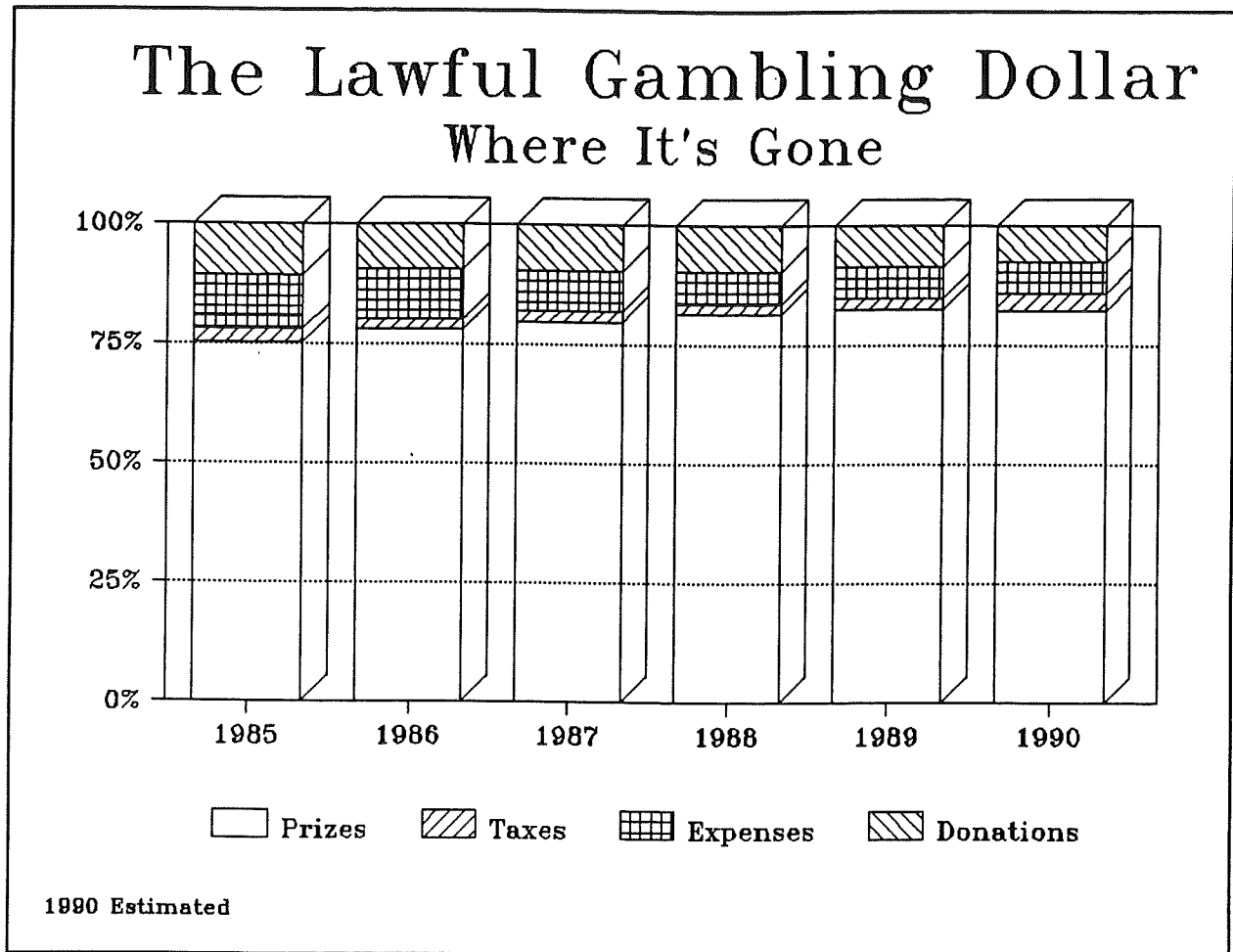


Figure 2.9

The Lawful Gambling Dollar - Where It's Gone

<u>Year</u>	<u>Gross Sales</u>	<u>Prizes</u>	<u>Expenses</u>	<u>Taxes</u>	<u>Lawful Purpose</u>
1985	\$111m	75.1%	11.4%	2.8%	10.7%
1986	386m	78.0	10.5	2.1	9.4
1987	552m	79.7	8.3	2.4	9.6
1988	857m	81.5	6.9	2.0	9.6
1989	1.213b	82.6	6.5	2.2	8.7
1990	1.274b	82.0	6.6	3.7	7.4

1990 sales and percentages are estimated

Figure 2.10

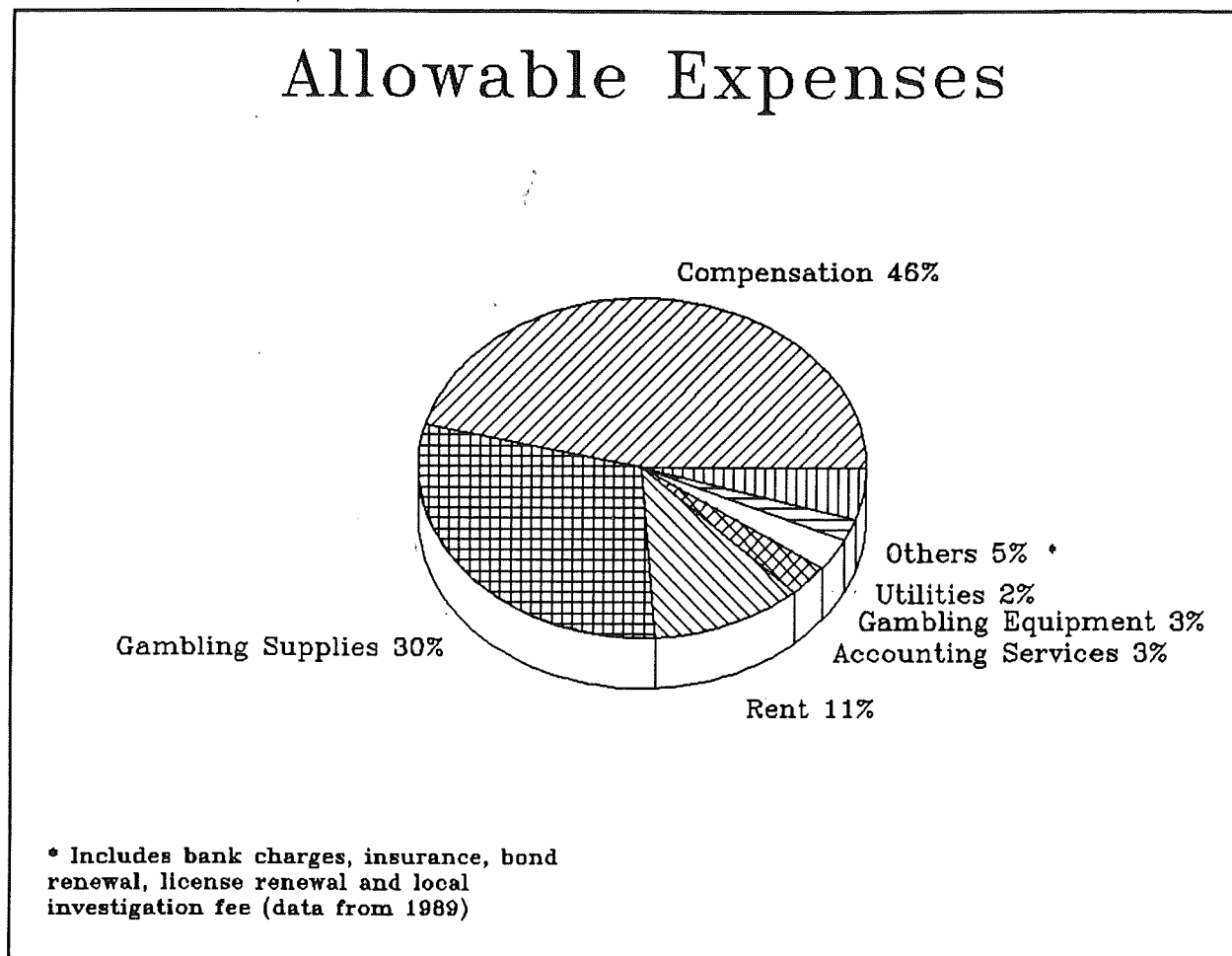


Figure 2.11

Allowable expenses include gambling supplies and equipment (pull-tabs, bingo paper, bingo machines, etc.), rent, utilities used during gambling events, compensation to employees (pull-tab sellers, bingo callers, etc.), maintenance of gambling equipment, accounting services, banking services, certain legal services, license renewal fees, investigation fees, gambling manager bonds and insurance on gambling activities. Figure 2.11 shows how the money spent on allowable expenses was distributed in 1989.

Limits are imposed on the percent of gross profit (gross receipts minus prizes) that organizations can spend on expenses. Expenses for bingo are limited to 60% of gross profit less taxes and 50% for all other forms.

Supplies and equipment account for approximately 38% of all allowable expenses. In 1989 \$28 million was spent on supplies and equipment, making the gambling equipment

supply business in Minnesota a \$28 million industry. Distributors, which must be licensed by the Gambling Control Board, employ approximately 400 to 500 employees. Distributors must purchase their gambling supplies from licensed manufacturers. Approximately 15 manufacturers are licensed in Minnesota, all but one are located outside the state. Current law requires that pull-tabs be manufactured in the state in future years.

Many hold that the biggest recipient of lawful gambling funds is the state. Approximately \$46 million in taxes were collected in fiscal year 1990. Since the state took over regulation, \$79 million has been collected from January 1986 through June 1990. Fiscal year 1991 is estimated to net \$51 million in state tax revenues from lawful gambling. In addition to taxes by the state, some organizations are subject to a local government gambling enforcement tax (3% of net profit). Local governments can also dictate where (geographically up to 100%) and how (programmatically up to 10%) the proceeds must be spent. Some organizations view this as another form of taxation.

Taxes on gambling proceeds are levied in three ways: For bingo, raffles and paddlewheels, the tax is 10% of the net profit (gross sales minus prizes). The tax on pull-tabs and tipboards is levied at a rate of 2% of ideal gross sales. That is, if a deal of pull-tabs contains 2,000 tickets which sell for one dollar, the tax on the deal is 2% of \$2,000, or \$40. The pull-tab and tipboard taxes are paid by the distributor. The final tax is the combined receipts tax established in the 1989 Special Session. If an organization's gross gambling receipts are over \$500,000 annually, their total receipts are taxed. The tax is increased incrementally up to \$900,000, where the marginal rate is 8%.

The effects of the combined receipts tax, imposed by the 1989 Special Session, did not impact most organizations until the beginning of calendar year 1990 (or the last half of fiscal year 1990). The combined receipts tax increased the percent of gross receipts going to taxes from 2.2% to 3.6% in fiscal years 1989 and 1990. Allowable expenses as percent of gross receipts stayed approximately the same, 6.6%, in fiscal years 1989 and 1990. The percent returned to players also remained the same. A look at individual monthly returns and talks with members in the lawful gambling industry, however, suggests that because of the higher taxes (and most likely relatively fixed expenses) the prize pay-out percentage is being lowered. The percentage of gross receipts going to lawful purpose donations also appears to be decreasing. In fiscal year 1989 \$1.056 billion was wagered and \$93 million (or 8.8% of total wagering) was available for donations; in fiscal year 1990 \$1.272 billion was wagered with \$94 million (or 7.4% of total wagering) available for donations.

The combined receipts tax has thus appeared to have favored the small over the large and produced such unintended dislocations as now cry out for analysis and

reconsideration. The tax on pull-tabs is based on the ideal gross receipts of the deal, which has the practical effect of taxing even unsold tickets, and is widely seen as unjust. Since the taxes are of recent vintage and since their effect appear to be causing some real anguish, it seems wise to examine the issue to establish whether adjustments are needed. On October 5, 1990 the Governor ordered a review on the tax's impact, with a report due by December 31, 1990.

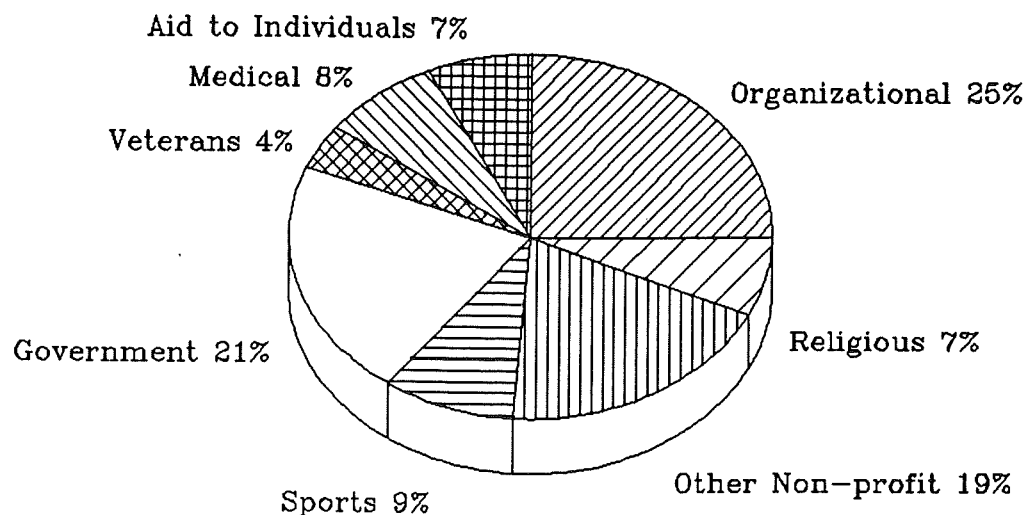
In addition to the taxes imposed directly on gambling receipts, the federal government has recently begun imposing an Unrelated Business Income Tax (UBIT) on gambling organizations. The UBIT is imposed because the IRS views the money from gambling as a substantial income generator that is not directly related to the purpose of the non-profit organizations. The state has a piggyback tax on the federal UBIT. The 1990 law allows organizations to pay the UBIT as a lawful purpose donation. Prior to the change the money for the UBIT would have had to come from non-gambling funds.

The final place for gambling proceeds to go is to lawful purpose donations. With approximately \$283 million available for lawful purpose donations from 1985 through 1989, the actual donations have been studied only briefly. A 1988 study of the 1986 contributions of the 50 largest organizations was done by the Minnesota Council of Non-Profits. Their study broke down the donations of veterans, fraternal and other non-profits into six categories: 1) Internal maintenance--purchase, construction, and maintenance of buildings owned by the gambling organizations. 2) Internal social--social activities for the members of the organization. 3) Community benefit--civic programs, parks, schools and government agencies. 4) Charitable--contributions to other non-profit organizations. 5) Sports. 6) Other unknown or religious activities. Their study represents approximately 20% of the donations made in 1986--Figure 2.12.

Minnesota Council of Non-Profits' Study of Lawful Purpose Donations						
Organization Type	Internal Maintenance	Social	Community Benefit	Charitable Non-profit	Sports	Religious & Other
Fraternal	50%	9%	20%	11%	8%	2%
Veterans	52	7	19	6	7	9
Non-profit	8	0	8	72	11	1
Combined Totals	43%	6%	17%	20%	8%	6%
Data from 1986						

Figure 2.12

Lawful Purpose Donations



Data based on sample from
June 1988 through May 1989

Figure 2.13

The Legislative Auditor's study, summarized earlier, also examined lawful purpose donations from June 1988 through May 1989 of a stratified sample of 180 organizations. While the report focused on accounting and financial control problems, the Legislative Auditor concluded that approximately 90% of the lawful purpose donations were going to what most people would consider charitable purposes. In testimony before the Legislative Task Force on Lawful Gambling (January 29, 1990), the Legislative Auditor said that still more money could be going to the charities. There is also some question as to the appropriateness of some charitable expenses that looked suspiciously like frills, perks, or pleasures for the members. There is something resembling an edifice complex in the palatial establishments funded by gambling revenues. Figures 2.13 and 3.14 present the Legislative Auditor's findings.

Changes in the law, for example the phasing out of mortgage payments as a lawful donation and changes in tax deductions, will cause shifts in the percentages in each category.

In looking at the impact of the industry one must remember three things. First, totals wagered are not equal to player losses. Second, net receipts which are spent on supplies, wages, taxes and donations, are spent again creating a multiplier effect. Finally, the money spent on pull-tabs or any other form of gambling is not spent on other divertissements--thus creating a negative economic impact in the previous recreational industry of the gamblers.

FUTURE ISSUES

Reform & Accountability

The biggest issue facing the lawful gambling industry is the results of reform efforts. Will there be enough reforms to prevent the industry from collapsing upon itself? If not, what additional reform efforts are needed to keep the industry alive? Even honest mistakes will give the industry a bad image and undermine its credibility and public support.

If the reform efforts fail to bring lawful gambling under control, the public, legislators, regulators and the principals will have to wrestle with the question of the fate of the industry. Will the good produced through lawful gambling outweigh the ill-effects? Does the good produced now outweigh the problems? Will the state be willing to shut down the industry if its lack of viability becomes demonstrable?

In order for the industry to reform itself, it must develop and maintain credibility and accountability. The games must be kept honest. The proceeds need to go to legitimate charitable purposes. The lawful gambling dollar must be closely monitored from player to donation. As of the beginning of 1990 all of these, according to the many responsible observers examining the operations, were open questions.

Critical to the views of accountability and reform are the employees of the industry. In the past, the legislature has attempted to keep lawful gambling from becoming commercialized. While this attempts to serve some noble ends, commercializing the industry may help bring better accountability by bringing in more knowledgeable people. It may also bring in more knowledgeable criminals. The lines between commercialism and altruism in the gambling industry are blurred. In the choice between professionals and devoted amateurs, the legislative option has been for the latter. Each brings its own set of problems.

Lawful Purpose Donations				
<u>Expenditure Class</u>	<u>Fraternal</u>	<u>Veterans</u>	<u>Religious</u>	<u>Non-profit</u>
Taxes:				
Local Taxes	8.6%	6.7%	0.3%	0.9%
State Taxes	0.0	0.0	0.0	0.0
Federal Taxes	0.8	0.6	0.3	2.1
Subtotal Taxes	9.5%	7.4%	0.6%	3.0%
Aid to Individuals:				
Individual Awards/Prizes	0.1%	0.2%	0.0%	0.2%
Parties/Picnics	1.2	1.9	0.0	0.5
Dinners/Lunches	1.8	0.8	0.0	0.2
Gifts to Individuals	0.2	0.4	0.0	0.1
Individual Housing	0.0	0.0	0.0	0.0
Individual Food	2.1	1.0	1.3	1.6
Individual Clothing	0.1	0.0	0.0	0.0
Individual Transportation	0.3	0.5	0.0	0.0
Condolence/Flowers	0.2	0.2	0.0	0.0
Scholarships	1.3	1.0	0.1	0.5
Individual Other	0.4	0.4	0.1	0.8
Individual Medical Aid	1.2	0.9	0.4	1.4
Individual Hardship Aid	1.2	0.6	0.1	0.8
Subtotal Individual Aid	10.2%	8.2%	2.0%	6.2%
Medical:				
Medical Research	1.7%	3.0%	0.2%	7.6%
Hospital Donations	0.4	2.8	0.1	4.6
Nursing Homes	0.2	0.2	1.7	0.0
Veterans Hospital/Nursing Home	0.1	1.5	0.0	0.0
Subtotal Medical	2.3%	7.4%	2.0%	12.3%
Government:				
Parks & Recreation	6.4%	1.9%	10.3%	6.6%
Police	0.7	0.7	0.0	1.1
Fire	1.0	3.4	0.7	14.2
School Sports	3.0	0.9	0.8	0.5
Schools - Academic	0.4	0.3	0.0	0.2
Schools - Extracurricular	7.6	1.5	0.8	1.6
Schools - Scholarships	1.5	0.4	0.0	1.3
Other Government	2.2	2.0	0.6	9.5
Subtotal Government	22.8%	11.2%	13.2%	35.1%

Figure 2.14

Lawful Purpose Donations				
<u>Expenditure Class</u>	<u>Fraternal</u>	<u>Veterans</u>	<u>Religious</u>	<u>Non-profit</u>
Veterans Programs:				
Ceremonial	0.0%	1.1%	0.0%	0.0%
Other	0.1	8.2	0.0	0.2
Scholarships	0.0	0.4	0.0	0.0
Legionville	0.0	0.2	0.0	0.0
Subtotal Veterans	0.1%	9.9%	0.0%	0.2%
Youth Sports:				
Baseball/Softball	0.9%	2.7%	0.3%	0.4%
Hockey	1.7	1.5	0.2	10.8
Other	1.0	1.8	0.0	1.4
Subtotal Youth Sports	3.6%	6.1%	0.5%	12.6%
Adult Sports:	1.7%	1.0%	0.0%	1.6%
Other Non-profit Organizations:				
Youth Services	7.0%	5.1%	1.9%	4.7%
Other Human Services	11.0	3.4	5.9	13.4
Conservation Organizations	0.2	0.2	0.0	0.7
Civic Festivals	0.4	1.0	0.1	1.4
Other Non-profit Groups	4.0	2.4	0.9	4.5
Lobbying Organizations	0.6	0.0	0.2	0.0
Subtotal Other Non-profits	23.2%	12.0%	9.0%	24.7%
Religious Groups:	2.9%	0.5%	71.9%	1.7%
Organizational Expenses:				
Travel	0.0%	0.0%	0.5%	0.0%
Buildings	20.9	33.8	0.0	1.7
Gambling Seminars	0.3	0.7	0.0	0.0
Other	0.1	0.5	0.0	0.2
Lobby Related	0.0	0.1	0.0	0.0
Public Service Announcements	0.1	0.2	0.0	0.0
Subtotal Organization Expenses	21.5%	35.4%	0.5%	2.0%
Senior Citizens:	2.2%	0.9%	0.1%	0.7%
Percent of Total Dollars	16.2%	41.7%	7.8%	34.4%
Data based on sample from June 1988 through May 1989				

Figure 2.14 (continued)

Gambling Taxes

Another major issue will be the taxes on gambling proceeds as gambling organizations assess their experiences with those recently imposed. The key issue centers on who can spend the money better, the state or the organizations? Another tax issue is the state's insatiable appetite for painless revenues. One of the best ways to cure an insatiable appetite is to stop feeding it. The impacts need to be studied closely and evaluated for their actual effect on the organizations.

Lawful gambling is conducted by organizations involved in such altruistic purposes as are associated with tax exempt status. Religious, fraternal, patriotic, medical and charitable institutions operate games and devote profits to worthy enterprises. The state is a partner through the taxes it imposes, thus creating a push-pull relationship between good works and government control.

Some state gaming receipts are mandated for such specific purposes as environmental improvements, creation of jobs and industry and erecting public educational structures. Other receipts, such as those from the lawful gambling taxes, go into the general fund.

With the requirement that organizations post winners, they are closing games with many unsold pull-tabs because of the unwillingness of players to buy from a deal after the major winners had been struck and crossed off the flare. They are, however, taxed on the ideal gross, or all the pull-tabs in the deal resulting in paying taxes on items that could not be sold. Taxing more pull-tabs than are sold has the effect of raising the tax rate. The question is how much is the rate being increased? The impact of this practice needs to be examined. The Governor's order addresses this issue.

Pressure is currently being applied to eliminate the wise requirement of disclosure represented by posting the winners in order to ease the tax burden by selling more pull-tabs deals after major prizes have been struck. This puts the cart of taxes before the horse of disclosure. If the tax is dysfunctional, that should be the area requiring study and possible reform.

Another issue related to taxes is which part of the gambling dollar they are taken from. In the past, the taxes were taken from the net receipts (gross sales less prizes) before the 50%/50% split for expenses and donations was calculated. Current law now allows organizations to pay certain gambling taxes out of lawful purpose money. This may have the effect of increasing the percent of the gambling dollar that organizations can spend on expenses and decreasing the amount that goes to lawful purpose donations other than taxes.

Product Security

One of the major efforts state lotteries engage in is maintaining the security of their products. They treat tickets like cash. Lotteries are also concerned with keeping their tickets tamper-proof and maintaining random distributions of prizes. In lawful gambling the security of products has been left to the integrity of the suppliers and operators who, in their economic interests, should maintain the integrity of the games. That integrity, however, has come under attack by the legislature and the attorney generals of both Minnesota and North Dakota.

Pull-tabs flow in a circular nature. The tab starts out as a tree in the forest which is cut down by a lumberjack in a flannel shirt. The tree, after becoming paper, is changed into a pull-tab and sold first to distributors and then gambling organizations. The organization sells the pull-tab in a bar to the lumberjack or someone else wearing a flannel shirt.

Figure 2.15 traces a deal of pull-tabs from manufacturer to player. Invoices, records and tax returns are filed throughout the journey of the pull-tab deal. There are approximately 15 licensed manufacturers in the state; only one, which doesn't manufacture pull-tabs is located in the state. There are approximately 40 distributors, 1,900 sponsoring organizations and 3,000 sites. Many solutions have been proposed to maintain the honesty of the games including standards for the manufacturing process, testing by the regulators, requiring manufacturing in the state or have the state become the sole distributor (through a state-operated warehouse or through contracts). The kicker, however, has centered on the reluctance to allocate the needed resources to control the industry.

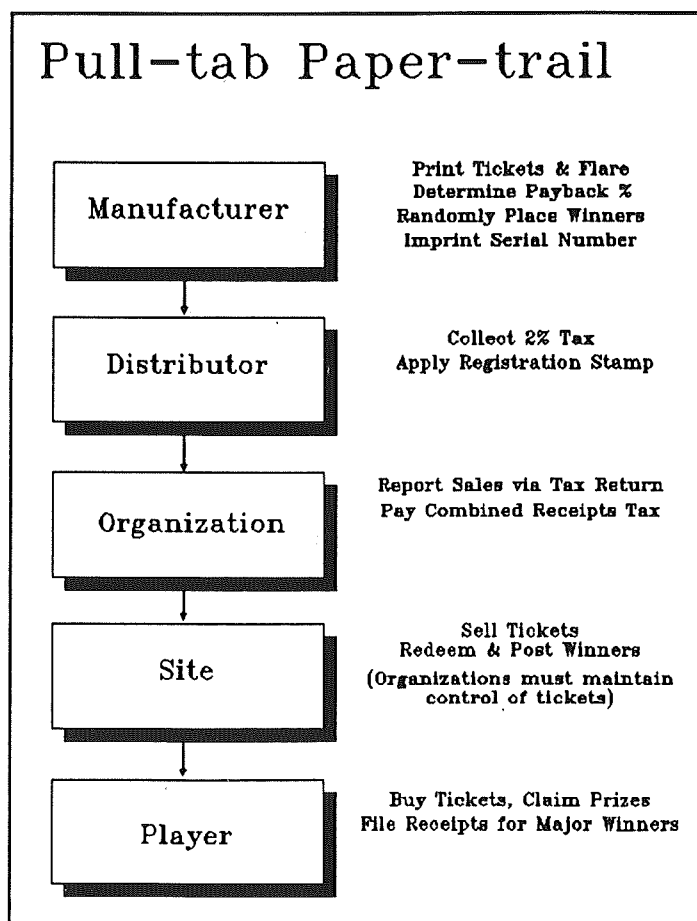


Figure 2.15

Even if the product becomes secure, integrity is more difficult to maintain than with lottery games because of the small size of the pull-tab deals. Dealers can tip friends and generously tipping customers to deals that will most likely lead to a profitable buy-out of the game. Jar-hawks can also watch the game and guess, with reasonable accuracy, when a buy-out would be profitable. The posting requirement of the 1990 law addresses some of these problems. With human intervention, however, the posting process can be subverted. In lotteries there are so many tickets (at various locations) and so many players, that insider trading becomes impossible. In racing, the pari-mutuel tote board constantly updates the odds for the race.

Possible solutions to the problem of insider trading are mechanical pull-tab dispensers and video pull-tab games which remove some or all of the human element from the product dispensing and prize redemption activities. It can never be forgotten that whatever a human can invent another will find a way to circumvent. This reduces much of the control process to a banal hare and hounds chase to stay ahead of the criminal schemers.

Video pull-tabs, mechanical pull-tab dispensers, as well as electronic bingo would appear to be inevitable future issues as technology continues its unstoppable march. Las Vegas and other big casinos, and the Indians in Minnesota, use machines because they are more secure and their integrity is easier to maintain.

State Manufacturing & Distribution

Another issue created by the 1990 Legislature was the requirement that pull-tabs be manufactured in Minnesota after June 30, 1992, which may upset the abundant competition now attending the industry. The folly of this parochialism was matched by the earlier and ill advised legal requirement that the state be the sole source of gambling equipment after June 30, 1990. This bureaucracy-creating nightmare was postponed two years, when it should have been rescinded altogether. The legislative temptation to postpone and tinker can produce harmful results. Dealing with these issues on a specific, individual, ad hoc basis precludes the development of an overall strategy or comprehensive plan or policy.

What is Big Bingo?

Bingo, although not just a future issue, since it was after all the first of the recent games, will and should be examined more thoroughly. What started out as a church pastime has now become a big business, attracting less reputable operators and promoters as has happened throughout time with various gambling ventures. The potential for problems and cheating in bingo has, for the most part, been largely ignored.

During the 1990 legislative session, when new standards for the conduct of bingo were being discussed, nobody had a firm idea of what constituted a big or small bingo game. Without ever determining what was big bingo, the bingo games which were judged to be small were exempt from the controls that were proposed to help eliminate the potential for cheating.

Tax Exempt Status

The removal of tax-exempt status by the IRS and the determination of whether or not gambling income for the various non-profit organizations is an unrelated business income--subject to the Unrelated Business Income Tax (at both the federal and state levels) are sure to be come hot questions. Now that the elections have passed the policy issues related to tax exempt status are likely to be resolved. While the decisions will most likely be made in Washington D.C., local organizations and state officials can play a significant role in shaping those decisions.

Pay-out Percentage Limits

Limits on the prize pay-out percentage were discussed at various points in the legislative process. Pay-out caps were, however, wisely excluded from the final bill. This measure was designed to benefit the larger organizations which are taxed at the full rate of the graduated combined receipts tax. Because of their high tax rate, the large organizations have to lower their pay-out ratios to make tax payments and meet the 50%/50% lawful purpose/allowable expense split. Lowering pay-out percentages gives smaller organizations, with lower tax rates, a competitive advantage because they can return more money to the players and still pay taxes and make the 50%/50% split. A proposal to limit the pay-out may also benefit the very small organizations which have relatively high fixed costs to cover, thus forcing them to also lower pay-out to meet the 50%/50% split. (While the legislative proposal was presented as a way to help small organizations, that size estimate was only relative, for the small organizations it was intended to help were in the highest bracket of the combined receipts tax. By comparison, these organizations were much smaller than the largest organizations.) Any proposals, such as the pay-out cap and requiring local manufacturing of product limit the healthy, competitive nature of the gambling industry. The percentage pay-out ought to be decided by market forces, not fiat.

Compulsive Gambling

The responsibility of charitable organizations for the loss and harm caused by compulsive gamblers will also be an issue. Clinical observations show that the characteristics of lawful gambling games--availability of games, frequency of pay-outs, location of play, etc.--are of the type that are likely to turn a casual gambler into a compulsive gambler. What responsibilities do the gambling organizations have for limiting the problems that compulsive gambling can cause? Should the organizations refuse to sell to those who appear to have a problem with gambling? Should the

organizations help individuals get help and treatment for their problems? The alcohol and tobacco industries have mostly side-stepped the addictive consequences of their operations and there is a very real possibility that gambling operators will follow suit.

Local Government Involvement

The 1990 law requires local units of government to approve the premise permit application before it is issued by the Gambling Control Board. Previously local units had the power to disapprove license applications. This new requirement may suck local governments too deeply into the process, causing more paperwork, delays, headaches and political mischief in the licensing process. Local units also have the authority to adopt stricter gambling regulations or even prohibit it entirely.

The new requirement may, however, provide an impetus for local governments to examine their policies related to lawful gambling. What level of involvement should local governments take in gambling regulation and enforcement? What conflict of interests are present when the regulators and enforcers accept donations from the regulated organizations?

Minneapolis has adopted policy related to the acceptance of lawful gambling proceeds. City departments wishing to solicit funds must have their solicitation policy approved by the city council. The policies include a conflict of interest statement and a description of what the money will be used for. The funds must be used for items that are not in the current budget or included in an outside grant request. The conflict of interest statement, for the police department, prohibits any one in uniform from soliciting funds. The net result may be that each precinct will have its citizen advisory board solicit funds. The changes by the 1990 Legislature prohibiting law enforcers from seeking such donations, bids fair to inspire such displacement as having other city departments seek funds, with police agencies being compensated out of the city's coffers.

Minneapolis, St. Paul and several other cities have set up enforcement programs taking advantage of the 3% tax on proceeds that local units are authorized to impose for gambling enforcement. The enforcement programs involve the inspections of premises, records, accounts and closed games for compliance with laws and rules. This has resulted in some desperately needed controls over local gambling operations, many of which uncovered egregious wrongdoing. Many jurisdictions trusted in luck, with predictable consequences.

Enforcement by local units is the most likely area for the potential of conflict of interest and other heated issues, yet it is an essential component of any control strategy. Why were police departments singled out and excluded from directly receiving lawful purpose donations, when other city departments can receive funds

directly? Should local governments impose the 3% tax on proceeds for establishing enforcement programs? Should the local tax be allowed to be put to use in other enforcement efforts? These are just a few of the many difficult questions surrounding the complex issues of gambling.

The options that local units have for requiring up to 100% of the proceeds to be spent within a designated trade area and up to 10% of proceeds devoted to specific purposes (e.g., homeless shelters or youth activities), created other opportunities for problems or progress. Should these options be kept, or are they too parochial? Like the gambling taxes, these choices raise the question--who can spend the money better, the organizations or the government?

COMMENTARY

Bingo, in retrospect, looks like the Trojan Horse that helped usher in a wave of gambling through the gates. Given respectability by the grandmas who played in church halls, the innocence of the process seemed undeniable. Only the truly churlish would hurl jeremiads at such a seemingly harmless pastime, and one that had the blessing of the church.

The setting subverted arguments based on sin as the issue slipped under the moral defenses and insinuated itself into common acceptability. The human urge to gamble fueled the process and the existence of church bingo directed it into acceptable channels. Lotteries, pull-tabs, off-track betting and other forms of gambling flowed from this well-spring, abetted by perfectly logical arguments that commonly ignored laws were not working to inhibit illegal gambling anyhow and the promise of added revenues, painlessly raised.

Both the silent and audible debates surrounding gambling were psychologically skewed by the influence of bingo. The principal arguments against--mostly rooted in moral judgments--were overcome by the religious and moral mantle the church cast over gambling.

The philosophical predicate behind lawful gambling was that it would be handled by dedicated amateurs and volunteers (non-profit medical, fraternal, patriotic, charitable agencies) who would be raising funds for their charitable enterprises. Altruism was married to innocence which would produce maximum virtue.

The law of unintended effects inevitably surfaced as many of these operations attracted some of the weaker members. Some were content to turn over the operations to

reassuring professionals and others simply took the expedient way and cut corners or subverted the process.

With little or no accountability or monitoring, the operations drifted onto the shoals of cupidity or carelessness. After years of no consequences, many organizations had lapsed into non-compliance--from the trivial to the criminal.

By then, however, a definite and identifiable constituency had grown around the huge sums being generated and the many projects launched. The beneficiaries--altruists and cynics--began to generate influence against the reforms threatening the status quo. The process inevitably got tangled with politics as the legislature took up the issue as a critically important agenda item in 1989 and 1990, and seemed certain to continue into the future. One of the results was a cutting back on the number of new personnel dedicated to the reform process which itself only passed over vigorous opposition. Resistance to reform was bound to increase over the passage of time.

APPENDIX A

There are five different games which organizations can use in lawful gambling: bingo, paddlewheels, tipboards, raffles, and pull-tabs. A brief description of each game follows.

Bingo

Bingo is defined as "a game of chance in which players place markers on a pattern of numbered squares, according to numbers drawn and announced by a caller."⁶ In Minnesota, the bingo cards must contain five rows and five columns, with the center square marked free. A player wins by "completing a preannounced combination of spaces or, in the absence of a preannouncement of combination of spaces, any combination of five spaces in a row, either vertical, horizontal or diagonal."⁷ The spaces are completed if the numbers, which must be preprinted, match those numbers announced by the caller.

The card used for bingo games is generally a preprinted piece of paper with 24 numbers and the free space. With paper cards, as the numbers are called out, the players mark the number (if it is on their card). Cardboard cards generally have a plastic cover which slides over the numbers, permitting re-use.

The numbers for the bingo game are generally marked ping-pong balls drawn from a blower until a player (or players) calls out "bingo." The winning pattern of numbers on the card is generally a vertical, horizontal or diagonal line covering five spaces. Other variations include covering the four corners of the card, covering a letter shape on the card and completely covering all of the spaces (coverall). Many of the bingo sessions, a series of games played together, feature a large prize at the end of the bingo series. Most of the large prizes are awarded to the player(s) for completing a coverall.

The game is often called Oh-shoot because, when the winner (generally one person) calls "bingo," all the other players say "Oh-shoot."

Paddlewheels

A paddlewheel is "a wheel marked off into sections containing one or more numbers, and which, after being turned or spun, uses a pointer or marker to indicate winning

⁶ American Heritage Dictionary of the English Language, ed. William Morris, Boston: Houghton Mifflin Co. 1980:

⁷ Minnesota Statutes of 1989, Chapter 349.12 Subd. 4.

chances."⁸ It is similar to the device spun on the popular television show "Wheel of Fortune."

To play a paddlewheel, the player buys a paddleticket. The paddletickets are sold from a paddleticket card. The ticket contains one or more of the numbers on the wheel. The card (and attached tickets) must have all of the numbers on the wheel.

After all of the tickets are sold, the wheel is spun. The player with the ticket that matches the number indicated by the wheel pointer collects the prize.

Tipboards

A tipboard is "a board, placard or other device marked off in a grid or columns, in which each section contains a hidden number or numbers, or other symbol, which determines the winning chances."⁹

A typical tipboard consists of a board with a number of tickets attached. The tickets may come individually or in bundles. The player purchases a ticket (or bundle) and opens it. Players opening tickets with the correct numbers (or symbols) write their name on a numbered list. This list can be viewed as a qualifying round--if you're on the list, you have a shot at winning the prize. After all the tickets are sold, the seal on the board is broken to reveal the winning number (and name).

Raffles

A raffle is "a game in which a participant buys a ticket for a chance at a prize with the winner determined by a random drawing to take place at a location and date printed upon the ticket."¹⁰

Pull-tabs

A pull-tab is "a single folded or banded ticket or a card with a face covered to conceal one or more numbers or symbols, where one or more of each set of tickets or cards has been designated in advance as a winner. [A] pull-tab also includes a ticket sold in a gambling device known as a ticket jar."¹¹

⁸ Minnesota Statutes of 1989, Chapter 349.12 Subd. 7.

⁹ Minnesota Statutes of 1989, Chapter 349.12 Subd. 8.

¹⁰ Minnesota Statutes of 1989, Chapter 349.12 Subd. 9.

¹¹ Minnesota Statutes of 1989, Chapter 349.12 Subd. 10.

This device, sometimes called a cardboard slot machine, produces instant results--success or failure. This quickens the action and provides the thrills that make this approach so widely popular.

APPENDIX B

Gambling Regulatory Budget

FY 1986

Budget 500,000
Positions 12

Executive Secretary, Chief Auditor, Office
Supervisor, Auditors (4), Clerks (3), Data Entry

FY 1987

Budget 505,386
Positions 12

FY 1988

Budget 677,208
Positions 15

Additional Auditors

FY 1989

Budget 641,600
285,185
926,785
Positions 21

(Initial Appropriation)
(Supplemental Appropriation)
(FY 1989 Total)
1 Clerk, 5 vacant
(transferred to Revenue August 1988)

Budget 194,312
Positions 4

Revenue - Special Taxes
3 Tax Investigators, 1 Clerical

FY 1990

Budget 923,156
219,475
618,581
85,100
923,156

(Revenue's calculation of charitable gambling
regulation costs based on regular appropriation)
Remains in Revenue
Transferred to Gambling Control Division
Transferred to Public Safety

309,000

(For Revenue--'89 regular session for auditors
and support, same change for FY 91.)

194,000

(To Revenue for computer systems, '89 regular
session)

92,500

(Additional appropriation for Revenue, '89
special session)

375,000

(Public Safety for all gaming enforcement)

	68,000	(Attorney General for all gaming activity)
Budget totals	618,581	Gambling Control Division
	814,975	Revenue
	460,000	Public Safety
	68,000	Attorney General
Positions	13	Gambling Control Division
	12	Revenue
	6	Public Safety
	2.5	Attorney General
FY 1991		
Supplemental	1,300,000	(Gambling Control)
Approp.	350,000	(Revenue)
	833,000	(Public Safety)
	70,000	(Attorney General)
Budget totals	1,918,581	(Gambling Control)
	1,164,975	(Revenue)
	1,293,000	(Public Safety)
	138,000	(Attorney General)
Positions	37	(Gambling Control)
	19	(Revenue)
	13	(Public Safety)
	3.5	(Attorney General)

APPENDIX C

Gambling is complex human behavior and it occurs in different settings and involves different groups. As such it demands knowing study and analysis. Dr. James M. Schaefer and Dr. Mikal J. Aasved undertook just such an examination and reported their findings, in November 1990, in a report titled "Minnesota Slots: An Observational Study of Pull-Tab Gambling."¹² It is a wonderfully insightful account of pull-tab gambling as well as a review of the literature on causal theories.

"Minnesota Slots" constitutes an invaluable contribution to our ability to understand pull-tab gambling and, as a result, offers the hope of channeling the behavior in positive directions.

The ethics and mores of the players are examined in such specific detail as the protocol of advising others of wins; approach to disposal of litter; physical handling of winning pull-tabs (tab pulled off to reveal winner or retained to conceal information); the practice of sitting on a winner; tipping practices and "deeking," or the practice of actively deceiving competing players.

The researchers found that pull-tabs are mostly sold in 1) small bars, by a bartender doing a lot of other things, 2) a large bar where separate booths and specifically assigned workers dispense tabs and 3) private clubs such as Elks lodges or VFW or American Legion halls, which seem to attract the heaviest play.

Most players (58%) were found to be men in their mid-thirties but three troubling incidents featured little children begging to open tabs or to get their parents to buy more. A winner opened by a child brought general approval. One tab puller, the youngest, was 29-months-old. The oldest player was 90, attesting to the longevity of hope.

Tab pulling was seen as an activity of the working class that took place in deeply social settings involving alcohol and recreation. The largest percent of bets ranged for \$1 to \$5 (24%) with 17.7% ranging from \$6 to \$10. There were a significant number of very heavy, regular players.

Observations of a group, over 40 days, revealed that even "winners" gave it back, in the form of replays. The fable of professionals wandering the circuit and winning big was exposed. Eighteen heavy gamblers were observed to bet \$24,050 over this period, with 16 losing from a high of \$1,392 to a low of \$53, and only two winding up as net

¹² James M. Schaefer and Mikal J. Aasved, "Minnesota Slots: An Observational Study of Pull-Tab Gambling," University of Minnesota, Center for Addiction Studies, commissioned by the Minnesota Department of Human Services, 1990.

winners (\$100 and \$35). Few walk away as winners. The house profit came to 31%, although the game payout was generally around 80%.

Poignant, individual vignettes dot the work. They are eloquent illustrations of the darker side of this seemingly innocent activity. Even when players suspected a game was rigged they continued playing and, in one notable case where a printing error produced fewer winners than advertised, the operator made good.

Many players appear to know they have a problem and seek help but there are pros out there, like the redoubtable Lou, who appear to be unreconstructable. One pathetic caller, seeking help, described his loss of \$80,000 and the ruin of a prosperous business and the destruction of his family.

The writers describe such behaviors as buying frenzies; the surprising stresses on pull-tabs sellers, as they observe the pain suffered by problem gamblers (and the sometimes pathetic attempts to dissuade them from gambling and sometimes quitting to take lesser jobs to avoid the agony.) One surprising comment was that neither the charities nor the gambling managers had any concern about problem gamblers.

Surprisingly many problem gamblers acknowledged the possible existence of a problem and fitfully reached out for help. One pathetic player hit a big winner on his last play before heading for Gambler's Anonymous, which, as a result, had to wait for another day.

The report describes a series of responses and behaviors that reflect the possibility of a problem:

- Spending a lot of time gambling and a lot of time thinking about it.
- Escalating bets.
- Hanging around games. Mesmerized.
- Recounts stories of big wins and big losses.
- Stress relieved.
- Work schedule affected.
- Mood swings.
- Funds habit secretly.

- Repeated plays--very rapid pulling of tabs.
- Behavior after big win (\$50+)--player stays in action; reacts coolly to win.
- Borrows to play.
- Surprises others with return to game with money.
- Box watching. Handicapping the box.
- Watches others opening tickets or offers to help open them.
- Superstitious rituals employed.
- "I've got to quit."
- Seeks inside information. "What's hot?"
- Quits, resumes, escalates. Some cut down.
- "Deeking"--pretending to hit. Fool others into not playing "hot box."
- Desperate. Buys one ticket. Uses loose change.
- "Box talk"--how layering of tickets may affect distribution of winners.

The picture is substantially awry from the glamorous, devil-may-care, action-centered scenario offered by those who romanticize gambling.

The researchers found that scratch-off lottery tickets would offer little competition because of the much smaller pay out. The places that sold both lottery tickets and pull-tabs found it a poor mix. The players' use of alcohol varied widely, from heavy drinking to none. The constant seemed to be that the addict concentrated on his/her addiction and seemed to resent wasting money on anything else. Alcoholics and drug addicts observed seemed to consume a lot of coffee and smoke a lot of cigarettes.

While the first part of the report contains a full description of the methods and approaches used, the second delves into motivational theories, without favoring one over another.

The moral model holds that the human exercises free will and chooses to sin.

The personality theory is based on childhood experiences that shaped impulses to flashy, grandiose, impatient behaviors. The mixed findings appear to indicate no single alcoholic or gambling personality.

Learning theory holds that habitual, voluntary behavior that is randomly reinforced will lead to addiction. The need to relieve stress and the search for euphoria tie into this approach.

Physical theories hold that activities like gambling trigger the release of chemicals in the brain that produce a rush or high. Some believe that the addict's fate is sealed with the first exposure if, for example, there is a big win and a great euphoria or the alcohol produced a good high the first time. The cycle goes from depression to a high to a deeper depression to the search for relief.

Psychological theories focus on quiet and the need for self-punishment or the search for power or to raise low self-esteem. The pavlovian response to the setting also triggers the action. There are depressed gamblers and bored ones who seek stimulation.

Social science models speak of anomie and the search for economic success through the only avenues available. The prevalence of addictions among lower classes fits into this theory. Curiously the authors didn't mention addictions as ways to escape awful daily realities of ghetto life.

Gambling as a protest against economic inequities and as a shock absorber and safety valve for pent-up tensions. Also as a way for the powerless to make choices or to show coolness or social acceptance.

Medical disease model treats compulsive gambling as an addictive disease with a host (addict), a disease agent (gambling) and environment. The stages are tolerance, dependence, loss of control and withdrawal.

Multi-causal model combines physiological and psychological factors. Gambling is behavior that involves physical and psychological motives.

The Addictive Personality Syndrome involves four phases:

- 1) Discovery--pleasure.
- 2) Return of pain.
- 3) Search for relief.
- 4) Exhaustion.

In the end the authors concluded there was no single factor accounting for gambling behavior. They did not comment on what appears to be a pervasive human instinct to gamble. The breadth and complexity of gambling's appeal attests to the danger it represents. The authors concluded that gamblers vary tremendously.

They concluded that gambling produces much good; that most gamblers are responsible; that most lose but some win but that the odds are stacked to produce certain gain for the house. Compulsive gambling will increase as gambling opportunities expand. Their suggestions include training dealers and gambling managers in gambling laws; also training them to recognize gambling problems in their early stages; advertising sources of help and educational programs that focus on awareness and prevention education.

The study is particularly valuable for the observations made by scientific observers offering insight into a complex and possibly destructive human action. The scenes described are at odds with the glitzy notions promoters and apologists so tirelessly purvey.

HORSE RACING

In contrast with other states and their hallowed racing traditions, Minnesota is a relative newcomer to the "Sport of Kings." Nevertheless, in its brief life it has managed to sire an extensive industry that has produced jobs, created farms and led to the emergence of Minnesota-bred horses as serious thoroughbreds. All of this progress came against a backdrop of ruinous financial losses for the original owners, who were forced to sell out just before the start of the 1990 season. In this sense the symbol for horse racing in the state might more appropriately be the phoenix than the horse.

This chapter examines the brief, but rocky history of horse racing in Minnesota, racing and wagering at the track, the economics of the racing industry and the future issues facing the industry.

HISTORY

A chronology of racing's brief history begins, again, with an emphatic expression of the popular will to allow what was formerly forbidden--see Figure 3.1.

Racing, in Minnesota, is regulated by a nine-member Racing Commission and its executive director and staff, who issue licenses and enforce laws and rules. It is responsible for the integrity of the sport.

The Commission's formal powers and duties are to:

- 1) regulate horse racing in Minnesota to ensure that is conducted in the public interest;
- 2) issue licenses (as provided by law);

Minnesota's Racing Chronology	
1982	Constitutional amendment allowing on-track pari-mutuel betting on horse racing passed.
1983	Racing law passed. Minnesota Racing Commission created to regulate horse racing in Minnesota. Applications for racing licenses accepted by Racing Commission. Only one track to be given a license for the Twin Cities Metro area.
1984	Construction of Canterbury downs (in Shakopee) begins.
1985	First race at Canterbury Downs held in June. (Simulcast races from other tracks allowed as long as live racing is also being conducted at the Minnesota track on the same day.)
1988	The legislature provided tax relief to the ailing enterprise, providing more money for purses and operating expenses.
1989	Televised racing allowed (without live racing also being conducted at the track). Transmissions of Minnesota races to out-of-state tracks and tribal lands in Minnesota was authorized.
1990	Canterbury Downs sold to new owners.

Figure 3.1

- 3) enforce all laws and rules governing horse racing;
- 4) collect and distribute all pari-mutuel racing taxes;
- 5) conduct necessary investigations;
- 6) supervise the conduct of pari-mutuel betting on horse racing;
- 7) employ and supervise personnel;
- 8) determine the number of racing days at each licensed track;
- 9) take all necessary steps to ensure the integrity of racing in Minnesota.
(MN Statutes Chapter 240.03)

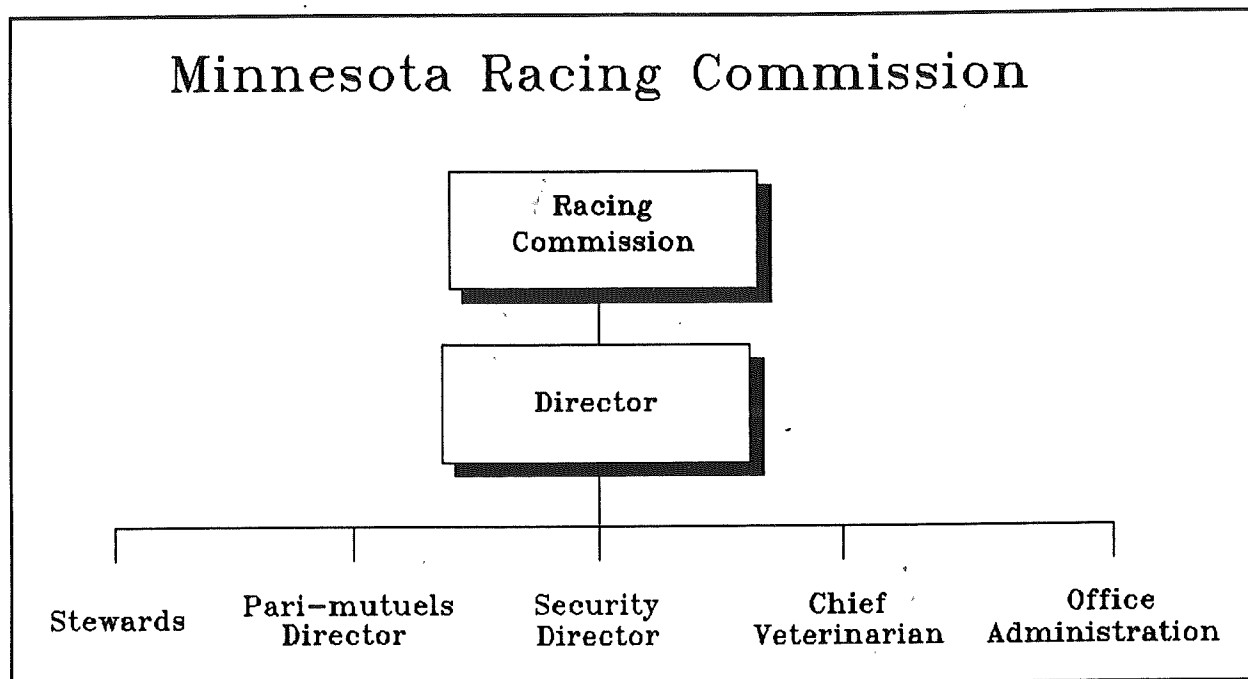


Figure 3.2

The Commission's organization is illustrated in Figure 3.2.

The integrity of baseball is largely in the hands of the umpires. In football it is, as in boxing, the referee. These arbiters enforce the rules and make the decisions that either preserve the integrity essential to the sport or destroy the activity through acts that cause a run on the public's confidence. The arbiters and rule enforcers of racing are the stewards who either question or authenticate every aspect of a race, from the true identity of the horse to the manner in which the course was run, and everything in between, such as the use of medications or illegal stimulating devices. Stewards are appointed by the Racing Commission to serve the public interest in insuring the honesty of the sport.

The pari-mutuels director is responsible for inspecting the betting machines and ensuring that the correct racing taxes are collected. The security director maintains the security of the track and supervises the licensing process. Almost 40,000 people have been licensed since the track opened in 1985. Investigators work closely with the stewards in following up on complaints or irregularities.

The veterinarian ensures that the horses are fit to run the races and free of illegal drugs. The vet is also responsible for keeping the racing humane. Several thousand horses run at the track each race meet.

One of the problems constantly facing the Commission is the role confusion attendant upon being both the regulator and protector of the industry. The temptation sometimes proves irresistible to be an apologist for racing's practices and to staunchly defend its prospects, where monitoring and supervision might be more apt in the circumstances.

The only legislatively mandated promotion function of the Commission is the Breeder's Fund. Proceeds from the Breeder's Fund, which come from the pari-mutuel handle, are to be used for research, education, purse supplements and other financial incentives to encourage race horse breeding in Minnesota.

Financial Troubles & Ownership

Canterbury Downs held its first races in June 1985. Attendance for the first two years was higher than had been forecast, with 13,162 and 9,104 per day in 1985 and 1986. It was felt that the daily attendance needed was 10,000. The average per capita wagering proved lower than predicted, with \$77.08 and \$95.05 bet in 1985 and 1986. The average per capita wagering needed (based on profitability studies) was between \$140 and \$145. The wagering estimates are what the patron wagers, not what is taken out-of-pocket. For example, if a patron bets \$10 in the first race and wins \$130, and then bets the \$130 over the next nine races (and loses), the patron has still wagered \$140 even though the patron is only out a total of \$10.

The problems at Canterbury are eloquently illustrated in a table accompanying the Racing Commission's 1989 Annual Report--see Figure 3.3--which reflects declining attendance, handle and taxes, even as the per capita wagers continue to rise.¹

Canterbury experienced operating losses every year. By the end of the 1989 racing season it had accumulated a deficit of approximately \$40 million, much of it attributable to a \$45 million mortgage and interest payments. The declining handle exacerbated and accelerated the decline, which could not be stalled by the substantial tax break received in 1988--see Figure 3.4.

The failures have been attributed to such factors as parking and entrance fees; inconvenient hours (two Friday night programs produced encouraging results in 1989); Minnesotans' lack of interest in or prior experience with racing; some problems in handling unexpectedly large crowds; inconvenient location and access (roads going through town and congestion, etc.); the availability of other gambling choices; possibly inadequate marketing and publicity techniques; the plethora of sports and entertainment forces competing for the scarce discretionary income; no opportunity for

¹ Minnesota Racing Commission 1989 Annual Report. 1990 figures added.

COMBINED 1985 TO 1990 RACE MEETS						
	1985	1986	1987	1988	1989	1990
Handle	\$84,211,000	\$133,657,000	\$120,020,000	\$120,958,000	\$102,188,000	\$82,797,000
Average Daily Handle	1,015,000	874,000	960,000	991,000	845,000	679,000
Attendance	1,092,000	1,392,000	1,107,000	1,045,000	876,000	711,000
Average Daily Attendance	13,160	9,100	8,860	8,570	7,200	5830
Per Capita Wagering	\$77.08	\$95.95	\$108.37	\$115.69	\$116.67	\$116.50
Race Days	83	153	125	122	121	122

Figure 3.3

off-track betting; short season that might have been extended with simulcasting from other tracks and the confusion surrounding changes in ownership. The steady drumbeat of negative publicity surrounding the financial problems also proved a dampener on enthusiasm.

Canterbury Not Alone in Financial Woes

Canterbury was not the only race track experiencing financial difficulties in the 1980s. Cummings and McQueen found "widespread declines in pari-mutuel attendance over the past few decades, accompanied by a near-universal failure of per capita wagering to keep pace with inflation."²

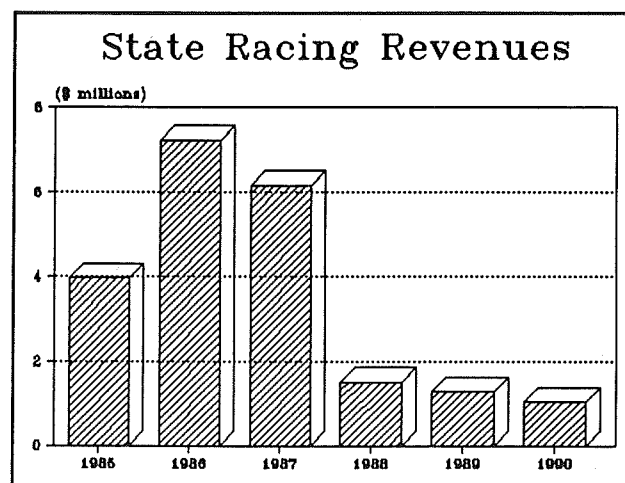


Figure 3.4

The Minneapolis Star Tribune reported that nearly all of the nation's 107 tracks suffered financial difficulties in the 1980s; with 17 going out of business.³ Other articles

² Will Cummings and Patricia McQueen, "Declining Per Capita Wagering at Pari-mutuel Sports," in *Gambling Research*, Proceeding of the Seventh International Conference on Gambling and Risk-Taking, ed. William Eadington, University of Nevada: Reno, 1988.

³ Steve Davidowitz, "Canterbury Not Alone in Its Suffering," *Minneapolis Star Tribune*, February 4, 1990.

and reports chronicled the decreases in pari-mutuel handles for on-track betting. There have, however, been increases in handles in off-track betting in other states.

Some of the losses in wagering can be explained by the increasing availability of other wagering opportunities, increasing takeouts by the track, increased IRS withholdings on winnings and bettors' response to inflation and recession. (The demographics of horse bettors around the country are skewed towards segments of the population which are more vulnerable than average to economic stress.)

Some believe that the future of horse racing lies in fewer tracks and greater access through remote broadcasting to theaters or off-track betting facilities.

Track Now Under New Ownership

Canterbury was put up for sale in early 1990. After a long and tortured search the track was taken over by Herbert Tyner and Bernard Hartman and Ladbroke Racing Corporation in April of 1990. Having purchased the facility and its mortgage at a deep discount and retired its debt, the expense was cut sharply, thereby increasing the prospects for a profit even under lower attendance and handle figures. Ladbroke would operate the facility. The relationship between the two organization is illustrated in Figure 3.5.

The 1990 Season & Future Prospects

With the ownership problem out of the way and the onerous mortgage eliminated, the prospect of economic success loomed bright as the 1990 season opened on April 27th.

Along with their license application, Hartman & Tyner and Ladbroke submitted projections for future racing handles--see Figure 3.6.

The reality did not prove as upbeat for 1990 which saw a disastrous continuation of the historical downturns since the 1985 opening. This has been attributed to the short preparation time which affected the racing quality; the lack of promotion; bad weather; the poor image resulting from the financial ruin connected to the operation and to competition from other forms of gambling and recreation.

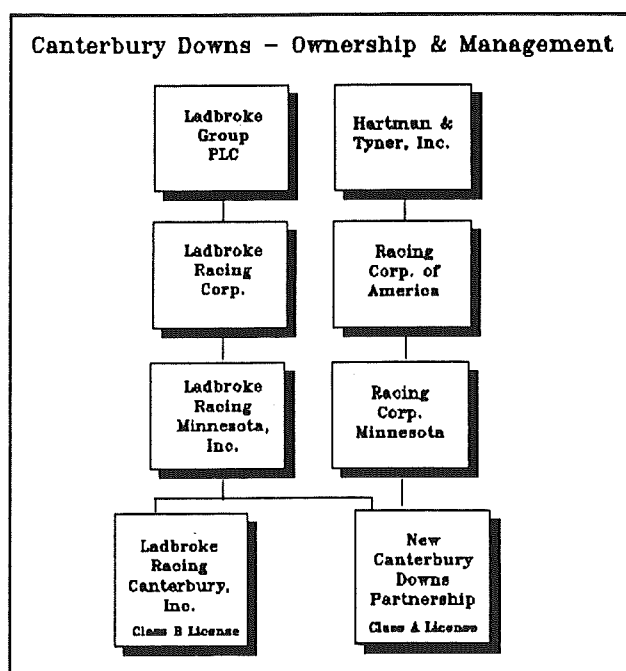


Figure 3.5

1990 TO 1994 RACE MEET PROJECTIONS (Includes Simulcast Projections)					
	1990	1991	1992	1993	1994
Handle					
Live	\$103,329,000	\$120,393,000	\$127,061,000	\$130,434,000	\$134,330,000
Simulcast	7,650,000	15,300,000	15,300,000	18,000,000	18,000,000
Total	\$110,979,000	\$135,693,000	\$142,361,000	\$148,434,000	\$152,330,000
Attendance					
Live	883,000	1,012,000	1,044,000	1,065,000	1,087,000
Simulcast	51,000	102,000	102,000	120,000	120,000
Total	934,000	1,114,000	1,146,000	1,185,000	1,207,000
Average Daily Attendance					
Live	7,239	7,439	7,680	7,833	7,990
Simulcast	850	850	850	1,000	1,000
Per Capita Wagering					
Live	\$117.00	\$119.00	\$121.65	\$122.44	\$123.62
Simulcast	150.00	150.00	150.00	150.00	150.00
Race Days					
Live	122	136	136	136	136
Simulcast	60	120	120	120	120

Figure 3.6

Still, when a promotion featuring free wallets (and as much as \$5,000 cash in one of them) and other prizes was tried on October 6 (a Saturday), a whopping 1990 record 14,477 turned up, who bet \$1,236,932 (a low \$85.44 per capita, to be sure) which was twice the season's daily average. Night racing, tried for the first time regularly, also brought out more bettors.

Simulcasting will keep the track open the year round and fuel interest. It got off to a great start in 1990. A new, highly regarded director of racing has been appointed. The new operators, experienced in their ownership of other tracks, will undoubtedly benefit from 1990's painful experience. The prospect for profit has been greatly enhanced through the elimination of debt. The meet for 1991 is being reorganized to attract better horses. More will be spent on promotion. Work will have to be done to improve Canterbury's image. Fee structures will have to be reviewed.

Even after the disappointments of 1990 it appears likely that Canterbury will one day be seen as one of the sport's greatest bargains.

The financial information submitted also projected that the operators of the track, Ladbroke Racing Canterbury, Inc., would make an average net income after taxes of slightly more than \$1 million per year (from 1990 to 1994), with the total increasing

The stewards overseeing racing at Canterbury Downs are required to submit season-end reports of their findings. It is instructive to quote some of the more salient passages of their documents:

Condition of the Association

After 122 days of live racing in 1990, Canterbury has reached a new low for both attendance and mutuel handle. The live racing daily average attendance of 5,867 was off 18.9% from the previous year while average pari-mutuel handle declined even more at \$682,139 off 19.2%. This serious drop in business was totally unexpected by the new Ladbroke group. Further, Ladbroke executives were unable to identify the problems other than the obvious debacle in the racing department.

Racing Office

The racing office has been the area of most concern. It all stems from poor, weak and inexperienced leadership. The personnel, with the exception of a very few, are honest, hard working people who want to do the best job possible. They have been misdirected and placed in jobs without proper basic fundamental training. Since the stewards clashed with supervisors in the Racing Department, a lack of cohesion has existed. It has weakened the foundation of "Steward-Official" relationship at Canterbury.

The paddock has been of particular concern to us this year. We have tried to direct a punctual and safe operation without any question in regard to the integrity of racing in Minnesota. The appearance of special interests receiving preferential treatment has existed throughout the meet. We have met with resistance from the Racing Department due to the fact that they do not want to alienate any of these special interests. Their attitude has been to "let them do what they want" without regard to safety, order or appearance.

Security

The main concern in the jockeys' quarters has been too many people in and out who have no business being in a restricted area. This needs to be better enforced to help insure the integrity of racing here.

Management

The management of the "New Ladbroke Canterbury" has on a whole been helpful and genuinely concerned about the publics' perception of Minnesota racing. The general manager appears to be committed to implementing the necessary changes in all departments in order to turn this tragedy around. He brings to Minnesota a rare blend that few general managers possess in that he has the educational, managerial and racing experience that has and will continue to make him a positive force in the future of Minnesota racing. He has done a fine job considering all the problems coming into the meet. He has taken a real hands-on position that was very much needed.

Substance Abuse Program

While this program had a slow start, this being its first year, we hope to work much closer with them in the future to solve the problems of substance abuse on the race track. It is a much needed program and hopes are very high for its success.

Starting Gate

The starter and his crew have performed in an exemplary manner. This is a fine starter and crew.

Official Veterinarians

All the official veterinarians performed their duties in a very professional manner.

Recommendations for Improvement

Racing department changes were made too late in 1990 to be of any positive significance. The agreement with the director of racing is a proper move and will bring credibility to a department that was a total disaster in 1990. He will bring the necessary staff on board and some quality stables.

The stable area appears to be well maintained by the Ladbroke group. However, the problem that existed when the track opened in 1985 remains today, and that is the shortage of dormitory space for stable employees. This problem is further compounded by the fact that no suitable rental housing is available off track. Additional units are seriously needed.

The chaplain, who departed Canterbury, has made a very positive contribution to the people of the backstretch. Someone needs to be retained for that position prior to 1991.

The track kitchen was seriously short on quality food.

The quality of the physical plant at Canterbury Downs is of the highest caliber.

Track security is a problem at some race tracks and Canterbury had the appearance of a track that would fit this scenario at the opening of the meet. However, as the meet progressed and a new director of security came on board, the situation began to shift.

The adoption of the Jockey Club ownership requirements would be beneficial to all concerned with the transfer of thoroughbred horses. Minnesota should assume a leadership role in this area, as all states will eventually adopt this procedure.

In Conclusion

Since 1990 has been a year of uncertainty and experimentation, we do not want to dwell on the negatives that are in the past but wish to look forward to a bright and positive future for racing in Minnesota and at Canterbury Downs.

each year. Another figure in the predicted income statement is the lease payment, which is dependent on wagering handles, going to the partnership between Hartman and Tyner and Ladbrooke Racing, New Canterbury Downs. The projected five-year total for lease payments is approximately \$21 million, the estimated amount the group paid to purchase the track from the previous owners.

Quarterhorse racing alternates with thoroughbreds at the track and the possibility of standard bred (or harness) racing resurfacing after being discontinued remain live issues. The 1991 season will open with thoroughbreds and have mixed thoroughbred and quarterhorse racing in the fall. Simulcasting will occur throughout the season.

Even with these rosy financial projections (well off the mark for 1990), restive investors worry mightily over the impact of the competition coming with the opening of a dog track in Hudson, Wisconsin in coming months. Dog tracks are felt to provide very tough competition for the racing dollar.

RACING & WAGERING

Compared to other wagering opportunities, betting at the track is one of the least spontaneous gambling activities. Unlike lottery tickets, which are available at the corner store, or pull-tabs, which are available at almost every neighborhood bar, there is only one race track in Minnesota. The gambling process is also different, gamblers wager against each other's ability to pick the winning horse, not the odds of the game.

Pari-Mutuel Betting

Prior to the creation of the pari-mutuel system, bookmakers would set the odds before the race and pay-outs for winning horses would be made according to those odds. Bookmakers would often set poor odds, resulting in losses for the house.

With pari-mutuel betting the odds are set by the amount of money wagered on the various horses. While the betting is taking place, the odds change according to how much is bet on a particular horse. Favorites usually have low odds and the winning pay-out is generally low, usually less than the amount bet. A winning \$2 bet on a favorite may pay out \$2.80, or forty cents in winning for each dollar bet. Long-shots have high odds and, of course, high pay-outs if they win.

All of the money wagered goes into a pool, most of which is returned to the bettors in winnings, the rest goes to the purses for winning horses, to the track for operating expenses and income, to the state for the pari-mutuel tax and the breeder's fund. Figure 3.7 shows how the race wagering dollar is divided under Minnesota's law.

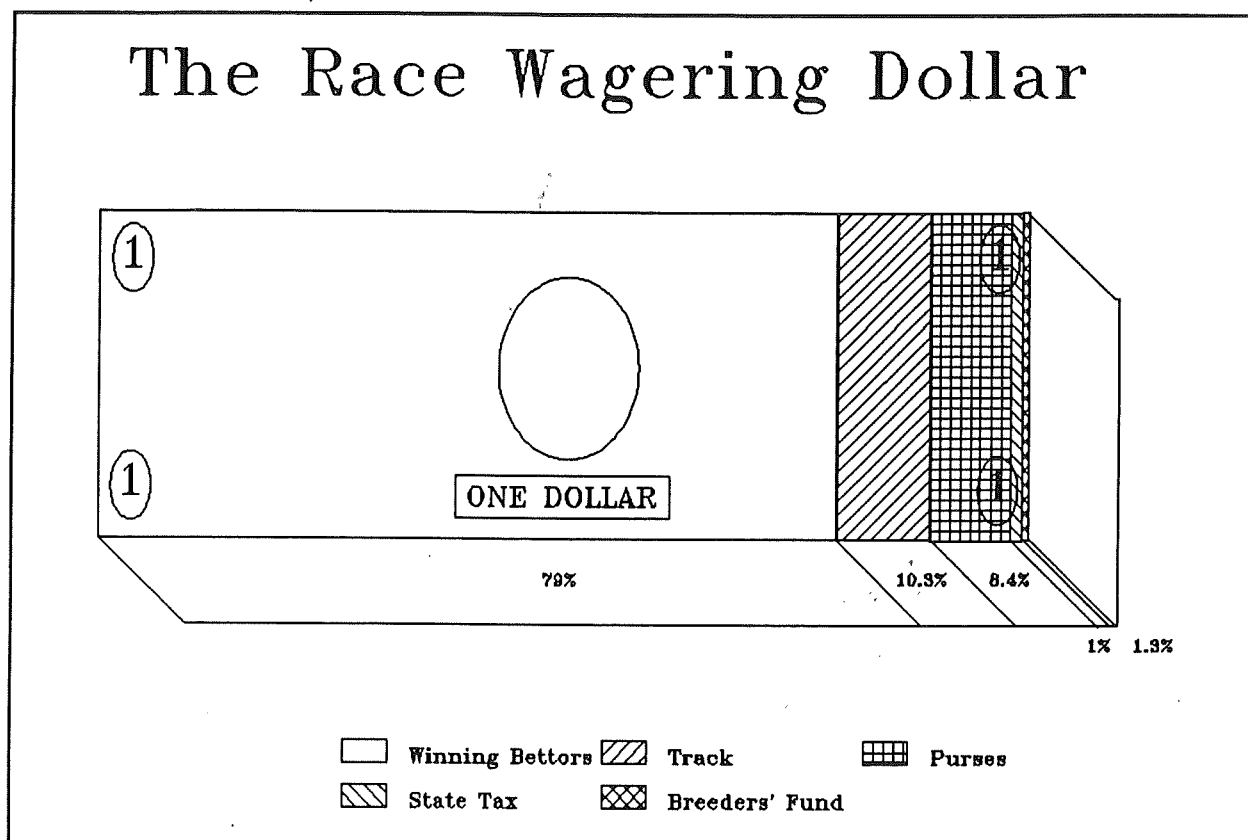


Figure 3.7

There are two types of betting accompanying the pari-mutuel system--straight pools and exotic pools. Straight pools consist of win, place and show bets. A bet on a horse to win wins if the horse finishes first. A bet to place wins if the horse finishes first or second. A bet to place wins if the horse finishes first, second or third. (An "across the board" bet is a win, place and show bet.)

Bets on which horses will take first and second, or on the horses that will win two races, are some of the exotic wagers. The exotic wagers currently allowed at the track are the daily double, daily triple, exacta, quinella, trifecta, twin trifecta, and pick six. The daily double is the winners of the first two races; the daily triple is the winners of three consecutive races (usually later in the race schedule). Exacta is the two horses that will finish first and second in the exact order; the quinella is the two horses that will finish first and second in either order. To win a trifecta the three horses that finish first, second and third in exact order must be picked. The twin trifecta is a combination of trifectas on two races. To be eligible to bet on the trifecta in the second race, a bettor must win the trifecta in the first race. The pick six is for the first horses in six consecutive races. The 1990 season confirms the popularity of the pick six and the unpopularity of the twin trifecta which will probably vanish.

For some of the more exotic wagers, such as the twin trifecta or the pick six, the prize pools carry-over if no one picks the correct winners, leading to fairly substantial jackpots. The pick six is the bet which generates the most excitement and fan interest.

At the Races

A day at the races is one of the most pre-planned gambling efforts in Minnesota. For most, just getting to the race track involves a drive of more than 20 miles, along a road which seems to get narrower, longer, and slower. Current and planned construction projects should facilitate access.

Once at the facility track goers pay for parking and admission. The track grandstand contains several levels, with the higher levels being more prestigious than the lower ones. The lowest level contains standing room and benches. As one goes higher up the view and seating become better.

Once inside and located at a grandstand level of choosing, the racing fan may buy a program which lists the horses that will be running, and a "Daily Racing Form" a guide to the previous performances of the horses running that day. With those materials in hand, the horse player sets to work handicapping or determining which horse is most likely to win. The bets are placed at the pari-mutuel windows which issue tickets stating the race and horse numbers and the amount bet. The race is run, stewards declare the results official, winnings, if any, are collected. Losing tickets are discarded. Surprisingly a large number of winnings tickets are also thrown away.

The more serious horse players spend several minutes, if not hours studying the "Daily Racing Form," and other handicapping aids. They then place large bets, often hundreds of dollars, only on a few races (if any) in which they are confident they've divined the winning horse. The less serious bettors wager \$2 to \$20 on nearly every race. Some of the less serious bettors understand the art of handicapping, others bet on a horse because they like its name, racing colors, lucky number or some other superstitious belief.

Depending upon the track and the time of year, there may be different breeds of horses racing. Thoroughbreds are the most common. Quarterhorses, which run quarter-mile races, and standard bred, which pull the jockeys in carts, are also found at pari-mutuel tracks.

Sometimes the races are combined with special promotions such as family day, seniors' day or another special event. Fans are also invited to the backside of the track where the horses are stabled for tours on Saturday mornings.

Pari-mutuel Terms

Allowance Race: Allowance races feature horses of a varied caliber--those who are not stakes class, yet who do not belong in claiming races. For Thoroughbreds and Quarter Horses, allowances are determined by age, distance, earnings and/or the number of races won.

Claiming Race: A race in which any of the entrants may be bought by any owner or trainer at the track for an amount specified in the conditions of the race.

Coupled: Two or more horses are "coupled" for better purposes if they are owned by the same person or persons. As a result a bet on one of the "coupled" horses is considered a bet on all of them. Coupled horses are also called "an entry".

Even Money: A horse with odds of 1 to 1--meaning that a bettor will earn \$1 profit for every \$1 bet on the horse--is said to be at "even money".

In the Money: A horse is said to be "in the money" if it finishes first, second or third. However, horses also collect part of the purse money for finishing fourth or fifth.

Morning Line: The odds assigned by the track handicapper to each horse prior to the race day. This is a forecast of what the bettors will make the odds on each horse. When wagering opens for the day, each horse's odds begin with the morning line.

Odds On: If the odds on a horse to win are so low that the bettor stands to make less than \$1 profit for every \$1 bet, that horse is said to be an "odds-on" favorite, or "less than even money".

Post Position: Numbered from the inside of the track to the outside. Post positions are randomly drawn.

Route: A race of a mile or more.

Sprint: A race of less than one mile.

Stakes Race: The highest caliber of race offered. The track puts up a large purse to attract the best eligible runners. In most instances, owners pay fees to nominate, enter and start their horses. The fees become the "added money".

Tote Board: The electronic board in the infield that displays the win odds and the amount bet on each horse and the winning payoffs, along with other information.

Wheel: An exacta, trifecta or multiple race wager in which the bettor combines one horse with every other horse. For instance a wheel of horse number one "over" a six-horse field would involve combining horse number one to win with every other horse in the race to finish second in an exacta, and second and third in a trifecta wheel. Wheeling one horse in the first race with the field in the second race or vice versa may occur, for example, in the Daily Double.

Wire: The finish line is also referred to as "the wire".

The Backside

Except for those who take up the track's offer to tour the backside, few racing fans realize the tremendous amount of work that goes into running a live racing meet. Approximately 2,000 horses are stabled at Canterbury during the race meet. Just feeding and cleaning up after them is quite a task. The horses also have to be trained for racing.

Owners hire trainers, who hire grooms and hot-walkers, to keep the horses in shape. Private veterinarians attend to the horses under the supervision of the Racing Commission's vet. The owners and trainers decide which races to run their horses, which in itself is often a spectacle as they secretly go about signing up for the program. They do not want other trainers and owners to know when their horses will run or who will ride the horse.

Many of the backside employees live at the track in backside dorms during the meets. Because many of them have little to do outside of their work at the track substance abuse is a constant problem for the backside employees. To deal with these problems the track, horse owners organizations and private sources have created an employee assistance program. The track also provides some medical benefits and care to backside employees.

Who Plays the Horses

Nationally the demographics of the horse player are working blue collar males. A survey, conducted by Canterbury Downs during October 1989, revealed that its regular patrons tended to be older males (mean age 48), many retired (21%). The introduction of night racing, which will allow working people to get to the track, will probably change the demographics of the Minnesota horse player.

ECONOMIC IMPACT OF RACING

While the race track itself has lost money since its inception, the horse breeding and racing industry has helped the state's economy. Despite the losses to the owners and the negative publicity and confusion surrounding its attendant difficulties, Canterbury Downs spawned a large and growing industry in Minnesota. A growing native race horse breeding industry has produced several hundred farms, almost 3,000 jobs and various tax revenues (beyond the reduced pari-mutuel tax) for the state and its citizens.

Studies by the Department of Revenue (June 1987 and June 1989) concluded that the racing industry had produced a salutary effect. The 1989 study stated that racing and breeding constitute a \$155 million industry, with \$35 million going for salaries and wages from approximately 2,600 full-time equivalent jobs. Figures put together by

Canterbury Downs stated that approximately \$48 million was paid in various taxes (e.g., pari-mutuel, income, admissions and local property) from 1985 to 1989.

Given the estimated size of the racing and breeding industry, the amount of money paid in purses, and the opinions of those in the industry, a large number of horse owners must be pursuing racing as a hobby, not a business investment. From 1985 to 1989, \$561 million was wagered, with approximately \$47 million going to purses--much less than necessary to support a \$150+ million industry.

FUTURE ISSUES

With experienced new ownership which secured Canterbury Downs at bargain basement prices, the track appears to have bottomed out. The future looks bright. The creation of by-passes and new highways will dramatically improve access. Population growth in the area seems likely. Not much increase appears to be necessary to break into the black. Night racing and winter simulcasting appear to be promising avenues for revenue enhancement.

The large issues looming in the future are likely to be off-track betting and a readjustment of taxes if and when the enterprise begins to turn the expected profit. It appears to be well within reach to obtain profitable status through the reductions in capital costs already affected; tightening of operating costs; improved promotions and obtaining slight increases in daily attendance and handle.

Horse racing, after a turbulent beginning, appears firmly established in Minnesota. A first-class facility and responsible, fiscally sound new management augur well for the industry's future.

Off-Track Betting

One answer to declining attendance and reduced handle at the track is to create betting parlors in neighborhoods where people can place bets on horse races without traveling to the track. Often this includes televised races. The wagers become part of the track's betting pool, adjusting the odds accordingly. Off-track betting (OTB) is the golden egg's goose, holding the promise of large increases in the amounts wagered and in the number of those wagering on the races.

Facilities vary, from Chicago's few posh establishments to New York's ubiquitous, spare, dingy, smokey warrens (300) with few amenities, to discourage loitering. New York's OTB was created to raise revenue for local governments, produce jobs and attack illegal betting, rather than to buttress the racing industry. This resulted in its being created without the industry's full cooperation and involvement, a factor later, in

retrospect, seen as a serious blunder. Notwithstanding their shabbiness and low repute, New York's OTB parlors and other remote wagering spots accounted for 60% of the money bet in 1989. New York is now considering expanding its OTB to include more posh establishments, developed in cooperation with the industry, that contain television monitors.

The cyclical nature of many gambling enterprises forces the development of marketing strategies to promote the desired growth. As handle on track declined 0.79% and attendance dropped 0.97%, despite a slight increase in racing days in 1988 over 1987, race course operators began considering the two most inviting alternatives--OTB and simulcasting.⁴

OTB appears to result in declines in on-track attendance and increases in participation and handle. Although this diminishes participation at the track and increases sterile passivity, the fact is that, notwithstanding the protestations of outdoorspeople and breed improvers, the tracks would not, absent the opportunity to bet, be likely to attract many visitors. Today the Kentucky Derby generates great sums through simulcasts to tracks throughout the nation.

OTB has resulted in such evolutions as Aqueduct's two-thirds decline in attendance while the amount of the daily purse distribution nearly doubled, over a twenty-year period. Currently there are proposals to raze the track to permit airport expansion. Reducing the number of tracks appears to be a likely future prospect as telecasting becomes more important. Some experts think there are too many tracks in the Midwest.

Hindsight allowed planners to see New York's mistakes and the value of a cooperative effort, between the state's racing association and OTB to create a successful enterprise. Illinois is frequently cited as an answer to New York's Brand X.

Since horses can only be bet at the track in Minnesota, the industry is constrained in its competition with pull-tabs, bingo and the lottery, all of which are locally accessible. Nevertheless, it seems logical to assume that Canterbury Downs will prosper under the new regime, without the golden goose of OTB, in light of the much more modest attendance and handle totals needed under the sharply reduced operating costs.

OTB is currently illegal in Minnesota and there is some question whether a constitutional amendment would be required to authorize it. The 1982 ballot amendment to the constitution permitted "the legislature to authorize on-track pari-

⁴ Bulletin of the Association of Racing Commissioners International Inc., Lexington, Kentucky, November 17, 1989.

mutuel betting in a manner prescribed by law." The confusion is an augur of the potential mischief possible if it were to be legislated into existence and someone brought a suit (as would be likely to happen sooner or later) challenging its constitutionality.

Inter-Track Wagering

Another wrinkle devised in the never-ending struggle to revitalize a cyclical industry is inter-track wagering, or simulcasting. The races are televised to an audience at an otherwise closed track (see the projection in the summary of operational information included earlier in this section). Canterbury will have races televised from four tracks from October 10, 1990 through April 19, 1991, thereby bringing one form of horse racing or another, to Minnesota, the year round.

The debate is between those who believe that new patrons are created from visits to the track and observing live events and those seeking to broaden the population base of bettors, whether they get to the track or not. Accessibility is a key issue in broadening the base of participants, but this strikes at the "improvers of the breed" myth that surrounds the presence at the event.

The availability of televised, off-track action indisputably causes reductions in on-track attendance and increases in the totals wagered. Usually the amount wagered far exceeds on-track losses of patronage and revenue. The question then becomes which is the more desirable goal, on track attendance or a larger handle. There is also the issue of broadening citizen betting opportunities which has been extremely evident in the attendance and handle figures posted by Canterbury so far in its first winter simulcasting season in 1990.

Telephones

Another telecommunications device also in the possible future of racing is the telephone. The track would set up an account ahead of time then patrons could place bets over the phone drawing money from their account. Telephone wagering had always been allowed by Racing Commission rules but never implemented. During the 1990 legislative session, Canterbury was seeking to change the split of the proceeds from telephone wagering. The bill died quietly after an amendment was made disallowing telephone wagering which was never previously prohibited nor authorized explicitly. Strong sentiment was expressed against this proposal although some experts believe it is already authorized in the law.

Cable television could be used to broadcast races to homes, with wagers being placed over the phone, giving every home in the state an OTB flavor.

Other Tracks

There has been some discussion of expanding racing to other tracks, such as creating a thoroughbred racing track in Little Falls, a harness track in Blaine and other possibilities, including dog tracks. One track has combined horse and dog racing, considered anathema by some purists. The trend, however, is in the opposite direction as experts come to see the market as over-saturated with tracks and simulcasting growing in importance. Fewer tracks and bigger purses equates to higher quality racing.

COMMENTARY

One of the characteristics of gambling appears to be its feeding off its own promises as problems arise. A good example was the need to get legislative relief from taxes as the mortgage burden weighed too heavily on Canterbury. Another was the ultimately unsuccessful attempt to limit the pull-tab prize pay-out to 77% in order to protect profits. Another was the search for an attractive savior-bail-out, such as off-track betting. This creates a sort of ephemeral chasing of the golden goose as gambling enterprises fail to live up to the excited promises of glib promoters. The cycle includes pleas for the creation of an enterprise, accompanied by lavish promises of success, followed by pleas for additional help and adjustments as the hopes fail to materialize. A constant struggle with legislation follows. The state must be alert to the dangers of patchwork solutions.

\$10.00

Daily 3

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THE LOTTERY

Legalizing any activity is equivalent to stamping the government's imprimatur on the action. Such official approval is bound to color some aspect of the popular attitude toward the activity in question. It is, as a result, hard to estimate which leads which--popular approval or official sanction. It is likely that the peoples' will generally prevails but it is probably true that, to some degree, popular sentiment and government approval feed off and reinforce each other. There seems little doubt but that the popular view of gambling has moved right ward, from the sinful to the respectable, over recent years.

This section examines the lottery in Minnesota and the practices of lotteries generally, in an attempt to communicate a fuller understanding of this new incarnation of an old industry.

MINNESOTA'S LOTTERY

As recently as 1986, a statewide poll revealed that two-thirds of Minnesotans favored a lottery. Still, a process begun in 1972 with the introduction of a lottery bill to create a "new revenue source to cut state taxes" did not evolve into law until 1988, affording Minnesotans the chance to vote to strike a constitutional amendment forbidding lotteries. The issue carried 57% to 43%, in the November 9, 1988 election that produced a larger than predicted turnout.

A fierce battle accompanied the effort to pass the enabling legislation in 1989 but it made it. Proceeds would go half to the Environmental and Natural Resources Trust Fund and half to the Greater Minnesota Corporation which would create jobs through economic development in outstate communities impacted by the farm and mining crises. The funding was to continue through 1995. (This arrangement was expanded to

include funds for capital projects in education in 1990, at the expense of the GMC, which would receive a lower percentage but have the life of the flow of funds extended.) Thus was this solemnly adopted formula altered before the first penny of proceeds appeared. It was an object lesson of the folly of adopting rigid formulas to fit rapidly changing circumstances. By 1990 even the farm crisis was a memory as the less efficient operations and land speculating operators got shaken out and prosperity returned to this vital industry.

The legislation envisioned an independent agency run by an autonomous director on a businesslike basis. The enterprise was granted a general mandate, loaned funds and allowed to develop according to the director's professional judgment. The seven member board was selected and organized but only the Governor could hire or fire the director, and then only for cause. In starting the lottery an eclectic approach, borrowing from successes in other jurisdictions, was adopted.

An experienced, talented executive, who was selected in the fall of 1989, set about the start-up process of selecting key staff, acquiring a site, letting contracts and making preparations to have a scratch-off game in mid April 1990 and a full-scale six-digit lottery in August. Retail outlets would be selected to market the product. The lottery's new head called Minnesota's lottery law the best one in the nation--in terms of the autonomy, flexibility and opportunity for progress allowed. The observation met with general agreement.

Lottery Start-up

Minnesota started its lottery in 1990. Among the key factors needed to insure success are:

- 1) Enabling legislation that maximizes autonomy and flexibility while promoting vigorous accountability. It is a business and it does require shifts of strategy and approaches and the executive director needs freedom to act. It is vital, however, that a monitoring system be in place to insure the integrity of the process. Minnesota created a very independent agency and granted its director sweeping powers.
- 2) A small, active, informed, interested, tough board of directors. A group of seven was selected by the Governor and a chair chosen. Regularly scheduled monthly meetings are buttressed with other contacts. They are essentially watchdogs representing the peoples' interests.
- 3) Selection of a sound manager to run the system. It is a management and administrative challenge and it requires executive skills. Experience and knowledge are essential but the first requisite is managerial competence.

Minnesota, in choosing the deputy director of the Pennsylvania lottery, a lawyer with deep experience in lottery operations, got both managerial skills and experience.

- 4) Avoiding reinvention of the wheel. Two-thirds of the other states have lotteries and the major point was to learn from their mistakes and profit from their triumphs.
- 5) Developing a plan of approach that includes a time table for the accomplishing of such specific objectives as:
 - (a) Selection of the critical team that will implement and oversee Operations, Sales, Administration and Finance, Personnel, Data Processing, Marketing, Security, Internal Auditing, Public Relations, Legal and related activities.
 - (b) Site selection for the central office which becomes the heart of the computer-driven, warehousing and administrative operations.
 - (c) Selection of key vendors, service providers, advertising, etc.
 - (d) Selection of games. Freedom to shift into other games. Marketing is a key component of this rapidly changing operation.
 - (e) Selection of retail outlets and machinery for distribution, sales, collections, etc.
 - (f) Selection of the on-line, computerized lotto game vendor. This involves the letting of an approximately \$60 million contract.
 - (g) Opening day logistics and publicity. Important to focus on doing it right, rather than fast. Generating an excitement that sometimes borders on mass hysteria is a key element of maximizing participation. Lottery success is driven more by news stories than by advertising.
 - (h) Once launched the momentum must be maintained.
- 6) Adjusting marketing strategies to conform to market forces. It is an amazingly high-tech, talent-centered, rapidly changing industry that concentrates brain and energy resources on the effort to produce more and faster successes.

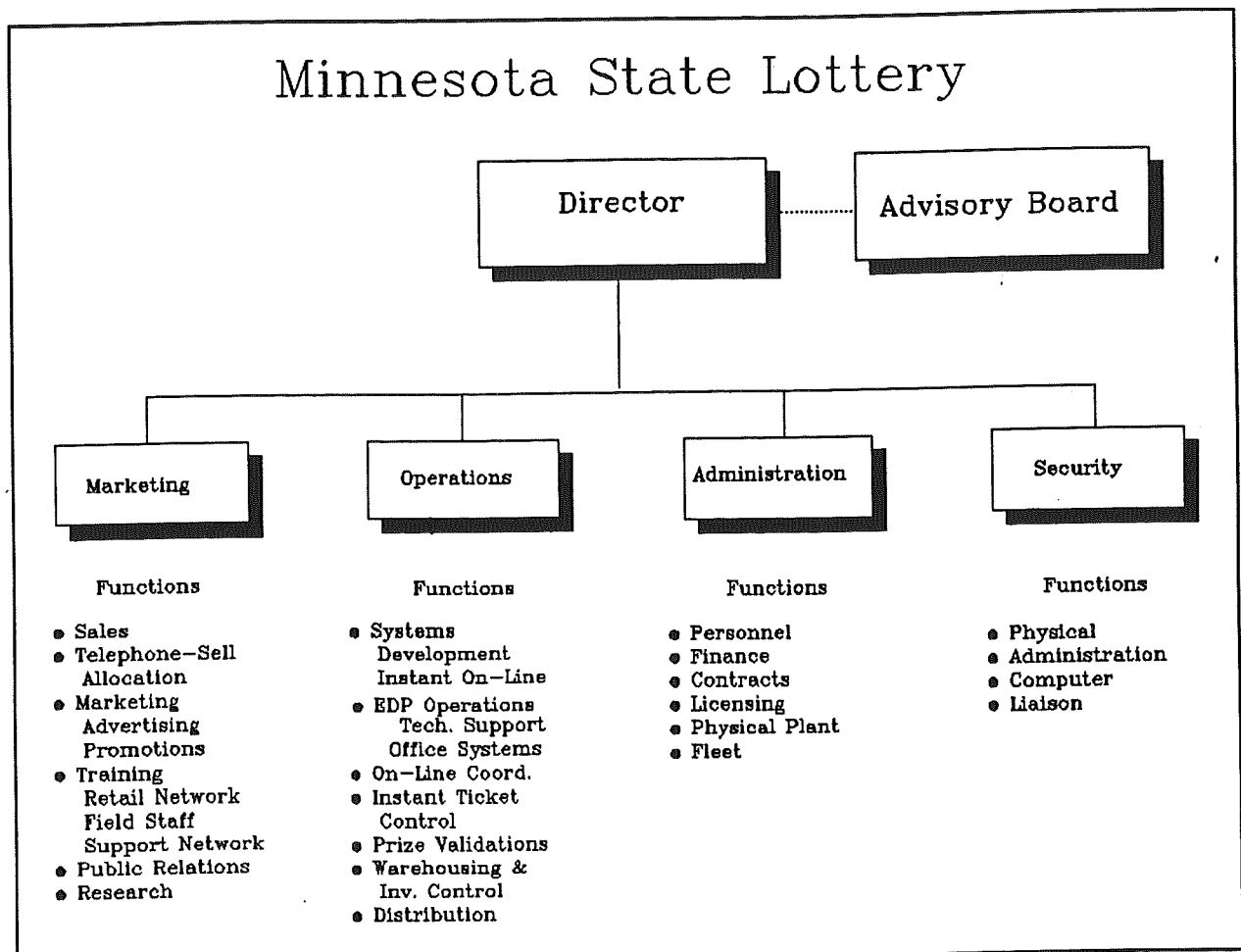


Figure 4.1

- 7) Insuring the integrity of the game. Nothing is surer to spell the doom of the enterprise faster than the discovery of fraud or game rigging. Just because it is the only wheel in town doesn't mean that the public will play it if it believes it to be fixed.
- 8) Monitoring progress. Insuring suitable advertising and marketing approaches. Adjusting as necessary. The conventions, conferences, literature and periodicals all reflect an extraordinarily sophisticated operation that demands rich concentrations of talents and resources.

To carry out its task of running the lottery, the lottery staff created four units: marketing, operations, administration and security. Figure 4.1 contains the lottery's organizational chart.

A Minnesota poll indicated that a majority intended to buy a lottery ticket and this proved true in the experience.¹ This would be sure to impact, especially on surrounding states' lotteries, and perhaps on pull-tabs and even on private office pools and such. Lottery tickets are sold in fast-traffic convenience stores while pull-tabs occur most frequently in fraternal halls and such, thereby perhaps avoiding a head-to-head competition. Figure 4.2 contains the poll results.

Lottery Games

Currently Minnesota has two forms of lottery games: instant and on-line. The instant or scratch off games went on sale April 17, 1990--giving people two days to recover from the frustrations of tax filing. The instant game is played by rubbing the latex coating off a paper-foil ticket. The latex covers a group of symbols (e.g., numbers or playing cards). If the appropriate symbols are beneath the latex the player wins, instantly. On-line games can't be won until the drawing is held.

Because instant tickets are an impulse purchase, they must be promoted aggressively and the game changed frequently. A typical game is designed to last six to eight weeks. Minnesotans, however, have been buying the games out ahead of the schedule the lottery set creating pleasant supply problems. The games generally have a theme beyond a simple match of dollar amounts to win; as was the case with the first games which were designed to teach Minnesotans how to gamble. With the unexpectedly high sales, one could conclude that Minnesotans already knew. Some of the themes are associated with the seasons such as baseball in the spring, or a game entitled cold-cash in January. For the summer months the ever present highway construction signs may be a good Minnesota based theme. There may, however, be some unpleasant thoughts associated with the bright orange signs that would steer consumers away from such an impulse purchase.

Lottery Predictions

Fifty-three percent of all adults intended to buy lottery tickets;

Of that 53%, eight in ten said they will buy tickets once a month, three in ten will play weekly;

Of those likely to play, 26% said they would spend \$5 monthly, 21% will spend \$10 monthly, 10% \$2 monthly, and 8% \$20 monthly;

Twenty-five percent of all adults in Minnesota bought a lottery ticket in some other state, but 61% of those people said they will stop buying in other states when the Minnesota Lottery begins.

Data from Minnesota Poll, December 1989

Figure 4.2

¹ Minnesota Poll, Minneapolis Star Tribune and KSTP-TV, December 6, 1989.

The Numbers Racket

Alcohol, heroin and the numbers racket were seen, by the New York City Police Department, as Harlem's greatest problems in the 1940s, 1950s and 1960s. These were regarded as unmitigated evils. It is a real measure of the human's infinite capacity for change that, in the 1990s, a state agency could matter-of-factly issue the following press release:

"Lottery Announces Start-up of Daily Numbers Game"

The Minnesota State Lottery today announced plans to conduct a daily numbers game that will start in Minnesota in mid-August. The game will be a three-digit game based on players selecting three numbers from (0-9). Players win by matching the three numbers in exact order or in combination, depending on the method of play selected, with a daily drawing conducted by the Minnesota State Lottery.

"A daily game is a popular addition to the lottery product line and offers players the excitement of a daily draw," said George Andersen, Lottery director. The game will offer a prize of \$500 for \$1 play and will be sold at 1,500 lottery retailers statewide. Players may purchase tickets for \$.50 to \$5.

The daily numbers game will start simultaneously with another on-line game, the multi-million dollar jackpot Lotto America, which also is scheduled to begin in mid-August."

On-line games get their name from the tickets that are dispensed by a terminal which is "on-line" to a central computer. The terminals allow players to select numbers for a future drawing. Depending on the game the player must select all or some of the numbers drawn to win. Numbers chosen by players are recorded with the central computer which helps the lottery track sales and provides accounting and validation.

Minnesota has two on-line games: Lotto*Minnesota and Daily 3 which started August 14, 1990. Lotto*Minnesota is part of Lotto*America, a coalition of states banded together to increase the size of the lottery jackpots. The minimum jackpot is \$2 million. As more states join Lotto*America, the jackpot increases faster and large jackpots help increase sales. A vicious cycle or a self-promoting game depending on perspective.

To win the lotto game players must correctly select six numbers from about 54. Drawings are held twice-weekly. The absolute odds of winning, which are one in 13 million, do not change as sales of jackpots increase.² The relative odds for players who buy more than one ticket become better, but even with 1,000 tickets, 1,000 in a zillion

² The actual odds of correctly selecting six numbers out of 54 are one in 25,827,165. Lotto*America sells plays for 50 cents with a minimum purchase of a dollar, making the odds of winning one in 12,913,583.

Another press release helps demonstrate the operations and marketing of the lottery.

"More Than \$9 Million in Prizes Remain in Celebrate Minnesota 1990"

More than \$9 million in prize-winning tickets remain as "Celebrate Minnesota 1990" enters its second month of sales. This includes 71 remaining \$5,000 tickets, 822 remaining \$500 tickets and 7,942 unclaimed \$50 tickets. Lottery officials estimate "Celebrate's" total sales at \$24 million. To date, players have claimed 94 \$5,000 prizes; 830 \$500 prizes; and 8,577 \$50 prizes.

Vera Urban, Blue Earth, was visiting her son in Minneapolis when she decided to play "Celebrate Minnesota 1990" at a local SuperAmerica. She spent \$31 and took some of her winnings in additional tickets, playing 111 tickets in all, one of which was a \$5,000 winner.

Brian Denesen, St. Paul, purchased a \$5,000 winning "Celebrate Minnesota" ticket from SuperAmerica on Hudson Road in St. Paul. He plans to use his winnings to buy a Fiero. Although the "Match 3" instant ticket game officially ended June 25, retailers may continue to sell partial packs of tickets, while players continue to claim high-tier prizes. Tim Stienkeoway, Plymouth, won \$1,000 with one of the ten tickets he acquired as part of a car dealer's incentive program. As part of that program, the manager gives 10 free lottery tickets to employees who sell a car. Stienkeoway, whose first child is due in August, plans to use his winnings for "baby stuff."

is still pretty small, close to the chance of being struck by lightning, twice, in the same day.

Unlike the other forms of gambling, which tend to be played in distinct settings, lottery tickets are purchased in convenience stores and other high customer traffic outlets. The loon advertising the lottery has become a ubiquitous symbol of Minnesotans' love for gambling.

Because they are sold nearly everywhere in the state's grocery, drug and liquor stores, bars and restaurants, gas stations and other retail establishments, the lottery is played by a broad swath of the population. An estimated 50% to 90% of all adults in Minnesota will play the lottery. The average lottery player is very close to the average person--middle aged, middle income. More men than women may play, but this depends on the game. Anecdotal evidence suggests that men play the Daily 3 game more than women and vice versa for instant games. As jackpots increase for the on-line games, typically \$10 million and up, higher income players begin to play.

Lottery Sales

Within the first weeks of instant ticket sales estimates proved to be quite conservative. Minnesotans bought tickets at a much greater rate than anticipated. The same happened as the on-line games were introduced August 14, 1990. Figure 8.3 shows the weekly lottery sales since its start. As of September 1990 total sales were \$157 million.

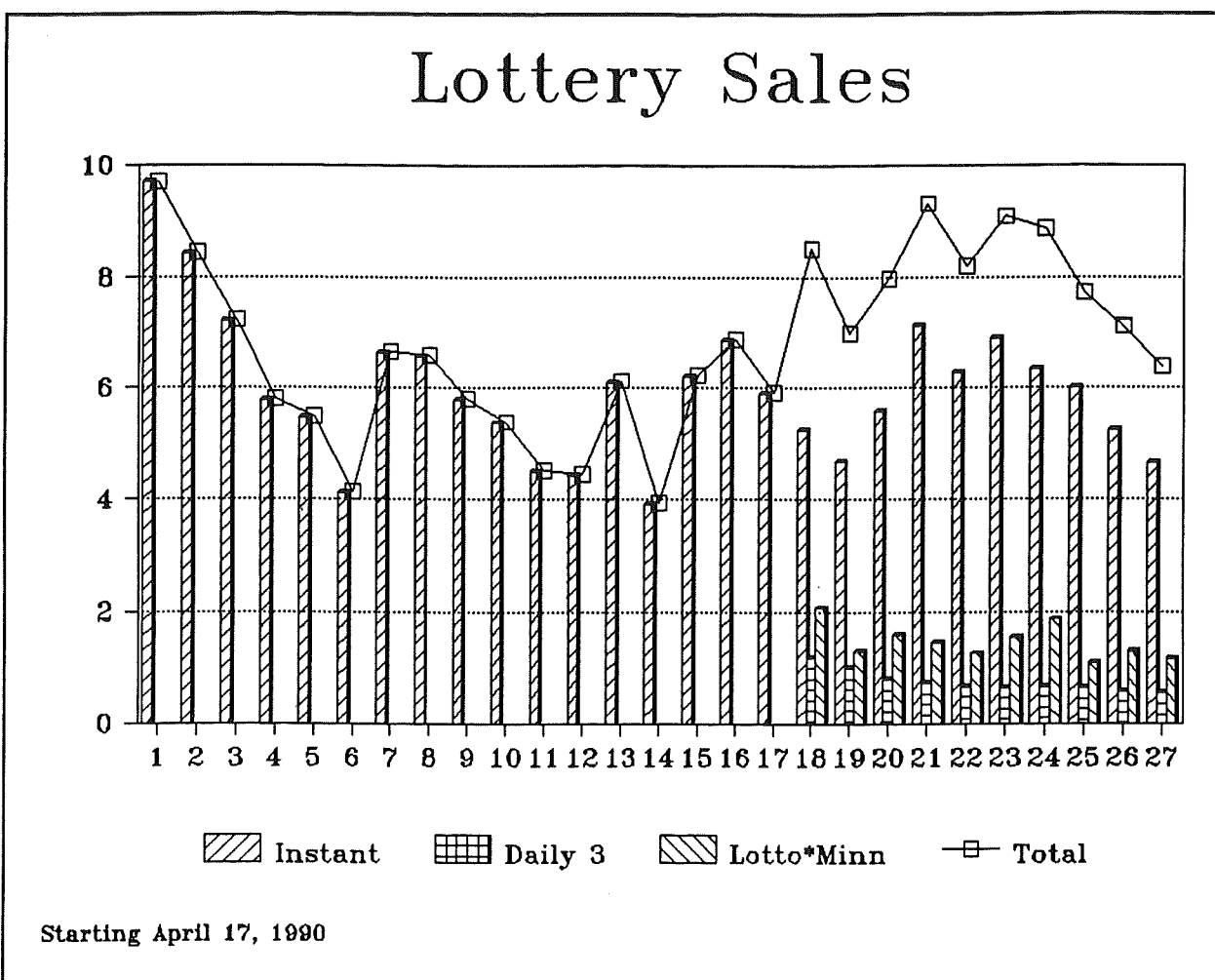


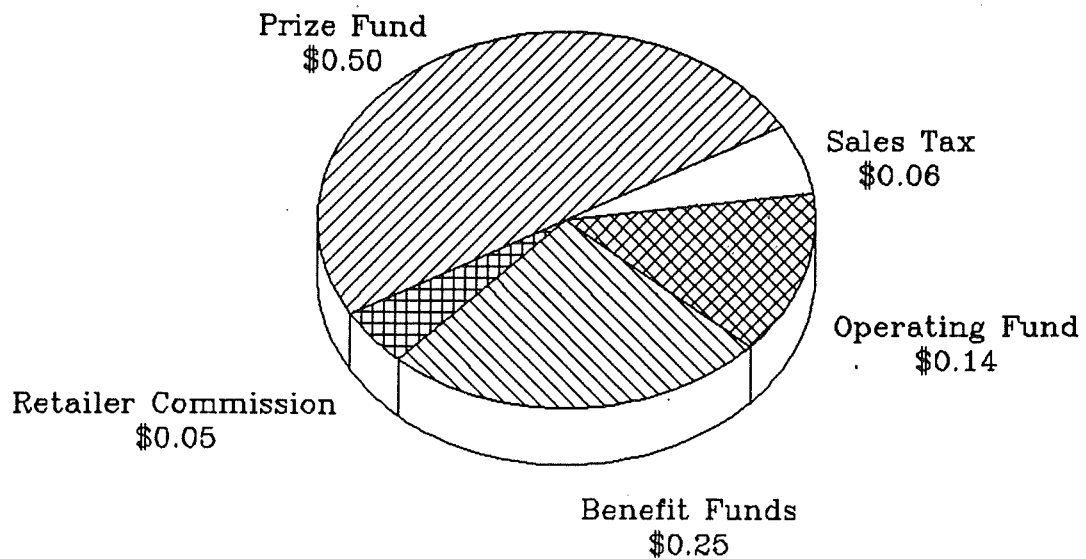
Figure 8.3

At that time, instant tickets were selling at a rate of one million dollars a day. As could have been predicted sales along the North Dakota border are quite brisk.

Instant lottery tickets are sold at approximately 4,300 retail outlets throughout the state. Grocery stores, bars and liquor stores account for about two-thirds of the retailers. Just under one half of the retailers are located in the Twin Cities metropolitan area. About 30% of the retailers are located in northern and central Minnesota and 25% in southern Minnesota. About 1,500 of these retailers have on-line terminals as well.

Retailers keep 5 cents for every ticket sold at their outlet. With approximately 4,300 retailers and \$1 million in sales, the average retailer would net \$11.63 daily from lottery sales.

The Lottery Dollar Where It Goes



Figures are based on a typical game,
prize and benefit funds fluctuate

Figure 8.4

Between 50% and 60% of the money wagered on lottery games is returned to the players in prizes. The law requires the lottery to pay-out at least 60% after June 30, 1992. The remaining 50 cents, in a typical game goes to sales tax, retailer commissions, operating costs and beneficiaries' funds--see Figure 8.4.

When the lottery was first proposed, proceeds were to be used for the Environmental and Natural Resources Trust Fund and the Greater Minnesota Corporation which promotes economic development in rural areas. As part of the legislation which allocated some of the proceeds to an Infrastructure Development Fund, a constitutional amendment dedicating lottery proceeds to the environmental fund for ten years was put on the November 1990 general election ballot--it passed by an 80% margin. The initial legislation had funds dedicated for five years.

Lottomania

The gambling fever sweeping America reaches crescendos when lottery prizes approach stratospheric levels, as they did in Pennsylvania (\$115.5 million in April 1989) and Florida (\$105 million in September 1990). Then there are accounts of savings "invested" in six-digit games that, under all possible permutations, create odds of 13.9 million to one.

The Florida prize, reaching its peak September 15, saw persons flying in or standing endlessly in lines to buy tickets. At the zenith they were selling 600 tickets a second. A man bought 27,000 one dollar tickets. A father and son spent nine years' savings of \$10,000 on the dream. Requests came in to purchase 13.9 million tickets to insure a winner but officials had to decline because the computer couldn't spew them out fast enough. With six winners, ultimately, and taxes and the annuity feature of spaced payouts, the \$13.9 million investors would have lost money, even with a prize of over \$100 million. Stories describing human folly abounded.

Purchasers waited hours in boiling heat. Two cops drove 18 hours from Detroit. Even such boosters as the Governor urged limits on purchases. The very beneficiaries were moved to utter cautions amidst the feeding frenzy.

Lottomania's contagious fever swept virgins into first purchases as the mob psychology captured the spirit and fueled the frenzy.

These incidents illustrate dramatically the sort of hysteria normally associated with gold rushes and other enterprises that, from a distance, seem patently foolish but which up close prove irresistibly alluring to the human spirit.

The 25 cents from each dollar wagered on the lottery is split among the beneficiaries as follows:

40%	\$0.1000	Environmental and Natural Resources Trust Fund,
25%	\$0.0625	Greater Minnesota Corporation,
35%	\$0.0875	Infrastructure Development Fund.

Money from the Infrastructure Development Fund is used primarily for capital projects at state higher education institutions. Some money is used for environmental projects. At the end of September 1990, \$39.681 million had been generated for state tax revenues and beneficiary funds.

However noble the purpose it is a mistake for legislatures to allot funds for dedicated, pre-ordained purposes. One of the central features of a democracy is the election of representatives who decide where money shall come from and how it shall be spent. Dedicated funds circumvent and paralyze the essential process of this debate. The revenues of government should go to the general fund for allocations that change from year to year. Government is a process of adjustments.

One retailer's story, that probably wouldn't make a lottery press release, was covered by a local television station.

A woman brought her cart full of groceries to the check-out counter of a Twin Cities grocer. After the food was rung up she discovered she didn't have enough in food stamps to pay for all her food, so she pulled various items out until she had enough to cover her bill.

After paying for the groceries in food stamps, the woman pulled out a \$10 bill and bought lottery tickets. This upset and frustrated the grocer, who was initially talked into getting the lottery by customers, to the point that he pulled his terminal out and stopped selling tickets.

Soon thereafter two other instant ticket retailers in the vicinity each requested that they be given the on-line terminal.

This incident illustrates how gambling has become one, if not the only, method of escaping poverty--perhaps replacing education and work. It also shows how some are still willing to examine and weigh the costs against the benefits of gambling fever.

Operating costs are used for running the lottery, marketing it and providing security. The lottery itself employs about 170 permanent and 20 temporary employees. Others are employed through the on-line vendor (Control Data, which has 60 employees, working directly for the lottery as well as the terminal manufacturer located in Minnesota), the instant ticket vendor (Scientific Games, located in Georgia), the advertising agency, accounting and information systems consultants, courier service, promotional material manufacturers and the instant ticket validator manufacturer.

RESEARCH INTO THE LOTTERY

The question may well arise as to why we should study lotteries. Is it, after all, a sufficiently significant human activity to warrant close scrutiny? The answer lies in trying to understand economic behavior; the importance of risk; a person's response to sudden wealth; the addictive possibilities; any shifts in attitude toward work or savings or how they impact on the value system or the community's life.³

For example, the number of those approving lotteries has steadily increased in the past half-century, while the influence of a church--as being important in our lives--went from 75% in 1952 to 56% in 1984. A corollary was the finding that 44% of college freshmen thought it important to be "very well off financially" in the mid 1960s, while

³ Much of the information for this section is taken from Charles T. Clotfelter and Philip J. Cook, Selling Hope: State Lotteries in America, Harvard University Press: Cambridge, Massachusetts, 1989.

the figure climbed to 71% by the mid 1980s. Such seminal shifts augur importantly for the fate of a society since they reveal the motivational factors that will guide the actions of its citizens.

A good deal of measurement of public sentiment has accompanied the growth of lotteries. This has been especially useful in uncovering the underlying attitudes shaping the developments that become the visible manifestations of these feelings. Sooner or later the popular will gets translated into action.

A study and poll⁴ into attitudes and characteristics of the public vis a vis lotteries revealed that a large majority favored lotteries; a majority have played lotteries; players average slightly over \$10 per month on lotteries; men spend significantly more than women but no other differences were discerned, along educational, race, income lines, age or marital status. High income groups spend a smaller percentage of total family income than those who are poorer and less well-educated; the overwhelming majority (95%) felt that playing had no adverse effect on the household finances; a third believe a system can be devised to increase chances of winning; many underestimate the prize return. As the novelty decreases, the number of males playing increases; the steadies will play more; and the correlation between approving of lotteries and spending on them will diminish.

The poll found that those with family incomes below \$20,000; those widowed; those over 60 and those who have the most and the least education are the least likely to play lotteries among their comparison groups. This does not, however, diminish the importance of any wagering by groups possessing little discretionary income. Even minimal betting by the poor can have devastating effects on their daily lives.

Few differences were found between the Wisconsin and the national samples, allowing for such variables as presence of a lottery in the state of respondent's residence and differences in race make-ups and income and educational averages. Most live in states having lotteries; most favor lotteries; most feel they're harmless forms of recreation and most underestimate the pay-outs.

The research supports the growing popularity of lotteries through the favorable views held by most Americans. Clearly this approval rating helps to fuel the growth of lotteries across the landscape.

It is easy to see how current trends in gambling mesh with, are fed or led by and conform to prevailing public attitudes. The history of gambling in America has

⁴ Irving Peliavin and Michael Polakowsky, "Who Plays the Lottery? A Comparison of Patterns in Wisconsin and in the Nation," University of Wisconsin-Madison, January 1990.

followed the waxings and wanings of gambling's reputation among the people. When confidence was lost, prohibition followed; when support built, legalization followed.

As more and more states succumb to the gambling fever sweeping the country, some thoughtful observers have begun to sound the alarm. Minnesota, with racing, a lottery, bingo, pull-tabs and other forms of gambling--and energetically discussing additional possibilities--becomes a paradigm of the age. Iowa, however, surprisingly offers the broadest menu of gambling possibilities in the land.

The critics point to the compulsive gamblers addicted through the government's encouragement of what had been regarded as a vice that undermined traditional values of thrift, work, planning, sacrifice and postponement. Gambling revenues were seen as a painless, voluntarily paid tax or as a vehicle for charitable enterprises. That the revenues were raised in unrealistic expectations of sudden wealth got swept under the rug of expediency. The dramatic withdrawal of the federal government from social welfare funding saddled the states with additional expenditures and the need for funds. Gambling proved a tempting road to reach that treasure. The tax revolt of the 1970s and 1980s fed politicians' search for the Holy Grail of alternative income sources.

The engine driving the increase in gambling appears to be the soaring popularity of lotteries over their most recent quarter century's reincarnation. Mantled in religious, patriotic, charitable or altruistic respectability, gambling assumes one of the thorniest of the moral dilemmas confronting our age.

Gambling is supposed to occur with discretionary income intended for entertainment. Obviously the amount of such income declines rapidly as one goes down the wealth scale, yet many poor people, and even many receiving welfare, spend money they can ill afford on hope of fast riches. Studies have shown that a small minority buys the majority of tickets. In this operation, as with most gambling activities, the mainstays tend to be the high-rolling regulars who might possibly have a problem with gambling.

Notwithstanding the statistical revelations, it has to be remembered that the poorest could not contribute important totals even as they gamble, what is, in straitened circumstances, large percentages of their incomes.

Lotteries, as we have seen, mostly raise money for good causes, yet we've seen these noble ends especially in the pull-tab industry take some very counterproductive turns. The amount of good produced through an admitted evil is called into question by some observers. Lotteries, through their ubiquitousness, serve as tempting and accessible proselytizers for gambling.

The advertising issue is a hot topic as lotteries move, ever more vigorously, to push their product. The long-shot odds get enveloped in the mist of get-rich-quick images.

Although the conventional wisdom is that lotteries, as impulse-purchase items, are sensitive to advertising approaches. It may be truer that lottomania is driven by news accounts.

Then, of course, there is the issue of pay-out. Slot machines in Las Vegas often pay-out well over 90% of the money played. Horse racing and pull-tabs return around 80%. Lotteries usually pay out around 50% and then only to a very few, very large winners. This becomes the preferred route because of the human interest news potential inherent in each winner's story.

Lotteries spawn a large, complex, powerful industry and create jobs and economic interests. Their impact on the body politic may not be discernible for many years. It is generally agreed that they are an evil means through which good is produced. This raises the philosophical question of means and ends.

The lottery, with its reliance on pure chance, becomes a metaphor for life. Our birth is our destiny. Much of what happens to us is based on luck and playing the lottery becomes a natural extension of the instinctive realization of the chanciness of life.

Critics point to the ubiquitousness of lottery dispensers in poorer neighborhoods and their scarcity in suburbs. Pull-tabs, however, also tend to be mostly sold in blue collar bars. A sales tax, which does not take income level into account, hits hardest at the poor and is regarded as classically regressive. The painless, voluntary feature of raising state revenue through lottery sales is frequently regarded as even more regressive because it hits the poor particularly hard. Studies are cited indicating that the rich and well-educated don't play the lottery as frequently as the poor.⁵

The advertising and marketing strategies that impel lotteries to pursue sales aggressively, which mostly result from the cyclical, novelty-loving nature of the game, are also attacked because of the value system they promote, their assault on the work ethic and the creation of get-rich-quick pipe dreams.

⁵ Alan J. Karcher, Lotteries, Transaction Publishers: New Brunswick, New Jersey, 1989.

FUTURE ISSUES

Is there a finite limit to the amount Minnesotans will wager? That is the question as 1990 bumped along at about \$1.6 billion in legal betting and an unknowable, and probably much smaller, amount in illegal sports bets. That figures to about \$400 per annum for every man, woman and child in the state. It is hard to conceive that there is much upward elasticity in that figure, yet experts caution against setting upper limits to the human's capacity for coming up with cash with which to gamble. The remarkable elasticity seen to date beggars the imagination of charities scraping to raise pennies.

The big questions will be whether gambling fever will abate or increase as it goes through its cycle of life and what forms the shifts might take.

Since the player demographics, sites where gambling takes place and nature of the activity all differ, the difficulties of analysis increase. Assuming that a large section of the population (minors, moralists and the disinclined) doesn't gamble at all burdens those that do with the necessity of engaging in disproportionate volumes of action.

Where will lottery players come from? Apparently the general population of shoppers at such high-traffic locations as convenience and gasoline chain stores. The purchase is an impulse item, often taken in change or bought spontaneously because of its accessibility at the counter. This is a different population from horse players who frequent the track and pull-tabbers who often go to veterans or fraternal clubs or local bars. Nevertheless, the disposable gambling dollar has to come from somewhere.

The key lottery question in Minnesota is whether it will work out its own niche or bite into the pull-tab segment. It is most likely to cause a plateauing of the pull-tab trend line and may even create a decline if one adopts the theory of limited elasticity of the discretionary income needed to fuel the enterprise, although pull-tabbers prefer the pay-out odds of their game.

The issues relating to the lottery may center on the nature of the advertising; the disposition of the revenues generated; the usual moral issues and the changing nature and types of the games as the inevitable market adjustments occur.

Among future issues listed by polling experts were increased competition from sports betting and charitable gaming (bingo and pull-tabs); a move towards more regional lotteries and discussion of a national lottery; greater use of electronic devices (lottery play on terminal, obtaining immediate pay-outs on win); in-home gambling by phone or interacting with video terminal; greater use of credit cards and computers; more tie-ins with television; competition from Indian gaming; the development of specialized, niche

games and continued need to change and hype the games. It may be the case that lotteries will evolve into something quite different from their current form as they adopt the metamorphoses needed to succeed.

Lotteries are aggressively marketed operations that have attracted talented, innovative executives who are sure to move the product energetically. They look like the future. As the games mature--national saturation is currently well within sight--growth will have to come from new approaches rather than start-up strategies, and technology seems certain to play a key role in the development of new games and ways of playing old ones.

COMMENTARY

The success of lotteries depends on public confidence and support. The current cycle of prosperity began in 1964 (lotteries had been banned across the U.S. in 1894) and is, therefore, of relatively recent and delicate vintage. Previous cycles waned on the loss of credibility and integrity. Lotteries are today riding a powerful crest of popularity that, experience tells us, is more fragile than it looks. In 1990 most Americans lived in states that had state run lotteries. Minnesota was the 32nd state to adopt one in the current cycle.

Minnesota inaugurated its lottery with a scratch-off game on April 17, 1990. The first week's sales exceeded expectations at \$15.1 million. The six-digit lotto game auditioned in mid-August, as well as the daily three-digit drawing. It was anticipated that 80% of the state's adults would purchase a ticket. The state was admitted into Lotto*America on May 31, 1990 creating a hugely greater population base, much larger prizes and the opportunity for really exciting news possibilities with which to feed the popular enthusiasm.

The lottery struck fallow ground in Minnesota as its successes stunned its most optimistic supporters. By the fall Minnesotans were second only to the residents of Massachusetts on the basis of per capita purchases. The director estimated \$342 million on sales for fiscal year 1991.

Minnesota even made a middling success of the culturally unfamiliar daily three-digit game that was not introduced into neighboring states because of its strangeness and eastern flavor (which may amount to the same thing). Even California doesn't have this wrinkle in its operation.

Predictably five persons attempted to cash primitively contrived altered tickets for \$5,000 prizes, one for a \$1,000 prize and about a dozen for smaller prizes. They were

turned over to the police. The many winners of \$5,000, \$1,000, and \$100 prizes stimulated interest. Careful planning resulted in the state being blanketed with the lottery logo announcing the accessibility of the tickets. The logo, featuring the loon, a lake and the North Star, became one of the state's more visible artifacts.

The launching was an unqualified success attesting to the skill of the operators and the wisdom of the government in the manner in which it was established.

Minnesota's lottery became an instant hit and a key piece in the mosaic of gambling activities sweeping the state.

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BINGO

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9	12	51	64	72024				1	51	69	31	57	75	3	
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INDIAN GAMING

Indian gaming began in Minnesota in 1982--when the Shakopee Sioux opened their Little Six Bingo Palace. All Minnesota tribes followed, opening some form of gaming establishment. Aggressive marketing and large prizes that are not legally available to other operators attracted customers who would never otherwise have set foot in those areas and the business grew dramatically.

The major increase in Indian gaming came after the ruling (and upheld appeal) in *Seminole Tribe of Florida v. Butterworth*.¹ The court found that while the State of Florida had criminal jurisdiction over the Seminole reservation, the law did not give civil-regulatory powers to the state. The court under Public Law 83-820 found that the Florida law on bingo was a civil-regulatory law, not a criminal-prohibitory law. Therefore, the state had no jurisdiction over bingo conducted on the reservation, since it was permitted elsewhere in the state. Similar conclusions were reached in various other federal courts. The practical effect of the decisions was to limit the state's intervention to criminal matters. Gambling that was permitted could not be regulated or limited by the state on the reservation.

In 1987 the Supreme Court ruled that California could not enforce its bingo laws on tribal lands.²

With no regulations or limits there was concern that tribes would purchase land in or near population centers solely for gaming purposes. In February of 1986, the Interior Department said it would stop taking land into trust were it to be used for a gaming facility. Currently the Interior Department is looking at a policy which may require

¹ 685F 2d 310 (5th Cir. 1981), cert. denied 455 U.S. 1020 (1982).

² 408 U.S. 202 (1987).

that tribes look at non-gaming economic development schemes and allow the tribes to purchase land for gambling only in states where they have a reservation. This is likely to become a very important question in the near future.

There were also concerns that organized crime would infiltrate the management of Indian gaming facilities. The Ninth Circuit Court of Appeals which heard the first appeal of the Cabazon case, found that there was no evidence that organized crime existed on the reservations. There is, however, the more realistic threat of victimization and exploitation of the tribes by professional operators running the enterprise for the principals. There is a clear need for hands-on involvement by the Indian community if they want to retain control of their gambling operations.

Another factor leading to growth was the Reagan Administration policy that tribes should reduce their dependence on federal funds through private sector development.

The various court decisions, administrative policies and other concerns led to the passage of the Indian Gaming Regulatory Act in 1988.³ The act divides gambling on Indian lands into three categories--Class I, Class II and Class III.

Class I games are "social games solely for prizes of minimal value or traditional forms of Indian gambling engaged in by individuals as a part of, or in connection with, tribal ceremonies or celebrations."

Class II games include bingo, and if played at the same location as bingo, "pull-tabs, lotto, punch boards, tip jars, instant bingo and other games similar to bingo." Class II games also include certain card games if the card games are explicitly authorized or not explicitly prohibited by the state in which the games are played. The act expressly excludes from Class II games any banking card games, including baccarat, chemin de fer and black jack and video games of chance or slot machines of any kind.

Class III games are "all forms of gaming that are not Class I gaming or Class II gaming." Class III games include lotteries, horse and dog racing, off-track betting, paddlewheels, jai alai and casino gambling.

Class I games fall exclusively under the jurisdiction of the tribes. Class II games fall under the jurisdiction of the tribes and the National Indian Gaming Commission may be conducted on tribal lands only if: (a) the gaming is located within a state that permits such gaming for any purpose by any person, organization or entity; and (b) the

³ 25 U.S.C. 2701-2721 and 18 U.S.C. 1166-1168.

governing body of the tribe adopts an ordinance or resolution which is approved by the Chairman of the National Indian Gaming Commission.

Class III games may be permitted on tribal lands only if: (a) the gaming activity is authorized by a tribal resolution or ordinance; (b) the gaming takes place in a state that permits such gaming for any purpose by any person; and (c) the gaming is conducted in conformance with the terms of a tribal-state compact negotiated between the state and the tribe. Failure to negotiate in good faith and reach an agreement may subject the state to a lawsuit in federal district court. If the state is found to have failed to negotiate in good faith, the court may appoint a mediator. If no compact is reached during mediation, the Secretary of the Interior may determine under what circumstances Class III gaming may be conducted on tribal lands. As of mid-1990 two of the three members had been appointed to the Indian Gaming Commission.

Competitive Edge

The competitive advantage granted by court decisions to gambling on tribal lands include no state imposed limits on the size of the prizes or pots; no restrictions as to days or hours of operation or numbers of games played; no cost for licenses or compliance with state requirements and no taxes.

INDIAN GAMING IN MINNESOTA

"One-armed bandits," other forms of slot machines and table games are in wide use on reservations as a result of legal confusions and operator aggressiveness. Figure 5.1 lists the games that are played at the 11 Indian reservations in Minnesota. Some of these games appear to be evasions or circumventions of state law. Enforcement which rests with the United States Attorney seems to have been delayed during compact negotiations. These thorny issues will have to be addressed at some point.

The sites are as varied as the many various derivatives of bingo. One site has video games packed into a series of temporary buildings, another has a spacious, Las Vegas looking facility complete with chandeliers and neon lights. The size of the bingo halls is dictated by the market: Little Six Bingo in Shakopee holds approximately 1,000 people, the bingo hall located on Mille Lacs Lake is much smaller.

Problems similar to those generated by consultants in the lawful gambling industry also plague Indian gaming operations. An outside management company operates the gambling facility for the tribe promising profits which the tribe does not often see. The management claims lower sales and higher expenses than expected. The Prairie Island Community recently completed a long, drawn-out and costly legal battle to nullify the management contract for their gaming operation. The management group had inflated

Indian Gaming in Minnesota			
	<u>Bingo & Pull-tabs</u>	<u>Video Games</u>	<u>Table Games</u>
Fond Du Lac *	x	x	x
White Earth	x		
Grand Portage	x	x	x
Red Lake *	x		
Leech Lake *	x	x	
Mille Lacs *	x	x	
Bois Forte *	x	x	x
Lower Sioux	x	x	x
Upper Sioux		x	
Prairie Island	x	x	x
Shakopee-Mdewankanton	x	x	x

Video games include poker, black jack, keno, bingo and various other games identical or similar to the table games of Las Vegas-style casinos.

Table games include bingo-jack, bingo 121 and bingo 21 (crosses between bingo and black jack), bingolette and triwheel (crosses between bingo, roulette and paddlewheels) and other derivatives of bingo which are similar to Las Vegas-style casino games.

* Gaming facilities at two locations.

Figure 5.1

expenses and subcontracted much of the business to family and friends, while the tribe received very little of the promised profits. The federal law addresses the management contracts for Indian gaming operations, and the contracts must now be approved by the federal Indian Gaming Commission.

Other arrangements have led to both frustrating and successful operations. The Fond Du Lac tribe was given a building in downtown Duluth by the city for gambling. The two share the profits. It has not proved a totally satisfactory arrangement for the tribe,

which has publicly expressed its unhappiness over the split, and it is in litigation with the city. This is the only such arrangement in Minnesota.

The Shakopee Sioux operation is one of the few tribes which own and operate the gaming facilities, giving a great deal of oversight over the operations. While the operations are handled by non-Indians, the tribe has outside auditors check their management of the operations.

There are possibilities for two additional Indian gaming facilities. The Winnebago tribe is attempting to lease allotted land in Houston county for gaming. The Little Earth Housing project in Minneapolis may be purchased by a tribe creating the possibility for a downtown casino.

Compact Negotiations

Minnesota Statutes (Chapter 3) authorizes the Governor to appoint a three-person team for the negotiation of Indian gaming compacts. Currently Senator Dicklich, Representative Kelso and Lottery Director George Andersen are serving as the state's negotiators with legal assistance from the Attorney General's Office.

As of October 1990 the state had entered into nine compact agreements for video games only which were approved by the Secretary of Interior. Some of the tribes are also looking at lotteries, off-track betting and other forms of gambling. Compact negotiations, if any, are only in the initial phases.

Minnesota is ahead of other states in that it has already reached agreement with several tribes. It is however, similar to many states, in that it has been brought to court by a tribe for failure to negotiate compacts in good faith. The state is being sued by the Lower Sioux Community which claims that blackjack can be played in the state so long as it is not combined with gambling. Thus like video games of chance, the Indians should be allowed to make pay-outs.

The resolution of whether table games are derivatives of bingo, thus Class II, or whether they are Class III games and subject to compact negotiations, will either be determined through litigation or through the rule making process of the federal Indian Gaming Commission.

The state must come to a view of how it wants to handle these many issues. If it allows no-pay-out slot machines to be used, tribes may legally employ the same machines and deliver a cash pay-out. The issue of similar machines blurs the process further.

The efforts to purchase downtown land for casino gambling, under the rubric of permissible Indian gaming, poses another set of problems.

There seems little doubt but that tribes have been granted a vehicle that promises to take them to economic viability. A key question is whether the state will regulate the speed of the ride. The issue, at the moment, lies in a twilight zone--between what is legal and what might be gotten away with. The ambiguity will have to be resolved.

SOCIAL & ECONOMIC EFFECTS ON INDIAN COMMUNITIES

Gross revenues at the Shakopee Sioux's Little Six Bingo and Casino are expected to be about \$40 million, with a \$6 million profit for the tribe in 1990. This results in payments of \$3,000 per month for each of the 218 enrolled band members. Gross revenues for the Grand Portage casino are expected to be \$2.5 million. Jackpot Junction, the gaming operation of the Lower Sioux Community near Morton will gross approximately \$30 million. The total for all tribal gambling in Minnesota may be between \$100 to \$200 million.

The Shakopee Sioux have been very successful, going from taking approximately \$225 a year per tribal member in various government payments, to paying the city of Prior Lake \$20,000, plus monthly checks and free health care for tribal members and various donations to other government agencies and charity.

Most of the other tribes have not been as financially successful as the Shakopee Sioux. Varying success seems at least partially to be based on the amount of oversight and control the tribe insists on exercising over its gambling activities. One source said that other Indian gaming operations, even those close to a large market, were not seeing the same types of profits as Shakopee's operation because of operational and management problems. Another source said that none of the operations would ever stop making money or go broke.

The Bureau of Indian Affairs reported that bingo alone would bring the nation's tribes over \$400 million in 1990.

Besides generating revenues for the tribes, gambling operations also promise jobs, many of which however, do not go to tribal members.

The awful strife and controversy surrounding Indian gaming reached a nadir in the upstate New York St. Regis Mohawk Reservation, in April and May 1990, when pro and anti-gambling Indian factions clashed producing gunshots and death. The crisis

simmered and boiled for months as the outside authorities waited and agonized. It proved a perfect example of the potential dangers residing in this volatile issue. While not yet turning violent, the divisiveness of Indian gaming also appears in Minnesota. When it came time for some Indian grade schoolers to get back on the bus home from a field trip, several refused, saying there was no reason to go home because their parents "were either drinking or playing early bird bingo." Nevertheless, gambling is producing unprecedented wealth for previously financially pressed citizens.

COMMENTARY

The violence in New York serves as a warning of the risks connected to this emotional issue as well as attempts by what might on the reservation be seen as outside forces, to regulate gambling. As of 1990 the situation was ambiguous and characterized by the pacifying (if only for the moment) effects of discretion, as opposed to action. The dilemma centers on the problem of tacitly allowing breaches of law on a reservation that are not tolerated outside. In the final analysis the state is going to have to grapple with this issue.

There is no doubt but that the issue must be clarified as to what may legally be played at a reservation and what is a crime. The neglect engendered through lack of resources to enforce the law and delays in reaching agreement very likely tempted some to explore the outer reaches of the permissible, and to go beyond this point as well.

An enforcement policy must be based on equal treatment for all breaches of law by everyone. The reality and the perception must be that the tribes are not singled out for discriminatory enforcement. It is indisputable, though, that crimes cannot be condoned on or off the reservation. Those who resent this new-found source of tribal wealth are bound to rally around criticisms of illegal reservation gambling that is tolerated. The strengthening of the state's enforcement arm by the 1990 legislature at least held the promise of developing better accountability.

Legal gambling, with the additional features exclusively allowed to the tribes, has proved a dramatic modern bonanza for American Indians. It may well become the road to economic viability and the restoration of dignity to tribal members. It is terribly important that the state recognize its responsibility for furthering tribal progress even as it enforces the law against transgressions.

The current negotiations offer what may be the only hope for the development of a responsible, coherent policy. Among the factors to be considered should be whether

the state will allow tribes to purchase downtown land for casino use; the types of games permitted; the kinds of machines allowed and the sort of oversight required.

At the moment this area of gambling is enshrouded in mist. It would appear to be a circumvention of legislative intent and public policy to allow any group to place otherwise illegal casinos in downtown areas.

Jordan
 Lussan Jones
 Mont Novoselsky
 Lewis
 Randle
 James Struthers
 Ray Thomas
 Haja

TE
 WR
 TE
 WR
 DE
 DE
 NT
 NT

LE/ Noga
 RT/ Thomas
 RE/ Struthers
 LB/ Doleman
 LB/ Studwell
 LB/ Merritt
 LB/ Lee
 RC/ Rutland
 RC/ Browner
 FB/ Fulington
 P/ Newsome

Randle
 K. Clark
 Fears
 Randle
 Berry
 Berry
 Brim
 McMillan
 Gills
 Gills

Peckers defense
 LE/ Brock
 NT/ Nelson
 RE/ Brown
 LB/ Stephen
 LB/ Noble
 LB/ Holland
 LB/ Harris
 LB/ Lee
 RC/ Holmes
 RC/ Murphy
 FB/ Greene
 P/ Bracken

80/ Jack Nelson
 81/ Jackie Harris
 82/ Perry Kemp
 83/ Carl Beard
 84/ Sterling Sharpe
 85/ Charles Wilson
 86/ Ed West
 87/ Charles Weathers
 88/ Tony Bennett
 89/ Robert Brown
 90/ Robert Brown
 91/ Shawn Patterson
 92/ Tim Harris

NT
 TE
 WR
 WR
 WR
 TE
 WR
 WR
 LB
 LB
 DE
 DE
 LB

at Colts

Wins 5-1, Colts 2-4.
 Colts 42-13, 1989.
 2-4.
 Colts by 7.

Colts have won four of
 into the offense that Eric
 hunt the Dolphins.
 only nine times for 85
 but opened up the
 Jack Trudeau, Jeff
 each muscle), out for
 k. But Trudeau re-
 In the Dolphins'
 throw for 245
 se held New Eng-
 70 yards. The Dol-
 sacks, fewest in

Eagles at Cowboys

Kickoff/ Noon.
 Records/ Eagles 2-4, Cowboys 3-4.
 Last meeting/ Eagles 20-10 (1989).
 Line/ Eagles by 3 1/2.
 Souhan's pick/ Eagles by 7.

Outlook/ The Eagles have won five
 straight in the series, but DT Jerome
 Brown noted: "That ain't the same
 Cowboys team we'll be playing. They
 ain't pushovers no more." A big reason
 is CB Isaac Holt, a former Viking, who
 returned one of two interceptions 64
 yards for a score in the last game. He is
 listed as questionable, however.
 Key stat/ The Dallas defense has not
 allowed a 100-yard rushing perfor-
 mance in 16 of its last 17 games.
 Key injuries/ Eagles—RB Robert
 Drummond (hand-IR) is out; LB Jessie
 Small (concussion) is doubtful.

Browns at 49ers

Kickoff/ 3 p.m.
 Records/ Browns 2-5,
 Last meeting/ 49ers 2-5
 Line/ 49ers by 13.
 Souhan's pick/ 49ers

Outlook/ The Brown
 Bud Carson is 12-1
 their coach. Each v
 the losses, Carson
 dell have been qu
 ing change. Clive
 was fired at midr
 a loss to the Ber
 Key stat/ The Ber
 games straight
 The last time v
 9, 1977.
 Key injuries/
 (back-IR) is o
 is doubtful.

Bears at Cardinals

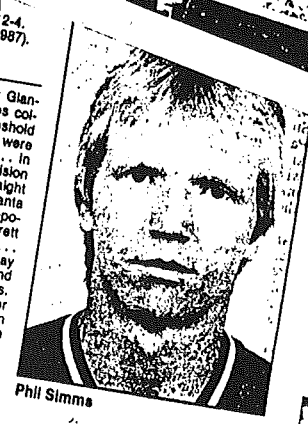
Kickoff/ 3 p.m.
 Records/ Bears 5-1, Cardinals 2-4.
 Last meeting/ Cardinals 36-21 (1984).
 Line/ Bears by 6 1/2.
 Souhan's pick/ Bears by 3.

Outlook/ The Bears are concerned
 about their momentum after a week off,
 and Phoenix wishes it could take the
 month off after its last-second 20-19
 loss to the Giants. ... This will be a
 matchup of two of the league's better
 rushing teams. The Bears, rated No. 1,
 in their last outing and netted 402 yards.
 The Cardinals, with the No. 4 rushing
 offense, had only 221 yards and 14 first
 downs against the NFL's top-rated de-
 fense. ... The Bears play six of their
 next eight on the road.
 Key stat/ Bears coach Mike Ditka has a
 winning record against every division
 opponent except the Rams, where he hasn't

Bucs at Chiefs

Kickoff/ 3 p.m.
 Records/ Chiefs 3-2,
 Last meeting/ Chiefs 27-10
 Line/ Chiefs by 17.
 Souhan's pick/ Chiefs

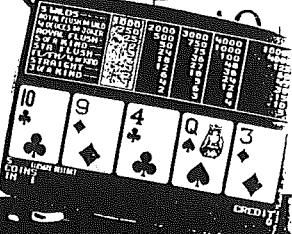
Outlook/ The Chiefs
 Vinny Testaverde
 tions, breaking a
 without one, and w
 Testaverde suffered
 questionable. San Di
 three home games, w
 known for the first tin



Phil Simms



SCORE	
1st Q.	
2nd Q.	



ILLEGAL GAMBLING

One of the important truisms of law enforcement centers on the impossibility of effectively suppressing an activity that is forbidden by law but which is approved of, and engaged in, by a significant segment of a democratic society. Law enforcement's history is dotted with the defeat of efforts to prevent popular, if illegal, acts such as alcohol consumption, drug use, prostitution or gambling.

Gambling proves a particularly prickly problem because of its ambivalent legal history and the clear-cut absence of observable evil. There is even a shifting public view--currently benign--as to whether it is a diversion or sin. The state's imprimatur is the equivalent of a stamp of approval over an activity. Forbidding an action and enforcing the sanctions holds out real hope for minimizing widespread participation. The problem comes when a widely practiced and generally approved activity is contrary to the law. This creates social and organizational dissonance.

It is generally recognized that legalizing gambling expands activity and citizen involvement. Illegal gambling exacts costs in terms of crimes committed in pursuing the action, contesting turf and enforcing consequences, as well as in the real danger of corrupting the policing agencies.

A real tipping factor appears to be at work that is, unfortunately, almost unknowable. If illegal gambling is so widespread as to become notorious and unstoppable, and if the police are corrupted as they go through the motions of enforcement, then continued proscriptions only make the law a mockery. This spills over into other areas. Such conditions--as exemplified, for example, by the universal playing of numbers in Harlem--only create powerful arguments for legalization of the activity. When illegal gambling can be kept to a minimum--as, it might be argued, was the case in Minnesota prior to 1980, a strong argument might be made to keep the activity illegal and continue enforcing the laws. The crux of the matter lies in the state's finding the

delicate balance between what it can and ought to prevent, and what it must or might allow. Narrow temptations of enhanced revenues can lead the government to undertake harmful acts and exacerbate the problems by first bringing zestful enforcement into play just to eradicate competition.

This section first examines some of the broad issues of illegal gambling such as law enforcement's efforts to battle it; organized crime's involvement and whether or not legalization reduces or increases the level of illegal gambling. This is followed by a look at illegal gambling activities in Minnesota.

Law Enforcement's Effort to Battle Illegal Gambling

Illegal gambling is a business that requires permanence, stability, order and predictable service. It is, simply put, gambling that has been declared a crime. As such, it is vulnerable to short-circuitings by enforcement actions that disrupt normal operations which inevitably tempts it to gain the cooperation of the authorities through bribery. Illegal gambling may be so widespread as to constitute an important local industry and thereby render null all attempts to suppress it. A dramatic example of this phenomenon was the widely played numbers game in Harlem in the 1950s, 1960s and 1970s, which resulted in corrupting the cops with no significant diminution of activity, despite the vigorous efforts and determination of a police hierarchy that understood the issues. The end result was the disclosures and reforms of the Knapp Commission's investigation in 1972 and the ultimate legalization of the numbers game by incorporating its features into the lottery.

The U.S. Department of Justice studied the objectives and results of gambling enforcement by police departments around the country.¹

The objectives were:

- Enforce the laws and avoid corruption. The study found that the laws were unpopular, not seen as serious and had little citizen support. The panel also found that police had too much discretion and inconsistency in efforts and that enforcement is a difficult task for police and no reward for good work.
- Maintain public confidence through aggressive actions. The problem was that inactivity by police equates to citizen suspicion of corruption. The public acts on its sense of whether the cops will follow through.

¹ The information in this section comes primarily from: U.S. Department of Justice, Gambling Law Enforcement in Major Cities, ed. Floyd J. Fowler Jr., Thomas W. Manzione and Frederick E. Pratter, National Institute for Law Enforcement and Criminal Justice, 1978.

- Short-circuit organized crime operations. Investigators found lone, independent operations often. Organized crime influence may be overstated and may differ according to locale.

The panel found:

- Social gambling in private is mostly ignored. Public social gambling enforced the same as similar laws with moderate results.
- The police role is difficult, unpopular and thankless. No credit for success, blame for failure.
- The laws are enforceable, within limits, but few resources are allocated.
- Non-enforcement means corruption to citizens.
- About half of the illegal operations showed organized crime connections. The others tended to be private enterprises.
- Prosecutors don't push for serious penalties.
- Lack of reports makes prosecutors unaccountable for results.
- No evidence indicating enforcement's tasks easier or harder as a result of legalizing lotteries and racing.
- Laws are not as important as the behavior of police and district attorneys.

Difficulties connected to securing wiretaps--one of the essential staples of gambling investigations--were made worse by the use of disposable, water-soluble paper on which to record bets. The cops and gamblers were engaged in a tandem race involving labor, technology and human ingenuity in which no one ever secured a permanent upper hand. The mere loss of records, however, poses a serious problem for the illegal gambling operator since this generates confusion and controversy as to pay-outs for winners and debts from losers.

The panel concluded that citizens get the enforcement they demand. Values are transmitted through police actions. Police need discretion but it should be channeled. The public needs more information on gambling policies and enforcement approaches.

The panel believed that gambling enforcement:

- Should be specialized, with a few cops paying full attention to the problem.
- Coordination between police, district attorneys and judges essential.
- Priorities set and communicated and accountability needs to be built in.

The question of reallocating police resources from gambling to other police operations following legalization was pooh-poohed since few personnel were dedicated to enforcement and legalization was held to have little impact on illegal operations. It seems fair to say that subsequent events proved them wrong as the police shifted resources out of the gambling enforcement areas as they concentrated more energies on the "War on Drugs."

Organized Crime's Involvement in Illegal Gambling

A hearing by the President's Commission on Organized Crime in June 1985 produced testimony pointing to the low risk of involvement because of the public's tolerance for any form of gambling.² Thus illegal gambling becomes an easy money maker for organized crime, including the likes of motorcycle gangs and organized crime groups from various countries, as well as the traditional mafia. The problems connected to infiltration of casino gambling through union funds and control of offices and the threat of fixes were cited, as well as the involvement of organized crime in video poker machines in New York and Chicago.

The movie image of gangsters has faded out to be replaced by corporate images of smoother semblance. Today's legal gambling is more tightly regulated and harder for the mob to infiltrate. The scandals in Atlantic City have centered on corporate bribery of public officials rather than mob actions. Gangsters have attempted their infiltrations through controlling, or trying to control, the service industries on the periphery of gambling operations. In Las Vegas there has been a determined, long-term commitment--by the state and by publicly held corporations--to edge the criminals, many of whom founded the industry, out of the operations with some success.

There has long been a connection between organized crime and illegal gambling but as the activities were legalized and the numbers of arrests began to decline dramatically, organized crime was forced to adjust. This evolution caused a shift into attempts to penetrate legal operations such as in Las Vegas (where they'd been in on its creation) and Atlantic City, and to focus on skimming and other diversions possible in a cash-

² Testimony before the President's Commission on Organized Crime, June 1985.

rich industry. In the main law enforcement has gotten a lot better at excluding organized crime from legal gambling operations.

Legal v. Illegal

Legalizing gambling activities has always been proposed as one way to reduce or eliminate illegal gambling activities. The question which must be then answered is whether or not legal gambling reduces illegal gambling. The answer depends on many factors. If the legal game is not similar to the illegal game, legalization holds little hope for reducing the illegal activity. If the games are similar, legalization may reduce the activity however, the legal game has to be competitive with the illegal game in terms of access, prize pay-outs and other game characteristics. One area in which legal games haven't been able to compete is credit by the loan shark or bookmaker. The gambler's body is his collateral.

Even if the legal game can compete with and reduce the illegal game, legalization may lead to more illegal activity. If people see the state approving betting in one form, they may view other betting in other forms which are still illegal as a less serious breach of law or mores. This approach generates momentum for broadening the area of legalized gaming. It must be remembered that proscriptions and liberalizations flow from the popular view. The laws are mere reflections of societal views and values.

The 1978 Justice Department panel felt that legalizing gambling did not severely impact illegal betting. This, given the ensuing experience, is very likely a debatable finding. Recent efforts have made legal gambling far more competitive and convenient. The growth of pull-tabs also appears to refute the logic of this finding. It seems reasonable to suppose that gambling is burgeoning as a result of legalization, rather than just shifting from the forbidden to the openly permitted. In all likelihood, a great many people who hadn't gambled have been initiated and many who had gambled illegally are probably finding it more convenient to wager legally.

There has been a tendency for the state to replicate the operations connected to illegal gambling, such as a three-digit lottery that duplicates the numbers game and off-track betting parlors that replaced horse racing bookmakers. This has made the legalized forms far more competitive.

The panel also found that legalizing gambling did not weaken the police enforcement resolve which was already weak. There appears to have been a major shift in public attitudes towards gambling, in the direction of greater approval, following successful launchings (between the 1978 report and 1990). At the time the report was prepared, the three principal approaches to gambling in the various states were no legal commercial gambling, horse racing, and horse racing and lottery.

The spread of legalization has very likely caused a shift from enforcement in illicit to monitoring licit operations, not to mention granting the state a vested interest in erasing competition.

The President's Commission believed that legalization might, in addition to the more obvious benefits, also facilitate the tracking of the activities of large bettors who might be involved in fixes, money laundering or other illegal acts.

The Commission found that states need to think long and hard about the goals behind legalizing casino gambling in order to move toward definable objectives. Both Nevada and New Jersey were criticized for having unclear, confused goals that permitted exploitation for private gain.

The Commission was generally sympathetic to legalization, having been exposed to the penetrations and depredations of organized crime through the testimony of its witnesses.

Budgetary strictures tempted legislators to find alternative (easier to raise) sources of revenue. The debates about "victimless crimes" spurred the drive toward legalization. The desire to attack organized crime encouraged gambling enforcement, as well as legalization. Enforcement had been a low police priority in any case.

The debate in state legislatures centered on whether gambling should be legalized, and the implications of such an action; whether gambling should be decriminalized and left alone or whether more draconian measures were needed. There was also the issue of state versus local, municipal control. Minnesota mostly evolved from the local model to state regulation, resulting in the carry-over and exacerbation of problems that had been occasioned by local neglect. Such de novo starts as the lottery had permitted the state to establish the program in an orderly fashion.

So the issue of legalization--to eliminate illegal wagering--is, as most such questions are bound to be, far more complex than advocates or opponents are likely to allow. Illegal gambling is one of the murkier areas of human enterprise. One of the principal problems with it is that most commonly held beliefs about it are partially true--there is some organized crime connection; it is virtually impossible to eradicate; there is a lot of sentiment favoring it and it is mostly seen as harmless. Any of these arguments can be taken to extremes and used to justify any position.

Any effort to develop a policy about illegal gambling ought to eschew the temptations that the cyclical scandals deliver to this boom-or-bust business and concentrate on evaluating the complexities and evolving to a cogent, rational analysis that furnishes a sensible, workable approach.

The findings of the President's Commission on Organized Crime in 1985 mostly mirror the ambiguous studies of other bodies. Organized crime is involved, but not uniformly, and the public is ambivalent--supporting some forms of gambling (lotteries) and opposing others (sports betting and casinos).

Estimates of illegal wagering have mostly reflected the biases and interests of the estimators.³ Legalization doesn't lead to the elimination of illegal activity. The posture of public leaders may also exert an influence on the people's thinking and attitudes. Gambling is an equation with many variables.

ACTIVITIES IN MINNESOTA

What Betting is Illegal

An easy way to understand what betting is legal is to delineate the legal forms of gambling. All other forms are illegal. Three types of gambling are legal in Minnesota: lawful (formerly charitable) gambling, which is conducted by licensed non-profit organizations, on-track pari-mutuel horse race betting and a lottery operated by the state.

The following activities are not bets: Insurance and options contracts; offers of prizes paid to contestants in bona fide contests of skill, speed, strength, endurance or quality, or to the bona fide owners of animals or other property entered in such a contest; bingo and other forms of lawful gambling when conducted in compliance with the lawful gambling laws and rules; private social bets not a part of or incidental to organized, commercialized or systematic betting; parimutuel betting on horse racing conducted under racing laws and rules and the purchase of a lottery ticket under the lottery laws and rules.⁴

The Constitution as written in 1857, and in subsequent revisions, has prohibited all other forms of gambling in Minnesota. The statutes, however, allow the loser of an illegal bet to sue, through civil action, for money paid to the winner of an illegal bet and declare all debts related to illegal gambling void.⁵

³ George Ignatin, in "Sports Betting," *The Annals of the American Academy of Political and Social Science*, Volume 474, July 1984, pp. 168-177, found that the total dollar amounts wagered with bookmakers are usually underestimated while the net income of bookmakers is typically overestimated.

⁴ Minnesota Statutes 1989, Chapter 609.75 Subd. 3.

⁵ Minnesota Statutes 1989, Chapter 541.20 and 541.21.

Illegal Gambling Activities in Minnesota

The history of gambling in Minnesota bears many similarities to the experience nationally. Prohibition and its aftermath seemed to fuel an enthusiasm for illicit actions as if the criminalization of "innocent" activities lent a legitimacy to the excitement of law breaking. The first experiences in Minnesota with open, public gambling came just before and after Prohibition in the 1920s. Illegal slot machines and table games were common throughout the state, especially in the resort areas. As often happens, even as the activity was reaching its zenith, forces had been set in motion to insure gambling's decline.

In 1945 a reform mayor was elected in Minneapolis--Hubert H. Humphrey--and the following year Luther Youngdahl, an anti-gambling reformer, was elected governor. They attacked the problem with relish and produced results. Between the two they successfully eliminated all (or nearly all) of the slot machines and other hard gambling in Minnesota. Governor Youngdahl did not crack down on bingo and other forms of smaller gambling. (Bingo conducted by non-profit groups was made legal in 1945.)

Some smaller forms of gambling that probably weren't eliminated were tipboards and jar tickets (the predecessors of pull-tabs). Their use was evidenced by testimony given to a senate committee considering the legalization of various gambling devices in the early 1980s. Several veteran and fraternal groups said that they needed the gambling to pay for their buildings. When asked how they were paying for their buildings currently, one member of a veterans group testified to what most suspected--they were already gambling.

Another form of illegal gambling that didn't vanish was sports betting. Minneapolis contributed to gambling's progress when Lou Hecht, a local bookmaker, initiated the use of point spreads in the late 1940s. The Green Sheet, the first publication to print ratings and past performance of teams, also began there. Mort Olshorn, one of its writers, went on to create the Gold Sheet which, for the past 30 years, became the oracle to handicappers and odds makers. The busiest time of the year for bookies is during the football season. Activity has increased with the startup of the Timberwolves. The existence of all forms of big time sports--baseball, football, hockey and basketball--creates fallow ground for sports betting action.

In addition to sports bookmaking, sports pools are much more common. While most would be considered private social bets some would fit the definition of illegal gambling. A cursory tour through north central Minnesota found a football pool in nearly every small town privately-operated bar. One such bar didn't have its pool displayed--it was sold out. All of the bars also had legal pull-tab games.

Other illegal gambling activities include: payoffs on video games of chance; organized card games (where the "house" takes a cut of the action); casino nights, lotteries and raffles and illegal activities in legalized gambling.

Figure 6.1 lists the number of arrests made for illegal gambling activity.

Illegal Gambling Arrests					
<u>Statewide</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bookmaking	6	9	9	10	11
Numbers & Lotteries	4	2	4	3	-
Other	<u>15</u>	<u>14</u>	<u>30</u>	<u>59</u>	<u>33</u>
Total	25	25	43	72	44
<u>Twin Cities</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Bookmaking	6	7	6	3	9
Numbers & Lotteries	-	1	2	3	-
Other	<u>11</u>	<u>11</u>	<u>16</u>	<u>44</u>	<u>30</u>
Total	17	19	24	50	39

Compiled by Department of Public Safety, Bureau of Criminal Apprehension

Figure 6.1

There are recurring reports on the use of video poker machines that employ illegal pay-outs. There are federal laws regulating the manufacture and transport of these devices that appear to be worth exploring. One manufacturer reported that rivals are ignoring a law that specifically requires state approval before importation is legally possible. This is typical of the sort of possible violation that, for lack of resources, is going unchecked. The 1990 legislature repealed the law allowing video games of chance effective January 1, 1992. (The repealer doesn't affect video games of chance on Indian reservations.)

Newspaper articles and conversations with enforcement officials revealed the following:

- A raid in Dodge County, by state and local law enforcement officials, of four bars and a video poker machine distributor for alleged pay-outs with a percentage of the profits being returned to the distributor.

- Video poker machines raided in several Duluth bars.
- Chronic bookmaking brothers in St. Paul arrested, one sentenced to community service. Shortly after sentencing he was arrested again for taking bets. He says they're just taking bets for friends and can't stop. A jury found him to be innocent, declaring that he was an idiot-savant--capable of understanding bookmaking's complex mathematics, yet incapable of understanding its illegality.
- West St. Paul man sentenced to community service for illegal tipboards--used for sports betting. The activity took place in at least one bar. The betting was on high school, college and professional sporting events.
- Four arrested in St. Paul for allegedly running a southeast asian gambling parlor.
- Charges brought against a northeast Minneapolis bar owner for running an illegal lottery. State police were used in the investigation and raid because Minneapolis police officers frequented the bar.
- "Smoker" (a.k.a. casino night) raided in at a St. Paul bar. Enforcement officials were tipped off because a Department of Revenue employee sold tickets to co-workers.
- Poker game at Alcoholics Anonymous Society building raided. The room was rented by a person who in turn rented tables out for poker games. Sports pools which took a cut for the house were also discovered.
- Driver of a Jimmy Jingle truck, a hot food and beverage delivery service, was arrested for selling pull-tabs on his route.

COMMENTARY

Illegal gambling poses a number of dilemmas. Even after resolving the moral, ethical, religious and philosophical questions surrounding an activity that stirs profound doubts about the rightness of prosperity without effort, there remains the practical issue of whether it can be controlled at all and to what degree.

Efforts to control the numbers racket in New York were not only futile but, since the operators needed police cooperation to function, led to the corrupting of the cops. This surfaced repeatedly in the form of periodic scandals. In those circumstances legalization seemed the only way out of a municipal cul-de-sac. In Minnesota it looked

like illegal gambling was not particularly widespread and seemed mostly confined to non-professional operations that dedicated the funds to reasonably altruistic purposes.

The push to legalize was given enormous impetus by the federal government's abdication of its role in addressing such problems as housing, welfare, poverty, crime and the other disabilities so evident in our cities. As responsibility was pushed downward, state governments had to scurry to find resources they might funnel into the breach even at minimal levels. The painless and voluntary tax produced by legal gambling proved an irresistible temptation.

Human nature's predilection for gambling then was fed by the state, raising the chicken and egg question of which came first--the state's seduction of its citizens or the government's succumbing to the popular will. England resolved the issue by allowing gambling, while restricting access and numbers to preclude over-stimulating the industry or the practice. Las Vegas and Atlantic City are examples of this access-restricting, location-limiting approach, even if it did occur accidentally. Proliferation of gambling sites and expansion of opportunities are bound to weaken this strategy.

Illegal gambling poses the usual problems involving organized crime and its corrupting, criminal ways. Legalization produces complex dilemmas of values and the state's role. Both create temptations that the human animal has historically found difficult to resist. The reality has been that when a free people choose to gamble, state intervention doesn't prove a profitable enterprise.

Bingo, legalized in 1945, became as a consequence of its players and sponsors the sole survivor and the precursor of the fever that would sweep across the landscape decades later. Bingo could only be played by religious, charitable, fraternal or other non-profit organizations. Even this seemingly innocent pastime came in for criticism in 1963 by being labeled commercialized and harmful to the morals of the citizens of the state. Still it continued to thrive as it awaited its brethren.

The human has always gambled so the decision for the state was whether, how and where to intervene and what to make legal or illegal. It involves moral as well as practical questions and these get tangled with economic considerations touching on the states' need to raise revenues to provide services.

As the revenue flow deepens and expands there will be an irresistible temptation to dip into the operation with additional charges, taxes or other money raisers. Ignoring the delicate balance of competitiveness between legal and illegal operations might well tempt players into the illicit channel. With taxes, no credit and little personal interaction the state is already at some disadvantage and it can't afford to tip the balance.

Adding to all the complexity has been the differential growth of gambling's myriad activities and the cyclical and unpredictable history of gaming through the ages. An industry floating in money has frequently succumbed to the urgings of dark instincts resulting in public revulsion and prohibitions.

Since gambling appears to be inevitable and since it frequently produces negative consequences, the state must struggle to find a balanced view that minimizes the damage and maximizes the benefits. This is a lot easier to describe than it is to achieve.

THE NATIONAL PICTURE

As of mid-1990 the rapid spread of gambling fever was speedily filling a patchwork pattern of formerly empty space. The most pervasive game was bingo with 45 states playing the game, another about to start. Only Arkansas, Hawaii and Utah forbid it, while it is in a sort of legal limbo--currently proscribed, in Tennessee. The big question mark over this game is the future of high-stakes, unregulated bingo on Indian reservations.

Lawful gambling (also called charitable gambling) is up and working in 30 states with Minnesota accounting for over one-fourth of the pull-tabs sold.

The biggest national game, the lottery, is legal in 32 states and growing fast. Alaska has a private lottery.

The lottery is a rapidly adapting chameleon that currently assumes the following shades:

- On-line lotto legal in 32 states and moving rapidly.
- Passive games legal in 32 states.
- On-line numbers--daily drawings of three-digits. Working in 22 states but legal in 30.
- Video lottery terminals (VLTs) legal in only six states and working in three. South Dakota is the current hot spot generating impressive revenues for a small state.

Casino gambling is legal and working in Nevada, New Jersey, Puerto Rico and Deadwood, South Dakota. There are a number of off-shore shipboard casino operations. Riverboat casinos have been approved in Illinois, Iowa and Mississippi, but not yet functioning (as of mid 1990). Other states (Missouri, Pennsylvania, Louisiana) are considering it. The issue remains centered on specific sites and Lorain, Ohio and Pleasure Island, Texas are examples of the genre attempting to secure specific approval.

Card rooms are legal in eleven states but working in only nine.

Sports betting is limited to four states with Nevada offering the only legal bookmaking. Montana and North Dakota offer limited bets and pay-outs on sports pools. Oregon, through its lottery, has had a disappointing initiative with sports pools. The thus far lower-than-expected results in Oregon may well dampen the enthusiasm of other states for wagering on professional football and basketball games.

Pari-mutuels, in one form or another, (harness, thoroughbred, quarterhorse or dog racing) are available in most states. They face stiff competition from each other and from the rapidly growing availability of other gambling opportunities. Only one track, Woodlands, houses both horses and dogs. It has experienced an early success.

Jai Alai looks pretty moribund with only four states legalizing it and operating in only three. A two-year-old player strike has contributed to the malaise.

Off-track betting is legal in eleven states, with nine actually operating. This is being pushed vigorously by track operators who see this as the next area of growth.

It is estimated that Americans gamble about 6 1/2% of their personal incomes.

Gaming and Wagering Business reported totals for 1989 U.S. Gross Gaming Handle¹--see Figure 7.1. The total gross handle was \$290 billion, with \$30 billion being retained by operators--a 10% take-out.

These totals represented a modest (for this fast-growing industry, anyway) 6% increase over 1988. The average increase over the 1980s was 11%. The areas of growth and shrinkage are dramatically illustrated by a table that compares 1988 with 1989 handle--see Figure 7.2. Such factors as the importance of off-track betting for the racing industry and the impact of legalizing the numbers game, on illegal operations, are signposts for planning the future of a dramatically shifting industry.

¹ Information for this chapter was taken from two articles prepared by Eugene M. Christiansen for "Gaming & Wagering Business" July-August and August-September 1990, Vol. 11 Nos. 7 & 8.

1989 U.S. GROSS GAMING HANDLE

Industry	1989 Gross Wagering (Handle)
PARIMUTUELS	
Horses	
Track	\$11,155,011,075
OTB	2,775,058,960
Total	13,930,070,035
Greyhounds	
Track	3,183,112,602
OTB	28,571,564
Total	3,211,684,166
Jai-alai	552,746,477
Total Parimutuels	17,694,500,678
LOTTERIES	19,468,330,000
CASINOS	
Nevada & New Jersey Slot Machines	65,790,588,454
Nevada & New Jersey Table Games	127,774,754,003
Cruise Ships	2,073,500,000
Other Casinos	22,300,000
Noncasino Devices	301,600,000
Total Casino	195,962,742,457
LEGAL BOOKMAKING	
Sportsbooks	1,434,952,978
Horsebooks	403,178,763
Total Bookmaking	1,838,131,741
CARD ROOMS	3,798,437,500
BINGO	3,772,029,542
CHARITABLE GAMES	3,990,444,149
INDIAN RESERVATIONS	400,000,000
Total Legal	246,924,616,067
ILLEGAL GAMBLING	
Numbers	5,550,305,120
Horsebooks	8,128,905,535
Sportsbooks	27,387,198,884
Sportscards	2,119,702,209
Total Illegal	43,186,111,748
GRAND TOTAL	\$290,110,727,816

Note: Column may not add to totals due to rounding

Figure 7.1

1989 V. 1988 GAMING HANDLE

Industry	Increase/Decrease in Gross Wagering Handle	
PARIMUTUELS		
Horses		
Track	(\$26,062,791)	-0.23%
OTB	287,970,439	11.58%
Total	261,907,648	1.92%
Greyhounds		
Track	(63,309,608)	-1.95%
OTB	12,021,279	72.63%
Total	(51,288,329)	-1.57%
Jai-alai	(86,477,958)	-13.53%
Total Parimutuels	124,141,361	0.71%
LOTTERIES	2,416,450,000	14.17%
CASINOS		
Nevada & New Jersey Slot Machines	8,123,495,799	14.09%
Nevada & New Jersey Table Games	1,479,130,918	1.17%
Cruise Ships	2,073,500,000	N/A
Other Casinos	22,300,000	N/A
Noncasino Devices	71,600,000	31.13%
Total Casino	11,770,026,717	6.39%
LEGAL BOOKMAKING		
Sportsbooks	117,648,903	8.93%
Horsebooks	(11,384,409)	-2.75%
Total Bookmaking	106,264,494	6.14%
CARD ROOMS	345,312,500	10.00%
BINGO	101,861,675	2.78%
CHARITABLE GAMES	409,310,918	11.43%
INDIAN RESERVATIONS	54,285,714	15.70%
Total Legal	15,327,653,379	6.62%
ILLEGAL GAMBLING		
Numbers	0	0.00%
Horsebooks	0	0.00%
Sportsbooks	1,078,650,484	4.10%
Sportscards	83,484,909	4.10%
Total Illegal	1,162,135,394	2.77%
GRAND TOTAL	\$16,489,788,773	6.03%

Note: Column may not add to totals due to rounding

Figure 7.2

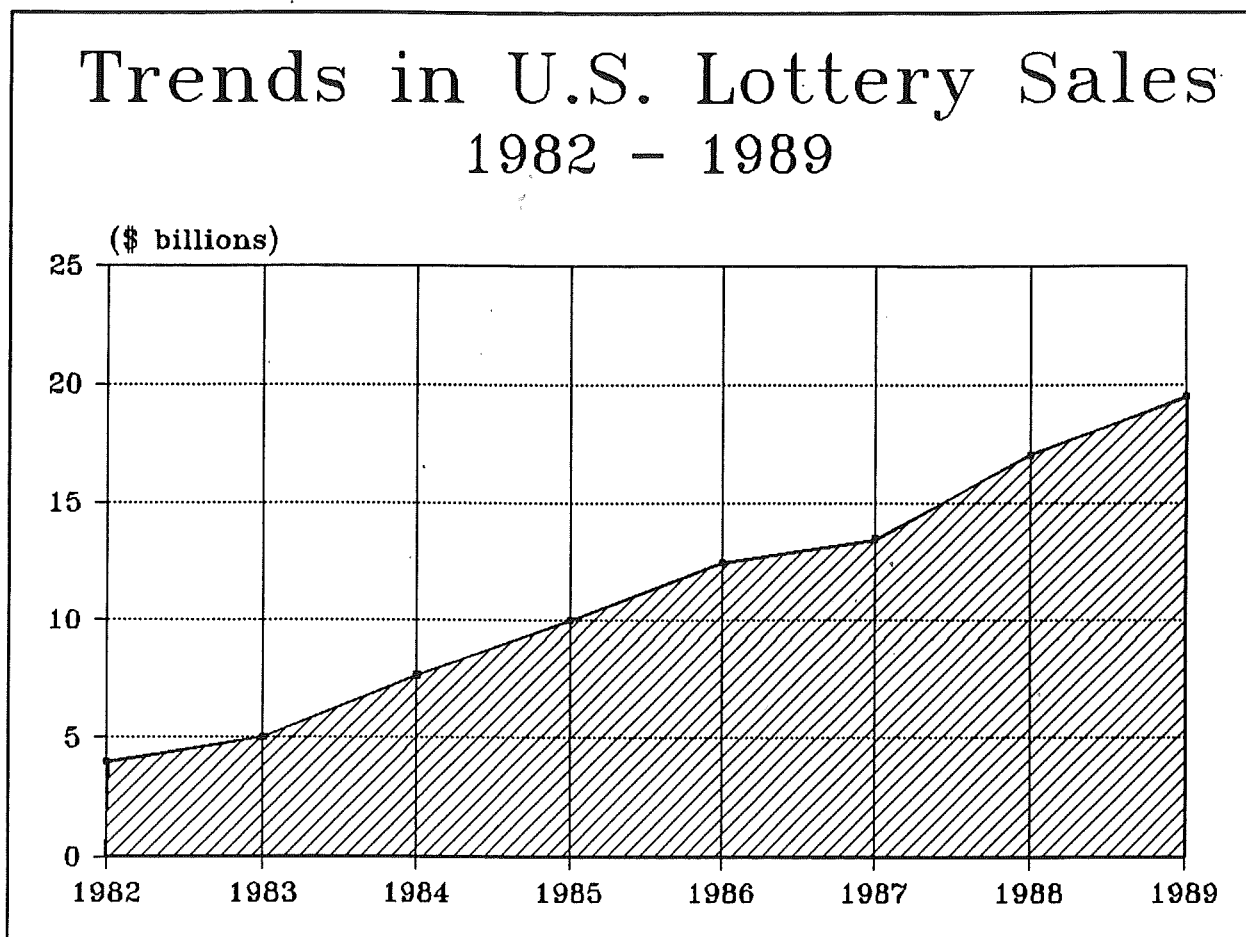


Figure 7.3

The fastest growth came in the expanding lottery--see Figure 7.3.

Gaming devices in bars and slot machines have experienced explosive successes in areas where they were newly introduced. South Dakota's video lottery terminals (VLTs) which dispense receipts (not cash) look like the wave of the future. Since both the lottery and video games of chance are experiencing enormous growth, it appears logical that ways will be found to combine these approaches. Instant, scratch-off games appear to be the losers when VLTs are introduced.

Table games and slot machines have grown gradually except for spikes occasioned by such dramatic developments as the opening of major new facilities--see Figure 7.4.

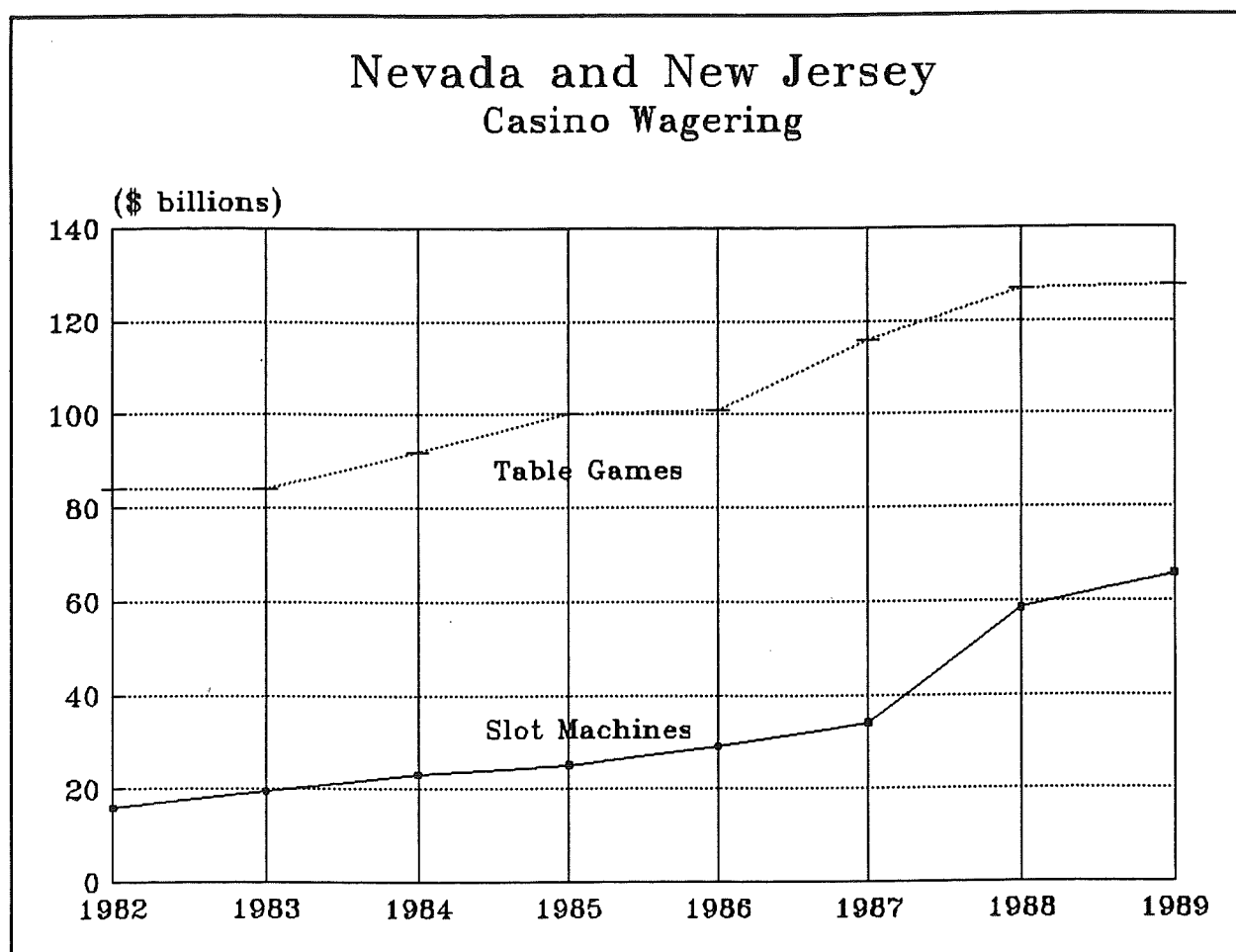


Figure 7.4

ILLEGAL GAMBLING

The most important point to be made about illegal gambling is that no one knows how much it involves and that all of the estimates--whether from official, scholarly or informal sources--are just that. What appears to be indisputable is that the explosive growth of legalized gambling, fueled by effective marketing of attractive and competitive products, makes it a lot easier and more convenient for the citizen to shift from illegal to legal wagering.

GROWTH AREAS

The areas of greatest growth in wagering, from 1982 to 1989, were:

- State lotteries--with a 376% gain.
- Slot machines--with a 357% increase.
- Card rooms--with a 280% rise.
- Nevada's legal books--with a 242% jump.
- Charitable gambling--with a 232% growth.

Gambling is a rapidly expanding, changing, growing American industry. Such dynamics contain challenges, opportunities and risks. Bingo, for example, doesn't appear among the five biggest winners, and pair-mutuel wagering definitely seems challenged to find niche areas for growth just to stay abreast of the industry.

Gambling's growth is proceeding differentially with some states plunging in while others remain aloof. The feverish excitement of its prospects, however, often prove irresistibly tempting. This is particularly true during a period of such exponential expansion as we have seen over the past several years. Caution and prudence appear especially attractive during such heady periods of prosperity.

GAMBLING BEHAVIOR

Minnesotans like to gamble. They gamble for many reasons. Some gamble for fun. Others gamble more seriously. Some are even addicted. In late 1989 approximately 60% of all adults in Minnesota had gambled in one form or another.¹ The same poll estimated that 53% of all adults would purchase a lottery ticket in Minnesota; the lottery estimated that 70% of all adults would buy at least one lottery ticket. Three weeks after starting the lottery, the Minnesota Lottery had sold over 23 million tickets, or more than five for every human in the state. The per capita annual wagering on legal gambling is around \$400. Both statistics ignore the fact that people under 18 can not gamble. The urge to gamble appears to be endemic to human nature, yet different civilizations gambled differentially at different points of their development. It seems important to understand the factors fueling gambling activities.

This section examines some of the reasons why people gamble and describes the various levels of gambling behavior. The characteristics of various games and their implications for gambling behavior are examined. Finally, player demographics for various games are presented.

Why People Gamble

Life has been a risk since the first humans ventured from the comforts of their caves and fires to search for food; or since voyager risked going over the earth's edge. It has never been hard to see life as a metaphor for gaming, which may account for the instinct in all of us to take a chance on hitting it big. Isn't that, after all, what so many of our daily activities are aimed at securing?

¹ Minnesota Poll, Minneapolis Star-Tribune and KSTP-TV, November 1989.

The reasons why people gamble are as varied as those attending any other complex human activity.² There may be as many factors as there are gamblers; certainly there are as many reasons as the number of different games available. Their very variety attests to the many tastes and predilections involved.

A recent survey conducted by the University of Minnesota's Center for Addiction Studies and School of Public Health Revealed the reasons why some Minnesotans gamble.³ The first response to the question why do you like to play are given in Figure 8.1.

In the past gamblers were often viewed as having some defect in their personality, education or social environment. Given the universality of gambling in recent years, psychologists, sociologists and economists are beginning to accept the notion that gamblers are motivated by such pedestrian reasons as those surrounding the search for pleasure. There seems little doubt but that a dramatic evolution has occurred in the popular concept of the gambler--from sinner to player. This can be taken as another sign of our rapidly shifting value system from us to me; from altruism to pleasure; from service to self-seeking.

One of the reasons people gamble is that they expect to win money. The money the gamblers win will be the result of luck, which is not transferable to other people. Other gamblers believe they have a system, which will give them an edge over the house or other gamblers. The gambler's miscalculations include overestimating small probabilities and weighing previous losses less heavily than expected winnings. Other biases, such as recalling the publicity surrounding winners or absorbing only information which supports gamblers' theories, also lead gamblers to think that they will win. A lot of wishful thinking necessarily accompanies the practice.

That gamblers must lose money in total inspires the suspicion that there may also be other reasons besides winning. One is that gamblers view it as entertainment. The losses from gambling, or price, are viewed as the disposable income usually spent on diversissements.

Gambling provides excitement. Each time the dice are thrown or the horse run, the gamblers feel a rush of expectation. Inveterate gamblers speak of a "high" that feeds the psychological addiction. Some people can't take the apprehension this action

² Much of the information on why people gamble is taken from Willem A. Wagenaar, Paradox of Gambling Behavior, Lawrence Erlbaum Assoc., Publisher: Hove, England, 1988.

³ J. Clark Laundergan, James M. Schaefer, Karla Eckhoff and Phyllis L. Pirie, Center for Addiction Studies and School of Public Health, University of Minnesota, survey conducted in the spring and summer of 1990 for the Department of Human Services.

Why Do You Like to Bet?					
	<u>Metro Core</u>	<u>Metro Fringe</u>	<u>Clay County</u>	<u>St. Louis County</u>	<u>Total</u>
It's fun	22.6%	16.7%	9.1%	16.0%	17.6%
Fun to take a chance	19.0	16.7	18.2	20.0	19.0
It's exciting	6.0	8.3	9.1	4.0	5.7
Thrill of winning	2.4	4.2	4.5	4.8	3.9
Form of entertainment	6.0	6.3	4.5	12.8	9.0
Like to win money	10.7	14.6	18.2	9.6	11.5
Nice to get something for little	2.4	0.0	0.0	1.6	1.4
Like to play the odds	0.0	0.0	0.0	0.8	0.4
Like to test my skill/ judgement	1.2	2.1	0.0	0.8	1.1
Like the challenge	2.4	12.5	9.1	3.2	5.0
Relaxation	2.4	0.0	0.0	1.6	1.4
Helps with boredom	10.7	10.4	13.6	11.2	11.1
Something different to do	0.0	0.0	4.5	2.4	1.4
It's a social thing	7.1	4.2	9.1	4.0	5.4
Like to compete with others	0.0	0.0	0.0	1.6	0.7
Peer pressure	1.2	0.0	0.0	0.0	0.4
It's a habit/addicting	0.0	2.1	0.0	0.8	0.7
Professional gambler	0.0	0.0	0.0	1.6	0.7
Mainly gamble for charity	0.0	0.0	0.0	1.6	0.7
Other	6.0	2.1	0.0	1.6	3.2

Figure 8.1

produces. The constant appears to be that gambling engages the emotions deeply whatever its form.

Even though gamblers may lose money, gambling gives them a sense of control. In the real world most people feel controlled by money. In the gambling world people feel they have control over the money. The gamblers decide how much to bet and when to bet; and in some cases, the gamblers believe that their actions will have an effect on the outcome of a gambling chance--giving them more control over money. Gambling can also give gamblers an escape from reality. As the gamblers scratch the lottery ticket or open the pull-tab or as the lotto numbers are drawn--the key moment of expectation--they imagine what they will do with all the money won in the jackpot. The winnings become the conduits to salvation, even though very few ever apply them to such resolutions.

In addition to escape some gambling environments, especially casinos, also provide prestige. Casino gamblers are often treated to complimentary meals and drinks and exotic shows in extravagant settings meant to keep these juices flowing and the reminders of harsh reality muted. The lights are soft and concealing. Clocks are not in evidence.

Finally there are more psychologically based reasons. Gambling may satisfy the need for conflict resolution, competition and aggression and even self-punishment, through loss, in those suffering from guilt neuroses. It has been said that some gamblers unconsciously play to lose, to punish themselves for guilty feelings. Some compulsive gamblers started out in the financial markets and some stock-market players may simply be engaging in another form of gambling.

Gambling, then, must be seen as one of those complex human behaviors-of-choice that are motivated by greed, fear, desire and other powerful and complex emotions that may not only be hard to analyze but which may be at odds with the expected or the rational. If gamblers played to win, to satisfy an objective, then more winnings would be applied to mortgages and car loans and fewer would be returned to the tables.

It is this very complexity that tempts us to suspect that acknowledging the problem and determining to do something about it--essential first steps to any cure--may, nevertheless, not be enough since they don't afford the needed insights and understanding of motivation.

Classifications of Gambling Behavior

In addition to examining the reasons why people gamble, examining the levels of gambling behavior will help one understand why and how people gamble. Abt, Smith

and Christiansen developed the following classifications of gambling behavior--see Figure 8.2.⁴

The Gambling Behavior Spectrum

Casual	Occasional	Risky	Professional	Habitual	Serious	Obsessive	Compulsive
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Figure 8.2

Casual gambling is gambling that is done as an impulse. Most often the gambler is gambling out of curiosity or for social reasons. The occasional gambler gambles on special occasions, such as a birthday or an annual event. Risky behavior refers to the risk involved with gambling, not the chances that the gambler's pocketbook will be emptied.

The professional gambler engages in gambling as a money-making venture and almost always sticks to games, such as racing or cards, where skill is a factor. The habitual gambling of the pro is consistent over time, but the gambling does not take up that large a chunk of the gambler's life. Serious gambling is like a serious hobby and remains within the financial means of the gambler. Sports bettors are likely to be serious gamblers because of the popularity and availability of sporting events and of the fan's deep interest and desire to participate in the action, even if indirectly. Betting lends concrete importance to the team's fate. The pro may go to the track to bet only one race, having handicapped it thoroughly, and ignore the rest. Such control requires extraordinary discipline.

The obsessive gambler engages in gambling because it provides an escape. When going to the track the gambler escapes everyday identity and becomes the horseplayer. The obsessive gambler, like the serious gambler, generally remains financially solvent. The compulsive gambler also uses gambling as an escape, however, the gambler can't resist the urge to gamble or remain financially solvent. Compulsive gambling will be discussed further in the next chapter.

The gambling behavior spectrum is along increasing but not necessarily progressive involvement. That is to say the serious gambler is more involved in gambling than the

⁴ Vicki Abt, James F. Smith, and Eugene M. Christiansen, The Business of Risk: Gambling in Mainstream America, University of Kansas, 1985.

habitual gambler. Because a gambler is serious does not imply compulsive behavior is on the near horizon.

Gambling Games

Another way to help understand gambling behavior is to examine the games people play. Each of the various games (e.g., lotteries, racing and pull-tabs) have unique characteristics that appeal to different people. One characteristic is price or the cost of playing. A lottery ticket may cost the purchaser a dollar. However, since on average 50 cents is returned in prizes, the cost of playing is 50 cents. Both racing and pull-tabs in Minnesota pay back about 80 cents on the dollar. Most casino games in Las Vegas and Atlantic City pay back 90 cents or more.

When examining the price of a game the amount wagered is often greater than the amount lost. If a player buys ten lottery tickets for \$10, wins \$5, buys five more tickets, wins \$2, buys two more tickets, and finally loses, the player has wagered \$17 but lost only the initial \$10. The gross amount wagered thus becomes \$17--which inflates the totals when the reports are submitted.

Another characteristic is the pay out frequency. Pull-tabs, instant lottery games and casino type games have a high pay out frequency. These games pay out prizes very often in a short period of time. Horse racing has a lower frequency, paying out prizes once every half-hour, at the end of each race. On-line lottery games (such as the lotto or numbers games) have a very low frequency--from once a day, to once a week--which is necessary to build large jackpots. The frequency of pay-out is very similar to the pace of the game. Horse racing and on-line lotteries are very slow paced games; pull-tabs and casino games are very fast paced games.

The odds of a game are yet another way to look at a game. The odds of winning a scratch-off lottery game may be one in eight, while the odds for an on-line game are one in 13 million. Yet both can still have a price of 50 cents per dollar wager.

Games can be examined across games (e.g., the price of a game versus the price of another), but comparing a game across characteristics is meaningless. The various combinations of characteristics which make up the many games provide appeal to the many tastes of the players. Although there may be fascinating psychological factors at work in impelling a gambler to one form of action and not another, these forces are a long way from being understood.

In addition to looking at the characteristics of the games, the environment of the game should be examined. Lotteries and bingo tend to be more introverted. Yet bingo is often played in a very socialized environment. Other games tend to be played in environments where there is much more action between the players (e.g., craps and

poker). Tabs are pulled in the determinedly gregarious settings of fraternal halls, club houses and neighborhood bars, yet it is as concentrated and lonely a practice as watching television. One has only to observe the disconsolate pulling to recognize it as a profoundly lonely interaction between human and device. The concentration is so total that some have to feign indifference by way of counteracting the anxiety within and concealing it from others.

Finally, there are some very subtle differences in the games. Studies show that there is a different psychological experience between the second it takes to open a pull-tab and the seven seconds to scratch off the latex on an instant lottery ticket. The intensity of the high may be inversely related to the time it takes to get the result, and this is an age that searches for highs.

Other differences are in perceptions. Slot machines, pull-tabs and video pull-tabs operators and promoters point to the advantages of their devices and expound on the slightest distinctions. Yet to the players the money won or lost is the same.

The various games are not substitutable except at the extremes of gambling behavior (casual and compulsive gamblers). Each game attracts different types of players.

Loss Patterns

Another way to examine the games is to examine the players' loss patterns of each game or the extractiveness (the ability of the game to get the player to bet more) of the game. Lotteries rank the lowest in extractive capabilities. However, the games are easy to play, offer a wide range of odds and are widely available. Lotteries are very high-priced--50% average takeout.

Pari-mutuel betting is more extractive--attracting more highly motivated gamblers to race tracks. Professional, serious and obsessive gamblers account for the bulk of race track betting. The track's expectation is that each bettor will gamble at least \$100 for the day.

Bookmaking is similar to pari-mutuel betting, except that casual and occasional betting are almost unknown. Bookmaking is highly extractive due to the large amounts wagered. Casino gaming is the most extractive. Casinos offer the widest variety of gambling and make it easy for the player to bet long and heavily.

PLAYER DEMOGRAPHICS

Public attitudes toward gambling change and are influenced by many such factors as the state's legislatively determined official position. The imprimatur of the church lends respectability. The popular practice of gambling (studies in Massachusetts and California revealed that over 80% of the states' adults played some of the lottery games) as it spreads, especially through the lottery, across the nation, also creates a greater general acceptance.

Different groups of people gamble on different activities. Locale and difficulty of access will determine who bets on what as well as predilection. Some addicted gamblers only bet on specific activities such as cards or horse races. Horse racing depends on regulars who make multiple visits to the track. Off-track betting hopes to broaden this base through enhanced access and convenience. Pull-tabs tend to be played by those frequenting veterans, VFW and fraternal halls or neighborhood bars. Bingo is mostly played by women seeking innocent diversions in safe halls. The lottery tends to have a more generalized clientele that buys tickets casually in convenience, high-traffic stores, either as an afterthought or taking change in tickets.

Just as it is hard to tell how one person will vote but relatively easy to poll a population and predict how the election will go, the gambling behavior of individuals can't be predicted, but the population's behavior can.

General Demographics in Minnesota⁵

A number of surveys reveal a general, if somewhat shifting, perspective on who gambles, at what, why, how much and where.

The Minnesota Poll found that 60% of all Minnesota adults had gambled on at least one form of gaming; 65% of all males, 56% of all females. The Minnesota Survey found that 58% of all male adults and 42% of all female adults had gambled at least once within the last year.

Nationally it is estimated that 110 million gamble and that five million are compulsive gamblers, of which 65% are men. Almost all compulsive gamblers (96%) started betting before age 14.

⁵ Much of the demographics information is taken from two surveys: The Minnesota Poll conducted by the Minneapolis Star Tribune and KSTP-TV in November 1989 (Minnesota Poll), and the Minnesota State Survey conducted by the University of Minnesota in late 1989 (Minnesota Survey). Some of the Minnesota Survey results may not be statistically significant, however, the results tend to confirm empirical observations.

The increases in available gambling opportunities affected the numbers of gamblers slightly. Those who did bet were more likely to have bet within the last year. A 1983 poll, also conducted by the University of Minnesota shows this shift--Figure 8.3.

When looking at why people didn't bet, the Minnesota Survey found that for those who never bet the primary reasons were: waste of money, non-approval of gambling and not interested. For those who didn't bet within the last year the reasons were: waste of money, not interested or no access.

Minnesotans' Gambling		
	<u>1983</u>	<u>1989</u>
Never Bet	31%	30%
Gambled, but not within last year	23	20
Gambled within last year	46	50

Figure 8.3

The introduction of the lottery should make gambling much more accessible, keeping those predisposed to gambling current in their behavior. The accessibility, advertising and news stories about the lottery may even entice those who have never bet to do so. Lottery officials estimate that 70% of all adults in Minnesota will buy at least one ticket.

Results from the Minnesota Poll and the Minnesota Survey, Figure 8.4, show that a majority of most demographic cohorts (sex, age, religion, etc.) gambled on some form at sometime. Education and occupation statistics are from the Minnesota Survey, the rest are from the Minnesota Poll.

It is likely that Minnesotans bet at least \$400 per year for every man, woman and child in the state. A lot tends to be concentrated in the resort and iron range areas of the state. The lottery's furiously successful start-up (\$68 million in tickets sold from April 17 to June 30, 1990) indicates we may not have hit the ceiling yet.

The Minnesota Survey found that the heavy bettors are likely to be younger males, with at least a high school education, working full-time in a blue collar job and earning more than \$20,000.

It seems clear that different slices of the population favor different forms of gambling. It is impossible to gauge the impact of the lottery but the last few years have revealed patterns relating to pull-tabs, bingo and horse racing.

Minnesotans Who Gamble	
Sex	
Men	65%
Women	56
Age	
18-34	70%
35-54	65
55 & older	44
Household Income	
Less than \$20,000	53%
\$20,000-\$29,999	59
\$30,000-\$39,999	67
\$40,000 or more	68
Occupation	
White Collar	76%
Laborer	84
Craft	79
Farm	62
Service	60
Not Working	46
Education	
Less than High School	43%
High School	73
Some College	73
College Graduate	73
Political Affiliation	
IRs	60%
DFLers	60
Independents	60
Religion	
Catholic	72%
Lutheran	60
Other Protestant	44
All others	49
No religious preference	63

Pull-tabs

Both the Minnesota Poll and the Minnesota Survey found that pull-tab players were more likely to be younger males and to have a better education. They'd have to patronize a hall, bar or other center of recreation or socializing in order to play, probably making them fairly distinct types. See Figure 8.5 for differences between pull-tab players and Minnesotans in general (data taken from the Minnesota Poll).

The Minnesota Poll also looked at tab pulling levels. Among pull-tab players, 63% said they played at least once a month, 21% said several times a month or more. Sixty-six percent said they spent \$5 or less per session, 6% said \$25 or more. Sixty-two percent said \$5 or less per month, 13% said \$25 or more per month. One-third said they won \$100 or more at one time. Of course, someone earning \$20,000 per year who gambles \$1,000 is disposing of 5% of income in this fashion; while someone earning \$40,000 and gambling \$1,500 is only using 3.75% of income. Discretionary income constricts sharply as one descends the economic ladder. One-third also said their biggest winning was less than \$25 at one time.

Comparisons of the Minnesota Poll playing levels with total gross handles reported to the state suggested that survey respondents significantly underestimated what they spent on pull-tabs. It may also mean players do not distinguish between total wagering and out-of-pocket losses.

Figure 8.4

Per capita wagering may provide some additional insight into who gambles on pull-tabs. In 1988 \$579 per person was wagered in Crow Wing County on lawful gambling which, given pull-tabs' percent of the gambling handle, translates into primarily pull-tab play. Big Stone county had per capita wagering of \$25. Figure 8.6 lists the highest and lowest counties for per capita lawful gambling wagering.

1988 Lawful Gambling Per Capita Wager by County			
<u>Highest</u>		<u>Lowest</u>	
Crow Wing	\$579	Big Stone	\$25
Pine	570	Murray	47
Mille Lacs	560	Lincoln	57
Kanabec	501	Pipestone	60
Aitkin	498	Renville	69
Pennington	475	Redwood	71
Lake of Woods	468	Dodge	79
Polk	467	Rock	90
Hubbard	456	Traverse	92
Sherburne	450	Isanti	95

Figure 8.6

Bingo

Most of the surveys support the notion that bingo is played more by women. However, the surveys (Minnesota Poll, Minnesota Survey and Gallup Poll) also found that younger women are as likely to play as older women. The surveys also found that bingo players were likely to be less educated and less affluent. The Gallup Poll also found that bingo players played because they had the gambling bug, not just to pass the time or do the church a favor--70% of the bingo

Pull-tab Players Versus Other Minnesotans

	<u>Minnesotans</u>	<u>Pull-tabbers</u>
Sex		
Men	48%	53%
Women	52	47
Age		
18-34	34%	44%
35-54	35	39
55 & older	29	16
Household Income		
Less than \$20,000	23%	16%
\$20,000-\$29,999	20	19
\$30,000-\$39,999	16	18
\$40,000 or more	31	39
Occupation		
White Collar	44%	51%
Blue Collar/Farming	17	22
Service	7	8
Not Working	32	19
Education		
< High School	13%	8%
High School	34	41
Some College	28	32
College Graduate	25	19
Political Affiliation		
IRs	39%	37%
DFLers	46	48
Independents	15	15
Religion		
Catholic	30%	38%
Lutheran	34	35
Other Protestant	17	8
All others	7	6
None	12	13

Figure 8.5

players had bet on sports or horses or bought pull-tabs, which are frequently sold at these halls. Bingo players were as likely as other gamblers to report having problems with gambling.

The Minnesota Poll found that the monthly amount spent on bingo had a median of \$5 and a mean of \$18.

Larger bingo operations on Indian reservations are patronized by 70% females; younger; less educated; mostly employed as farm, blue collar or trade workers.

Horse Racing

The Minnesota Survey found that those who bet at race tracks were more likely to be male, younger, better educated, blue collar or farm worker, higher income and from the metro area. A patron survey done by Canterbury Downs in 1989 found that many of their repeat patrons were retired males. Regulars are the core constituency and represent a disproportionately important segment of the horse race betting public.

Lottery

Lotteries attract more players than any other gambling game. A Gallup Poll found that lottery players represent a broad cross section of society. A majority of adults play--66% of the adults in lottery states play; 40% play weekly, and the average player spends \$5 per month.

Lottery players in Minnesota are like most Minnesotans, middle-aged and middle income. The first Lotto*Minnesota winner was described as a typical Minnesotan. Because Minnesotans have more money (income and savings) than residents of other states, Minnesotans are able to buy more lottery tickets which perhaps explains the high sales levels. The Daily 3 game in Minnesota attracts more male players and the instant games attract more female players. As jackpots in the lotto game rise, the number of players with higher incomes increase.

Given the broad appeal of lotteries and the easy access, one question which always arises is whether or not the poor play disproportionately. The Gallup Poll did not support the notion that the poor play more than the rich. The Public Gaming Research Institute found that lottery players tend to be middle income and that lower income players do not play in proportion to their percent of the population.

However, a study done by the University of Wisconsin found that all players tended to spend about the same in absolute dollars (\$10 to \$15 per month) on lotteries. Thus the poor spend a higher percent of their income than others. With far less disposable income it doesn't take much to get the poor into milk, bread and rent money.

A GALLUP POLL⁶

A poll conducted in April 1989 among a national sample of adults also reflected the rising tide of gambling in America, especially lotteries, which are seen as honest and effective for raising revenues. Other forms (sports gambling, casinos) also increased. Participation is widespread with seven in ten adults having gambled over the past year. The majority gamble little (won or lost less than \$50) with minimal impact on their lives. The heavier gamblers tend to be males. Gambling is popular among all walks of life. Those who don't gamble do so on moral grounds and tend to be older, less affluent, more religious and are often teetotalers. Non-gamblers tend to be more numerous in states that offer fewest gambling opportunities. Each category of game attracts a particular type of player.

Bingo-ers tend to be women; less well-educated; less affluent; more likely to be Catholic and reside east of the Rockies--they often also play cards, bet on races or on sports.

Lottery players are small time bettors and most eschew other forms of gambling. They represent a broad cross section.

Card games, race track and sports betting aficionados tend to be male, young, more affluent, more likely to be Catholic and more likely to drink and smoke cigarettes. They like action.

Casino habitues include higher proportions of heavy gamblers; would be as likely to be female as male; are middle-aged and have to be affluent because travel is required. Proximity is a factor since easterners closer to Atlantic City report more frequent trips than those going to more remote Las Vegas.

Americans support state lotteries (75%) but feel (61%) that legal games encourage people to gamble more than they can afford. A solid majority (55%) disapproves of legalizing gambling on professional sports.

COMMENTARY

This is frequently called the age of instant gratification and gambling--with the immediate results it provides--melds perfectly into this national behavior pattern. It is a dangerous confluence of the age and of the activity.

⁶ Gallup Poll compiled by Larry Hugick, Princeton, New Jersey, April 1989.

Sports betting reaches its apex with the Super Bowl which attracts office pools, social bets and heavy duty gambling with the pros, yet it is only the tip of a very large ice berg of wagering.

Betting begins in high school. Some were found on investigation to be surprisingly elaborate, big time operations. The peer pressures involving knowledge of sports, rooting interest and backing this with wagers was found to be quite strong. Card playing was also common and although not mentioned because of their newness, it seems clear that the soaring popularity of video games will feed into the gambling mania.

The world of the professional bookie was seen as more mundane, hard-working and less profitable than the silver screen stereotypes normally allow. The availability of legal gambling may be driving the stiff (non-payers and compulsive gamblers) to the credit extending bookies. This may be another of those unintended results of legalizing many gambling activities. Another might be expanding the population of gamblers through increased opportunities.

America has always had gambling--legal or illegal or both. It has never been possible, even where the strictest laws applied, to eliminate illegal betting. It has, however, been possible to reduce it in some areas even while others, such as the New York numbers racket, thrived. Point-shaving scandals have dogged the college basketball ranks.

Gambling is something of a metaphor for life's uncertainties thereby weaving a psychological predisposition that resides in every human. As an activity it has waxed and waned according to the peculiar rhythms and flows existing in the given locale. It may be possible--through vigorous enforcement--to bring illegal gambling to an irreducible minimum in a stable, homogeneous, law-abiding society or it may prove, as it did in New York, utterly beyond officialdom's power to control.

What the demographics demonstrate is both the complexity and variety of the factors attending gambling in Minnesota. The raw statistics conceal the anguish of the private sufferings of those added to the rolls of compulsive gamblers. They also conceal the good produced in the community and through enhancing the state's revenues.

Gambling is one of Minnesota's largest industries. The state has the central role in regulating or permitting its operations. It is vitally important that maximum understanding be brought to the process. This necessarily requires the kinds of facts contained in such polls and demographic analyses as accompany this report.

COMPULSIVE GAMBLING

Compulsive gambling has been called one of the purest forms of addiction. It is purely psychological--there are no drugs or mood altering substances taken. No tracks on the arm, no smell on the breath. The results of compulsive gambling can, however, be as tragic as that of any other addiction: disrupted family life, loss of employment, illegal acts, bankruptcy, imprisonment and even suicide.

Legalizing gambling is an eloquent and persuasive message, from the state, that it is okay to bet. The power of this message cannot be over emphasized. We are altogether too prone to underestimate the influence of government over our lives, as teacher, exemplar and parent. Gambling's spread, it's increased variety and heightened promotion work to increase the population of wagerers, some of whom will become addicted. Gambling, in one form or another, is legal in 47 of the 50 states. Betting lines are printed in states where it would be illegal to wager on those games.

Gambling was estimated, in a documentary film entitled "Lucky Number" (1990), to be a \$250 billion industry in America. That would figure to over \$1,000 wagered annually by every man, woman and child in America. Minnesota's experience would appear to indicate that the figure could be safely halved, as an estimate.

Polls and studies reveal that around 1% of the adult population has trouble gambling; that about 80% of Americans gambled on something over the past year and that the population of problem and compulsive gamblers increases with the availability and proliferation of legalized wagering. The numbers are estimates and they will vary, but it seems indisputable that it is a large and growing industry and one that is engaging the participation of more and more people.

Increased accessibility probably does increase the prevalence rate of compulsive gamblers. However, the message that it is okay to bet does not necessarily imply that

people will become compulsive gamblers. Should the majority of people who do not have problems with gambling be subject to restrictions that are designed to help the 1% or 2% who will have trouble if gambling is allowed?

In the following discussion the disease of compulsive gambling is described. This is followed by the impacts of compulsive gambling on individuals, their families and friends. Next comes identifying compulsive gamblers, followed by studies on prevalence rates and treating compulsive gamblers. Prevention and treatment programs in Minnesota are discussed. Other issues (theories of addiction and gambling and crime) are treated.

THE DISEASE

The American Psychiatric Association, in 1980, classified compulsive gambling as a form of mental illness characterized by a chronic and progressive failure to resist impulses to gamble and labeled it an addiction.¹

In addiction, gambling becomes a vicious cycle. It starts as an escape mechanism for problems in the gambler's life. It also creates additional problems from which the gambler tries to escape with more gambling. Gamblers borrow and steal to gamble--and gamble to pay back the money they have borrowed and stolen, or so they believe and avow.

The progression of the problem and recovery has been diagrammed by the National Council on Compulsive Gambling--see Figure 9.1.

Researchers have described the descent into pathological gambler status as a process of three phases: winning, losing or chasing, and desperation or crashing.²

The Winning Phase

The winning phase is characterized by euphoria and a sense of mastery. Sometimes the winnings are big enough to convince the gambler that he/she has a system which will help him/her continue to win, and get rich while having fun. Others may experience frequent wins on a smaller, yet consistent, level. Gambling is an enjoyable activity like any other divertissement. Sometimes the gambling is used as an escape from other problems (e.g., marital problems or work related stresses).

¹ American Psychiatric Association, Diagnostic and Statistical Manual-III, 1980.

² Robert L. Custer, "Profile of the Pathological Gambler," The Journal of Clinical Psychiatry, December 1984.

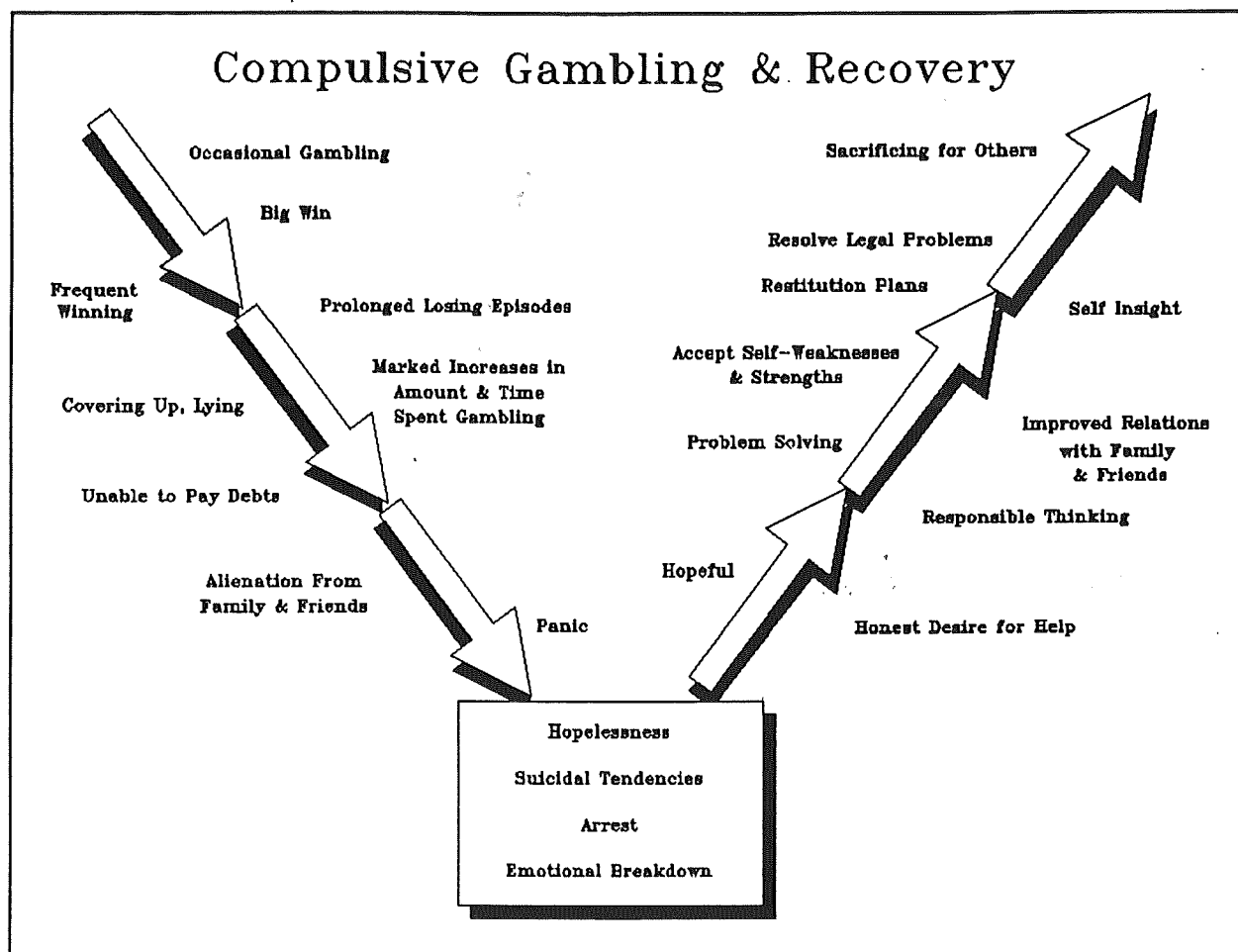


Figure 9.1

The Losing Phase

During the losing phase the gambler becomes obsessed by gambling. Self-views are dictated by wins and losses. Bets are escalated and placed more frequently. Inevitable losses--the "grind" or the house advantage--begin to take their toll on the gambler's pocketbook and psyche. The gambler becomes a loner and "chases" losses to get even. Bets are made irrationally, insuring greater failures. Heavy borrowing to finance the gambling habit begins as do cover-ups, lies and evasions. The gambler's work and family life suffer. Financial and psychological pressures increase, often with one or more "bail-outs" from family or friends.

The Desperation Phase

Finally, the gambler reaches the desperation phase. Large debts build along with a need to repay promptly. Family and friends become alienated because of repeated "bail-outs," both financial and emotional, which continue to fail. The gambler loses the

reputation of a winner and desires to return to the early days of wins. Gambling assumes a frenzied pace and blots out everything else. Illegal loans, crime (white collar and theft), scams and bad checks become ways to finance the gambling addiction. Eating, sleep, work and other functions affected.

The world crashes. The gambler has an emotional breakdown, gets arrested, gets divorced, turns to alcohol or other drugs, tries to run away from problems, contemplates suicide. Hopefully, they recognize the depth of their problems and get help.

These phases represent most of the cases. However, they do not represent all cases. Someone may become addicted without ever hitting a big win. The addiction could also happen instantly--with the first pull-tab or lottery ticket purchased; or it could take a lifetime to develop--starting with children's games being played for money or other material goods. Studies are under way to explore the possibility of a biological, chemical-in-the-brain predisposition to gamble excessively.

THE IMPACTS OF COMPULSIVE GAMBLING

Compulsive gambling changes the behavior of the gambler as well as those near to him/her. Among the symptoms or problems cited are:

- Hassled by bill collectors.
- Long, unexplained absences--lost work time.
- Cannot trust gambler with money.
- Repeated promises of quitting--yet continuing.
- Gambles till last dollar gone.
- Gambles to secure financial independence.
- Returns to gambling to recover or to win more.
- Borrows money.
- Lost reputation--illegal acts.
- Having to hide money from the gambler.

Many people involved with compulsive gamblers are confused as to what's going on and what they might do about it. The gamblers, like icebergs, conceal most of their actions. The suffering friends and family face is a confusing melange' of artful excuses and plausible denials--yet feel the effects of the compulsion in various indirect ways.

Associates may be lulled into not checking when the resources are being bled white by the gambler's compulsion and need for cash. The New York Times reported, on September 3, 1990, how a township supervisor siphoned off millions to support a gambling habit. He suffered a heart-attack and died, at the age of 58, just as the net was closing in on him.

Over a thirteen-year period he deflected scrutiny of a fraud that might reach as high as \$10 million. He was, under an assumed name, "a familiar figure at gambling casinos," with average bets of \$400. The closest "The Times" came to describing the source of the problem was a lead "The township leader was a heavy gambler."

A community was brought to ruin, yet all the signs were missed. No accountability. No audits. No tough questions. "If Joe says it's O.K., its O.K.," was the prevailing view. Covenant House had the same problem of "trust and no verification" and came acropper--although there it wasn't due to gambling.

Not once in "The Times" story is the possibility of a gambling compulsion considered. The event is that of a theft by a trusted public employee who happened to frequent casinos. The case proved a perfect illustration of the special need for vigilance where gambling may be a problem.

- Searching gambler's clothes or wallet.
- Hiding gambler's money.
- Noticing changes in gambler.
- Lying.
- Blaming others for gambling.
- Family and friends forced to attempt to please or control gambler.
- Remorse and depression with possible suicide.
- Family or marital strife--thoughts of leaving gambler.
- Feeling that life is a nightmare.

A man came into the office.

"I've got an elephant on my back. I don't know what to do."

Questioned he blurted his story. He couldn't stop. He couldn't wait for noon so he could go to the bar and buy pull-tabs. It was a growing problem, yet he couldn't believe what he'd done the day before.

"I blew \$900 on pull-tabs yesterday."

He wore the blue shirt of a delivery truck driver. His wife of 27 years was leaving him. His life was in ruins. He was losing everything and didn't know how to stop.

The anecdotes are revealing for the devastation hidden behind the cold statistics. The individual stories lend flesh and blood reality to the sterile figures.

The case histories of compulsive gamblers are dotted with accounts of stealing, lying, cheating and borrowing. Their actions radiate outward to touch everyone around them as they are forced, by their compulsion, to exploit loved ones to finance the betting. There are as many reasons for gambling as there are for drinking or any other addiction--escape, thrills, reward, punishment, fulfillment, self-esteem and feelings of power, etc. The course of the disease is progressive as ever increased amounts are wagered. It sometimes leads to death (suicide) or to a transfer to a substitute addiction. Merely ceasing betting may only mask the problem since mind-betting (e.g., making mental bets on games and checking the results, without actually wagering any money) has come to be seen as a form of counterproductive sublimation. That merely postpones the reckoning.

Compulsive gambling is an invisible disease which can, and must, be concealed from others. Lying becomes second nature but the gambler also lies to him/herself in terms of quitting, payback or its real importance in his/her life. Denial is as much a part of this addiction as it is of such others as alcoholism and drug abuse. Problem gambling radiates to include those closest to the gamblers. Well-intentioned families may, by paying off debts or extending other financial help, be merely acting as "enablers" who make it possible for the addiction to continue.

A John Hopkins University study of compulsive gamblers showed that they cost about \$43,000 to \$45,000 (in 1980 dollars) each year in abused dollars (money spent on gambling, "bailouts" and criminal and incarceration costs). Costs such as lost productivity, poor decision-making and impaired morale of family, friends and co-

Rod was a police officer in Minnesota for 19 years and treasurer of the police union fund for 14 years. After first winning substantially, then losing even bigger in Las Vegas, Rod's trips to Las Vegas began to become a secret to family, friends and coworkers. Soon the trips themselves became too expensive, so he took up a more convenient form of gambling--sports betting at home.

Since the bookies would not take bets from a police officer, especially a member of the vice unit, he had a friend place his football bets. Within a few years the betting extended into basketball and baseball, allowing him to gamble year round. For a period of seven years, the gambling continued to grow.

During those seven years the winnings would go up and down. When he was winning, as soon as he met his goal for a particular dollar amount, he would set a new higher amount because he was "on a roll." When he was losing, he would set a goal of breaking even. As happens to most serious gamblers, the odds in favor of the house began to take their toll, taking more and more of Rod's money.

Rod would offer to work overtime and extra shifts, both for the additional money it provided and because it gave him more time at the computer--to work on his handicapping. In order to feed his gambling desire, he took out loans and advances from his credit cards. To hide this money from his wife, he'd slip out of work every day at 3:00 to get the mail. Soon these loans weren't enough, so he began to "borrow money" from the police union fund, always with the intention of paying it back.

Knowing that he would probably be caught, Rod had developed plans for escaping. He would lose his job, his wife would leave him, and he would be free to gamble on his own, or go to jail where he would be free of gambling. He was caught, however. Both the police chief, who thought the union fund error an accounting mistake, and his wife were on his side and wanted to help. His escape plan wasn't working.

His gambling didn't stop until two days after the police chief approached him about the missing money. Charges were brought against him for stealing. He lost his job and was sentenced to restitution, community service, and probation. Since then he has received clinical treatment and been involved in Gamblers Anonymous.

workers were not included in the estimate.³ The problems of the compulsive gambler spill over into every aspect of life--family, work or play--and invariably lead to debts and criminal acts.

The study also estimated that the benefit to cost treatment ration exceeds 20 to 1.

³ Robert M. Politzer, James S. Morrow and Sandra B. Leavey, "Report on the Cost-Benefit/Effectiveness of Treatment at the John Hopkins Center for Pathological Gambling," *Journal of Gambling Behavior*, 1:2, Fall/Winter 1985.

IDENTIFYING COMPULSIVE GAMBLERS

Gamblers Anonymous has developed twenty questions, similar to those used in Alcoholics Anonymous, which are used to help identify people with gambling problems. The questions are listed in Figure 9.2.

The progression to compulsive gambling includes the steps above except that the order may vary and the factors may shift. The descent may begin with the first bet or be a gradual transition taking years.

Sometimes it may be hard to distinguish compulsive gambling from other disorders of which gambling may be only a small part. Diagnosing compulsive gambling would require the person to: fail to resist impulses despite efforts to quit; experience heightened tension before gambling; be preoccupied with gambling at home or work; not resist impulse to gamble; feel pleasure gambling, and possibly remorse later.

A compulsive gambler would also have to have had his family, personal or work life disrupted by at least three of the following situations:

- Arrest for forgery, fraud, embezzlement or tax evasion.
- Disrupted family or spouse relationship; can't account for loss of money.
- Need to borrow or get help.
- Default on debts.
- Borrowing from illegal sources.

Clues that the condition is not primarily compulsive gambling would reside in the existence of the following factors:

- Many low status jobs and a poor work or school profile.
- Crime or delinquency before age 15, psychiatric hospitalization or jailing.
- Can't function as partner or parent, or sustain relationships with family or friends.
- Early aggressive sexual behavior, drinking or drugs.
- Breaks social norms or law.

Gamblers Anonymous Twenty Questions

1. Did you ever lose time from work due to gambling?
2. Has gambling ever made your home life unhappy?
3. Did gambling affect your reputation?
4. Have you ever felt remorse after gambling?
5. Did you ever gamble to get money with which to pay debts or otherwise solve financial difficulties?
6. Did gambling cause a decrease in your ambition or efficiency?
7. After losing did you feel you must return as soon as possible and win back your losses?
8. After a win did you have a strong urge to return and win more?
9. Did you often gamble until your last dollar was gone?
10. Did you ever borrow to finance your gambling?
11. Have you ever sold anything to finance your gambling?
12. Were you reluctant to use "gambling money" for normal expenditures?
13. Did gambling make you careless of the welfare of yourself and your family?
14. Did you ever gamble longer than you planned?
15. Have you ever gambled to escape worry or trouble?
16. Have you ever committed, or considered committing, an illegal act to finance gambling?
17. Did gambling cause you to have difficulty in sleeping?
18. Do arguments, disappointments or frustrations create within you an urge to gamble?
19. Did you ever have an urge to celebrate any good fortune by a few hours of gambling?
20. Have you ever considered self destruction as a result of your gambling?

Most compulsive gamblers will answer yes to at least seven of these questions.

Figure 9.2

Shirley grew up around gambling. Both her mother and grandmother were compulsive gamblers. She and her cousins would mimic the older relatives playing cards and gambling with pennies. She married and moved away from the family and took a break from gambling. When she moved to Minnesota her gambling began again.

As a newcomer to Minnesota, she was invited by a friend to play bingo. She asked her friend if she was kidding, thinking it would be a waste of time, but was eventually coerced into going. At her first game she spent \$7.50, playing two cards. She thought that was a lot of money to spend and a lot of work watching the cards. She won \$100 and, with three children, she thought bingo might be a good way to make money.

For the next several months she played one night a week. Then, as new bingo halls began to open, she and her friends would go around to check out the new games. Over a period of eight years she played bingo seven days a week, with up to 30 cards. She also played pull-tabs, horse racing and went to Las Vegas, when she wasn't playing bingo.

She had a job which provided her with money for her bingo habit. She also became a real bargain hunter so she could use some of the household money from her husband's income as bingo money. Her husband knew that she was playing bingo a lot, but did not know the extent of the dollar amount. She would say a packet of cards cost \$15, without saying how many she bought. For three to four years, her family tried to get her to quit, but their "nagging" only led her to play more bingo.

Two years before she hit her bottom she realized she had a problem. Her husband had just left for a week long fishing trip, giving her household money and an extra \$400 for her daughter's graduation party. She spent her entire paycheck on bingo the day her husband left. The next day she spent the household money. The day after that she spent \$200 of the party money. She used the remaining \$200 for the party. After the party she told her husband what happened, and she was able to abstain from gambling.

Five months later a friend asked her if she wanted to go to Las Vegas. Her husband thought it would be okay because you can't go to Las Vegas everyday. Two weeks after returning from Las Vegas she was playing bingo again, seven days a week. She was also borrowing money, from friends and banks, and using credits cards for gambling money.

For two years she continued to gamble with borrowed money, paying back what she could. Then she suffered an injury at work and was not receiving workers' compensation because of a disputed claim. With no job, and no money to pay her bills, she wrote bad checks for seven days, something she hadn't done before.

After the seventh day of bad checks she was driving home when she closed her eyes because she didn't know what she was going to do. Her car struck a large rock, and she narrowly missed hitting a tree. Upon arriving home, she got in touch with the local mental health service, which put her in touch with the local Gamblers Anonymous chapter. After two years of abstinence, she has paid back all her bills.

PREVALENCE RATES

Researchers have developed a methodology, the South Oaks Gambling Screen which is similar to the criteria used by Gamblers Anonymous, for identifying "problem gamblers" (PG) and "probable pathological gamblers" (PPG)⁴ Using the screen, researchers polled 1,000 residents in New Jersey, 750 in Maryland, 1,000 in New York and 750 in Iowa between 1988 and 1989.⁵

In New Jersey, 2.8% of the sample scored as PG and another 1.4% scored as PPG. In Maryland, 2.4% scored as PG and another 1.5% as PPG. The New York sample had scored 2.8% as PG and another 1.4% as PPG. Results from the New York survey are shown in Figure 9.3. Gambling is freely available in these northeastern states. In Iowa, 1.7% of the respondents scored as problem or probable pathological gamblers.

Two surveys, conducted by the University of Minnesota's Center for Survey Research for the Department of Human Services, give some idea of the prevalence rates in Minnesota. A 1985 statewide survey found that 1% of adults admitted gambling had caused a problem for them (a survey of metro area residents found that 2% said they had problems). Six percent of the survey respondents said that gambling had caused a problem for someone in their family. One percent said that regardless of what they thought, someone else had told them they had a gambling problem. The 1989 survey found 2% saying that they had a problem with gambling; 9% saying that someone in their family had a gambling problem; and 2% being told that they had a gambling problem.

Another Minnesota survey conducted by the University of Minnesota's Center for Addiction Studies and School of Public Health offers a fresh and deep look at the gambling behavior of Minnesotans.

The full effects of the scratch-off lottery, which began on April 17th, could not be established nor, of course, the impact of Lotto*America and the daily three-digit drawing which started on August 14th.

⁴ Henry R. Lesieur, and Sheila B. Blume, "The South Oaks Gambling Screen: A New Instrument for the Identification of Pathological Gamblers," *American Journal of Psychiatry*, 144:9, September 1987.

⁵ Rachel A. Volberg, "Prevalence Rates of Problem Gambling in Three States," Remarks presented at the Fourth National Conference on Compulsive Gambling, Des Moines, Iowa, June 1989.

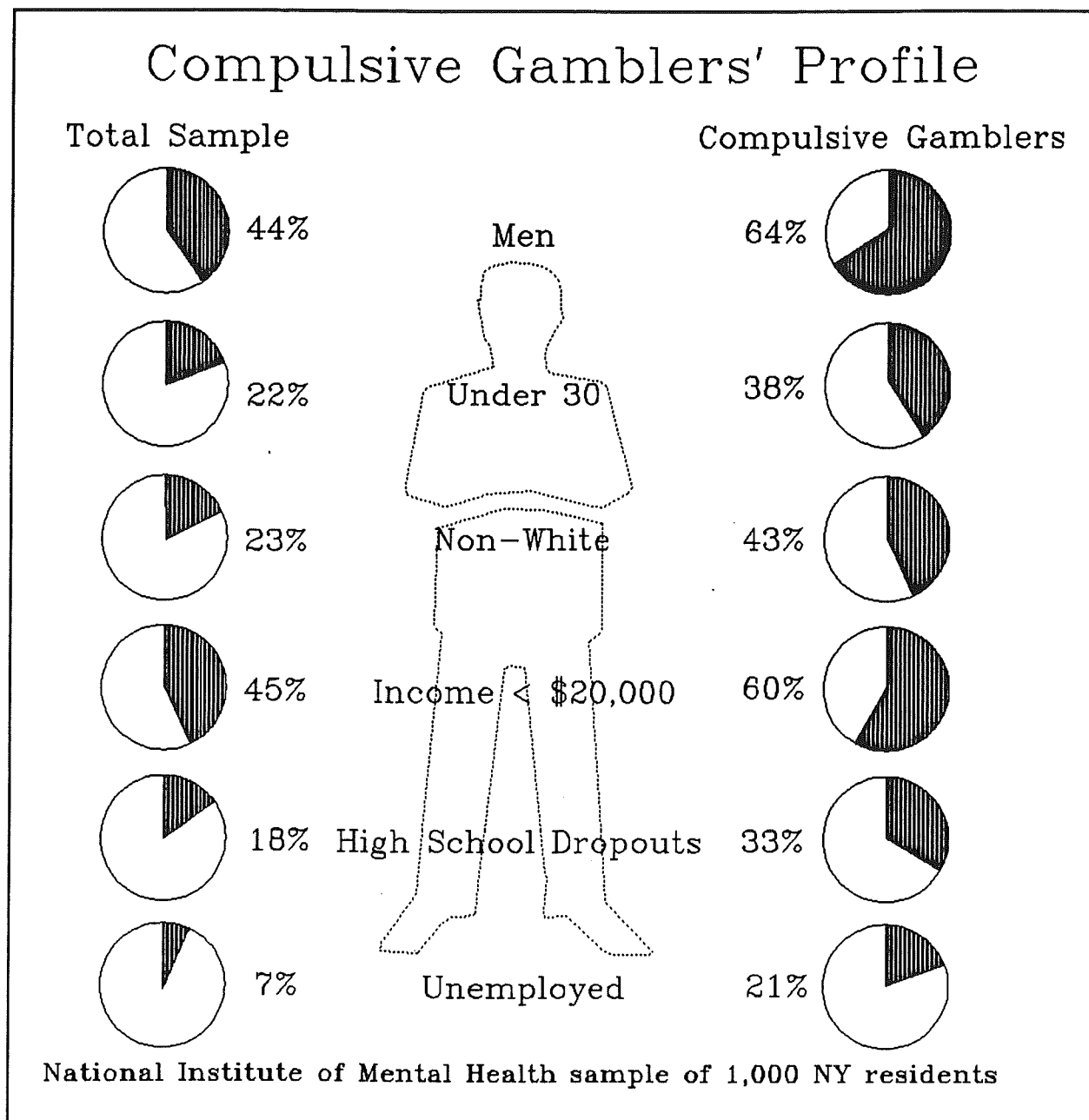


Figure 9.3

The Stories Behind the Headlines

It doesn't occur to most to think "compulsive gambler" when we read of an enormous defalcation or an inexplicable theft or a mysterious disappearance. Sometimes the account will include a reference to "high roller" or "casino frequenter." We can't understand why nothing of the embezzlement seems to be recoverable. The simple fact is that we are not conscious of the effects of this compulsion.

An account in a local paper describes how a mysterious disappearance led to the discovery of another tortured human caught in the toils of an uncontrollable addiction.

A bloodstained truck, with the driver's window broken, is found near the Mississippi River. The owner, a 27-year-old stockbroker, vanished. The family bought advertisements and pressed a frantic search. Nothing. The police enlisted the aid of the FBI and concluded a far-flung inquiry that expended hundreds of hours.

A year later the object of the search turned up in his parents home. He'd been beaten up by guys trying to collect some money and took off.

The story mentioned that "creditors were after him" and the "he had a problem with gambling," but that's as far into the compulsion as they delved. A casual reader would have been justified in concluding he'd just gone a little too far and been burned.

Members of Gamblers Anonymous would have spotted the symptoms immediately. A lot of headlines conceal the awful reality of this compulsion behind bland generalities.

The survey confirmed the very heavy and extensive of Minnesotans with gambling. It points to an alarming incidence of persons having problems with gambling. The clear implication is of trouble ahead as gambling opportunities continue their explosive growth. Some of the survey results are listed in Figure 9.4.⁶

Compulsive gamblers in treatment tended to be different from compulsive gamblers in the over-all population, suggesting that findings based on persons in treatment may well be skewed toward white, middle-class males, and indicating that women, non-whites and the less-educated tended to reach out for help less frequently than white, male, educated gamblers.⁷

⁶ J. Clark Laundergan, James M. Schaefer, Karla Eckhoff and Phyllis L. Pirie, Center for Addiction Studies and School of Public Health, University of Minnesota, survey conducted in the spring and summer of 1990 for the Department of Human Services.

⁷ Volberg, Rachel A. and Henry J. Steadman, "Refining Prevalence Estimates of Pathological Gambling," American Journal of Psychiatry, 145:4, 1988.

Problem Gambling in Minnesota					
	Total Sample	Non-Bettor	No Problem	Problem Gambler	Potential Pathological
<u>Age</u>					
18-24	10.5%	9.6%	10.9%	11.5%	15.8%
25-34	25.4	18.6	29.2	33.3	21.1
35-44	24.8	25.2	24.4	25.3	21.1
45-54	14.7	15.1	13.8	18.4	15.8
<u>55-74</u>	<u>24.6</u>	<u>31.4</u>	<u>21.7</u>	<u>11.5</u>	<u>26.3</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Sex</u>					
Male	43.4	37.0	45.9	53.5	63.2
<u>Female</u>	<u>56.6</u>	<u>63.0</u>	<u>54.1</u>	<u>46.6</u>	<u>36.8</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Ethnicity</u>					
American Indian	1.2	0.7	1.3	2.3	5.3
Asian	0.6	0.9	0.3	1.1	0.0
Black	1.4	0.7	1.6	3.4	5.3
Hispanic	0.7	0.4	0.9	1.1	0.0
White	95.4	96.5	95.3	92.0	89.5
<u>Other</u>	<u>0.6</u>	<u>0.7</u>	<u>0.6</u>	<u>0.0</u>	<u>0.0</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Highest Year of School Completed</u>					
<High school	6.7	7.2	6.1	9.1	5.3
H.S. graduate	32.6	29.3	33.4	43.2	36.8
Voc/business	10.6	8.7	11.7	9.1	21.1
Some college	24.6	24.2	24.7	25.0	26.3
College degree	18.8	21.6	18.4	10.2	5.3
<u>Advanced degree</u>	<u>6.7</u>	<u>9.0</u>	<u>5.6</u>	<u>3.4</u>	<u>5.3</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Currently Working for Pay</u>					
Yes	71.0	62.6	75.3	80.7	73.7
<u>No</u>	<u>29.0</u>	<u>37.4</u>	<u>24.7</u>	<u>19.3</u>	<u>26.3</u>
Total	100.0	100.0	100.0	100.0	100.0

Figure 9.4

Problem Gambling in Minnesota					
	Total Sample	Non-Bettor	No Problem	Problem Gambler	Potential Pathological
<u>Total Yearly Income</u>					
<\$15,000	17.5%	20.9%	16.4%	11.4%	5.3%
\$15,000-30,000	28.9	30.2	27.3	33.0	36.8
\$30,001-45,000	27.1	24.8	28.7	26.1	31.6
>\$45,000	<u>25.1</u>	<u>22.6</u>	<u>26.5</u>	<u>27.3</u>	<u>26.3</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Marital Status</u>					
Married	57.4	61.2	56.5	47.7	42.1
Live w/someone	4.9	2.6	5.4	10.2	15.8
Separated	2.2	2.0	2.0	4.5	0.0
Divorced	10.8	9.8	11.9	8.0	10.5
Widowed	6.3	7.0	6.1	4.5	5.3
Never married	<u>18.4</u>	<u>17.4</u>	<u>18.0</u>	<u>25.0</u>	<u>26.3</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Children Under Age 18 Living in Home</u>					
Yes	37.0	36.1	38.3	36.4	15.8
No	<u>63.0</u>	<u>63.9</u>	<u>61.7</u>	<u>63.6</u>	<u>84.2</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Region</u>					
Metro fringe	15.5	15.0	15.4	21.6	5.3
Metro core	34.2	33.0	35.8	22.7	42.1
Clay county	10.2	11.7	9.2	10.2	10.5
St. Louis county	<u>40.1</u>	<u>39.8</u>	<u>39.6</u>	<u>45.5</u>	<u>42.1</u>
Total	100.0	100.0	100.0	100.0	100.0
<u>Community Type</u>					
Large city	36.5	34.8	36.7	39.1	57.9
Suburb	25.8	27.4	25.3	23.0	15.8
Small city	15.5	16.5	15.4	13.8	5.3
Small town/rural	<u>22.2</u>	<u>21.3</u>	<u>22.7</u>	<u>24.1</u>	<u>21.1</u>
Total	100.0	100.0	100.0	100.0	100.0

Figure 9.4 (continued)

Joe's betting began in 1980 with a sports bookie on the east coast. He generally bet \$50 to \$100 on sports games. Moving to Minnesota he changed his game to horse racing, a less risky betting process. His gambling habit soon grew so that he would never miss a day at the track.

He would often speed from work or home to get to the track when the doors opened. This often got him in trouble with the local law, leading to the suspension of his driver's license. He continued to drive, speed and get caught even without a license.

On his arrival at the track he would bring his car to the valet parking and tip generously for quicker service. Once inside the grandstand, he would spend big and continue to tip generously because he liked feeling important as everyone got to know him by name.

To fund his habit he used nearly \$600 of his weekly \$800 pay. He also obtained several loans and exhausted cash advance limits on multiple credit cards. When his legal methods of funding ran out, he turned to illegal ones. As a manager in the restaurant business Joe was familiar with the procedures for getting money from the restaurant to the bank after closing. Before being caught, he robbed, at gunpoint, three restaurant managers on their way to the bank.

He is now serving a three-year prison sentence for aggravated robbery and is receiving psychiatric treatment.

TREATING COMPULSIVE GAMBLERS

The compulsive gambler cannot, like the social gambler, quit anytime. It is a psychological dependency, not a physical one. Any cure must begin with the gambler's decision to stop. Experience teaches that there is little hope for a cure through external measures. It is only when the gambler recognizes and acknowledges the addiction and chooses to quit that any hope for recovery can be entertained. The gambler's protestations cannot be trusted. Health insurers are increasingly responding to gambling compulsion as a disease to be treated and are amending regulations accordingly.

The "12 step" process of Gamblers Anonymous encompasses confronting the defense mechanisms and justifications of the inveterate gambler. They require admitting guilt; unmasking and facing the issues; adopting humility and introspection and making amends. Merciless self-examination lies at the core of this process.

Gamblers Anonymous method and other "12 step" programs are aimed at eliminating the practice, but experience and observation suggest that in order to avoid the dysfunctional effects of unintended results (other compulsive behavior such as drugs, alcohol or smoking replacing gambling), it is helpful that the causes be fully understood. In and out patient treatment, therapy or psychoanalysis may prove essential adjuncts to the cold-turkey process of just quitting.

Like many other Minnesotans, Judy was introduced to gambling on junkets to Las Vegas, before discovering that Minnesota had its own type of slots--pull-tabs. The first time she played pull-tabs she spent what, at the time, she thought was a lot of money, \$40. Soon the pull-tabs became her primary outlet, as the trips to Las Vegas were much more expensive than the trips to the local bars.

She went through a winning streak which lasted about a year and a half and had thoughts of turning gambling into a profession, but most of her winnings were put back into the game, with the hopes of winning even more.

Soon gambling took up most of her time. She hired help to run the day-care center at her home. Her husband worked and took night classes. She could be gone most of the day and into the evening, arriving home just before her husband did. Her children were in their teens and weren't too concerned with what their mom was doing.

She used the money from her day-care center for gambling. When this ran out she would take out a 90 day note for the bank for a few thousand dollars. She could not get into the family money without her husband's signature.

She did not care how she looked or felt, and would scrimp on the family groceries to have more gambling money. She, like many other gamblers, also had an escape plan. Her husband would divorce her and gambling would be her only concern.

As she moved about town, playing pull-tabs in the various establishments, one of the players was upset with her winning, so he made an anonymous call to her husband. Knowing that her husband was coming, she moved onto a different bar to finish playing. For three days she hid from her husband. When she finally called him he was quite upset, but urged her to call the church for help. She didn't call, but tried, with a small amount of success, to cut back on her gambling.

Eventually a friend got her in contact with the local Gambler's Anonymous chapter, where she confronted her problem and, for that day, stopped pulling tabs.

This attempt to understand the underlying causes of the addiction is one of the weak links in most of the treatment programs which mostly feature cessation and work on reinforcing the determination to quit.

PREVENTION & TREATMENT IN MINNESOTA

The 1989 law which established the state lottery also mandated the development of a program for the treatment of compulsive gamblers by the state. The state's program may include the establishment of: 1) a statewide toll-free number; 2) a resource library; 3) public education programs; 4) in-service training programs and conferences for health care professionals, educators, treatment providers, employee assistance programs and criminal justice representatives; 5) establishment of certification standards for

program service providers; 6) research; and 7) inpatient and outpatient treatment and rehabilitation services.

The Mental Health Division of the Department of Human Services is working with an advisory group to develop these programs and services. During start-up, available funds (\$300,000 per fiscal year) are being used for research, the toll-free hotline (established in July 1990) and provider training.

The toll-free hotline, 1-800-541-4557, is provided under a contract with the Minnesota Council on Compulsive Gambling, a non-profit organization providing education and advocacy for compulsive gambling. (The Council and the hotline are headquartered in Duluth.) The hotline is designed to serve two important functions. One, to respond to calls for assistance and information from persons with gambling problems, families of gamblers needing assistance, mental health and other human service agencies needing information or assistance in dealing with clients who may have gambling problems, and the general public wanting information about the problems associated with gambling. Two, to identify and train volunteers from among recovering gamblers and members of Gamblers Anonymous and Gam-Anon. Volunteers will be trained to help in responding to referrals and to support efforts to develop new "12-step" self-help programs across the state. This last activity is particularly important because access to "12-step" groups is considered an essential aspect of an individual's recovery process.

When the hotline was first started, the Minnesota Council documented the existence of nine Gamblers Anonymous and three GamAnon chapters throughout Minnesota, most located in the Twin Cities metro area. In the early fall of 1990 there were 27 Gamblers Anonymous and nine GamAnon chapters, contacts with eight treatment centers, one individual therapist, and several judicial and correctional officials interested in the compulsive gambling problem.

The hotline number is included in many of the publications, brochures, recordings and other information devices produced by the gambling agencies.

Provider training is designed to help a variety of health and human service providers to identify persons who have a compulsive gambling problem and refer them for treatment. The Department of Human Services has a contract with the Minnesota Council on Compulsive Gambling for a series of professional training workshops during 1990 and 1991, the first of which were held on June 21, 1990 in Duluth, and June 26, 1990 in Minneapolis. Notices were distributed statewide.

The Department of Human Services has also commissioned research projects on the gambling behavior and prevalence rates of problem gambling among adults and children. Human Services is also working with chemical dependency treatment centers

Calls for Help Received on the Minnesota Compulsive Gambling Hotline

- Female, age 73, from Metro suburb. Retired husband goes to track five times per week. He has cashed in their annuities which were to be their retirement income. He has remortgaged their home which was previously paid for. They are unable to make payments and stand in danger of losing their home. He is presently borrowing cash advances on their credit cards and is unable to repay them. She is wondering whether her husband maybe has a gambling problem, what can she do about it, and what can she do so that she is not left penniless.
- Public Health Nurse, southwestern area, calling to get some information to educate herself about what compulsive gambling looks like, how it manifests itself. Client situation of wife abuse brought her to us for information. Husband beat wife who insisted on spending \$3 for milk money for their children rather than giving it to him for pull-tabs.
- Gambler called from northeast Minnesota. He makes "good money" from his blue collar job. Is now spending his entire paycheck on the weekend doing pull-tabs. Wife is threatening to leave. Where can he go to get help.
- Metro area homemaker with three small children. Husband is working two jobs to try and make ends meet. She is doing bingo and pull-tabs. When she buys the children new clothes, she keeps all the receipts. Then when she overdraws their checking account, she takes the clothing back to obtain a refund and cover her gambling debts.

to develop programs for identifying and treating compulsive gamblers.

The treatment of compulsive gamblers is bound to demand additional attention as their population increases, and, with it, the problems they produce. Prosecutions, jailing, suicide and related tragedies will make this phenomenon a growing part of the community's daily life and reading in the years to come.

OTHER ISSUES

Theories of Addictions & Multiple Addictions

We have been mostly conditioned to believe that addictions are mainly caused by repeated actions and the reinforcements and habituations they produce. Dr. Durand Jacobs, a psychologist who has studied gambling, believes there are two predisposing factors that give strength to and maintain addictive patterns of behavior.

- Tendency to be very up (hypertensive) or very down (bored or hypotensive).

- Sense of inadequacy or inferiority in childhood and feelings of rejection by parents and others who are close.

The behavior--food, alcohol, drugs, gambling, etc.--becomes a way of producing the feelings that counter the factors cited above. The challenge then is to analyze the problem and produce the feelings of adequacy, acceptance, achievement or power through healthy measures. There is also the prospect of a healthy addiction, such as an obsessive involvement with a creative activity that, while perhaps costly in family relationships or friendships, may produce very worthwhile results. Addictive behaviors are believed to have their onset in adolescence which offers the hope of prevention or rechanneling through education, training, social skills or problem solving approaches.

Two phenomena that repeatedly intrude are dual addictions and switching addictions.

Gambling & Crime

A number of linkages occur between gambling and crime, such as when the activity is itself against the law; when legal gambling is operated in a criminal fashion; or when gamblers commit crimes to sustain their habits. Gamblers often try to fix sporting events or shave the points to allow a win on a bet even when the team loses. Shaving points spares the athlete the shame of throwing a game while requiring him only to keep the winning score down and within the "point-spread" (the number of points by which his team is expected to win). There are overlaps and there is a fair amount of guesswork connected to the analysis of impact and other attempts to evaluate the issues. Although middle-class gamblers follow the predictable progressions of white collar crime (embezzlement, bad checks, tax fraud, etc.), the descent into criminality is by no means that genteel. Compulsive gamblers desperate to bet are capable of as wide a variety of criminal actions as human possibilities will allow. Often times the distinction between the gambler who commits a crime to fund the gambling and a criminal who gets involved in gambling to make money is difficult, if not impossible, to make.

There are parallels between drugs and gambling that go beyond cash, street action, illegality and culture. Just as users frequently become dealers, gamblers often become bookmakers. Compulsive gamblers want to be in action and bookmaking takes them inside. It offers the additional grace of employment.

It is hard to pinpoint gambling as the precipitating cause of incarceration, but many studies have shown dramatic linkages between gambling and crime. Compulsive gamblers are very likely to wind up in jail. Many of those jailed spend a lot of time gambling. America's jam-packed jails might be emptied if addictive behavior involving alcohol, drug, and gambling were to be cured and prevented.

Studies conducted of prisoners, alcohol and drug abusing inpatients, female members of Gamblers Anonymous, inpatients at a Veteran's Administration Hospital and members of Gamblers Anonymous revealed a wide variety of criminal activities by significant percentages of each population. Ninety-seven percent of both the females and males admitted to some form of criminal activity and the specific acts ranged from white collar crimes, to street crimes, to hustling, con games, cheating, etc.⁸

The linkage between addiction and crime surfaces in every review of our prison population.

COMMENTARY

Compulsive gambling may well become the addiction of the 21st Century. It is not "heavy gambling," nor is it a "gambling problem." It is a disease of such powerful compression that it wreaks havoc with the sufferer and all those he can touch--within the family, at work or in society at large.

There may be a predilection for this illness within all of us--just as there is for alcoholism and drug addiction. If so, repeated and added exposures create a serious danger of infection.

The state has a solemn responsibility to assess the impact of its policies on the lives of its citizens.

The last 30 years have seen tremendous increases in legal gambling activity in the nation and the movement has, in recent years, been replicated in Minnesota. Such growth doesn't merely shift the action from illegal to legal arenas but, as a result of the general acceptance that comes with the state's approval, actually greatly increases the amounts wagered and the number of people betting. This necessarily implies a growth in the population of compulsive gamblers. As with all other addictions, ignoring this one doesn't merely consign the sufferer to perdition but involves the rest of us as the problems radiate and touch a wide circle of innocents.

Compulsive gamblers, unlike alcoholics or drug addicts, give no outward semblance of their devastating affliction. Their illness compels behavior that the unaddicted cannot understand. Frequently it looks like callous betrayal rather than uncontrolled actions. The economic devastation is incalculable for the absence of limits. The psychological impact on family, children and others close to the gambler can lead to such tragedies

⁸ Studies by Lesieur and Klein, 1985; Lesieur, Blume & Zoppa, 1985; Lesieur, 1987 and Nora, 1984.

as destroyed lives and suicides. The literature is dotted with accounts of the impact of the addiction on those dependent on or intimately connected to the gambler.

The increased availability of legal gambling, state sponsored gambling, the shift from gambler-as-a-sinner to gambler-as-a-player, and other factors combine to produce the specter of a greatly increased population of compulsive gamblers, whose destructive actions radiate to envelop all those around them. Some observers expect gambling to develop into America's major recreational activity in the nineties. Gambling may become the addiction of the decade.

Prevention is rooted in awareness of the risks and in educating the public, especially the youngsters, to the dangers. The state must also awaken to its involvement in the increase of compulsive gamblers.

Treatment involves the availability of help (a highly publicized hot-line number and real assistance programs behind it) following the sine qua non of the gambler's acknowledgement of his/her problem and the desire to stop.

It seems clear that more information is needed; that those treating the disease need more training; that more treaters and treatment facilities are needed; and that prevention requires a more determined effort.

SOCIAL IMPACTS

Walk into the neighborhood bar and you're likely to see a local non-profit group sponsoring pull-tab sales. Walk into the neighborhood grocery store and you're likely to see lottery tickets and accompanying promotional material. From a convenience stop at the gas station to a preplanned day at the races, gambling in Minnesota is available in many forms. In fact, just about anywhere you go in Minnesota you'll see gambling. If you don't actually observe the gambling, you'll probably at a minimum observe gambling's influence, such as the new park equipment or hockey arena bought with lawful gambling profits, a race horse farm, an environmental project or a college building funded by lottery proceeds. Gambling's signs, positive and negative, are ubiquitous.

To examine the social effects of gambling in Minnesota we will look at the general social impacts and then specific effects of the three legal forms of gaming. But first, a brief account of how Minnesota has completed a full circle around the gambling cycle, from open gambling to prohibition back to open gambling.

GAMBLING IN MINNESOTA

Nearly everywhere you go in Minnesota you can find gambling. Before 1984 finding gambling was not as easy. This state, like most others, has been swept by a feverish wave of games and wagering opportunities that have changed our landscape.

An article, prepared around the time the race track was legalized, documents the gambling of the 1940s and the accompanying ills that led to the prohibition of gambling.

Governor Luther Youngdahl, before his election to the state's top executive post, was jogging one evening near Bar Harbor, located on Gull Lake just north of Brainerd. The place was a huge nightclub complete with large bar, dance floor and slot machines, frequented by young people from the Twin Cities and around the country. The soon-to-be Governor saw drunken drivers tearing up and down the road, swaying and swerving from side to side. The roars of the automobiles were pierced by the shouts of drunken men and the intoxicated screams of women. Closer to the bar an orchestra was blaring music. Inside, the bar and dance floor were packed and hostesses had ready change for the hundreds lined up at the slot machines.

Youngdahl vowed to do something about it. In the fall of 1946 he was elected Governor. The slot machines did not return for the summer of 1947.¹

Paper slot machines (a.k.a. pull-tabs) returned to Bar Harbor in 1986 and today there is even more gambling. Before you enter the rebuilt Bar Harbor, which is now a supper club, you see signs informing you that lottery tickets may be purchased inside. Once inside you find more lottery promotional material and a pull-tab jar bar. Bar Harbor is a very successful site for both pull-tabs and the lottery. Lottery proceeds fund the legislatively mandated programs, the pull-tab proceeds go to a local non-profit downhill ski area.

GENERAL IMPACTS

Gambling as a widespread activity involving large transfers of wealth, has a deep impact on society. Some impacts are easy to see, others are much more subtle and long term and are only seen when looked for carefully. As a social game, it is also a reflection of the society that plays it.

Perhaps the gambling explosion of today can be explained by a shift in values from hard work and saving to the get rich quick and consumption dreams of yuppies. What kind of society plays a game in which one out of 13 million will get rich, while the operator keeps half of the money generated from the game? What kind of society raises funds for worthwhile, altruistic and charitable purposes through a mechanism that feeds on a potentially addictive behavior? A hindsight look at the society which popularized and re-proliferated lotteries and the paper equivalent of slot machines should prove interesting.

¹ Tom Jardine, "Twin Cities Gambling," included in "Gambling Regulation: An Examination of the Past and Present Uncovers Issues for the Future," briefing for the Gaming Commissioner prepared by Attorney General Hubert H. Humphrey, III, September 1989.

As an embodiment of the society that created the game, the game conveys the society to the people. Bingo is said to be a social game, but who would dare to talk to other bingo players while the numbers are being called? A lottery ticket purchased at a gas station is scratched privately in the purchaser's car. If the ticket is a winner the purchaser may return to claim the prize or buy more tickets. If the ticket is a loser the purchaser drives off. A pull-tab player buys a round of drinks when a big win is hit. Losers buy themselves drinks to drown their sorrows. Societies get the games they deserve.

The games, their impacts, the benefits and losses permeate the society. The devastation to family and friends caused by compulsive gamblers is less apparent, but deeply felt.

Increasing the availability of legal games may satisfy an existing demand for wagering activities. It may also increase the demand. The state's tacit encouragement may also lead those who wouldn't otherwise have gambled to gamble.

More legalized gambling may lead to more illegal gambling because gambling is now okay, or it may lead to its displacement. Legalized gambling can reduce illegal gambling if it competes effectively in terms of the characteristics of the games (opportunities to play, ease of play, pay-out, etc.).

As opportunities increase, with the proliferation of lotteries and other forms of legal gaming, the numbers involved are bound to increase. Some of those affected by the increase aren't even allowed to gamble. Increased gambling activity will likely have a great impact on youth. Studies are revealing increasing incidence of gambling, in various forms, among youth. Even if they don't gamble their values are being shaped by the gambling they observe.

Gambling & Youth

As gambling expands, the youth of society are more likely to find gambling an acceptable amusement (or vice), and they are more likely to increase the percent of the population that gamble. More will also become addicted to gambling. Many youths, who begin betting in school, are being classified as problem or compulsive gamblers.

An examination of Minnesota's youngsters produced predictably disquieting results as it unearthed pretty extensive activity among 15 to 18-year-olds.

Some parents, fearing drugs, sex or alcohol, tend to place gambling in a less dangerous activity zone.

A parent of a soon to graduate high school student wrote with her concerns about the all night graduation party. Part of the event's activities would include a casino, where the just graduated students would gamble with fake money--winnings could be redeemed for real prizes. She was concerned that such an event would send a signal to the young adults that drinking is not okay, but gambling is.

In a study entitled "Adolescent Survey of Gambling Behavior in Minnesota: A Benchmark" Doctors Ken C. Winters, Randy Stinchfield and Ms. Jayne Fulkerson² reveal actual or incipient gambling problems among late teenagers. Three distinct groups were identified; No Problem (73.9%), At Risk (19.9%) and Problem (6.3%) gamblers--See Figure 10.1.

Problem gamblers were mostly male (86%), metro area residents (71%) and most (60%) began gambling by the sixth grade or earlier. Family status was not found to be relevant but parental gambling strongly influenced adolescent wagering. There was also a disturbing correlation between gambling and illegal activities; 82.5% of the Problem group; 66.3% of the At Risk group and only 38% of the No Problem cohort reported such involvement. There was also a correlation between gambling and substance use (including tobacco), with 72.2% of the Problem; 50.5% of the At Risk and only 30.8% of the No Problem group as users. Problem gamblers tended to keep their wagering from their parents. Additional information is included in Appendix A.

Minnesota's figures are close to other states' estimates. Interviews of 2,770 high schoolers in New Jersey, Virginia, California and Connecticut revealed that:

- 40% to 60% gambled within last year.
- 36% reported starting at 11 or younger.
- Of those who gambled, 20% did so weekly or more often.
- 4% to 6% fit the addicted category.

² Ken C. Winters, Randy Stinchfield and Jayne Fulkerson, "Adolescent Survey of Gambling in Minnesota: A Benchmark," Center for Addiction Studies and Center for Adolescent Substance Abuse, University of Minnesota, research conducted in the spring and summer of 1990 for the Department of Human Services.

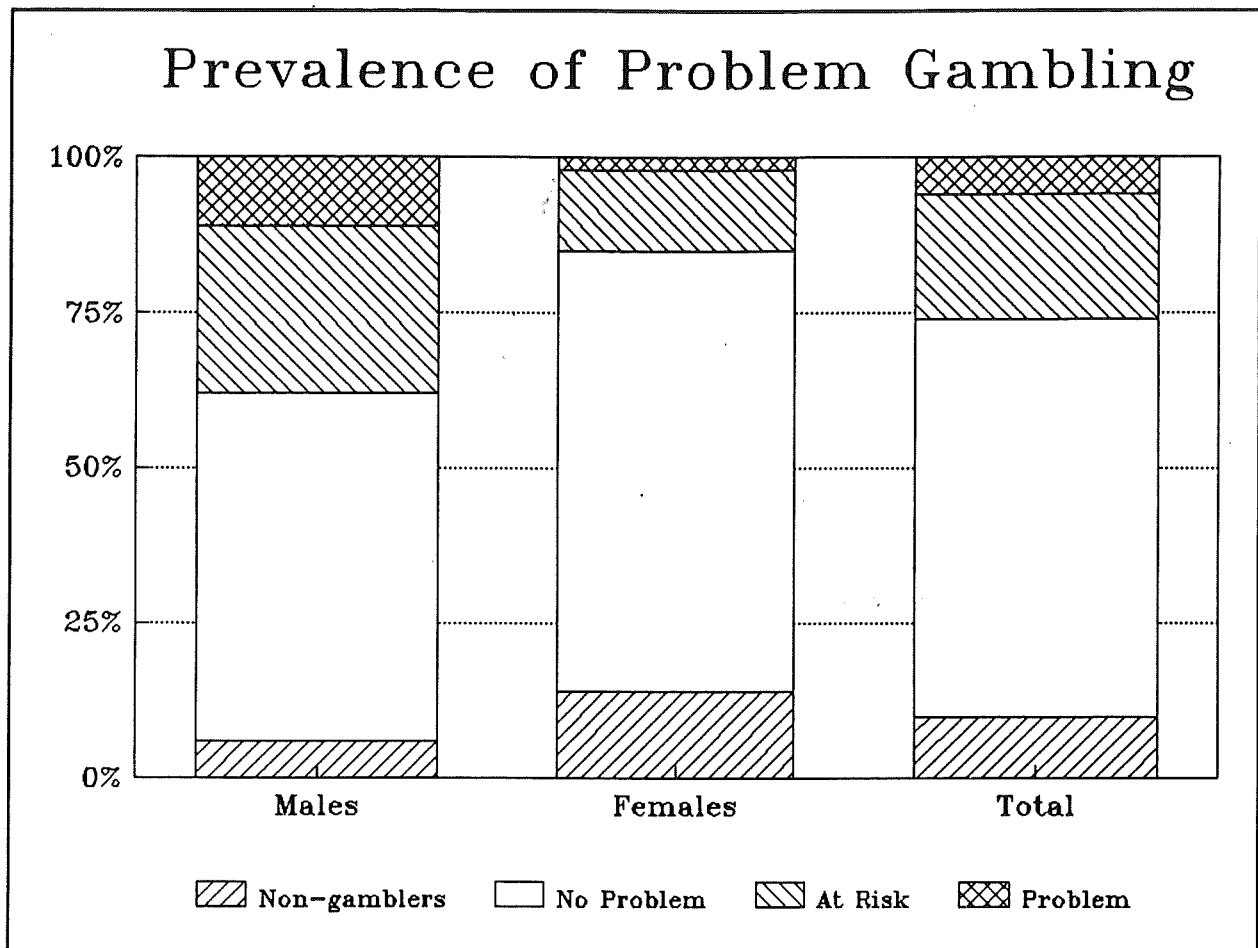


Figure 10.1

The number of youngsters seeking help is increasing. Prevention almost invariably means targeting youth for an educational program.

Extrapolating the above sample figures produces one million problem gamblers among America's youth. Lotteries, where available, are the most popular forms of betting despite it being like cigarettes, an illegal purchase. The Minnesota survey had the most popular forms as 1) cards, 2) games of personal skill and 3) betting on sports teams. This is probably due to the very recent introduction of the lottery. The work of Dr. Durand Jacobs, Chief of Psychology Service at the Veteran's Administration Hospital in Loma Linda, California underscores the deep and wide extent of the threat that gambling among the young can produce.³

³ Gail E. Hudson, "Odds are Stacked Against Adolescent Gamblers," *Adolescent Counselor*, August/September 1989.

Studying the Impact of Gambling

The central fact is that with the adoption of gambling measures in helter-skelter fashion, there has not been any research or study of the social or cultural factors or the impact of gambling on our value system.

The economics get trotted out impressively and it is undeniable that concrete good is produced through government programs and charitable actions, but subtler shifts in activity--whose effects may not be immediately visible but which might produce horrendous results in the future--not only go unnoticed, but unremarked. It is a painful feature of addictions that we awaken to their risk long after they've taken root.

Having launched activities that rely on greedy notions of getting rich quick and which involve great numbers of citizens who might fall prey to addiction, it seems incumbent on government to at least study the ramifications of these glacial, government-sponsored shifts in citizen and organizational behavior.

Gambling will affect how individuals spend time and money. It will affect how organizations collect and disburse funds. Such behaviors, multiplied over the years, are bound to bring as fundamental and profound an alteration in our society as former concerns for neighbors, the necessity to plan and prepare for the future and the pursuit of wholesome personal and community agendas produced in shaping the state.

SPECIFIC IMPACTS

Like the differing characteristics of the games, the three legal forms of gambling have brought about many and different social impacts.

Lottery

The lottery has dramatically increased exposure to gambling. While there are many pull-tab sites, they are available only to those who go to bars or clubs. Lottery tickets, on the other hand, are almost impossible to avoid--they are located at grocery stores, gas stations and other such facilities of convenience. Lottery tickets are intended to be purchased impulsively by those pursuing other activities. Along with easy accessibility, news stories about large jackpots entice those who wouldn't otherwise play to try their luck. Advertising and state sponsorship may also create additional gamblers. Estimates by the lottery predict that seven of ten adults in the state will purchase a lottery ticket.

The lottery also has a significant impact on a very small percent of the population--the lotto winners. With their new found wealth, most winners can realize dreams they never thought possible before. They must also deal with media hounds and hucksters.

Racing

Racing has created a new entertainment industry. One could spend an evening at the race track, dining and enjoying the spectacle. Racing has also created some small "cultures," the horse players and the backside employees. Some problems can exist in each group--regular horse players can easily become compulsive gamblers and backside employees can have problems with drugs and alcohol. The track, horsepersons' organizations and the Racing Commission have set up an employee assistance program to deal with these problems. (For a brief time those employed by the racing industry, track workers, farmers, trainers and others, experienced a great deal of uncertainty in early 1990, as the future of Canterbury was up in the air. This sort of stress sometimes influences the search for relief.)

Lawful Gambling

Lawful gambling has had the greatest social impacts of the various forms of gambling, because of its association with the various non-profit organizations that conduct gambling and because of the sums raised. Lawful gambling has done a great deal of good throughout the state by contributing millions of dollars to various altruistic causes. It has become a major source of income for supporting charitable causes of all shapes and descriptions. It has raised funds for medical, social, athletic, educational, patriotic and other worthwhile projects.

Pull-tabs have provided devoted organizations staffed with volunteer-members and which are determined to do good things with the vehicle needed to raise the resources that will enable them to do even more.

Lawful gambling is not, however, without problems. Compulsive gambling is one of the negative sides of gambling. One could probably assume, because of the size of the industry, that lawful gambling is likely to produce more compulsive gamblers than the other forms of gaming in the state. The games' characteristics, frequent and unlimited opportunity to play and many pay-outs, are also likely to produce more compulsive habits.

Besides compulsive gambling, there are other problems which manifest themselves in much more subtle ways.⁴

A Conversation with a Vet

A conversation with a devoted veteran and long time gambling manager revealed some of the hidden costs and factors involved in mixing gambling with veterans' affairs.

⁴ The following anecdotes are taken from various newspaper articles and conversations with those involved in lawful gambling.

There is the temptation to take short-cuts as the neighborhood declines and pull-tab revenue drops. More aggressive Vietnam vets pushing old timers to forget the "book" and cut some corners, citing it as "the only way to make money."

Other activities, such as roast beef dinners and other social events declined as the post was forced to concentrate its energies on gambling.

Volunteers now seek payment for selling pull-tabs. Everybody is developing a psychology that they should be getting theirs.

The speaker was a supporter of gambling and enthusiastically worked to make it go. His revelations were all the more powerful for being asides which were not intended to be critical of gaming. It was clear that profound changes were taking place, over and above the obvious gains and losses.

Bingo in Robbinsdale

While not as violent as the controversy that surrounded the gambling issue on the St. Regis Mohawk Reservation in New York, the debate about whether to have a bingo hall in the town of Robbinsdale became very heated and controversial. A non-profit organization, in this case a hospital, applied for a state gambling license. In order to operate a bingo hall, a city ordinance limiting the number of bingo occasions had to be changed.

Without much debate or any public hearings, the city council changed the ordinance. This change set in motion a petition drive to either rescind the ordinance change or put the change to a public referendum. The petition drive was headed by a community activist (who some say got involved because the city refused to repair a crack in his sidewalk) and various members of the town clergy. The petitioners were successful in getting enough signatures for a referendum. Curiously, the number of signatures on the petition was about equal to the number of bingo players registered at a bingo hall just north of Robbinsdale.

The city council eventually repealed the ordinance without a referendum after several newspaper articles, editorials and a public hearing filled with various accusations of who would profit and who could conduct the most honest gaming were ventilated. The hospital also withdrew its license application because of internal criticism that a hospital should not get into the gambling business. This proved a curious anomaly coming at a time when religious, fraternal, veteran and other organizational pillars of the community had joined their medical colleagues in vigorously pushing the practice.

Has Gambling Destroyed Organizations?

During a town meeting held by a legislator a member of a local service club offered the following view of gambling (quoted indirectly):

"Before we had gambling the club used to work together. We would volunteer our time and energy to accomplish projects and build facilities for the community. Now, with gambling, we hire people to raise the funds and send out checks to buy the needed things. There is no more community spirit, gambling has destroyed our club."

Shortly after the bingo issue was put to rest, the town took the Governor on a tour pointing out all of the good that charitable gambling had done in their community. It proved a dramatic illustration of the schizophrenic nature of legalized gaming.

Two Hockey Organizations

Before getting into gambling, one youth hockey association used to raise funds through bake sales and raffles. Many people from the community were involved in generating the funds and planning expenditures. The association also applied for, and received, a grant from the United Way for involving disadvantaged youth. In total the organization's budget was about \$27,000 a year.

A few years ago the organization got a license from the state for selling pull-tabs. A jar bar was set up in a local bar, rent was paid and staff was hired. The organization is now run by full-time paid employees who call upon volunteers only when help is needed. Now the organization has a budget of \$150,000--and it still receives the United Way grant.

Another hockey association has raised equal amounts of money through pull-tabs, enough to purchase a new arena. Some of the harmful affects of gambling, however, were more apparent. One Ash Wednesday, while many of the community residents were at church, a warming house was full of hockey parents who were shouting and swearing at each other about the coaches, the association's board and gambling.

The meeting was held to elect a new gambling manager. The third manager in six months had resigned accusing board members and the arena manager, who helped found the association and ran most of the day-to-day gambling operations, of wrongdoing with gambling funds. The arena manager also served a prison sentence for banking deals with a drug runner, who loaned the money to build the arena.

Other problems were alleged threats of physical harm, board members giving another member an official notice to stop negative comments, and accusations that all the troubles were due to vendettas over hockey-team disputes. The organization also lost its most lucrative bar sites because of illegal sports betting. A preliminary audit by the state found the organization to be dependent on gambling revenues even though the officers and members had little knowledge or control over the management of the gambling operations. The audit also found improper lawful purpose donations and gambling funds used to cover inappropriate expenses.

More Bingo Games

One final example of the impacts of gambling comes from an article in the October 3, 1990 edition of the St. Paul Pioneer Press by Ann Baker. The article helps illustrate how gambling has become a very politically charged and emotional issue which has converted unsuspecting groups into interest groups and lobbyist for a new pro-gambling public policy. It is given verbatim.

"KC Gambling License Request Stirs Emotion"

The Knights of Columbus in Roseville may decide this week to sell their bingo hall and fraternal lodge because of financial problems the organization blames on Minnesota's new, more restrictive gambling law. John Owens, financial secretary of the chapter, said his three-member executive board would decide whether to put a "for sale" sign on the building, at 2555 Snelling Ave., or seek a new way to keep their operation going. The chapter reported gross proceeds of \$1.5 million from its bingo and pull-tab operations in Roseville last year. Net profits, after prizes were awarded, totaled \$442,000. State gambling law amendments that became effective in July prohibit profits being spent on gambling group's rent or mortgage, and the KCs said that created a financial dilemma for them.

Last week at a stormy meeting, the Roseville City Council rejected a request from the KCs that would have more than tripled the number of bingo games at the hall from five a week to 16--a change that council member Vern Johnson warned would convert the hall to "a gambling casino." The council also did not approve bingo licenses for three other groups, the Central Park Foundation, Midway Speedskating Club and the Roseville Hockey Association, which together would pay the KCs \$18,000 a month as rent for running games at the hall. By 4-1, the council voted to postpone the matter for 60 days, over objections from a crowd of more than 200, including children who waved placards on hockey sticks the read: "Bingo is nice, helps pay for ice."

Mayor Frank Rog, supporting the bingo groups, cast the lone dissenting vote, calling it "the only sensible vote here." Rog accused his colleagues of thwarting a chance for charities to get necessary funds and of treating the Knights as if they were guilty of wrongdoing.

"No, I'm not," council member Joanne Cushman retorted. "The study hasn't been concluded," she added, referring to an investigation by city staff of anonymous charges that a KC official had pocketed proceeds.

The council voted to delay the license approvals, in spite of passionate pleas and angry groans from hockey parents, speedskaters, Roseville Central Park enthusiasts and members of the St. Paul Clown Club, which receives donations from the KCs. "I have three children in hockey," Les Lenton said. "If bingo is vetoed, two of my children will not be able to play." His comment followed a report from another man that it now costs between \$200 to \$500 to outfit a child for hockey. Similarly, Central Park Foundation president Donavon Fisher said the city's largest park needed money it didn't before, following the death last year of its primary benefactor, Marie Slawik. And speedskater Bill Cushman said money problems also beset the Midway club, which paid \$30,000 to build a rink in Roseville.

The city council members, however, argued that those requests would require exemptions from the gambling ordinance the council adopted in June which Attorney General Hubert H. Humphrey III has called a model for their communities. Under the ordinance, only 10 gambling operations can be licensed in the city at one time; currently there are eight and three more would exceed the limit. The ordinance also allows no more than one gambling operation at any one site; the KCs proposal would add three operations to its own at its hall.

A plea to reject the proposal came from Jean Johnson, vice president of the independent Roseville Citizens for Fair and Open Government, which had backed the ordinance the city had adopted in June. "The children here see the benefits of bingo, but what about the other side?" she asked. "Gambling, like drugs and alcohol, is addictive. Young people, like adults, may resort to crime to support their habit."

Many people in the crowd roared with laughter, one woman shouting, "We play bingo in church!"

Johnson continued: "The more pervasive gambling is in the life of children, the less they notice its effect. It erodes the work ethic, promotes the quick fix."

Rog said, "The Knights of Columbus will probably go under and lose their building, along with all the organizations and church groups that get that money. Are we saying that's OK?" he asked Johnson.

"The problems the KCs brought upon themselves have nothing to do with the city," Johnson replied, adding that she didn't care if they closed but was speaking only for herself, not her group.

"Boo!" "Go home!" several people shouted at her.

Council member Dean Maschke asked if the KCs owned their building "free and clear." Owens answered that the building's assessed value was \$1.25 million, and that the organization owes \$140,000 on its mortgage. "We might have to put it on the market," he said.

Outside the meeting he and KC gambling manager Robert Kritt explained that, unlike the American Legion and Veterans of Foreign War groups in Roseville, the KCs did not have a second revenue-producing operation, such as a restaurant and bar, in addition to its gambling proceeds.

Council member Brenda Thomas said that for the council to make a hasty decision and gambling licenses would be like the decision to drop the atom bomb on Nagasaki.

"Come out here and I'll give you a sock-ee," a woman shouted.

"Who voted for her?" said another.

"When's the next election?" a man called out.

Council member Johnson argued that the KCs were asking the council to treat their request as urgent, while they still had not submitted the January-March audited accounts that the council had requested last May, as a condition for renewing their bingo license. The council's request was made in view of earlier offenses by the KCs that were cited by the Minnesota Gambling Control Board. The offenses included contributing bingo profits to two lobbying groups and paying rent money to a subsidiary agency established by the KCs. The practice was questioned by the control board in the past, and now it clearly is banned under the gambling reform law of 1990, the control board's director Tom Anzelc told the Roseville City Council last week.

"Gambling is an industry that's largely been out of control," Anzelc said, praising Roseville's new gambling ordinance. Anzelc said the presence of several operations at one site has been a troubling practice for his board to regulate. "Contributions are transferred from one organization to another, we lose track of whether they're used for common purposes," he said. Council member Johnson said, "We have one license per location, because, as Mr. Anzelc said, mixing together will be very difficult for us. That's why we asked for time."

"There's no question there have been many worthwhile causes, as there should be," said council member Cushman. "The first issue is the status of the KCs."

COMMENTARY

Gambling has produced revenues for the state and funds for worthy enterprises. It has also destroyed lives and shifted community activities--from ice cream socials to pull-tab sales. Gambling is a painless tax, an inevitable human enterprise and a great diversion. It is also a dangerous subverter of community values and corrupter of lives. Its existence cannot be used either as a temptation or as an excuse to succumb uncritically to its allure.

A recent poll had three out of four Minnesotans claiming that they'd placed a bet in the past year. The incidence of compulsive gamblers seems to be climbing, without a treatment structure in place to accommodate the need. The government control appears to have burnished gambling's image in the public mind since most think these clean operations.

Although such games as the lottery clearly have a broad appeal and operators work mightily to enlarge the numbers playing, it appears likely that most gambling operations are sustained by a hard core few of heavy bettors who contribute disproportionately to the volume wagered.

Even religion plays a factor in the equation as Baptists, with strongly negative approaches, are less likely to bet than Catholics, whose churches have long sponsored bingo and, in the east, fairs that include gambling.

The shifting moral and religious views are undoubtedly helping cloak gambling with the mantle of respectability. The challenge is to assess its impacts before the damage to the social fabric is irreversible.

APPENDIX A

The following tables on adolescent gambling behavior were taken from a survey conducted by the University of Minnesota in the spring and summer of 1990 for the Department of Human Services.⁵

Sample Characteristics

<u>Source/Method</u>		
	Telephone	62.5%
	School	37.5
<u>Age</u>		
	15	25.2
	16	25.9
	17	30.8
	18	18.1
<u>Race</u>		
	White	96.0
	Non-White	4.0
<u>Gender</u>		
	Male	47.2
	Female	52.8
<u>Locality</u>		
	Metro	56.4
	Greater Minnesota	43.6
<u>Family Composition</u>		
	Living with both biological parents	71.8
	Living with single parent	16.0
	Other	12.2
<u>Average School Grades</u>		
	A's	19.0
	B's	57.2
	C's	25.9
	D's	2.6
	F's	0.3

* sample size 1,094

⁵ Ken C. Winters, Randy Stinchfield and Jayne Fulkerson, "Adolescent Survey of Gambling in Minnesota: A Benchmark," Center for Addiction Studies and Center for Adolescent Substance Abuse, University of Minnesota, research conducted in the spring and summer of 1990 for the Department of Human Services.

Frequencies of gambling Activities, Lifetime

	Males %	Females %	Total %
Cards	72.7	42.3	56.7
Betting on Games of Personal Skill	64.1	36.6	49.7
Scratch Tabs	50.3	47.2	48.6
Betting on Sports Teams	58.3	36.9	46.9
Bingo	45.3	47.0	46.2
Pull-Tabs	36.1	34.2	35.1
Dice Games	31.8	18.4	24.8
Coin Flipping	32.1	16.6	24.0
Lotteries	23.2	22.8	23.0
Gambling Machines	24.7	20.7	22.5
Betting on Horse or Dog Races	17.5	22.2	20.0

Note: Percents refer to whether the activity was played at least once during respondent's life.

Number of Gambling Activities, Lifetime

Number	Males %	Females %	Total %
0	6.1	14.0	10.3
1-2	19.1	29.2	24.4
3-4	32.6	26.8	29.5
5-6	17.0	15.4	16.2
7-8	13.2	8.1	10.4
9-10	9.0	4.9	6.9
11	3.0	1.6	2.2

Note: Average number of gambling activities are as follows: males, 4.5; females, 3.4; total, 3.9.

Gambling Onset Activities

	Males %	Females %	Total %
Cards	39.6	22.1	30.9
Betting on Games of Personal Skill	11.1	6.1	8.6
Scratch Tabs	3.6	8.6	6.1
Betting on Sports Teams	1.51	8.1	11.6
Bingo	13.3	26.5	18.9
Pull-Tabs	6.9	10.6	8.8
Dice Games	2.1	2.7	2.1
Coin Flipping	4.6	2.3	3.3
Lotteries	1.9	2.5	2.0
Gambling Machines	2.3	4.4	3.0
Betting on Horse or Dog Races	1.5	6.1	3.4

**Frequencies of Gambling Activities, Past Year
Gender and Totals**

	<u>Never</u>			<u>Less than Monthly</u>			<u>Monthly</u>			<u>Weekly or Daily</u>		
	Males %	Females %	Total %	Males %	Females %	Total %	Males %	Females %	Total %	Males %	Females %	Total %
Cards	33.1	62.7	48.8	37.8	30.0	33.7	19.8	5.7	12.4	9.3	1.6	5.2
Personal Skill	38.9	67.0	53.8	24.3	25.0	24.7	23.5	6.4	14.5	13.3	1.5	7.1
Scratch Tabs	52.5	54.0	53.3	23.1	28.6	25.9	14.3	10.3	12.2	10.1	7.1	8.5
Sports Teams	45.6	65.6	56.2	25.6	26.9	26.3	18.8	4.3	11.2	9.9	3.1	6.3
Bingo	62.8	61.5	62.0	32.2	33.8	33.1	4.1	3.8	4.0	1.0	0.8	0.9
Pull-Tabs	68.2	68.7	68.5	22.1	22.6	22.3	7.6	6.8	7.1	2.2	1.9	2.0
Dice Games	70.3	83.2	77.1	20.0	12.7	16.1	7.2	2.8	4.9	2.5	1.3	2.0
Coin Flipping	72.0	84.9	78.8	17.5	12.0	14.6	7.4	2.3	4.7	3.1	0.9	1.9
Lotteries	78.3	78.4	78.4	10.1	15.0	12.6	6.6	4.7	5.6	5.1	1.9	3.3
Gambling Machines	79.0	83.9	81.6	16.1	13.5	14.7	4.1	2.3	3.1	0.8	0.3	0.6
Horse/Dog Races	85.0	82.5	83.7	11.3	15.3	13.4	1.9	1.9	5.1	1.8	0.3	1.0

Number of Gambling Activities Played Weekly or Daily, Past Year

Number	Males %	Females %	Metro %	Greater MN %	Total %
0	67.8	88.4	75.0	83.8	78.7
1	19.0	7.5	14.1	10.9	12.9
2	7.4	1.7	5.2	3.4	4.4
3	2.1	1.4	2.0	1.5	1.7
4	1.4	0.3	1.3	0.2	0.8
5	1.2	0.0	1.0	0.0	0.2
6	1.0	0.3	0.3	0.0	0.2
7	0.0	0.3	0.3	0.0	0.2
8	0.2	0.0	0.2	0.0	0.1

Frequencies of Yes Responses to Individual Items on the SOGS-Ma Items⁶

In the past 12 months.....	Males %	Females %	Metro %	Greater MN %	Total %
Have you gone back another day to try to win back the money you lost?	7.8	1.9	4.8	4.4	4.7
Have you ever told others you were winning money while betting when you really weren't winning?	11.0	2.4	8.4	4.2	6.6
Has your betting money ever caused any problems for you such as arguments with family and friends, or problems at school or work?	6.6	1.3	5.2	2.2	3.9
Has anyone criticized your betting or told you that you had a gambling problem, regardless of whether you thought it was true or not?	2.4	0.2	2.1	0.2	1.3
Have you ever felt bad about the amount you bet, or about what happens when you bet money?	19.7	7.0	15.8	9.7	13.2
Have you ever felt that you would like to stop betting money but didn't think you could?	6.0	2.8	5.4	3.1	4.4
Have you ever hidden from family or friends any I.O.U.'s, lottery tickets, or money that you've won?	3.0	1.3	2.8	1.3	2.1
Have you borrowed money to bet and not paid it back?	5.6	3.2	5.9	2.4	4.4
Have you ever skipped or been absent from school or work due to betting activities?	4.4	1.1	3.5	2.0	2.7
Have you borrowed money or stolen something in order to bet or to cover gambling debts?	5.8	0.9	4.2	2.2	3.3

⁶ The SOG-Ma is a diagnostic tool used to determine gambling behavior problems.

GAMBLING & PUBLIC POLICY

What are the implications of adopting a public policy allowing gambling? Is it the function of the legislature to translate majority views into law or to lead citizens to other discoveries and attempt to protect them from baser instincts? Should the state balance or mitigate what might be considered the instincts to decadence of its people?

The issue of gambling is tangled with questions that center on morals, ethics, values and other ephemeral factors that, while hard to define and amenable to many interpretations, are nevertheless important enough to be considered as weights on the scale of social health. Civilizations have thrived or perished on the basis of the values embraced at any given moment of their histories and, in ours, the values get reflected in the laws passed and the actions pursued by the people.

Thus the public policy, as expressed by our lawmakers, gives life to the value systems that flow, like subterranean springs, through the body politic.

Gambling touches on a wide variety of issues that reflect dilemmas surrounding values and which help steer the ship of state to calmer or stormier waters. Frequently these issues are most usefully expressed, as in the works of Plato, in the questions that raise, but don't totally answer, the social, moral, ethical, cultural, economic and even religious ramifications. Among the questions:

Socio-cultural Issues

What is the impact of legalizing gambling on the individual and the community? What values are being shaped, transmitted or distorted? How does gambling contribute to society's development? If society is to be seen as held together by a fabric then what contributes to its being strengthened or frayed? The process is sufficiently subtle to overtake any society not alerted to the need for wide and careful introspection.

Ethical & Moral Issues

Is our moral view of gambling changing? Does gambling subvert the work ethic and saving for the future and replace it with get-rich-quick? How much good and harm does gambling produce? Can a societal good be achieved through sinful means? Is gambling an innocent diversion or a social evil? Does the government corrupt its citizens by promoting gambling? Are all forms of gambling equally good or equally evil? Should gambling proposals come with a statement similar to an environmental impact statement which assesses the ethical and moral health of the community?

Economic Issues

How much money is raised for which causes and how does this square with the harm produced through creating compulsive gamblers and syphoning money from the impoverished? How many new jobs created and how large and important has the industry become? How powerful a constituency has gambling spawned and how does this get translated into legislative lobbying and similar actions? What is the degree of dislocation of discretionary income from one diversion to another?

Tax and Revenue Issues

Should taxes be painless? Doesn't the pain promote useful debate? Is a gambling tax really a tax because of the voluntary nature? Are gambling taxes regressive?

Will the state's insatiable appetite for funds tempt it to deepen its involvement with gambling? Are gambling revenues inherently unstable and unpredictable? Should funds ever be dedicated to a specific purpose or should allocations be subjected to the perennial discussions of the legislature?

Legal and Criminal Issues

Does legal gambling create or contribute to increasing crime levels? Does legalizing gambling create momentum for approving other questionable or harmful activities? At what point should the state concede it cannot control illegal gaming and decriminalize it? Are some forms of gambling more dangerous or evil than others?

Compulsive Gambling Issues

What responsibilities do the gambling sponsors have for the prevention and treatment of the compulsive gambling disease? How does increased availability of gambling affect the prevalence rate of compulsive gamblers? Will insurance companies and the medical community treat compulsive gambling like other diseases? How will the criminal justice system prosecute and punish compulsive gamblers?

Regulatory Issues

How to secure compliance and gain control over an industry? What is the role of the state in regulating the conduct of its citizens? Can widely unpopular laws be enforced?

Will widely flouted laws undermine the faith in or integrity of our institutions? How difficult is it to enforce laws whose flouting has become virtually institutionalized? How tightly should Indian gambling laws be enforced given the benefits accruing to the tribes as a result of this bonanza? What limits ought to be placed on advertising?

Environmental Issues

Is the material creating litter? Can it be recycled? What about visual pollution and the images conveyed by widespread gambling? What is the benefit to the environment of the fund allocated to its clean-up?

Policy Issues

Can illegal gambling be controlled? If yes, should the state then prey on the weaknesses of its citizens? If no, shouldn't the state seek to displace the illegal elements involved and reap the tax benefits?

What will result from combining the roles regulator and operator within one entity, the lottery? Will the public interest get sacrificed to the bottom line? How does the lottery's monopoly and the state's thirst for revenue square with such customer costs as the wide disparity of pay-out between the lottery (50%), the track (60% to 80%), pull-tabs (80%) and Nevada slots (over 95%)?

How should the state examine gambling expansion? If a neighboring state is making money on a gambling endeavor, should the state legalize it simply to stop the flow of money across the border? Should the state legalize every request because it promises to create or save an industry?

COMMENTARY

The gambling landscape is dotted with hard questions. As the debate intensifies the positions harden. The sensible middle gets sacrificed to jingoism and partisanship. The state resides in loco parentis to its citizens, protecting them from evil--even when it springs from within. Total liberty results in libertinism.

The state inculcates and promotes values and a consensus gradually develops around concepts of societal wellness and disease. These concepts have their roots in family, community and personal behaviors that are seen as positive or negative.

Nowhere is the ambiguousness of complex modern life more profoundly etched than in the arena of gambling. Undeniable good is produced through the revenues raised, with the same motion that creates incalculable harm.

As Minnesota faces such future issues as off-track betting; telephone wagering; the effects of dog racing; the impact of successes and failures in neighboring states; video technology and slot machines for pull-tabs operators, the lottery, or a yet to be identified operator; casino or riverboat gambling; advertising; the complexities involved in Indian gambling and other questions, it would be most helpful if the issues were subjected to comprehensive and informed debate and, most importantly, that the decisions reached flowed from a solid and clearly understood set of principles.

The value of the questions in this section--if they have any--resides in whether they lead to decisions that flow from an ethical, moral perspective that makes our people stronger, not weaker. Just as a life unexamined is not worth living, a people must retain the collective capacity for introspection if they hope to find their way through the thicket of blandishments and moral corruptions that lie in wait for all civilizations.

FUTURE GAMBLING POSSIBILITIES

As gambling attitudes and behaviors continue to change, various interests will seek changes to expand, save or create an industry. This section examines the issues involved with various gambling possibilities that may arise in the future. Issues related directly to one of the three currently legal forms of gambling are discussed in the relevant chapters.

VIDEO GAMES OF CHANCE

The proliferation of video games and their popularity--coupled with the explosive growth of technology--augurs a serious role for these games in the future. Video games of chance, which simulate poker, blackjack, hi-lo, roulette and other common forms of gambling, could become legal gambling devices in many formats. Video games of chance could come in the form of video lottery terminals or video pull-tabs. Machines allowing pay-outs, operated by bar owners, have also been proposed.

Currently they are allowed with pay-outs in anything other than replays forbidden. This gives the Indian gaming operations the opportunities to have video games of chance offering cash prizes. The law authorizing the use of video games of chance for amusement only is scheduled for repeal January 1, 1992, without affecting previously entered tribal-state compacts regulating video games of chance on Indian lands. This poses the potentially serious threat of a two-tier system of gambling that will be far more controversial than the present dichotomy in bingo, for example.

Promoters of these machines are careful to point out that they are not slot machines. Slot machine operation is all in the elbow; video games of chance in the fingertips; pull-tabs and lottery scratch-offs in the wrist.

Depending on the game's program, the determination of winners may follow a different random generation procedure. One pull on the "one armed bandit" has the same chance of generating a win as any other pull. A video pull-tab electronically simulates a deal of pull-tabs with a predetermined number of prizes, with odds that change as the game is played. Electronic deals could be made large enough so that the odds remain constant throughout play.

Slot machines also offer direct cash or coin pay-outs; video games of chance offer receipts which are redeemed elsewhere. This point may be brought up as a way to ensure security of the cash. This method, however, may add additional human elements to the exchange of cash between players and operators. Operators of slot machines, which accept and dispense cash, only handle the money taken out from total wagering. All of the cash wagered on a video game of chance would have to be removed by the operator with winnings also dispensed by the operator. Internal counting mechanisms provide a convenient and constant tally, unlike pull-tabs which are manually counted and more susceptible to manipulation.

Video wagering can be monitored through a central computer. The South Dakota lottery has a system where machines are monitored through the lottery's headquarters. Machines with problems or suspicious activity can be shut down from the central office.

Montana, with stand-alone video games of chance located outside of a casino jurisdiction, experienced the same problems as Minnesota's pull-tab industry--regulators were always playing catch-up with the industry.

Other differences are in the psychology of play. Hearing the jingling of change in the slot's hopper may reinforce the idea of winning and entice a gambler to gamble more. The playing of a "credit" on the video game of chance screen, however, may obscure the fact that the gambler is playing with money. Perhaps the motion of picking the coin out of the hopper would force the player to see how much money is being wagered. It is not clear whether a written computation or tally is more or less extractive than the return of coins.

The electronic technology that is used to operate both slot machines and video games of chance can also be used to market the games. Motion detectors on terminals run sequences designed to attract attention. When the player has moved closer, the machine goes into an instructional mode. Tiny microphones, amplifiers and speakers make the sound of a few coins dropping sound like an avalanche. Game designers talk of using sound, light and color in developing popular games.

The future of video gaming technology should be considered carefully. The status quo creates a double standard allowing the Indians to turn what in reality is non-gambling

into gambling. The future elimination of the machines makes use by the Indians even more ambiguous. The current arrangement, however, allows a previously impoverished minority to prosper. If bar owners are allowed to operate the machines without significant regulatory control, fraud and abuse would almost certainly follow. If videos are authorized as a legal form of lawful gambling, sufficient regulatory resources need to be allocated so the troubles that plague lawful gambling aren't repeated. Videos under the lottery would hold the best hope for control as the lottery can shift and adapt to the patterns of the market.

Whoever gets the video games of chance will most likely benefit at the expense of the other operators' handle.

CASINO GAMBLING

Casino gambling can come in many forms: Las Vegas-style casinos, complete with neon lights and entertainment, where the sky (or the highest a bettor can stack the chips) is the limit for wagering. English-styled casinos where gambling is conducted in subtle environments with limited access, theme-based casinos and riverboat gambling linked to a historical era or tourist attraction, with or without betting limits, are other possible forms. Card rooms where table rental is based on time or a percent of the pot and charity-sponsored casino nights are additional possibilities.

Casinos & Economic Development

Casino gambling is often proposed as an economic development vehicle. In Nevada gambling makes up a significant portion of the state's economy contributing approximately 45% of the state's revenues through direct levies on gambling. Nevada has no personal income tax.

Other casino developments have not been so fortunate in achieving their goals. Revenues from casino gambling in New Jersey were to be used to revitalize the city. A study¹ of casino gambling in New Jersey made harsh judgments about the gambling industry's complicity with local politicians to prevent the construction of low cost housing by way of keeping the poor and the black from the small resort area of Atlantic City. The land speculation, evictions, strategies for removal and delaying tactics served as a text book example of how the combination of greed and corruption could twist the high-minded rhetoric that launched the process.

¹ Ernest A. Nietler, "Shaping State Gaming Regulations in New Jersey: The Role of the Gangster, the University and the Scholar," in Gambling Research, Proceeding of the Seventh International Conference on Gambling and Risk Taking, ed. William Eadington, University of Nevada: Reno, 1988.

Lack of preparation and planning and the absence of a guiding, controlling body led to the existence of a vacuum that was filled by self-seekers and promoters. Even the licensing came into question as corporations that had undertaken bribery and other illegal acts, including connections to organized crime, obtained authorization to operate.

The study concluded that only the federal government can regulate casino gambling. The government ought to limit the number of casinos and grant exclusive franchises in resort areas. A planning agency should coordinate the development of gambling and community amenities in tandem. Dummy operations and false transfers should be forbidden. Governments shouldn't profit from the gambling losses of its citizens. Regulatory bodies shouldn't be financed by gambling proceeds. Small store slot-machine operations should be controlled by the police. The clear implication is that a national industry would require the creation of a national gambling commission.

The study concluded with the verdict that legalized casino gambling produces more harm than good and that it ought to be forbidden. It contrasted sharply with the rosy hues painted by the 1988 report of the Governor's Commission on Gambling in New Jersey.

Deadwood, South Dakota has also had problems with its goal of using gambling revenues to redevelop the city. While the revenues generated have been impressive, there is little city remaining to be redeveloped.

Deadwood, South Dakota's Main Street evokes memories of Wild Bill Hickock, Calamity Jane and Buffalo Bill Cody. Brought to life by the discovery of gold in the Black Hills in which it nestles, in 1874, it is experiencing a rebirth over a century later as a result of serious gambling. All evidence indicates that nothing happened in between. Two-tiered, wonderfully wooded bars are today being furiously renovated to accommodate the dazzling, whirring slots occupying all free space. The usual names festoon the facades--Gold Nugget, Silver Dollar and Last Chance. Two surprises are Capone's Gambling Emporium and the blasphemous Carrie Nation's Temperance Saloon and Gaming Hall.

Early on a Saturday morning hard-working tourists sit determinedly at the slots pouring nickels, quarters and dollars into the machines and sometimes asking wife to dig into her purse for additional coins. The determined gambler easily finds round-the-clock action. Every store--very nearly--on Main Street is given over to the machines. Tired and sometimes not-very-young women stroll in faded sequined gowns in a latter day evocation of saloon girls. Young men dress in boots, hats and six guns to carry the effect forward. Others stand, incongruously, in formal attire, serving cards to very casually dressed visitors.

Deep within the forests of slots and poker machines can sometimes be spotted other enterprises--something of a second thought, like an old-fashioned soda fountain or restaurant. Bars share equal billing, in a comfortable symbiotic relationship. Frantic signs plea for waiters and waitresses.

Deadwood is Las Vegas east, in miniature and lesser-league form. The doors are open, inviting the timid traveler inside. All pocketbooks are served, although there doesn't seem much for the really high rollers. The slots are mostly of the press-the-button-and-hope-for-three bars variety. Sitters lap a plastic container of coins and feed them into the machines. Poker at least gives the player choices and brings a measure of judgment to the process. Blackjack often has a \$2 minimum and \$5 maximum and the poker tables resemble the old west scenes they are meant to evoke. There is a \$5 limit on all single bets.

Deadwood's Main Street, running about a brief third of a mile, is loaded with tourists on an early July 1990 day. Parking is no longer allowed. Carpenters and electricians clamber over century old buildings, scurrying to get in on the boom. A cacophony of hammering and whirring of saws serves as the accompanying music to the boom. There seems to be a determined effort to keep those under 21 away from the slots. Pin-ball machines are sometimes demurely set aside for kiddies' use.

It all started in October 1989 when the citizens of the town voted to open Deadwood to all forms of gambling (although dice and roulette were not in evidence). South Dakota, as a state, voted against, but allowed individual towns to opt for gaming. All that was necessary in Deadwood was a beer license.

The rest of the state allows video slots that are controlled by the state and which spew out a ticket that must be presented to a cashier for collection. This results in towns like Keystone, about 45 miles away, having to rely on tourist attractions and gift shops. The boom is everywhere evident, from the thousands of out-of-state plates to the crowded streets and filled tour buses. Small shops have been elbowed out as every spare inch was surrendered to slots. Rents have soared. Las Vegas operators are reputed to have taken an option on the local supermarket, symbolizing the sort of displacement that has attended the process. It seems inevitable that other towns will envy Deadwood's sudden spurt of prosperity and rush to emulate it. There is a real danger of me-too-ism in these things. The over-all impression is one of sadness, as disconsolate, lonely figures interact with a garish machine that swallows their hard-earned coins. Gnarled fingers and weathered faces offer added testimony to the difficulty with which these scornfully dispensed coins were earned.

Deadwood is, in 1990, a hot town. Gambling has transformed it exactly as the discovery of gold must have done over a century earlier. The ersatz attempts to evoke

the past actually find an authentic resonance in the similarity of the booms. In a few months Deadwood, South Dakota, emerged from a Rip Van Winkle sleep into an age that must have, in many respects, caused it to rub its eyes and wonder whether it hadn't been just a brief nap.

In early August when thousands of motorcyclists descend on the city, the comparison with its raucous past must seem inescapable.

The town serves as a model for others tempted in the same direction. Yes, there is prosperity and yes, it is a boom town, but the question lying behind the glitter is at what price?

Casinos & Crime

Another issue related to the introduction of casino gambling is its ability to attract the criminal elements. Tighter regulations and a shift from privately held to publicly traded companies have reduced greatly the problems of criminal involvement in casino gambling. Nevertheless the very ambience of a Deadwood conveys an unmistakable signal of welcome to those who live recklessly.

A study of gambling in New Jersey concentrated on the casinos, which started operating in 1977.² It found that organized crime had been successfully excluded from casino gambling operations through the diligent efforts of regulators and enforcers. It also found organized crime testing the periphery through intrusion into such services as the junket industry and labor unions. Legislation was passed to address these deficiencies.

The panel, curiously, was worried about theft, fraud and cheating against the casinos and expressed a protectiveness toward the state's revenues.

The Commission found sharp increases in street crimes following the adoption of legalized gambling in Atlantic City, but was unable to establish the "independent effect" of casino gambling on this rise. It recommended an analysis and evaluation of the issue.

The study received testimony indicating that illegal gambling had been spurred by the introduction of casinos. Numbers and sports betting were found to be deep rooted and prospering and the better odds, credit and tax and confidentiality continued to make illegal gambling competitive.

² Governor's Advisory Commission on Gambling, Trenton, New Jersey, June 30, 1988.

Surprisingly the Commission did not mention the successive waves of corruption tainting the Atlantic City municipal government which effectively kept the city's residents from realizing the civic cornucopia promised by the legalization of the activity, nor the elimination of slums the revenues were supposed to produce.

Floating Casinos

Riverboat gambling is another way casino gambling can be introduced. Initiatives have been discussed, in surrounding states, to allow table and casino-type games on riverboats on the Mississippi. Building on tradition, the proposals conjure up the romantic images of paddlewheelers and Gaylord Ravenals smoothly plying the yokels with silky words and speedy hands.

The proposal has the psychological benefit of quarantining the practices to isolated and controlled environments. In Iowa, a state reputed to offer the widest variety of gambling opportunities, individual bets and total losses are limited. In Illinois there are no limits. In Mississippi the boats don't have to embark on a journey up or down the river. One can easily see how the few limits could be circumvented or eroded as a way to achieve economic success.

One could also see how as the river freezes operators would ask for the authority to operate without leaving the dock. Land lubbers would then request that the casinos move ashore.

Any proposals for the introduction of casinos must be developed around clearly defined, understood and measurable goals. As time passes the achievement of those goals must be checked and other costs and benefits analyzed.

SPORTS BETTING

America's religion is sports. They are sacred. The nation invests its beliefs and enthusiasm in local baseball, football, hockey and basketball teams. Professional sports confer big league status on an area. The interest spurs a desire to back the enthusiasm with cash, to promote action and deepen the thrills. Sports betting is conducted primarily in two ways: book-making and pools.

No one knows how big sports betting is in America because it is mostly (except for Nevada, Montana, North Dakota and Oregon) illegal and unreported. A shifting value system that emphasized hedonism melded with television to fuel and channel the enthusiasm. Many newspapers contribute to the hypocrisy by publishing the point-spread and odds every day, knowing that betting on such events is a breach of law. Information on injuries is vigorously reported. The pressures have produced fixes, from

baseball to prizefights and point-shaving basketball scandals. Additionally, the lure of "the action" prompts bettors to escalate their involvement. Security operations to interdict these schemes have developed into thriving growth industries. One hesitates to think what the possible impact of a secret wager might be on a manager's strategy, but it is worse than foolish to believe a wager won't insinuate itself temptingly into the process of deciding outcomes. The human animal has found it very difficult to compartmentalize his activities and his treasure.

In 1986 *Sports Illustrated* undertook a major review of sports gambling.³ It held that legalizing gambling also led to more illegal betting. Atlantic City was held up as an eloquent example of how well-intentioned schemes to produce social good through legal gambling can, in the hands of crooked politicians, turn into private profit, skimmings and scandals. Today the city remains a place of stark contrasts, where opulent palaces cast shadows over hideous slums and the promise of gambling's bonanza remains unfulfilled, except for a few greedy, criminal insiders.

The only purpose of bribery in sports is to determine the outcome. Even the pristine ranks of amateurism have been stained by pay-offs. The nation's obsession with *divertissements* embraces college athletes, turning universities into sports hustlers and shills. The messages of such a value system are soon transmitted to the athletes and other students. If the university and the alumni are getting theirs in such "respectable" forms as status, recognition and revenues, then the athletes might be understood if they seek ways of getting theirs. They are, after all, the production's stars.

Despite huge salaries which would appear to make professional athletes immune to financial temptations, the disease of compulsive gambling, the existence of drug addictions and the pervasiveness of skilled subverters have combined to make the danger of tampering a reality. The *Sports Illustrated* report described the involvement of a professional quarterback in heavy gambling and anticipated, through warnings and examples, the scandal of Pete Rose three years later. Who can say how many of today's sins will be discovered over the next few years? Professional gamblers are attracted to athletes for inside information that may affect the outcome (such as an unreported injury or inside knowledge of an alcohol or drug addiction that will affect a star's play) and are thereby positioned to exploit observed weaknesses. One dramatic local illustration came when a reporter called a prominent quarterback one night. The tape revealed the athlete as speaking in a slurred fashion and in a confused manner and indicated that the quality of his play might well be affected.

³ "The Biggest Game in Town: A Special Report on Gambling," *Sports Illustrated*, March 10, 1986.

The dedication and selflessness of today's athletes is regarded as lower, possibly rendering them more vulnerable to temptation.

The point of a betting line is not to establish a team's primacy but to gauge public sentiment such as to equalize the betting so that the bookmaker makes the breakage of \$1 on every \$5 bet. This has caused the setting of a line to be raised to a high art.

The series concluded on a somber note of dreams dashed and hopes sundered through succumbing to the blandishments of fixers. Sports Illustrated had an easier time describing the problem than prescribing its solution.

Another study⁴ indicated that sports betting is far from the lucrative enterprise it is widely believed to be. There are risks--if the bets aren't balanced precisely--and the return, even assuming perfect equilibrium, is very modest--especially when compared with the amounts garnered through lotteries, for example. The risks are heightened by the need to engage in inter-state traffic, if phones or other means of boundary-crossings are used, which would bring in the federal government.

A key finding was that Las Vegas casinos came to see sports books "as an integral component of a full-service resort hotel" rather than because of their lucrative nature. The profits were, in fact, found to range in the disappointingly low areas of 2 1/2%. The Oregon State Lottery, off to a surprisingly disappointing start, is the only such operation currently offering sports betting. It is called Sports Action and allows players to gamble on football and basketball. Point spreads have made wagering so scientific that the skill of selection has been removed, to be replaced by chance. A player has to predict the outcome of several games and gets paid off accordingly. Canadian lotteries also offer a variety of sports pool games. Montana and North Dakota have small, loosely regulated, privately operated sports pools.

There is a law suit by professional sports trying to force the Oregon game to close down. There are also bills pending in Congress to prevent the legalization of sports betting. Sports betting is being watched closely and will be sure to be emulated if it produces the sort of proceeds that generate more supporters.

⁴ Arne K. Lang, "Legal Sports Wagering Outside Nevada: Problems and Prospects," in Gambling Research, Proceedings of the Seventh International Conference on Gambling and Risk Taking, ed. William Eadington, University of Nevada: Reno, 1988.

COMMENTARY

All of the harbingers point to expansion and diversification of gambling possibilities. Past history does not inspire confidence that radical proposals will be carefully studied and thoughtfully debated. Straining at fleas and swallowing elephants can prove an indigestible legislative exercise.

The prospect of expansion is lent impetus by the fear of being outdistanced by a neighbor--a syndrome made only too visible by the incessant complaints following Minnesotans' travels to Wisconsin to buy lottery tickets. Such me-tooism encourages uncritical and hasty adoptions.

CONCLUSION

Gambling in Minnesota has developed differentially. At its nadir, in the forties, only bingo retained the church-mantled respectability that enabled it to survive. All other forms were in disrepute. This legal toe hold gradually expanded and grew into today's formidable establishment.

There is a tendency to compare and equate forces that are not identical, with grotesque results. Gambling can take different forms; it can be demure or intrusive; it can be innocent or harmful; it can be diverting or compulsive. The distinctions must be known and appreciated. That it has accompanied humankind since earliest dawn is proof of its existence within the atavistic instincts of the human animal.

The three major forms of legal gambling are separate and distinct agencies, each with its own board, executive director and individual features. Yet each is part of a relatively new, growing \$1.6 billion industry. All are also shaped by today's society and each is helping to shape tomorrow's.

Horse racing is an active sport and a lively contest, enjoyed in outdoor facilities removed from our daily environs. Handicapping involves applying analytical skills. The action is limited to the number of daily races. Live racing is conducted about 120 days of spring, summer and fall. Winter simulcasting will make pari-mutuel wagering available year round.

Horse racing depends on regulars--the bettors who attend multiple times during the season and bet heavily. Some of these may, of course, be compulsive gamblers.

Racing is set off and requires a distinct effort to participate. As such, it approaches the English model of recognizing that the widespread public desire to gamble has to be

accommodated, yet it should not be made either ubiquitous or particularly accessible. The English model is to channel gambling into less destructive forms:

The sport requires an extensive support establishment of farms and workers creating an important industry. Most of racing's operations are controlled by the private entrepreneurs owning horses and the track.

A small governmental staff is required to monitor the industry and insure its integrity. The role of the Racing Commission is to oversee the process and to insure compliance with the law and regulations and to assume responsibility for the honesty of the sport. It risks dysfunction by adopting the role of promoter of the industry. The Racing Commission has to subordinate success to the broader public interest of assuring the integrity of the sport.

This latest role confusion was most evident in the admittedly painful process of seeking new buyers as the ancien regime disintegrated. While the battle was never really joined, there was a real question as to how the Commission would have responded to an offer from a suspect source. The next test will come with the off-track betting controversy that is sure to surface. How the public's interest gets weighed against the operator's need to succeed will be a measure of the Commission's view of the public's interest. In public life there are always special interests pleading particular causes but no one lobbies for the people's welfare. That is too frequently the most convenient sacrifice.

Declining attendance and handle have been disappointing trends since the opening. The 1990 season has to be seen as a period of confusion and transition. The new owners took over on the eve of the track's opening and had to scramble to put the show on. Next year they'll have the benefit of a year's experience. They are competent, experienced, honest operators whose future looks bright, yet the operation's image is tarnished by the negatives surrounding its operations and sale.

Largely because of the bargain basement price of a first-class facility and the absence of a large debt-servicing burden, the break-even point has dropped dramatically. The improved road access envisioned for the immediate future should help the track. It also appears likely that the demographic trends will tend to favor its current location. The prospect of success ought to be well within reach despite the low point of 1990.

The new owners nevertheless face a marketing challenge that must be met. Much will be made of the competitive dangers posed by the dog track in Hudson, Wisconsin.

Its tax revenues were reduced in a failed attempt to save the former owners. This issue will need to be revisited if and when the corner is turned. Revenues go into the general coffers of the state.

There will be issues relating to simulcasting races from other tracks and the possibility of off-track betting. Simulcasting is currently permitted and shouldn't produce problems, but the law allowing it has to be re-examined from the perspective of clearly permitting both simulcasting and live racing on the same day. It got off to a great start on October 10, 1990.

Telephoned bets to the track, against an account that contains a balance and which uses codes, is another possible source of future controversy. There is a real question as to whether current law permits this, with some experts believing that it does. It has not, however, been tried.

Horse racing appears to be soundly and responsibly established on Minnesota soil and the future looks bright. Horse racing creates jobs, produces taxes and furnishes the state with a recreational vehicle. It also creates compulsive gamblers, tempts fixers and tries to expand its base through off-track betting and similar initiatives.

Racing in Minnesota is a simple, self-contained operation that is mostly removed from the daily life of the state's citizens. It is a not-highly-visible, even demure, operation that doesn't appear to impinge either directly or importantly on the life of the state's citizens. By limiting the opportunities to bet to those who attend, it probably maximizes the good and minimizes the harm produced by its existence. It doesn't seem wise, given what has been said and the already huge scale of gambling and the many opportunities to wager already in being, to further expand these into off-track betting or phone wagering or any other method that greatly facilitates access.

The lottery, however, is another story altogether. The operative word is ubiquitous as banners, advertisements, tickets, television programs and other evidences of its existence assault the senses of every person in the state, however removed they might be from other influences.

The lottery is malleable, fungible and pervasive. Starting on April 17, 1990, it quickly assumed three shapes and exploded into the landscape. Unlike the track, this opportunity to gamble is not set apart or inaccessible. Quite the contrary, it is rarely more than a literal arm's length away.

No observer could have been anything but enormously impressed at the talent, intelligence, energy, technical skill, inventiveness and creativity poured into the considerable enterprise of starting, from scratch, a lottery, in Minnesota, in 1990. The

temptation is great to consider the impact this concentration of effort might have had on a more socially productive pursuit. It says a very great deal about our culture that our creative juices flow so robustly into such streams as sports, entertainment, consumerism and gambling.

The lottery produces the need to regenerate excitement which mandates a continuing search for new and hotter products. A lottery ticket is a casual, impulsive purchase, usually done in connection with other transactions. As such it sucks a very broad and deep slice of the populace into participating. News items on big jackpots fuel the citizens' interest and promote sales. It is entirely possible that the power of the lottery resides in the news accounts surrounding the building excitement of a swelling pot, although it must be said that it is a very advertising sensitive industry. The human interest angle attending the winning--and the tendency to identify with the winner--create an almost irresistible urge to try one's luck, notwithstanding the daunting odds. Ironically it is news, not promotions, that creates the excitement that impels hordes to try their luck.

It can be a powerful producer of revenue and it raises it voluntarily, both for the state coffers and for laudable enterprises. The administrative costs are high because, unlike other forms of gambling, this is entirely a state operation. The pay-out to players at about 45% to 55% is one of the lowest in the pantheon of gaming possibilities. This will rise to at least 60% after June 30, 1992, although some games will pay out as much as 67% in 1990.

No one can predict what forms it may take or which hybrids it will produce. Its appeal is to anyone making an over-the-counter purchase in a store or location frequented by most citizens. Its form is bound only by the amorphous definition that is encompassed within the words chance, consideration and prize. Currently the lottery is prohibited from selling pull-tabs and games operated by inserting coins (i.e., video games or slots). The model law creating the Minnesota Lottery wisely provided for enormous autonomy, to permit shifting with a dynamic market, but this is not without risks. It would be impossible to predict the shape and nature of the games played, years hence, under the lottery rubric.

Operating autonomously it will be interesting to see how policy setters will respond once the lottery ventures into areas perceived as counter productive, dysfunctional or downright wrong. The lottery, the state's only gambling monopoly, is bound to create temptations to deviate into new and jazzy gaming areas simply because of marketing considerations. There is an ineluctable force at work that pushes for ever increasing volume and revenues and which doesn't take the inevitable disappointments at the dips in the road very lightly. There is also an observable temptation for the state to tap this till to finance whatever emergency it currently faces. How realistically can we take

a campaign promise to eliminate this rapidly entrenching revenue source and object of so much public affection and interest?

The third major player in the triumvirate is lawful gambling, which mostly means pull-tabs in Minnesota. Growing rapidly, without controls or oversight, the \$1.2 billion industry (in 1989) floundered badly. This report describes some of the more egregious problems and failings of a troubled operation.

Still it cannot be denied that much good was done through the monies raised for charity. With the key players being patriotic, service, medical, religious or fraternal institutions, the activity commingled the flag, motherhood, conquering illness, eliminating societal scourges and other indisputably noble pursuits with the human urge to wager.

As such it was hard to be critical, even when very serious problems--or even crimes--were uncovered. And it wasn't, and isn't, always easy to take on the interests sponsoring pull-tabs.

The state, in 1990, moved to provide assistance, guidance and correction by apportioning almost three-fourths of the personnel requested for the needed reforms. Hopefully some impact would be visible by year's end. The problems encountered are described earlier in this report and they range from sloppy books to theft, fraud, embezzlement, insider trading and other chicaneries.

While racing (and gambling on races) takes place at the track, and the lottery relies on across-the-board purchases, tabs tend to get pulled in determinedly social circumstances that usually feature familiar surroundings, friends, food, alcohol and leisure--whether in a bar or an American Legion Hall or an Elk's Lodge. Many of the sponsoring agencies are religious, medical or similar institutions, devoted to altruism. The entire process is mantled by the respectability of our most cherished institutions yet players have been ruined and sent to prison for participating in these innocent pleasures. The section on compulsive gambling bears eloquently on these tragedies.

Some of the anecdotes in this report speak of a shift in activities--from such things as ice cream socials--to raising funds through gambling. That this was, for years, permitted in the absence of oversight created a certain prescription for disaster.

Many things have happened to the industry, all in a short period of time, which have some operators convinced that the state is out to eliminate lawful gambling. A competitor for gambling dollars was created with the introduction of the lottery. The IRS, at the federal level, is reviewing the non-profit and income tax exemption status of many organizations. Checks can no longer be used for gambling. Disclosing

information to the players is reputedly harming sales and increasing tax burdens. Increased tax rates have also cut into gambling proceeds.

In examining the issues, the state must be careful to consider what is good for operators, beneficiaries, the state and most of all the public. If disclosure is changing the way pull-tabs are sold and creating additional tax burdens, the interests of the public ought to be put before that of the operators or the state, resulting in a re-examination of taxation methods, not disclosure. If the new increased taxes are reducing the money going to charitable causes, the tax rates and how the taxes come out of the lawful gambling dollar should be re-evaluated, weighing the recipients' interest against the state's interest. The Governor, on October 5, 1990, ordered just such a review of the tax's impact on lawful gambling.

In addition to racing, the lottery and pull-tabs, bingo, raffles, tipboards and paddlewheels, there are junkets to Las Vegas and Indian gaming as other forms of legalized betting available to Minnesotans.

Indian gaming presents the sort of delicious dilemma that measures the character of an age. It is a test of whether the dominant society is willing to allow an oppressed minority to continue to enjoy the fruits of an unexpected prosperity. It is also a test of the minority's ability to discipline itself to resist overplaying its hand. The issue, as 1990 came to its end, remained in doubt on all counts.

Indian gaming--like all forms of gambling--produces some good and some harm. It provides a formerly dependent and impoverished people with an unexpected opportunity for economic viability while permitting very high stakes wagering and activities not otherwise allowed to a society already caught up in the feverish excitement of gambling.

Junkets provide additional outlets for those seeking legal action. Illegal betting rounds out an activity that seems to be engaging the interest and involvement of a vast majority of Minnesotans.

Gambling in Minnesota is fragmented. Each operation--horse racing, lottery, lawful gambling and other activities--is highly compartmentalized and independent, with its own board, executive director and staff. They are physically apart, thereby making even minimal coordination or cooperation difficult. There appears to be little hope for increased coordination in the future. It appears likely that the lottery, with its need for variety and growth, will be the focus of future innovations and inventions as the games shift and change according to market dictates. The others will doubtless undertake various adaptations but the principal thrust seems likeliest in the lottery operation.

The growth and development have, however, occurred fitfully and not as part of a grand design.

Lobbyists, the constant need for additional revenues and competition from other states create pressures for the invention of new or expansion of old forms of gambling. There is little effective countervailing pressure for restraint. With Minnesotans very likely gambling over \$400 per year for every person in the state expansion appears likely to flood the market or actually increase the amount wagered. Neither seems a desirable outcome.

It is not hard to see that riverboat, casino or table gaming will be on the future agendas, as will video pull-tabs, slot machines and other toys of electronic wizardry. To discuss these in an ad hoc fashion is to continue the piecemeal and unfocused approach that has characterized the state, which must develop a greater awareness of its role as the shaper of views. Currently it seems more an echo than a leader.

The human animal has the capacity for baseness and nobility. The function of the state is to encourage one and discourage the other. In a free society this must be accomplished through persuasion. The state, in loco parentis, possesses a delicate responsibility. For it to succumb to the narrow temptations of painless revenue generations, while ignoring the moral consequences, is an abdication of its role.

And yet a free people anxious to gamble cannot simply be denied the activity. This would be arbitrary and inconsistent with democratic principles.

How then to resolve the dilemma of a people wanting to gamble and a state that needs to exercise its leadership role as moral guide and teacher?

The answer must come in the form of a carefully crafted, comprehensive government policy that takes a full view of the gambling issue and places it within the context of the community's life. This can only happen through a long and tortured debate that finally produces a rough consensus on the role gambling should play in our lives.

Up till now, the gambling issue has proceeded by fits and starts on an ad hoc basis treating specific issues individually, without context to the large picture. It has been like a mosaic, where each tile has been subjected to the most intense scrutiny and attention, without regard to its contribution to the image that needs to be shaped, and of which it must be a part.

Gambling has been adopted because of lobbying; special pleading; the presumed desires of the electorate; xenophobia; greed and competitive juices and other transient interests. It bids fair to continue on this ruinous path.

There is currently no single body guiding, monitoring evaluating and making recommendations as to future direction or the wisdom of any given approach. The creation of an unpaid Governor's Gambling Commission, made up of seven or nine citizens, political figures, experts, interested parties--all of whom must be widely respected figures--holds the promise of the needed oversight. Members of such a body could come from those already serving on the individual gaming boards. Indian gaming must also be considered. Persons bringing knowledge of compulsive gambling and law enforcement, as well as sociological and economic perspectives, would be needed. Elected officials could serve as representatives of the broad public interest. Lacking such a monitoring vehicle the state is most likely to continue to succumb to the vagaries of transient moods, fears, temptations and ambitions.

The state is not going to nor can it, eliminate gambling--any more that it can eradicate prostitution or other dark predilections and appetites. But that is not to say it cannot channel those energies, as a result of a developed view of its role. It is also not to say it cannot and should not be anything but a facilitating, profiting vehicle for the satisfaction of human appetites.

What gambling ought to be allowed and what ought to be discouraged? Should the state bombard its citizens with temptations to dangerous acts because it cannot eliminate the appetite for them? If we allow some acts that might be considered harmful or sinful--such as drinking, smoking and gambling--is that an argument for unfettered exercise of those rights?

Gambling in Minnesota produces much good. Great sums are being raised for noble purposes. Many of the dysfunctional areas are being corrected. Revenues are being raised voluntarily and painlessly. Religious, patriotic, medical, fraternal and social service organizations have been able to raise great sums for their good works. The government has been aided by the funds generated. There is also a need to review the structure and effect of the taxes imposed, to evaluate which are doing the job intended and which are proving counter productive. The policy has been to slap on or reduce taxes in response to crises of the moment, without follow up review as to the result.

A lot of harm has been produced--individually, in the form of personal tragedies, and collectively in gambling's influence on our values and way of life. In the final analysis, it all gets reduced to the ancient philosophical question of whether noble ends can be achieved through sinful means.