

## Current Events Lesson, March 2007

### The Economics of Gambling

#### Summary

In October 2006, Congress passed the Unlawful Internet Gambling Enforcement Act. Since then, many Internet gambling companies have mobilized to have the Act repealed. What are the economic issues of gambling—on the Internet and elsewhere? Part 1 explores the various types of legalized gambling through the eyes of an economist, using economic analysis to measure the pros and cons for state and federal governments as well as for individual communities. Part 2 provides students with the opportunity to prepare and present a report on the pros and cons of a specific type of gambling.

#### Correlations to *Economics: New Ways of Thinking*

The lesson relates to the following resources of *Economics: New Ways of Thinking*.

- ▶ Chapter 1, Section 2, *Student Text*, pages 13–21
- ▶ Chapter 9, Section 2, *Student Text*, pages 246–347
- ▶ Chapter 14, Section 1, *Student Text*, pages 366–370
- ▶ Chapter 14, Section 2, *Student Text*, pages 376–385

#### Part 1: Gambling

##### Materials

Part 1 uses the following materials for students:

- ▶ Handout 4-1, “The History and Economics of Gambling”
- ▶ Handout 4-2, “Economic Issues Surrounding \_\_\_\_\_”
- ▶ Handout 4-3, “Cost/Benefit Analysis of \_\_\_\_\_”
- ▶ Six index cards; label one for each of the six types of legal gambling: commercial casinos, tribal casinos, lotteries, pari-mutuels, convenience gambling/electronic gaming devices, Internet gambling. (*Alternative:* If students will be working individually, label enough index cards for each student to draw one; divide the number of students by six to get the number of cards for each type of gambling.)

In addition, students will need access to a library or the Internet to complete their research. The following Web sites are highly recommended:

- ▶ <http://www.emcp.net/gamblingcommission> (National Gambling Impact Study Commission) provides detailed background and economic information
- ▶ <http://www.emcp.net/statelocal> provides links to state government Web sites

##### Procedure

1. Begin your discussion by writing this definition of gambling, supplied by Wordnet, on the board:  
“The act of playing for stakes in the hope of winning (including the payment of a price for a chance to win a prize).”
2. Then ask the following questions (answers are given in parentheses):
  - a. What term is being defined? (gambling)
  - b. What opinions do you have about gambling? (answers will vary)

- c. What types of gambling are legal within our state and/or within the United States? (Answers for individual states will vary.) As students name types of gambling, help them categorize their answers on the board under the following headings:
- Commercial Casinos (such as Las Vegas, Atlantic City, and various riverboat gambling casinos)
  - Tribal Casinos (casinos that function on Indian reservations and are guided by different laws and regulations than commercial casinos)
  - Lotteries (state-run and multistate lotteries)
  - Pari-mutuels (combining of wagers into a common pool; used in horse racing, dog racing, jai alai, etc.)
  - Convenience Gambling and Electronic Gaming Devices (machines in convenience stores, gas stations, video poker, etc.)
  - Internet Gambling (wagering online)
3. Divide the class into six groups of students. Have each group draw an index card labeled with one of the six categories of gambling. That category will become the topic they will investigate. (*Alternative:* To work individually, students each draw their own index card.)
4. Distribute the three handouts. Handout 4-1, “The History and Economics of Gambling,” gives students some background on the subject as they begin their research. Explain that Handouts 4-2, “Economic Issues Surrounding \_\_\_\_\_,” and 4-3, “Cost/Benefit Analysis of \_\_\_\_\_,” are worksheets to help them investigate their category of gambling. They can begin by filling in the blank in the title of each handout with the category of gambling they drew. Handout 4-2 will help students organize the data on gambling so they can analyze it from an economic approach. There may not be completely right or wrong answers to Handout 4-2; however, students should be able to apply several economic principles in their analysis. The cost/benefit analysis of Handout 4-3 should reveal some basic economic principles. Encourage students to use the Internet or the library to complete their research. The Web site of the National Gambling Impact Study Commission at <http://www.emcp.net/gamblingcommission> is a good place to start.

## **Part 2: The Gambling Debate**

### **Materials**

Part 2 includes the following materials for students:

- ▶ Handouts 4-2 and 4-3, completed in Part 1 of this lesson
- ▶ Optional: Poster board or PowerPoint

### **Procedure**

1. Using the information they have gathered in Handouts 4-2 and 4-3, students will write a paper or create a PowerPoint presentation in which they argue either for or against the legalization of their category of gambling, regardless of what the current laws are. Handout 4-3 presents a visual they can use in making their presentation. You might want

to encourage students to make their cost/benefit analysis chart on a large poster board or as part of a PowerPoint presentation.

2. Arrange for students to make a presentation to prominent members of the community on the issue of legalized gambling. Include in the audience, if possible, the mayor, chief of police, clergy, members of the chamber of commerce, someone from Gamblers Anonymous. Ask the panel to comment on how persuasive the students' arguments were.

### **Sample Answers for Handout 4-2**

#### **Economic Issues Surrounding Lotteries**

Sample responses for State of Illinois lottery program

1. Is this form of gambling legal in my state?

[Lotteries are legal in most of the United States, including Illinois.]

2. How much revenue does my state get from taxes on gambling and how is it disbursed? (*Hint: Go to the Web site of your state and look at the most recent state budget.*)

[Schools receive the bulk of lottery revenues. Illinois lottery took in \$2.6 billion dollars in 2006. Schools received 6.71 million in lottery revenue.]

3. Identify the typical profile of this type gambler (age, sex, income level) if there is one.

[Persons with incomes less than \$10,000 spend more in lotteries than do those of any other income group. High School dropouts are four times more likely to play than college graduates. Blacks spend five times more than whites.]

4. How is this form of gambling advertised to the public? Television, radio, billboards? Write down some of the advertising.

[Illinois Web site says, "4 New Millionaires on St. Patrick's Day. Get your winning ticket before the person behind you does."]

5. In what way does the government regulate this form of gambling?

[The Illinois state department regulates odds and payouts. It also oversees to make sure corruption and organized crime do not get involved in this form of gambling.]

6. Define progressive, proportional, and regressive taxes. Which type does gambling tax represent?

[Progressive tax takes a greater percentage of income from wealthy people, proportional tax takes the same percentage of income from people regardless of income, and regressive tax takes a greater percentage of income from poorer people. Because poorer people are more likely to buy lottery tickets, it is a voluntary regressive tax.]

7. Define disposable income. If a person spends money on gambling, how does this affect their available money for other uses?

[Disposable income is the after-tax money people have to spend on goods and services. Because disposable income is a fixed amount, money spent on gambling cannot be spent on other goods and services.]

**8.** How does this type of gambling affect employment? What jobs are created by this type of gambling? Are any jobs lost because of this type of gambling, or are any businesses negatively affected by the opening of this type of gambling facility?

[Lotteries do not create a great deal of jobs. Some jobs are created within the state bureaucracy to regulate gambling. There are also public relations firms that the state may hire to promote and advertise lotteries. People are needed to maintain lottery Web sites, and private accounting firms oversee the operations. Those individuals whose gambling becomes compulsive may lose their jobs because of their habit. Or jobs may indirectly be lost because of less disposable income being spent on other areas that create more jobs.]

**9.** How does this type of gambling affect economic development and capital investment? Are opportunities for new businesses created in communities that adopt this type of gambling? Are existing businesses negatively affected by this type of gambling facility? (*Hint:* Note that some gambling ventures within the category you are researching may be more successful than others. For example, Las Vegas has seen a huge increase in visitors patronizing restaurants or shops, but do riverboat facilities attract the same type of growth?)

[It is much like was stated in question #8. Lotteries do not create a great deal of economic development or capital investment unless one considers what lottery winners do with their winnings.]

**10.** What are the negative effects of this type of gambling?

[Lotteries have many negative effects: They prey on the poor and disadvantaged. They are too easily accessible to young people even though this is illegal in every state. Lotteries promote a “get rich quick mentality” without a work ethic. They can be addictive and result in bankruptcy, divorce, even suicide. They can cost the state money to help those individuals who do become addicted. In some states, money earmarked for education from the budget may be unwisely spent in other areas because lottery revenue supports the schools.]

### Sample Answers for Handout 4-3

#### Cost/Benefit Analysis of Lotteries

Sample responses for state-run lotteries

#### Costs

1. Preys on poor people
2. Fixed amount of disposable income so money spent on lotteries is not

#### Benefits

1. Voluntary source of income for states
2. States do not have to raise income or sales tax. Very politically unpopular.

- spent elsewhere in the economy.
- |            |  |            |  |
|------------|--|------------|--|
| <b>3.</b>  | Gambling can become addictive and people will need state help and support.                     | <b>3.</b>  | State run and regulated; therefore less likely to be influenced by organized crime . |
| <b>4.</b>  | Although illegal for minors in every state, many youth admit to having bought lottery tickets. | <b>4.</b>  | Form of entertainment for most people  |
| <b>5.</b>  | Hidden emotional cost of addictive behavior: suicide and divorce.                              | <b>5.</b>  |  |
| <b>6.</b>  | Crime rate may go up.  | <b>6.</b>  |  |
| <b>7.</b>  | Reduction in state funding from general revenue for education.                                 | <b>7.</b>  |  |
| <b>8.</b>  |  | <b>8.</b>  |  |
| <b>9.</b>  |  | <b>9.</b>  |  |
| <b>10.</b> |  | <b>10.</b> |  |

Name: \_\_\_\_\_ Date: \_\_\_\_\_

## **Handout 4-1**

### **The History and Economics of Gambling**

Anthropologists trace gambling back to many ancient cultures. Evidence of dicelike artifacts have been found in gravesites of early Egyptians. The ancient Romans and Greeks were also known to engage in various types of gambling. Gambling has, of course, evolved throughout history. This lesson focuses on gambling in the United States.

The history of the United States is marked by waves of acceptance of gambling followed by periods of prohibition. During the colonial period, lotteries were used to finance roads and churches and were even used to build parts of the campuses of Harvard and Yale. In 1964 New Hampshire became the first state to legalize state lotteries after they had been prohibited in all states since the 1870s.

In 1987 the landmark Supreme Court case *California vs. Cabazon Band of Mission Indians* opened the floodgates for the growth of tribal casinos and the resulting proliferation in that sector of the gambling landscape. In essence, the court ruled that the states could not enforce any gaming laws or regulations on Indian reservations.

The 1980s and 1990s experienced a massive growth in the number of riverboat casinos, especially in the Midwestern states. This was a time when economic recessions were sweeping the country and the “rust belt” of the Midwest was very hard hit. States saw riverboat casinos as a means to increase state revenue without raising state taxes and to provide for economic growth and development in economically depressed communities.

The 1990s and beyond has seen the expansion in commercial destination casinos (Las Vegas and Atlantic City). “In Las Vegas alone, in 2003, the city’s hotels, restaurants, shops and clubs took in a record \$32.8 billion. Vegas is the fastest growing major U.S. city.” (*Time Magazine*, July 26, 2004).

What has sparked this tremendous increase and what does the future hold? Is gambling legal in your own community? If so, what types of gambling? Should it be legal? How are revenues from legalized gambling used? Who benefits? Who loses?

Congress appointed a federal commission to investigate the legal, social, and economic impact of gambling on federal, state, local, and Native American tribal governments and on communities and social institutions. Called the National Gambling Impact Study Commission (NGISC), the panel issued a report in 1999 that divided gambling into seven different types: commercial casinos, tribal casinos, lotteries, pari-mutuels, convenience gambling and stand-alone electronic gaming devices (EGDs), Internet gambling, and illegal gambling. Each of these forms of gambling affects individuals and states differently; thus, all gambling cannot be lumped together in evaluating the pros and cons of gambling.

Perhaps the newest and greatest area of concern to the NGISC is the rapid growth of Internet gambling, which takes place primarily overseas. Not only does this cause a **net outflow of money** from the United States, but also it prevents U.S. state and federal governments from regulating growth and controlling revenue from online gambling.

State governments that have earmarked **tax revenue** from gambling to go toward education do not necessarily increase their overall funding of education. Instead, the tax revenue from gambling may be used to reduce the amount of education spending from the general fund. While gambling can earn money for states, it comes at a price. The administrative cost of regulating gambling has to be viewed as a **hidden cost**. Furthermore, critics of gambling point to the social costs, primarily addiction, bankruptcy, and crime. Government addresses these problems by **paying for social programs and for crime prevention**.

Most economists would argue that individuals have only x amount of **disposable income**. If they choose to gamble, that is money not spent in other sectors of the economy; thus, they will buy fewer consumer goods, which generates less **sales tax** for states.

Most of the studies of gambling indicate that the cultural ethos of “get rich quick” tends to prey on the less advantaged members of society. With the advent of convenience gambling and state lotteries, one doesn’t have to go anywhere out of their way to gamble. Thus, the poorer members of society tend to spend a larger percent of their income on these forms of gambling. Gambling then becomes a **voluntary regressive tax** on the poor. States are especially active in running ads on radio, on television, and on billboards that hype the rising “pots” in lotteries. Yet state lotteries have one of the highest odds and lowest payoffs of all forms of gambling.

Many riverboat casinos, which are licensed to help improve depressed communities, have failed to improve local economies. People board the boat, spend their money on the boat, and fail to spread the wealth to local entrepreneurs, who do not benefit from the new industry. This scenario creates **business failures** and **unemployment**.

Of all the forms of gambling, destination casinos (primarily Las Vegas and Atlantic City) are probably the most economically productive. They do in fact create new jobs—restaurants, shops, hotels, and services all grow in these destinations. In this way, they create new **economic development** and **capital investment**. Casinos are an extension of the entertainment and leisure-time industry. The stock market reveals that many gaming industries have done well and have passed those profits on to stockholders.

Thus, a student of the economics of gambling must approach each type of gambling separately and evaluate the costs and benefits of each form based on the social and economic issues that revolve around it. A great place to start is to look at the National Gambling Impact Study of 1999 at <http://www.emcp.net/gamblingcommission>. From there, look for more recent information in various periodicals and newspapers as well as interviews with local gambling officials and concerned citizen groups. Be sure to ask your local school librarians for assistance as well.



7. Define disposable income. If a person spends money on gambling, how does this affect their available money for other uses?
  
8. How does this type of gambling affect employment? What jobs are created by this type of gambling? Are any jobs lost because of this type of gambling, or are any businesses negatively affected by the opening of this type of gambling facility?
  
9. How does this type of gambling affect economic development and capital investment? Are opportunities for new businesses created in communities that adopt this type of gambling? Are existing businesses negatively affected by this type of gambling facility? (*Hint:* Note that some gambling ventures within the category you are researching may be more successful than others. For example, Las Vegas has seen a huge increase in visitors patronizing restaurants or shops, but do riverboat facilities attract the same type of growth?)
  
10. What are the negative effects of this type of gambling?

Name: \_\_\_\_\_ Date: \_\_\_\_\_

**Handout 4-3**  
**Cost/Benefit Analysis of \_\_\_\_\_**  
**(fill in your form of gambling)**

**Costs**

**Benefits**

**1.**

**1.**

**2.**

**2.**

**3.**

**3.**

**4.**

**4.**

**5.**

**5.**

**6.**

**6.**

**7.**

**7.**

**8.**

**8.**

**9.**

**9.**

**10.**

**10.**