

Testimony of Timothy A. Kelly, Ph.D.
Executive Director
National Gambling Impact Study Commission

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Good morning Chairman Keffer and members of the House Ways and Means Committee. It is an honor to be here with you as deliberate the pros and cons of gambling.

I am Dr. Tim Kelly. I am an Associate Professor of Psychology at the Fuller Graduate School of Psychology in Pasadena, California, and I served as Commissioner for the Virginia Department of Mental Health from 1994-1997. More relevant to this hearing, I served as the Executive Director of the National Gambling Impact Study Commission which presented its ground-breaking report to Congress and the President in 1999. That report remains the most comprehensive and credible analysis of the economic and social impacts of gambling to this day, and I have provided an executive summary for each of you as well as a full report for the chair. I appreciate the invitation to be with you today and thank you for this opportunity to present the findings and recommendations the Gambling Commission made to Congress and the President. I strongly encourage each of you to consider heeding the Commission's conclusions on gambling expansion as you deliberate the broad array of gambling proposals currently on the table. Gambling expansion is always presented as a windfall for hungry state coffers, a particularly enticing argument in the face of revenue shortfalls. But as the Gambling Commission discovered, gambling expansion always comes with a heavy price – not the least of which is the broken lives and broken families of those who fall prey to gambling addiction.

It's hard to believe that only thirty-five years ago, gambling was illegal in most states and was generally considered to be a vice contrary to the American work ethic. Serious gamblers had to travel to Nevada for casino play, and the states had not yet plunged into lottery mania.

Of course, times have changed. Today there are over 800 casinos operating in 28 states, the lottery is played in 38 states plus the District of Columbia, and all but two states have legalized some form of gambling. Gambling expansion has swept the nation, with revenues jumping from about \$1 billion in 1980 to well over \$60 billion today. That means Americans lose on average over \$164 million dollars every day of the year from gambling. That often translates to catastrophic loss of savings, investments, family assets and homes. It is fair to ask whether the rush to legalized gambling we have witnessed constitutes good public policy, or exploitation of the public trust.

Such concerns about gambling's rapid rise and its economic and social impact on individuals and communities, as well as its corrupting effect on the political process, understandably drew Congressional attention.

In 1996 Congress created the National Gambling Impact Study Commission, charged with studying the economic and social impacts of legalized gambling in America. This was a bipartisan Commission whose nine Commissioners were appointed by either the President, the Speaker of the House, or the Senate Majority leader. In 1999 the Commission completed its unanimously-adopted report. The report contains 77 far-reaching recommendations for state and federal legislators, and perhaps most importantly, calls for a national moratorium on gambling expansion. (Please refer to page 47 of the executive summary, or page 1-8 in the full report.) This is especially noteworthy in light of the fact that four of the nine commissioners represented or endorsed the gambling industry. The purpose of a moratorium is to allow policymakers to demand more information – such as comprehensive and objective cost-benefit analyses – before moving ahead with new gambling initiatives that may not truly be in the public interest. Otherwise, what is typically presented is a “benefits analysis,” carefully shorn of any consideration of the costs of state-sponsored gambling.

I would like to first briefly review the Commission's history, then present six reasons why their recommendation for a moratorium on gambling expansion makes sense for Texas.

The National Gambling Impact Study Commission

The National Gambling Impact Study Commission, on which I served first as Research Director and later as Executive Director, met for two years and held 15 open public hearings all across America. We heard from hundreds of experts and thousands of individuals whose lives were impacted by gambling. We reviewed countless studies, and dedicated half our resources – about \$2.5 million – to original research on gambling's impacts. We contracted with the National Opinion Research Center (NORC) to run a national phone survey on gambling, and to survey gamblers as they exited gambling facilities. We contracted with national gambling experts such as Dr. Cook and Dr. Clotfelter from Duke University to study state lotteries. The goal was to produce a research-based report with recommendations that would be truly helpful for state and federal policymakers. By all accounts that was accomplished. The National Gambling Commission's report is far and away the most authoritative and comprehensive review of gambling impacts to date, and even includes two CDs filled with statistical data for interested researchers. The report helped spark a national dialogue on gambling policy that continues to this day. For the last six years, both state and federal legislators have relied heavily on the report's findings in order to evaluate the pros and cons of various gambling initiatives.

For my part, I had no strong views about gambling one way or the other when I took the job. But as I heard story after story about gambling's harmful effects on individuals, their

families, and their communities, I could not escape drawing the same conclusion that many of the commissioners reached: unfortunately, gambling destroys too many lives. For that reason, I strongly endorse the Commission's recommendation for a moratorium on gambling expansion, and offer the following six reasons for doing so.

Six Reasons for a Moratorium on Gambling Expansion in Texas

1. The Commission found that gambling comes with a high social cost - addiction.
 - A Harvard study estimates that 15.4 Million Americans already are suffering from problem and pathological gambling – also called gambling addiction – which is often devastating to the individual. That number could be multiplied several times if we include the serious negative consequences to family members, employers, and the general taxpaying public. The National Academies of Science, which was chartered by Congress to advise the Federal government, found that “pathological gamblers engage in destructive behaviors: they commit crimes, they run up large debts, they damage relationships with family and friends, and they kill themselves.” It is not unusual for a gambling addict to end up in bankruptcy, with a broken family, facing a criminal charge from his or her employer.
 - Youth introduced early to gambling are particularly at risk for gambling addiction, which often begins with lottery play. This can lead to tragic outcomes; one 16-year-old boy attempted suicide after losing \$6,000 on lottery tickets. In fact, if the nation continues its rush to expand lotteries and casinos, we can expect that America's youth will one day be experiencing gambling addiction at epidemic proportions. For our youth, gambling is no less a threat than smoking, and the gambling industry (state-sponsored and private-sector) may end up with equally costly liability.
 - The elderly are also at risk, with money and time to burn. Increasing numbers are bused to casinos, lose all or part of their savings, and find themselves turning into compulsive gamblers.
 - A NORC exit poll taken at casinos found that 31% of the patrons were problem or pathological gamblers. It is likely that these troubled patrons account for a great deal more than 31% of casino revenue, given their betting habits. Thus a large portion of casino revenue flows from the pockets of those least able to gamble responsibly.
 - Is this really an addiction? According to the American Psychiatric Association it has all the hallmarks of addiction: preoccupation, tolerance, withdrawal, escape, lying, loss of control, illegal acts. Also, recent MRI research has demonstrated that a person “high” on gambling experiences activity in the same area of the brain as a person “high” on drugs. Consider also gamblers who come to casinos in Depenz diapers so that they can gamble continually, or those who end up pawning the gold fillings from their teeth to try to win back losses. Such behaviors come from a very real addiction.
 - How quickly can it develop? Story after story recounts the heartbreak of a good person quickly succumbing to gambling addiction. Consider the story of

Debbie as reported to the gambling commission: She and her husband visited a new casino built near them in Black Hawk, CO, just for fun. The novelty soon wore off for her, but he started going four or five nights a week. Within three months of their first visit, Debbie learned that they would have to file for bankruptcy – her husband had lost close to \$40K. Even this did not stop her husband from gambling, and eventually they divorced. “The husband I divorced was not the husband I married,” she said, “He’s a total stranger to me. He became a liar, he became a cheat, he became engaged in criminal and illegal activities.”

2. The Commission found that gambling has hidden negative economic impacts.
 - Legalized gambling leads to increased costs to the state from bankruptcies, addiction treatment centers, and the penal system. NORC estimated that direct gambling costs born by the government are currently over \$6 billion per year (\$500 Million/month – money that could have gone to education or health care). That does not count indirect costs such as loss of productivity in the workplace, divorce consequences for the family, etc. It is reasonable to suggest that the more gambling a state offers, the more of these costs it must bear.
 - Gambling revenue comes from money that would otherwise have been spent at local businesses and services, and thus acts as a drain on the local economy. After all, the money has to come from somewhere. Instead of being spent on food, clothing or entertainment, it’s spent on gambling – often by those who can least afford it. Local businesses will find that their customer base shrinks as gambling expands, and consequently many will fail. Atlantic city is a textbook study of this phenomenon.

3. The National Gambling Commission, after hearing testimony from the pari-mutuel industry and others, recommended specifically against adding slots or VLTs to tracks in order to “save” the tracks economically or boost state coffers. The Commission concluded that adding slots to tracks is simply poor public policy.
 - Adding slots to tracks essentially creates quasi-casinos, which in many cases violates community expectations and/or zoning regulations. It crosses the line from horse racing to Vegas-style gambling, and brings with it the host of problems associated therein. After all, 80% of casino revenue comes from their slot machines. So what begins as an add-on to the tracks eventually becomes the main attraction and, like magic, a casino is born where once there was but a track.
 - Adding slots to tracks in a given county would impact other parts of the state as well since gamblers would come from “feeder communities” far beyond the county lines. Thus what appears to be a local issue actually has statewide economic and social impact.
 - For these reasons the National Gambling Commission recommended “that states should refuse to allow the introduction of casino-style gambling into pari-mutuel facilities for the primary purpose of saving a pari-mutuel facility that the

market has determined no longer serves the community or for the purpose of competing with other forms of gambling.”

4. Native American casinos in Texas will likely be approved by the federal government if any level III gambling is passed by the state legislature. This would apply both to industry casinos and to slots or VLTs at tracks.
 - In 1988 Congress passed the Indian Gaming Regulatory Act (IGRA), which allowed Native American Tribes to open casinos on their lands in order to fund tribal needs. Since that time over 260 Native American casinos have opened in 31 states. Once a state legalizes a specific form of gambling such as casino-style VLTs or other slot machines (whether on tracks or in casinos), it is virtually impossible to avoid entering into a compact with any recognized Native American Tribes desiring to offer that same form of gambling on their own land per IGRA.
 - Thus if Texas legalizes slots at the tracks or opens casinos, and if recognized Native American tribes lobby for a gambling compact with the Commonwealth, it is simply a matter of time until Native American casinos flourish throughout the state. Just look at what has happened in California as a case in point, a state that is awash in Native American Casinos with no way to turn back. And remember, per IGRA none of the profits of such casinos are taxable by either the state or federal government. Consequently, Texas could end up bearing the social and economic costs of gambling expansion without even the usual benefits.

5. The Commission found that state-sponsored gambling – such as lotteries and slots at tracks – preys on the poor.
 - The gambling commission hired Dr. Cook and Dr. Clotfelter from Duke University to analyze financial data that we required every state lottery commission to send us. Their findings demonstrated conclusively that lotteries function as an “astonishingly regressive tax” in that those who can afford it least tend to play the most, while benefits go to those who are better off. In other words, lotteries tend to take from the poor and give to the well off. This thesis was first put forward in Cook & Clotfelter’s classic book “Selling Hope,” and was soundly confirmed with the research they performed for the gambling commission.
 - Consider the following lottery statistics: The top 5% of players purchase 54% of tickets, spending on average \$3750/year. Those making over \$100K spend on average \$289/year, whereas those making less than \$10K spend on average \$597/year – over twice as much. These are the people you see lined up at convenience stores every payday, and who will wait in line for slots – people who can ill afford to waste their money. When wealthy lottery players are asked why they play, they typically say it’s “for fun,” but poor lottery players typically say it’s “for investment.” This is tragic, considering the actual outcome of “investing” in lottery tickets with 8 million to one odds. In fact, if the gambler invested that same \$597 per year in a mutual fund for forty years,

he would end up with significant savings instead of a pile of used lottery tickets. Similar personal tragedies can be expected with slots at tracks.

- States spend over \$400 million/year on advertising urging their citizens to play the lottery – more than on any other single message. The gambling commission required state lotteries to send us their advertising strategy and specific examples of ads, which we sent on to Duke University for analysis. Drs. Cook and Clotfelter found that much of it was misleading and deceptive, and too often targeted the poor. For example, a billboard in a poor neighborhood in Illinois once proclaimed, “Play the lottery – your ticket out of here.” Why? Because marketers know that with a little encouragement poor neighborhoods generate high demand for gambling. Is there any doubt that many of Texas’ poor will find their way to slots at the tracks as a result of heavy advertising? Is the exploitation of the poor warranted to close a budget deficit?

6. Gambling is associated with corruption of government.

- The gambling commission concluded that government tends to become a “dependent partner” to the gambling industry, since it becomes reliant on their vast funds and can be influenced by campaign contributions and program support. There are many examples of this occurring on both the state and federal levels
- On the federal level, legislation introduced by Sen. McCain in 2001 to close the loophole allowing betting on college sports in Nevada was put on hold indefinitely despite strong support. Such betting, according to the NCAA, puts student-athletes at risk for point shaving and other schemes – as has been reported in several college scandals. Although it was predicted that 75% of the senators would have supported the bill, the leadership on both sides of the aisle worked together to keep it from coming to the Senate floor for vote. Why? The gambling industry has fought the bill vigorously, and is among the highest contributors to campaign funds for both parties.
- On the state level, West Virginia’s Governor Wise was embarrassed a few years ago by the disclosure of a high-paying government job provided to a State Senator’s daughter. This occurred shortly after the Senator surprised colleagues by voting in support of the Governor’s video slots proposal – a vote that swung the outcome.
- In my view, this is perhaps the greatest danger inherent in legalized gambling – it’s pernicious ability to corrupt the political process. With so much money available for campaign and other contributions, it is just too easy for the gambling industry to influence policymakers.
- The gambling industry is apparently not run by the mob as it was in the days of “bugsy.” But there is a tendency for gambling proposals to come in with “muscle” in terms of aggressive, secretive, well-funded tactics that stretch the limits of what is legal and appropriate. Watch for this phenomenon whenever a new gambling initiative is put forward.

Conclusion

For these reasons, I believe that it makes sense for Texas to declare a moratorium on gambling expansion – as recommended by the National Gambling Commission. I recognize that fiscal pressures are great, but I have some questions for you to consider before voting out a gambling bill. Do you fully understand the effects of adding thousands of video slot machines to the state’s tracks, legalizing casinos, and opening the doors to Native American casinos? Have you done your due diligence to ensure that the public good will not be harmed? Have objective, comprehensive cost-benefit analyses (as opposed to industry-sponsored benefit-only analyses) been completed and presented for public discourse? If not, then I believe you are gambling with the lives of the people of Texas – especially the youth, the elderly, and the poor who will likely bear the brunt of gambling addiction. You may have found a way to generate short-term revenue, but it comes with long-term costs that are born by those least able to do so. And once any new form of gambling has taken root it is almost impossible to reverse that decision, since to do so would require de-funding whatever programs or patrons may have become dependent on those gambling moneys.

The explosion of various forms of gambling all across America has of course generated a great deal of revenue for states and certainly for the gambling industry. And in an era of budget shortfalls gambling schemes always seem like easy money with which to fill hungry state coffers. But as the Commission discovered, there is no easy money – not really, and gambling expansion has left a wake of misery, corruption, and hidden taxpayer costs that are only slowly beginning to be understood. So long as the misery of gambling addiction continues unabated, so long as the hidden social and economic costs of gambling are born by the taxpayer rather than the gambling industry, I believe you would do well to “say no” to gambling expansion in all its enticing forms. The National Gambling Commission concluded that that would be truly good public policy. Why? Because our communities, our families, and our youth are worth more than the easy money and false promises of the gambling industry.

Thank You.

Timothy A. Kelly, Ph.D.