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LEGALIZED GAMBLING IN THE
UNITED STATES

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TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Legalized Gambling in the United States: An Overview | 1 |
| Lotteries | 13 |
| The Pari-mutuel Betting System | 17 |
| Off-track Betting | 21 |
| Nevada's Experience | 22 |
| Legalized Gambling: Pros and Cons | 24 |
| Selected Bibliography | 27 |
| Appendix: State Lottery Mailing Addresses | 30 |

LEGALIZED GAMBLING IN THE UNITED STATE: AN OVERVIEW

Legalized gambling is not a novelty in the United States; it extends far back into the Nation's history. From early colonial times until the first quarter of the nineteenth century, legalized gambling existed in the form of the lottery. These lotteries were held to raise money for a wide variety of purposes. Benjamin Franklin sponsored a lottery to purchase a cannon for Philadelphia, while Thomas Jefferson sold some of his land by lottery to enhance his depleted fortune. The proceeds from a lottery secured the roof under which the first regular Congress of the United States held its sessions. A number of well-known universities, including Harvard College, have held lotteries to support themselves.

By the early part of the nineteenth century lotteries had become widespread in this country. However, about this time scandals and corruption in the administration of lotteries became quite prevalent. These unethical practices led to State and Federal legislation which abolished legalized lottery. By 1894, with the outlawing of the lottery in Louisiana, the last lottery of this period was held. This marked the death of the State-operated lottery until its revival by New Hampshire in 1963.

Since 1963, Connecticut, Delaware, Illinois, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania and Rhode Island established legalized State lotteries.

Betting on horse racing is regarded as the most popular form of legalized gambling in the United States.^{1/} Its existence dates back into history to about 1500 B.C. Though records are few and often contradictory, it is generally accepted that New York's first English governor, Colonel Richard Nicolls, founded the first race track in America in 1665.^{2/} However, betting on horse racing during this time was handled by bookmakers who usually determined the amount of each winning horse. Moreover, due to the inadequacies of existing regulations, horse racing was subject to a number of unfair betting practices, including the rigging of races by bookmakers. In 1933, an electrically controlled ticket-issuing machine was invented which greatly facilitated State and local regulation of the racing industry. Thereafter, State after State began legalizing pari-mutuel betting at race tracks. Pari-mutuel betting continues to be the most prevalent form of legalized gambling.

Today, more than one-half of the States permit pari-mutuel betting on horse and/or dog races. As of mid-1976, the States which allow pari-mutuel betting are: Alabama, Arizona, Arkansas, California, Colorado, Delaware, Florida, Idaho, Illinois, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oregon, Penn-

^{1/} Scarne, John. Scarne's Complete Guide to Gambling. New York, Simon & Schuster, 1961. p. 31.

^{2/} Ibid., p. 30.

sylvania, Rhode Island, South Dakota, Vermont, Washington, West Virginia, and Wyoming.

The first off-track betting legislation was passed in New York City in April 1970. The immediate impetus behind the bill was the need to provide the State with additional funds. Off-track betting now exists in three States: Nevada, Connecticut and New York.

In addition, a number of States have legalized bingo and similar games of chance. In most cases, these games are restricted to non-profit organizations to allow them to raise money for education, religious and civil purposes. Normally, the only State or local requirement is the payment of a nominal license fee. Among those States which permit such games are Alaska, Colorado, Connecticut, Delaware, Maine, Maryland, Minnesota, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, Ohio, Rhode Island, Vermont, Virginia, and Wyoming.

The numbers game is a multi-million dollar form of gambling long monopolized by the criminal underworld.^{1/} Confronted with the dilemma of rising costs on the one hand and increased opposition to higher taxes on the other, as of mid-1976, Connecticut, Michigan, Pennsylvania, New Hampshire, Rhode Island, New Jersey, Massachusetts and Maryland legalized this method of gambling. Unlike the regular lottery, the numbers game has the added attractions of enabling players to pick their own numbers, and in most instances of paying off immediately.

^{1/} Logan, Harold J. Maryland Begins Legal Bets on Numbers. Washington Post, July 15, 1976: A1.

It should also be noted that Florida, Nevada, Rhode Island and Connecticut have legalized wagering at jai alai frontons; and sports betting, a relatively new innovation, is presently legalized in Montana and Nevada. Finally, Nevada and New Jersey are the only States which allow the legal operation of gambling casinos. These casinos are privately owned and are subject to State regulation and supervision. The States of California, Iowa, Montana, Oregon and Washington allow gambling in the form of casino game cards (e.g., Las Vegas Nights at bingo functions) which can take place in certain types of commercial establishments specified by State law. Casino-type game cards are permitted in taverns, cocktail lounges and other similar establishments in the States mentioned above.

The various forms of gambling in the United States listed on a State-by-State basis are presented in Table 1.

Table 1

LEGALIZATION OF GAMBLING IN THE UNITED STATES

| State | State Lotteries | Legal State Numbers | Off-track Betting | Sports Betting | Casino Gambling | Horse Racing | Dog Racing | Jai Alai |
|----------------|-----------------|---------------------|-------------------|----------------|-----------------|-----------------|------------|----------|
| ALABAMA | - | - | - | - | - | - | Oper. | - |
| ALASKA | - | - | - | - | - | - | - | - |
| ARIZONA | - | - | - | - | - | Oper. | Oper. | - |
| ARKANSAS | - | - | - | - | - | Oper. | Oper. | - |
| CALIFORNIA | - | - | - | - | Cards | Oper. | - | - |
| COLORADO | - | - | - | - | - | Oper. | Oper. | - |
| CONNECTICUT | Oper. | Oper. | Oper. | - | - | Oper. | Oper. | Oper. |
| DELAWARE | Oper. | - | - | - | - | Oper. | - | - |
| FLORIDA | - | - | - | - | - | Oper. | Oper. | Oper. |
| GEORGIA | - | - | - | - | - | - | - | - |
| HAWAII | - | - | - | - | - | - | - | - |
| IDAHO | - | - | - | - | - | Oper. | - | - |
| ILLINOIS | Oper. | - | - | - | - | Oper. | - | - |
| INDIANA | - | - | - | - | - | - | - | - |
| IOWA | - | - | - | - | Cards | - | - | - |
| KANSAS | - | - | - | - | - | - | - | - |
| KENTUCKY | - | - | - | - | - | Oper. | - | - |
| LOUISIANA | - | - | - | - | - | Oper. | - | - |
| MAINE | Oper. | - | - | - | - | Oper. | - | - |
| MARYLAND | Oper. | Oper. | - | - | - | Oper. | - | - |
| MASSACHUSETTS | Oper. | Oper. | - | - | - | Oper. | Oper. | - |
| MICHIGAN | Oper. | Oper. | - | - | - | Oper. | - | - |
| MINNESOTA | - | - | - | - | - | - | - | - |
| MISSISSIPPI | - | - | - | - | - | - | - | - |
| MISSOURI | - | - | - | - | - | - | - | - |
| MONTANA | - | - | - | Oper. | Cards | Oper. <u>1/</u> | - | - |
| NEBRASKA | - | - | - | - | - | Oper. | - | - |
| NEVADA | - | Keno <u>2/</u> | Oper. | Oper. | Oper. | Oper. | Oper. | Oper. |
| NEW HAMPSHIRE | Oper. | Oper. | - | - | - | Oper. | Oper. | - |
| NEW JERSEY | Oper. | Oper. | - | - | Oper. | Oper. | - | - |
| NEW MEXICO | - | - | - | - | - | Oper. | - | - |
| NEW YORK | Oper. | - | Oper. | - | - | Oper. | - | - |
| NORTH CAROLINA | - | - | - | - | - | - | - | - |
| NORTH DAKOTA | - | - | - | - | - | - | - | - |
| OHIO | Oper. | - | - | - | - | Oper. | - | - |
| OKLAHOMA | - | - | - | - | - | - | - | - |
| OREGON | - | - | - | - | Oper. | Oper. | Oper. | - |

Table 1 (Cont.)

LEGALIZATION OF GAMBLING IN THE UNITED STATES (Cont.)

| State | State Lotteries | Legas State Numbers | Off-track Betting | Sports Betting | Casino Gambling | Horse Racing | Dog Racing | Jai Alai |
|----------------|-----------------|---------------------|-------------------|----------------|-----------------|-----------------|------------|----------|
| PENNSYLVANIA | Oper. | Oper. | - | - | - | Oper. | - | - |
| RHODE ISLAND | Oper. | Oper. | - | - | - | Oper. | - | Oper. |
| SOUTH CAROLINA | - | - | - | - | - | - | - | - |
| SOUTH DAKOTA | - | - | - | - | - | Oper. | Oper. | - |
| TENNESSEE | - | - | - | - | - | - | - | - |
| TEXAS | - | - | - | - | - | - | - | - |
| UTAH | - | - | - | - | - | - | - | - |
| VERMONT | - | - | - | - | - | Oper. | - | - |
| VIRGINIA | - | - | - | - | - | - | - | - |
| WASHINGTON | - | - | - | - | Cards | Oper. <u>3/</u> | - | - |
| WEST VIRGINIA | - | - | - | - | - | Oper. | - | - |
| WISCONSIN | - | - | - | - | - | - | - | - |
| WYOMING | - | - | - | - | - | Oper. | - | - |

1/ Legal trade stimulants including card games and sport pools on a local basis.

2/ A game resembling bingo.

3/ Legal trade stimulants including card games and punch boards on a local basis.

Note: Oper. - Indicates those States which allow for various forms of legalized gambling as specified at the top of the table.

Cards - The "Cards" notations under casino games in the table indicate that casino-type gambling with cards is allowed in certain public places (e.g., taverns, cocktail lounges, etc.) in the States indicated.

Source: Public Gaming Research Institute, 1976.

Table 2 on the following page shows by type the amounts derived from tax collections on wagering for each State given. Table 3 shows total taxes from wagering as a percent of total State tax revenue for fiscal year 1976. These data show that State tax revenues derived from legalized gambling, exclusive of lotteries, is relatively small, with the notable exception of Nevada and New Hampshire.^{1/} In the case of these two States, gambling revenues accounted for 31.5 and 9.2 percent of total tax collections, respectively. For the rest of the States which legalize certain forms of gambling, the percentage share of revenues obtained from such activity amounts to 2 percent or less. However, it should be noted that for some States these data understate the importance of gambling as a source of revenue since they do not include revenues obtained from State lotteries (see Table 2 for further explanation).

^{1/} Data also do not cover revenues derived from legalized numbers games which are in operation in nine States.

Table 2

STATE TAX COLLECTIONS DERIVED FROM WAGERING, *FISCAL YEAR 1976
(in thousands of dollars)

Gross Receipts

| | Pari-mutuels <u>1/</u> | Other <u>2/</u> | Licenses <u>3/</u> | Total |
|----------------|------------------------|-----------------|--------------------|-----------|
| Totals | \$719,250 | \$74,076 | \$23,777 | \$792,071 |
| Alabama | -- | -- | -- | -- |
| Alaska | -- | -- | -- | -- |
| Arizona | 6,697 | -- | -- | 6,697 |
| Arkansas | 11,290 | -- | 194 | 11,484 |
| California | 98,319 | -- | -- | 98,319 |
| Colorado | 6,685 | 119 | 78 | 6,882 |
| Connecticut | 8,530 | -- | -- | 8,530 |
| Delaware | 7,785 | 127 | 56 | 7,968 |
| Florida | 80,259 | -- | -- | 80,259 |
| Georgia | -- | -- | -- | -- |
| Hawaii | -- | -- | -- | -- |
| Idaho | 319 | -- | -- | 319 |
| Illinois | 72,234 | -- | 675 | 72,909 |
| Indiana | -- | -- | -- | -- |
| Iowa | -- | -- | -- | -- |
| Kansas | -- | 279 | 19 | 298 |
| Kentucky | 10,772 | -- | 379 | 11,151 |
| Louisiana | 10,489 | 185 | 112 | 10,786 |
| Maine | 1,301 | -- | 97 | 1,398 |
| Maryland | 20,445 | -- | 313 | 20,758 |
| Massachusetts | 34,265 | -- | 205 | 34,470 |
| Michigan | 27,901 | -- | 2 | 27,903 |
| Minnesota | -- | -- | -- | -- |
| Mississippi | -- | -- | -- | -- |
| Missouri | -- | -- | -- | -- |
| Montana | -- | -- | -- | -- |
| Nebraska | 5,170 | -- | 131 | 5,301 |
| Nevada | 187 | 72,398 | 19,897 | 92,482 |
| New Hampshire | 16,806 | -- | 37 | 16,843 |
| New Jersey | 34,336 | -- | -- | 34,336 |
| New Mexico | 2,030 | -- | 92 | 2,122 |
| New York | 180,314 | 862 | 279 | 181,455 |
| North Carolina | -- | -- | -- | -- |
| North Dakota | -- | -- | 63 | 63 |
| Ohio | 25,032 | -- | -- | -- |
| Oklahoma | -- | -- | -- | -- |

Table 2 (Cont.)

STATE TAX COLLECTIONS DERIVED FROM WAGERING, *FISCAL YEAR 1976 (Cont.)
(in thousands of dollars)

| | <u>Gross Receipts</u> | | | Total |
|----------------|---------------------------|--------------------|-----------------------|--------|
| | <u>1/</u> Pari-mutuels | <u>2/</u> Other | <u>3/</u> Licenses | |
| Oregon | 4,455 | -- | 393 | 4,848 |
| Pennsylvania | 27,027 | -- | -- | 27,027 |
| Rhode Island | 4,548 | 106 | -- | 4,654 |
| South Carolina | -- | -- | -- | -- |
| South Dakota | 1,681 | -- | -- | 1,681 |
| Tennessee | -- | -- | -- | -- |
| Texas | -- | -- | -- | -- |
| Utah | -- | -- | -- | -- |
| Vermont | 2,277 | -- | -- | 2,277 |
| Virginia | -- | -- | -- | -- |
| Washington | 5,273 | -- | 755 | 6,028 |
| West Virginia | 12,813 | -- | -- | 12,813 |
| Wisconsin | -- | -- | -- | -- |
| Wyoming | 10 | -- | -- | 10 |

* Does not include revenues from State lotteries. The Census Bureau classifies gross revenue from lottery operations less prizes as "miscellaneous general revenue." Most recent census data for fiscal year 1975 indicates \$402.4 million was received for State operations from this source. Proceeds for State purposes are as follows (millions of dollars): Connecticut - 10.6; Illinois - 63.0; Maine - 1.5; Maryland - 20.3; Massachusetts - 50.8; Michigan - 60.6; New Hampshire - 4.2; New Jersey - 31.1; New York - 52.1; Ohio - 53.0; Pennsylvania - 49.3; and Rhode Island - 5.9. Delaware suspended its operation in 1975; resumed operation in 1976.

1/ Measured by amounts wagered at race tracks including "breakage" collected by the Government.

2/ Taxes on admission charges or on gross receipts of race tracks, bingos, gambling, or casino entertainment.

3/ Licenses imposed specifically on race tracks and games of chance as a condition of doing business.

Table 3

STATE TAX COLLECTIONS DERIVED FROM WAGERING AS A PERCENT OF TOTAL
STATE REVENUES, FISCAL YEAR 1976
(thousands of dollars)

| | Total Taxes | Taxes on Wagering | Taxes on Wagering as a Percent of Total Taxes <u>1/</u> |
|----------------|--------------|----------------------|---|
| Totals | \$89,252,462 | \$817,103 | .9 |
| Alabama | 1,243,258 | -- | -- |
| Alaska | 598,807 | -- | -- |
| Arizona | 1,017,705 | 6,697 | .7 |
| Arkansas | 725,063 | 11,484 | 1.6 |
| California | 10,761,179 | 98,319 | .9 |
| Colorado | 964,444 | 6,882 | .7 |
| Connecticut | 1,263,832 | 8,530 | .7 |
| Delaware | 358,581 | 7,968 | 2.2 |
| Florida | 2,935,507 | 80,259 | 2.7 |
| Georgia | 1,678,396 | -- | -- |
| Hawaii | 639,234 | -- | -- |
| Idaho | 328,803 | 319 | .1 |
| Illinois | 4,782,867 | 72,909 | 1.5 |
| Indiana | 1,915,551 | -- | -- |
| Iowa | 1,199,507 | -- | -- |
| Kansas | 853,936 | 298 | .04 |
| Kentucky | 1,403,735 | 11,151 | .8 |
| Louisiana | 1,655,576 | 10,786 | .7 |
| Maine | 530,565 | 1,398 | .3 |
| Maryland | 1,959,804 | 20,758 | 1.1 |
| Massachusetts | 2,727,594 | 34,470 | 1.3 |
| Michigan | 3,769,464 | 27,903 | .7 |
| Minnesota | 2,218,888 | -- | -- |
| Mississippi | 874,172 | -- | -- |
| Missouri | 1,443,798 | -- | -- |
| Montana | 277,745 | -- | -- |
| Nebraska | 489,419 | 5,301 | 1.1 |
| Nevada | 293,921 | 92,482 | 32.0 |
| New Hampshire | 183,778 | 16,843 | 9.2 |
| New Jersey | 2,292,438 | 34,336 | 1.5 |
| New Mexico | 575,071 | 2,122 | .4 |
| New York | 9,780,069 | 181,455 | 1.9 |
| North Carolina | 2,059,825 | -- | -- |
| North Dakota | 287,376 | 63 | .02 |

Table 3 (Cont.)

STATE TAX COLLECTIONS DERIVED FROM WAGERING AS A PERCENT OF TOTAL
STATE TAX REVENUES, FISCAL YEAR 1976 (Cont.)
(thousands of dollars)

| | Total Taxes | Taxes on Wagering | Taxes on Wagering as a Percent of Total Taxes 1/ |
|----------------|-------------|-------------------|--|
| Ohio | 3,309,070 | 25,032 | .8 |
| Oklahoma | 1,000,218 | -- | -- |
| Oregon | 825,805 | 4,848 | .6 |
| Pennsylvania | 5,127,043 | 27,027 | .5 |
| Rhode Island | 388,739 | 4,654 | 1.2 |
| South Carolina | 1,042,485 | -- | 1.2 |
| South Dakota | 192,140 | 1,681 | .9 |
| Tennessee | 1,270,512 | -- | -- |
| Texas | 4,214,273 | -- | -- |
| Utah | 474,572 | -- | -- |
| Vermont | 205,293 | 2,277 | 1.1 |
| Virginia | 1,822,343 | -- | -- |
| Washington | 1,848,055 | 6,028 | .4 |
| West Virginia | 827,827 | 12,813 | 1.6 |
| Wisconsin | 2,421,077 | -- | -- |
| Wyoming | 193,102 | 10 | .01 |

1/ Percentages may not sum to 100 percent due to rounding.

Source: Bureau of Census. United States Department of Commerce, 1976.

It has been widely asserted that there is a close association between gambling and organized crime. This direct relationship has been verified and documented by the Kefauver Committee and similar investigative commissions and agencies. According to the 1951 Kefauver Committee Report:

Gambling profits are the principal support of big-time racketeering and gangsterism. These profits provide the financial resources whereby ordinary criminals are converted into big-time racketeers, political bosses, pseudo businessmen, and philanthropists. Thus, the \$2 horse bettor and the 5-cent number player are not only suckers because they are gambling against hopeless odds, but they also provided the moneys which enable underworld characters to undermine our institutions. 1/

Generally speaking, track betting has not been a cause for great alarm among those opposing gambling. This is in part due to the widely held view that regular track goers for the most part are people who can afford betting. Most criticism is directed toward lottery and off-track gambling proposals which greatly broaden the scope of gambling activities, thereby making them more readily available to individuals who can least afford to gamble.

The next section of this report examines, in more detail, some of the major forms of gambling in the United States. This is followed by a general survey of pro and con arguments on gambling.

1/ U.S. Congress. Senate. Special Committee to Investigate Organized Crime in Interstate Commerce. Third Interim Report of Special Committee to Investigate Organized Crime in Interstate Commerce, Senate. 81st Congress. New York, Arco Publishing Company, Inc., 1951, p. 2.

A bibliography consisting of books, documents and periodicals is included providing additional references on the subject.

Lotteries

Lotteries are legally being operated in thirteen States. Other States are actively investigating the feasibility of a lottery as a source of State revenue.

A lottery is a drawing of numbers of which prizes are distributed among persons in possession of winning numbers. They are controlled and operated by State governments. Though lotteries differ in their features, they all operate with an appointed commission with advisory responsibilities, and an executive director who is assisted by deputies and regional managers who are assigned various responsibilities in running day-to-day operations.

It has been noted that after the initial excitement and novelty wears off, receipts tend to drift downward. As a result, most States have had to resort to promotional efforts to maintain their sales level. These efforts are usually in the form of prize innovations, game format changes, and more intensive advertising campaigns; the last accounts for approximately one-third of total operating expenses.

The most significant game format change has been the "instant lottery." Instead of waiting for a weekly drawing, participants may become instant winners; winning anywhere from \$2 to \$10,000 in prizes.

The instant lottery has proven to be an overnight success in Pennsylvania.^{1/} Other States that have featured the instant lottery or are currently operating such a game are: Massachusetts, New Hampshire, New Jersey, Maine, Connecticut, Illinois, Michigan, Maryland and Delaware.

The instant lottery differs from State to State in appearance and theme. But for the most part, the States cited above have the same basic features in their games. First they are simple and easy to play. Secondly, most of the games provide for a \$2 minimum prize and nearly all of the games have a continuity feature that encourages the players to buy additional tickets. Such a feature, for example, can involve a letter on a stub of the ticket whereby the player saves the stubs in order to spell a certain word(s). All in all, the instant lottery has emerged as an important revenue generator in most of those States which have adopted this form of lottery.

^{1/} The Magazine of Public Gaming Research and Administration. Impact of the Instant Games on State Lotteries. Spring, 1976, p. 8.

Table 4

DATES OF OPERATION, GROSS AND NET REVENUES OF STATE OPERATED LOTTERIES
(in thousands)

| State | Dates of Operation | Total Gross Revenue | Total Net Revenue for the State 1/ |
|---------------|------------------------|------------------------|---|
| Connecticut | Feb. 1972 - June 1976 | \$54,594,213 | \$37,522,546 (approx.) (General revenue fund) |
| Maryland | May 1973 - June 1976 | 93,434,894 | 44,219,301 (approx.) (General revenue fund) |
| Massachusetts | April 1972 - June 1976 | 337,347,272 | 87,946,272 (approx.) (To cities and towns) |
| Michigan | Nov. 1972 - June 1976 | 374,234,820 | 171,662,003 (approx.) (General revenue fund) |
| New Hampshire | Mar. 1972 - June 1976 | 27,287,067 | 10,475,818 (approx.) (Public primary and secondary schools) |
| New Jersey | Jan. 1971 - June 1976 | 274,078,678 | 120,504,132 (approx.) (General revenue fund) |
| Pennsylvania | Mar. 1972 - June 1976 | 261,772,636 | 113,740,322 (approx.) (Property tax rebates, rental rebates and free urban transportation) |
| Illinois | July 1974 - June 1976 | 361,741,708 | 161,783,768 (approx.) (General revenue fund) |
| Maine | June 1974 - June 1976 | 15,968,684 | 5,607,749 (approx.) (General revenue fund) |
| Ohio | Aug. 1974 - June 1976 | 231,501,842 | 98,144,572 (approx.) (General revenue fund) |

Table 4 (Cont.)

DATES OF OPERATION, GROSS AND NET REVENUES OF STATES OPERATED LOTTERIES (Cont.)
(in thousands)

| <u>State</u> | <u>Dates of Operation</u> | <u>Total Gross Revenue</u> | <u>Total Net Revenue for the State 1/</u> |
|--------------|---------------------------------|----------------------------|--|
| Rhode Island | May 1974 - June 1976 | 32,667,399 | 13,398,409 (approx.) (General revenue fund) |
| Delaware | Nov. 1975 - June 1976 | 7,610,070 | 2,283,021 (approx.) (General revenue fund) |
| New York | June 1967 - Dec. 1976 <u>2/</u> | 189,711,791 | 29,620,305 (approx.) (Education) |

1/ This information was obtained directly from the participating States and from the Public Gaming Research Institute.

2/ Operation of the New York State Lottery was halted in October 1975, then resumed in September 1976.

As a result of the widespread growth of legalized lotteries among various States, Congress introduced legislation during the 93rd Congress to ease Federal restrictions which cast doubts about the legality of certain practices associated with the advertising and distribution of lotteries. Specifically, this legislation, which was enacted by both Houses of Congress in December 1974, would allow States to advertise lottery information--within their own boundaries--on radio, television and in publications sent through the mail. It was subsequently signed into law by the President on January 2, 1975. (P.L. 93-358).

The Pari-Mutuel Betting System

The pari-mutuel (Paris-mutuel) system was developed in Paris by Pierre Oller in 1865.^{1/} In the pari-mutuel system, tickets are sold on each horse in a race. The payoff price for each winning ticket is determined by the amount of money wagered on a winning horse in relation to the amount wagered on all the horses in the race. Under this system bettors wager against each other rather than against the bookmaker. The track and State receive a certain percentage of each winnings.

^{1/} Scarne, op. cit., p. 46.

At present the main proportion of State revenue derived from legalized gambling is from pari-mutuel betting. Table 5 on the following page shows State tax collections from this source in fiscal year 1976. The percentage share of total tax collections obtained by this means is also given for each State. As can be seen from this table, New York took in \$180,314,000 in pari-mutuel taxes, or 25.1 percent of the national total. Nevada, which has legalized most forms of gambling, received only \$187,000 in tax revenue from pari-mutuel taxes, or .03 percent of total revenues collected.^{1/}

^{1/} Bureau of Census. U.S. Department of Commerce, 1976.

Table 5

STATE TAX COLLECTIONS FROM PARI-MUTUEL RACING, 1976
(in thousands of dollars)

| State | | Percentage of Total Tax Collections |
|----------------|-----------|---|
| Arizona | \$6,697 | .7 |
| Arkansas | 11,290 | 1.6 |
| California | 98,319 | .9 |
| Colorado | 6,685 | .7 |
| Connecticut | 8,530 | .7 |
| Delaware | 7,785 | .2 |
| Florida | 80,259 | 2.7 |
| Idaho | 319 | .1 |
| Illinois | 72,234 | 1.5 |
| Kentucky | 10,772 | .8 |
| Louisiana | 10,489 | .6 |
| Maine | 1,301 | .3 |
| Maryland | 20,445 | 1.0 |
| Massachusetts | 34,265 | 1.3 |
| Michigan | 27,901 | .7 |
| Nebraska | 5,170 | 1.1 |
| Nevada | 187 | .06 |
| New Hampshire | 16,806 | 9.1 |
| New Jersey | 34,336 | 1.5 |
| New Mexico | 2,030 | .4 |
| New York | 180,314 | 1.8 |
| Ohio | 25,032 | .8 |
| Oregon | 4,455 | .5 |
| Pennsylvania | 27,027 | .5 |
| Rhode Island | 4,548 | 1.2 |
| South Dakota | 1,681 | .9 |
| Vermont | 2,277 | 1.1 |
| Washington | 5,273 | .3 |
| West Virginia | 12,813 | 1.6 |
| Wyoming | 10 | .01 |
| National Total | \$719,250 | 100.0 <u>1/</u> |

1/ Percentages may not sum to 100 percent due to rounding.

Source: Bureau of Census. United States Department of Commerce,
1976

In efforts to get more revenues from pari-mutuel betting, several States increased the percentage share of the State government's take on betting and the length of the racing season. However, while State revenues have increased steadily over the years in dollar terms, the overall increase in State revenues for the period 1967-70 was 23.4 percent while State revenues for the period 1971-75 was only 15.4 percent. Data showing trends for pari-mutuel betting during the period 1967-75 are given in Table 6 below.

Table 6

PARI-MUTUEL ATTENDANCE, TURNOVER AND REVENUES FOR ALL STATES
1967-75

| Year | Number of Racing Days | % Change over Prev. Yr. | Annual Total Attendance (In Thousands) | % Change over Prev. Yr. | Pari-mutuel Turnover (Mil. dol.) | % Change over Prev. Yr. | Rev. to States (Mil. dol.) | % Change over Prev. Yr. |
|------|-----------------------------|-------------------------------|--|-------------------------------|--|-------------------------------|----------------------------------|-------------------------------|
| 1967 | 8,621 | -- | 63,373 | -- | \$4,922 | -- | \$394 | -- |
| 1968 | 9,051 | 5.0 | 65,460 | 3.3 | 5,316 | 8.0 | 427 | 8.4 |
| 1969 | 9,539 | 5.4 | 68,099 | 4.0 | 5,723 | 7.6 | 461 | 8.0 |
| 1970 | 9,962 | 4.4 | 69,704 | 2.3 | 5,977 | 4.4 | 486 | 5.4 |
| 1971 | 10,792 | 8.3 | 73,619 | 5.6 | 6,350 | 6.2 | 508 | 4.5 |
| 1972 | 11,478 | 6.4 | 70,807 | -3.8 | 6,401 | .8 | 506 | -.4 |
| 1973 | 11,805 | 2.8 | 75,016 | 5.9 | 7,027 | 9.8 | 537 | 6.1 |
| 1974 | 12,233 | 3.6 | 75,800 | 1.0 | 7,374 | 4.9 | 542 | .9 |
| 1975 | 13,337 | 9.0 | 79,252 | 4.6 | 7,749 | 5.1 | 586 | 8.1 |

Source: Statistical Abstracts of the United States, 1970, 1976 Table 309, page 205 and Table no. 361, page 219, respectively.

Off-Track Betting

Betting on horse races is frequent not only at pari-mutuel windows but in other ways, particularly in cities and towns where no track is located. Off-track betting is legal in Nevada, New York and Connecticut. In Nevada, horse racing is a very minor part of the total gambling industry.^{1/} However, New York has made the most noteworthy effort to legalize off-track betting. Until 1970, New York only allowed pari-mutuel cash betting on-track. Because of widespread public support for legalizing off-track betting throughout the State, the legislature authorized extensive investigations on the feasibility aspects of gambling in the State of New York. On November 5, 1963, the City Council created a Citizens' Committee to study off-track betting. The Committee recommended in its final report that New York's system of legal off-track betting be operated by an independent public authority to be known as the New York City Racing Authority. Soon after a number of bills were introduced in both houses and thereafter either rejected or buried in committee. In 1969, Mayor John Lindsay testified before a joint legislature committee in Albany, New York, and proposed that legislation be introduced that would legalize off-track betting. Mayor Lindsay asserted that it "could produce significant revenue for the city and also enable us to combat with greater

^{1/} Kaplan, Lawrence and Loughrey, Leo. Ins and Outs of On-track and Off-track Betting. New York, Gould Publications, 1970, p. 15.

effectiveness the extensive illegal gambling system now operated by organized crime."^{1/} In April 1970, off-track betting became legal.

The major objectives for legalizing off-track betting are to: (1) provide a fraud-free service to the wagering public; (2) assist in maintaining the financial integrity of the racing industry; (3) increase the income of the racing industry; and (4) increase State revenues.

The Connecticut Off-Track Betting Service, which is operated as a Division of the Connecticut Commission on Special Revenue, has been in operation with 11 OTB parlors since April 29, 1976. Based largely upon betting on races in New York State, the off-track betting division handled about \$1.2 million per week in bets during May 1976. Approximately two-thirds of the betting was on thoroughbred races at the New York Racing Association's Belmont Park. The remaining third was on harness races at Yonkers and Roosevelt Raceways.

Nevada's Experience

Gambling became legal in Nevada in 1931, but it did not become an important industry until the late 1940's. After World War II large casinos opened up, and extensive evidence proved that organized

^{1/} Kovach, Bill. Mayor in Albany, Warns on Budget. New York Times, February 13, 1969: p. 1, 25.

crime moved into Nevada.^{1/} During this time the State government reportedly exercised little control in the area of law enforcement. Infiltration of organized crime grew to the extent that in the early 1950's the Department of Justice and the Kefauver Senate Subcommittee were prompted to conduct extensive investigations in Nevada's gaming industry and associated interstate commerce violations. In part due to these developments, Nevada came to the realization that if it did not gain effective control over its gaming industry, the Federal Government would intervene in a major way.

Today, gambling is Nevada's major industry which employs about one-third of its total work force. However, the Montana Board of Crime Control indicated that gambling in Nevada is essentially a seasonal industry dependant largely on tourism.^{2/} In 1976, according to the U.S. Department of Commerce statistics, Nevada's State government received \$92,482,000 in taxes from gambling and casino entertainment. This amounts to about 31.5 percent of total tax revenues collected by the State (\$293,921,000).

In addition to a variety of State and county taxes on gaming enterprises, the Federal Government taxes coin-operated gaming devices, requires bookmakers to buy wagering (occupational) stamps and levies a 2 percent wagering excise tax on bookmakers' gross handles.

^{1/} A Report on Gambling. Montana Board of Crime Control, March 1974: p. 21.

^{2/} Ibid., p. 22.

Legalized Gambling: Pros and Cons

Some of the more important arguments which have been used in support of legalized gambling are:

(1) Gambling is a natural and universal instinct which cannot be eradicated. Taking chances and assuming risks lie at the heart of the progress which our civilization has made. The stock market itself is no more than an institutionalized form of gambling. To pass laws prohibiting gambling is a relatively simple matter. However, to enforce these prohibitions is another thing. The widespread flouting of gambling laws by a substantial percentage of the American public is similar to the situation which existed respecting alcohol in the days of Prohibition. This experience should serve as a guide. Since prohibition of alcoholic beverages was a failure while regulation and control proved successful, a similar approach to gambling should be taken.

(2) Gambling is one of America's greatest pastimes. According to the Institute for Social Reserch, in 1974 almost two out of three Americans placed some kind of bet. Nearly half the population wagered over \$22.4 billion on commercial games: \$17 billion was bet legally and \$5 billion illegally. If betting were legalized on a nationwide basis, the Government would be able to reap substantial revenues from gambling profits.

(3) If gambling were legalized and the appropriate tax rates were applied, the net State revenue could reach a maximum of \$8.3 billion.^{1/} Revenues secured by State governments from gambling can be used to reduce the tax burden or as an alternative to increasing property, sales or income taxes.

(4) Gambling itself is not immoral; the immoral results are due to the undesirables engaged in this profession. Therefore, gambling in itself, poses no significant threat to a society.

(5) Because many States allow betting on lotteries, horses and dog races, all other forms of gambling should be allowed. The principle of all forms of gambling is the same--winning or losing based on chance.

Arguments which have been cited against legalized gambling are as follows:

(1) Gambling is a parasitic business, which is completely nonproductive in that it creates no wealth and performs no useful services. Legitimate enterprises survive because they are mutually advantageous to both operator and patron. On the other hand, the business of gambling--even when fraud and manipulation are not present--operates on a one-sided percentage basis which makes it impossible for the patrons as a class to derive any benefit. If this were not so,

^{1/} Institute for Social Research. Gambling in the United States. The University of Michigan. Summer 1976: p. 4.

the business would collapse. At best, gambling merely redistributes wealth from the possession of the many into the hands of the few.

(2) A large proportion of wealthy people participate in some form of gambling, and high-income gamblers wager more than low-income groups. However, the proportion of income attributed to gambling tends to decline as income rises. For this reason, taxes on gambling fall most heavily on poor people.

(3) Whether money is obtained directly by taxation or through taking part of the profits on gambling, the impact on the taxpayer is the same. Eventually, the money comes from the pockets of the taxpayers. If the State takes profits from gambling, this amounts to collecting greater taxes in the dishonest guise of a privileged license tax. The running of a State lottery is equally objectionable in that it is an expensive method of raising public funds. If revenue is really what is desired, a small increase in sales tax or income tax will produce more than the lottery will bring in.

(4) With legalized gambling an increase in the cost of law enforcement and public welfare can be expected. The cost associated with increased measures to prevent crime and corruption and to care for those who after falling victim to the gambling fever become public charges may equal or exceed the extra revenue brought in by gambling.

(5) It may be that gambling is a natural instinct. However, other natural instincts have traditionally been controlled in the interest of society.

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Appendix

State Lottery Mailing Addresses

DELAWARE

State Lottery Office
Post Office Box 666
Blue Hen Mall
Dover, Delaware
Acting Director - Mr. Fred R. Cleaver

OHIO

State Lottery Commission
University Circle Research Center
11001 Cedar Avenue
Cleveland, Ohio 44106
Director - Mr. Gerald J. Patronite

RHODE ISLAND

Rhode Island State Lottery
39 Warren Avenue
East Providence, Rhode Island 02914
Director - Major Peter J. O'Connell

CONNECTICUT

Connecticut State Lottery
1290 Silas Deane Highway
Weathersfield, Connecticut 06109
Director - Mr. John Winchester

NEW HAMPSHIRE

New Hampshire Sweepstakes Commission
125 North Main Street
Concord, New Hampshire 03301
Director - Mr. Edward J. Powers.

PENNSYLVANIA

Bureau of State Lottery
2850 Turnpike Industrial Drive
Turnpike Industrial Park
Middletown, Pennsylvania
Director - Mr. Lynn Nelson

MICHIGAN

Bureau of State Lottery
6545 Mercantile Way
Post Office Box 30023
Lansing, Michigan 48909
Commissioner - Mr. Gus Harrison

NEW YORK

New York State Lottery
Empire State Plaza
Swan Street Building Core #1
New York, New York
Director - Mr. John D. Quinn

MASSACHUSETTS

Massachusetts State Lottery
15 Rockdale Street
Braintree, Massachusetts 02184
Director - Dr. William E. Perraut

MAINE

Maine State Lottery Commission
151 Capital Street
Augusta, Maine 04330
Director - Mr. George Orestis

MARYLAND

Maryland State Lottery
The Rotunda Building
711 West 40th Street - Suite 350
Baltimore, Maryland 21211
Director - Mr. Stanley S. Fine

ILLINOIS

Illinois State Lottery
Post Office Box 4032
Springfield, Illinois 62708
Director - Mr. Ralph F. Batch

NEW JERSEY

New Jersey State Lottery
Tax Building - 3d Floor
State and Willow Streets
Trenton, New Jersey 08625
Director - Mr. Henry Luther

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