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Government AND THE Transformation OF THE Gaming Industry

Richard A. McGowan

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A ship in harbor is safe – but that’s not what ships are for.
John Shedd

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Preface

My first book on the gambling industry, entitled *State Lotteries and Legalized Gambling: Painless Revenue or Painful Mirage*, focused on the 30-year period between 1964 and 1993 that saw the sudden return and extraordinary growth of state lotteries in the US. During this period, state lotteries had become the largest segment of the $50 billion gambling industry (McGowan, 1994: p. x). But it was apparent that the heyday of the lottery was about to end. While lottery sales were still growing, the rate of growth had significantly declined. In fact, many observers were satisfied that this mini-boom in gambling activity was coming to an end and that gambling would be 'outlawed by 2029' (*New York Times*, 1993).

But in reality 1993 proved to be the last year when lotteries would be the largest segment of the gambling industry. It was apparent that the government's need for revenue that could be garnered from gambling had hardly been met. It was just a matter of time that 'in the future casino gambling, legalized sports gambling, off-track betting and video poker will dominate the gambling industry, in both percentage of income and number of players.' (McGowan, 1994: p. 160)

What I didn't realize when I wrote those words was that change had already taken place in 1994. Casino gambling would not only overtake the lottery in terms of sales and revenue, but would also fuel a virtual explosion in gambling activity throughout the US. Hence the reader should be aware that any predictions this book makes about the gambling industry may have a very short life cycle! So why another book on the gambling industry? Hasn't there been enough written about the industry by both anti-gambling and pro-gambling advocates?

Much like my previous work on gambling, this book will continue to examine both the economic and the political forces that are shaping the gambling industry as it enters the twenty-first century. While this goal is quite ambitious, it certainly makes the book unique. It will also give the reader a better understanding of how gambling firms formulate and implement the strategies that allow them to compete in an extremely competitive and turbulent industry environment. To accomplish this goal, the book is presented in three sections.

The first section of the book will focus on the historical and cultural forces that have shaped the current external environment that the gambling industry encounters in the US. The focus of this section will be on the attempt by the ‘gambling’ industry to transform itself into the ‘gaming’ industry. Critics often ridicule the gambling industry for using the term ‘game’ and dismiss this attempt as just a play on words. But how one defines a ‘game’ and whether this definition receives public acceptance has played a significant role in the current expansion of gambling activities, and will continue to be a force in determining the survival of the gambling industry.

The two types of games will be discussed, namely *agon* (games of skill) and *alea* (games of chance). The types of games that a society embraces have a significant impact on both the cultural and the moral development of a society. While no society plays merely one type of game, twenty-first century US society has seemingly taken to *alea*, games of chance, in a much greater fashion than previous generations. This development has had profound implications about the types of entertainment that Americans want and expect to find as they use their leisure dollars. It has permitted the gambling industry, particularly the casino industry, to enter into the mainstream of American entertainment. Hence this concept of game has changed the manner in which the various segments of the gambling industry compete for the gambling dollar, and also how they deal with public policy officials as they seek approval from public officials to expand gambling activities.

The second section of the book will focus on the economics of the gaming industry. As the gambling industry evolved into the gaming industry, the chief consequence of this transformation was that the industry became part of the ‘mainstream’ entertainment industry. This change has had a profound impact on both the structure of the gaming (gambling) industry and the strategies that firms utilize as they enter this new era of tolerated gaming. Each segment of the gaming industry (casino, lottery and *pari-mutuel*) has had to develop unique strategies in entering the entertainment industry. Obviously various firms (states in the case of lotteries) have formulated and implemented a variety of ways in which to compete in this new environment.

The political and social implications of gaming/gambling will be the focus of the third section of the book. A model that corresponds to Porter’s model of industry analysis will be developed that will flush out the major political and social issues facing the gaming industry (addiction, fairness and honesty). The positions of the major stakeholders (gaming industry, anti-gambling groups and government) will also be highlighted. In order to ascertain how regulation affects the gambling industry, an empirical study was conducted that examined the requirement to post the ‘odds’ of winning on lottery tickets and its effect on lottery sales. The final chapter focuses on how the gaming industry will change in the future. It also includes a series of recommendations that will help both the industry and public officials to institute policies that might mitigate some of the problems associated with gambling.

Acknowledgements

In June 2000, the 11th International Conference on Gambling and Risk-Taking took place appropriately enough in Las Vegas. For not only is Las Vegas the ‘capital’ of the gambling industry, it is also the symbol of the metamorphosis that took place in turning the gambling industry into the gaming industry. During the 1990s the city underwent a transformation from being perceived as a gambling den to a family entertainment center. Visitors now spend more time shopping and going to amusement parks than they spend in casinos. While attending this conference that assembled all of the leading scholars who analyse and examine this industry, one was struck by the variety of issues and interests that scholars now have when they study the gambling industry. Like that conference, I have a variety of organizations and individuals to thank for spurring my thinking about how and why this transformation took place.

First, I would like to thank various gaming industry representatives. In 1990, I began working with various officials of the Massachusetts Lottery Commission. Besides giving me access to enormous amounts of lottery data, my conversations with Lottery management have shed light on many strategic issues in the operation of a state lottery. Dean Hestermann, the head of public affairs for Harrah’s, has also provided me with an invaluable supply of newspaper and magazine articles that mention the gambling/gaming industry. His insights on how the industry deals with the public policy process have also been gratefully received.

For the past two years I have been a visiting scholar at the Division on Addictions at Harvard Medical School. Needless to say, this experience has given me a very different perspective on the addiction issue. The complexity that surrounds this issue makes the economics of gambling seem like child’s play. In particular, I would like to thank all the individuals who work for the Division on Addiction, namely: Howard Shaffer, Chrissy Thurmond, Matt Hall, Emily McNamarra and Gabe Eber. Besides their insightful comments on gambling addiction, they have been most understanding in helping me to finish this book.

I also wish to thank two colleagues and friends who have had to endure my ‘sermons’ on the gambling industry over the years. John Mahon has been a mentor, co-author and colleague for over 15 years. He constantly challenges me to take a different look at the various aspects from which one can view the gambling industry. Tim Brown provided assistance in helping me to understand the various legal and moral questions that plague the industry. There are, of course, numerous other colleagues who made comments and observations about gaming that have provoked me to shift gears while conducting the research for this book.

Finally, I would like to thank all of my Industrial and Social Policy students at Boston College. They have endured numerous case studies as well as stories about the gambling industry over the years. They have forced me to sharpen my thinking about the strategies that gambling firms have utilized as they attempt to deal with the economics and politics of gambling. Some even became interested in helping out with this research. In particular, I must thank Brian McLain, Todd Antico and Jon Raelin. Their research formed the basis for the casino industry chapter.

Of course, any deficiencies in this book are solely attributable to me. I hope that the readers will find the combination of both the economics and politics of the gambling industry to be helpful in trying to break down the social impact that gambling/gaming has had on American society. This book will hardly be the last word on gambling/gaming. It is my hope that future scholars will utilize this book as a starting point for their examinations of the various problems and issues that have made the gambling industry such a fascinating one to investigate.

PART I

From Gambling to Gaming

1. A brief history of US gambling

INTRODUCTION

In 1984, all forms of gambling (casinos, lotteries, *pari-mutuel* betting: the three segments of the gambling industry) accounted for less than $15 billion in revenues. In 1995, these gambling activities generated $55.3 billion in revenues, nearly a 400 per cent increase in 11 years. Gambling had become the largest component of the American entertainment industry. It had also become a means of salvation in terms of economic development for troubled urban areas ranging from Chicago to New Bedford, Massachusetts. But the multiple roles that gambling presently fulfils, namely a form of entertainment, a method of raising revenue for states and a measure that would provide economic relief for depressed areas, are hardly unique in American history.

There have been five waves of gambling activity that have occurred in US history. This introduction will attempt to place the current boom in gambling activity in an historical context. It is hoped that this brief review will enable the reader to gain some perspective on how this current boom in gambling (or gaming as the casino industry would prefer) compares with previous booms in gambling that have occurred throughout US history.

THE FIRST WAVE: STATE-SANCTIONED LOTTERIES (1607–1840s)

The first wave of gaming activity (1607–1840s) that occurred in the US began with the landing of the first settlers, but became much more widespread with the outbreak of the Revolutionary War. During this time, lotteries were the approved form of gambling. A few of these lotteries were sponsored by states to help finance their armies, but most lotteries were operated by non-profit making institutions such as colleges, local school systems and hospitals in order to finance building projects or needed capital improvements. For example, both Yale and Harvard (this rivalry started much earlier than football!) used lotteries to build their dormitories. In 1747, the Connecticut legislature gave Yale a license to raise £7 500 while Harvard waited until 1765 to win approval from the Massachusetts' legislature to conduct a lottery worth £3 200. It is interesting to note that Harvard's fund-raising lottery was much less successful than Yale's lottery. The primary reason for the failure of Harvard's lottery was that it had to compete with lotteries that were being operated to support troops which were fighting the French and Indian War. However, it certainly appears that Harvard has learned from its past mistakes, as the timing of its fund-raising activities has greatly improved! It should also be noted that during this wave of lottery activity, no state ever operated its own lottery. Private operators conducted lotteries. An organization or a worthy project such as the Erie Canal received permission from state legislatures to operate a lottery. The funds from the lottery were used to support the 'worthy' cause (Fleming, 1978: p. 32).

But these private operators of lotteries often proved to be less than honest in conducting these lotteries. One of the more famous lottery scandals occurred in Washington, DC. In 1823, Congress authorized a Grand National lottery in order to pay for improvements to the city. Tickets were sold and the drawing took place, but before anyone could collect their winnings, the private agent who organized the lottery for DC fled town. While the majority of winners accepted their fate with resignation, the winner of the $100 000 grand prize sued the government of District of Columbia and the Supreme Court ruled that DC had to pay the winner. It was a sober reminder to local officials that authorizing lotteries could be potentially dangerous, and the movement to ban lotteries had begun. From 1840 to 1860, all but two states prohibited lottery activity due to various scandals that occurred in the 1820s and 1830s. However, it would take less than 40 years for lotteries to once again explode on the national scene (ibid. p. 35).

THE SECOND WAVE: NATIONAL LOTTERIES (1860s–1890s)

With the conclusion of the Civil War, the South had to find some method to finance the construction of roads, bridges, school buildings and various other social capital projects due to the damage incurred during the Civil War. The victorious North was in no mood to provide for its defeated cousins, hence southern legislatures were desperate to raise revenues. One way to raise these sorely needed funds was to permit private operators to conduct lotteries in order to raise the revenue needed for reconstruction. The primary difference between this period of lottery activity and the previous period of lotteries is the scale of ticket sales. Whereas in the previous lottery boom sales of tickets were confined to local regions, these southern lotteries took on a national scope and ironically were particularly popular in the North. The most famous of these southern lotteries was the one conducted in Louisiana known as the Serpent. At the height of this lottery in the late 1880s, almost 50 per cent of all mail coming into New Orleans was connected with this lottery.

As was the case with the first wave of lottery activity, controversy surrounded this national lottery activity that eventually led to its banning by the Federal government. In 1890, the charter that authorized the running of the lottery in Louisiana was about to expire. The operators of the lottery bribed various state officials with offers of up to $100 000 to renew the Serpent's charter. The rather flagrant method that officials of the lottery employed to ensure that the Serpent's charter would be renewed was reported throughout the country. Various state legislatures passed resolutions calling on Congress and President Harrison to stop this lottery. There can be little doubt that what upset these legislatures most was the fact that out-of-states sales of Louisiana lottery tickets amounted to over $5 million per year. President Harrison urged Congress to pass legislation to curb all lottery activity. The primary piece of legislation that would cripple the Louisiana lottery was to deny the operators of the lottery the use of the federal mail. If customers could no longer mail in their requests for tickets, then the lottery's life would be short-lived. In late 1890, Congress banned the use of federal mails for lottery sales. By 1895, the Louisiana lottery had vanished and as the new century dawned, gaming activity in the US had ceased to exist. But, like a phoenix, lotteries as well as other forms of gaming would again be resurrected as governments searched for additional sources of revenue in the late twentieth century.

THE THIRD WAVE: THE GOLDEN AGE OF *PARI-MUTUEL* BETTING (1920–1964)

In the midst of the Prohibition era, a quiet revolution involving another 'sin' industry, gambling, was taking place. The two states, Kentucky and Maryland, which had the longest tradition of horse racing, decided to legalize wagering on horse races taking place in racetracks that had long and noble histories. Kentucky and Maryland sanctioned *pari-mutuel* betting for two reasons. First, these states were searching for a means to replace the excise tax revenues that were lost due to the imposition of Prohibition by the Federal government. Second, technology had been developed that permitted the advent of the *pari-mutuel* betting system, where the winners divide the total amount bet, after deducting management's expenses and state's taxes, in proportion to the sums that have been wagered individually. With the start of the Great Depression in 1929, numerous other states were also seeking any source of additional revenue. They were quick to follow the lead of Kentucky and Maryland in enacting legalized *pari-mutuel* betting. Since the 1920s, 45 states have legalized *pari-mutuel* betting with Alabama, Mississippi, Missouri, North Carolina and South

Carolina being the last ‘holdouts’. However, as we will see later, both Mississippi and Missouri have jumped on the gambling bandwagon in other ways.

What enabled these states to ‘legitimize’ *pari-mutuel* betting so easily and rapidly, especially during a time when another ‘sin’, alcohol, had been totally banned? Traditionally, racing – particularly horse racing – has sold itself as a sport, softening potential image problems caused by its association with gambling. Horse racing and other forms of racing, such as dog racing, are covered in the sports pages of most major newspapers and the ‘superstars’ of horse racing have appeared on the front cover of *Time* and *Sports Illustrated*. Racetracks such as Churchill Downs in Kentucky and Saratoga in upstate New York also emphasize the traditional pageantry associated with racing, such as parading the horses in the paddock, trumpeting the call to post and so on. Another factor that contributed to the ‘legitimacy’ of racing was that ‘honesty’ was assured, since some of America’s wealthiest families such as the Vanderbilts, the Whitneys, and the Rockefellers controlled the racing industry. All of these factors not only contributed to the legitimacy of racing, but have also made horse racing one of the biggest sports throughout the period from 1920 to 1960.

It also gave *pari-mutuel* betting a virtual monopoly on gambling activity in the US throughout the middle period of the twentieth century. The racing industry’s only competition was in Nevada, that had legalized casino gambling in 1930. However, Nevada’s lead was not followed by any other state. Nevada’s restoration of casino gambling was seen as an act of desperation by a state whose one industry, mining, had fallen on hard times. So, horse racing was not only the Sport of Kings but for the vast majority of the US population the only opportunity to place a friendly wager. But, like other monopolies, the racing industry would be plagued by an inability to respond to the public as it became bored with the only show in town.

THE FOURTH WAVE: STATE OPERATED LOTTERIES (1964–1993)

In 1964, New Hampshire voters approved the lottery, a form of gambling that had been utilized earlier in US history. The rationale used by proponents of the lottery to justify its legalization was strictly economic. Proceeds from the lottery were to fund education, thereby averting the enactment of either a sales or income tax for New Hampshire. The lottery was an instant success with 90 per cent of the lottery tickets being bought by out of state residents.

But this lesson was not lost on neighbouring north-eastern states. In the next ten years, every north-eastern state approved a lottery. Two rationales were used to justify the lottery activity in all these states:

1. People are going to gamble, so why shouldn't the state profit from this activity;
2. Neighbouring states were reaping benefits from constituents buying lottery tickets in those states, therefore the state needed to institute a lottery in order to keep the money 'home'.

One of the more interesting aspects of this surge of lottery activity is that these lotteries were operated by state agencies. They were not only state-sanctioned, but also operated by state governments.

However, the greatest growth of state lotteries occurred in the period between 1980 and 1990. During this time, 25 states not only approved lotteries but other additional forms of gambling such as off-track betting (OTB), keno (a type of high stakes bingo that is played every five minutes) and video poker machines (usually found in bars and restaurants). All of these new forms were meant to supplement the revenue capabilities of lotteries. By 1993, only two states (Utah and Hawaii) did not have some form of legalized gaming. Lotteries and associated forms of gaming had gained a social acceptance that had not occurred in previous waves of lottery activity.

Yet, this fourth wave of gambling activity is quite different from the ones that preceded it. There are four quite pronounced differences between this fourth wave and the three previous waves of gambling. First, there is the 'breadth' or the widespread use of gambling as a source of revenue for state governments. Thirty-eight states plus the District of Columbia sponsor lotteries. It is interesting to note that the South is the only section of the country which has so far withstood the lottery craze, but it is also the section of the country which spends the least amount of tax dollars on social and welfare projects.

Second, the 'depth' of gambling taking place is unprecedented. No longer is lottery play being confined to a monthly or even a weekly drawing. Most states are offering three types of lottery games. First, there is a daily number game. This game involves selecting a three- or four-digit number for a fixed amount prize. The second type of game goes under the general rubric of 'lotto'. These games involve picking six numbers from a possible 40 or 48 numbers. The game is usually played twice a week and jackpots can build up quite enormously, sometimes up to $90 million. The final lottery innovation was the 'instant' or scratch tickets. In all of these games, the players know immediately if they have won. Also, the odds and the size of the prize for these games can vary greatly. The other striking feature of this wave is the willingness of states to become engaged in other types of gambling activities such as keno, video poker or off-track betting.

The third difference between the fourth wave and previous waves of gambling activity involves both the state-authorization and the state-ownership of the lottery operations. In the previous waves of lottery activity, the actual operation of the lottery itself was given to private brokers. But in the current wave the state is the operator and sole beneficiary of lotteries. While some states such as Georgia, Nebraska, West Virginia, Maine and Texas have permitted private concerns such as Scientific Games and G-Tech to operate the instant game portion of their lotteries, the vast majority of lottery operations are conducted by the state itself.

State ownership and operation of lotteries certainly appears to be supported by the historical evidence given in this chapter. There can be little doubt that the downfall of the previous waves of lottery activity was due in great measure to the scandal-ridden operations of the private brokers who were commissioned by the state to operate the lotteries. However, even state-operated lotteries are hardly immune to abuse. Pennsylvania's lottery experienced a major scandal with its daily number drawing in the early 1980s when one was rigged by making some balls heavier than other balls, with the famous winning number 666.

The final difference between the fourth and the previous waves of gambling activity deals with the 'good causes' which lottery proceeds are used to support. In the previous waves, the good causes which lottery profits supported were one-time events. In the first and second waves, lottery proceeds supported the building of canals, water-works, bridges and highways. Once the good cause was complete, then the lottery ceased to exist. While the state needed the lottery to finance these projects, it did not depend on lottery proceeds to fund services which constituents expected the state to provide daily. In this fourth wave the good causes which lottery proceeds support are activities that the state has traditionally funded, and the public expects the state to continue to fund these activities. For example, many states such as California, Illinois, Florida and New Jersey use lottery proceeds to fund education. It should be noted that these funds are not supplements to build new schools and so on, but for the day-to-day operations of the schools. In other states, lottery proceeds are used to fund Medicare (Pennsylvania), to support police and fire departments in local communities (Massachusetts), as well as hosts of other day-to-day operations of government.

The present format of state lotteries is no longer a 'one-shot' affair. These lotteries must be able to provide the state with a consistent source of revenue in order to fund the various good causes that were given in order to justify the original approval of the lottery.

However, the vast majority of state lotteries have not been able to provide this consistent source of revenue. Lottery games have been subjected to what is known as the product life cycle, that is, sales increase at first but later the demand for lottery tickets gradually decreases. As we will see in Chapter 4, sales of daily number tickets have been declining in almost every state that is operating a lottery. This is true even in Massachusetts, which operates the most successful lottery in the US.

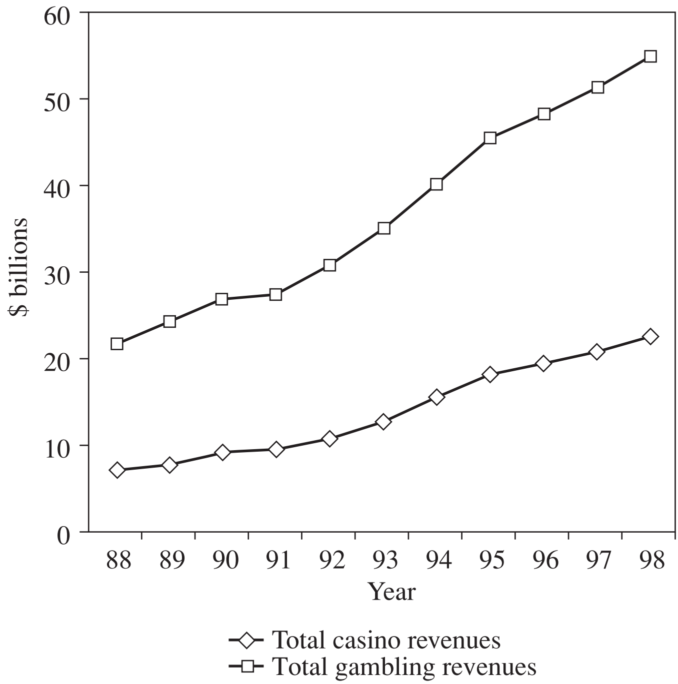
Meanwhile, lotto sales have been subject to 'jackpot fatigue' such that interest in lotto games can only be generated when jackpots exceed $25 million. In order to overcome this phenomenon, states have joined together in order to build jackpots more quickly. But clearly lotto games are not a consistent source of revenue for states. The one lottery game that seems to be able to achieve a slow increase in sales is the instant game segment, but this is of little consolation to legislators who need to find a source of revenue that can finance needed social services. It is precisely the inability of lotteries to provide the states with more and more revenue that causes them to turn to another form of gaming whose potential for revenue seems to be much more elastic, namely casino gambling.

THE FIFTH WAVE: THE TRIUMPH OF CASINO GAMING (1993–)

In 1993, for the first time in US gaming history, revenues for casino gaming were greater than those generated by lotteries. This occurrence heralded a remarkable turning point for the gambling industry. Casino gambling was now the preferred form of gaming in the US. It also marks a turning point on American acceptance of gambling as a legal source of entertainment. Finally, this development returns the control of gambling operations to private concerns, since the casino gaming operations are owned and operated by private corporations although they are certainly heavily regulated by the states.

Figure 1.1 shows that gambling revenue (the amount wagered minus the winnings returned to the players) has increased steadily. It also shows that it has been casino revenue that fueled this increase. In 1988, casino revenues accounted for 33 per cent of total gambling revenues while ten years later, casino revenues now accounted for 41 per cent of total gambling revenues. So while the other forms of gambling, namely *pari-mutuel* and lotteries, have achieved little or no growth during this period, casino gambling has grown enormously.

How did this expansion of casino gaming take place? There is a three-part explanation for this rise in casino gaming. First, during the late 1980s, the two 'traditional' markets for casino gambling, Las Vegas and Atlantic City, transformed themselves from strictly casino operations to 'family' oriented vacation centers. For example, in trying to renew its Las Vegas operations, MGM not



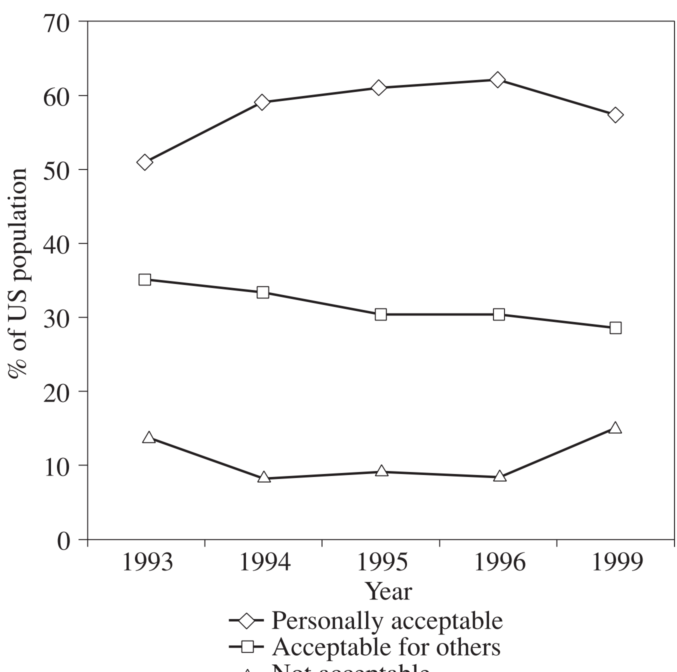
Source: American Gaming Association (1999)

Figure 1.1 Gambling revenues (1988–1998)

only renovated its casino operation but also built a theme park. In Atlantic City, casino operators were able to add hotel rooms as well as receiving relief from various regulations concerning their operations. The threat that Native American Gambling (Foxwoods) posed persuaded New Jersey legislators to protect its casino industry. Overall, these two locations experienced a 22 per cent increase in gaming revenues and a 24 per cent increase in visitors during the early 1990s (AGA, p. 1).

The other form of casino gambling that became popular in the 1990s was riverboat gambling. In 1989, Iowa was the first state to permit it, soon to be followed by Louisiana, Illinois, Indiana, Mississippi and Missouri. It is interesting to note that all of these states had lotteries except for Mississippi. Why this turn to riverboat gambling? Riverboat gambling was portrayed as a limited form of casino gambling. Players could only play for two hours at a time and for only a set amount of money. For example, in 1990, when Iowa established its riverboat gambling, the boats had to sail for two hours and patrons were only permitted to bring $500. After the boat docked, all the patrons had to leave the boat and new patrons were permitted to board for another cruise. Yet, as other states entered the riverboat gambling industry, these restrictions were gradually lifted so that virtually no restrictions remain.

The final source of casino revenues is the Indian casino gaming operations. In 1988, Congress passed the Indian Gaming Regulatory Act (IGRA) that permitted Indian tribes to develop casino and bingo parlors into major economic centers. By far the most successful of these Indian casinos has been Foxwoods in Connecticut, which is the world's largest casino generating nearly $800 million in 1995 (Harrah's, 1995). Revenues from Indian casino operations exceeded lottery revenues in 1995. This fact has not been lost on state legislators. Massachusetts, whose lottery contributes nearly $1 billion to state coffers, has entertained various proposals to set up a series of casinos throughout the state in order to compete with Foxwoods. California has recently permitted its Indian tribes to establish casinos throughout the state as a means of economic development for these tribes. It must also be pointed out that the casino interest



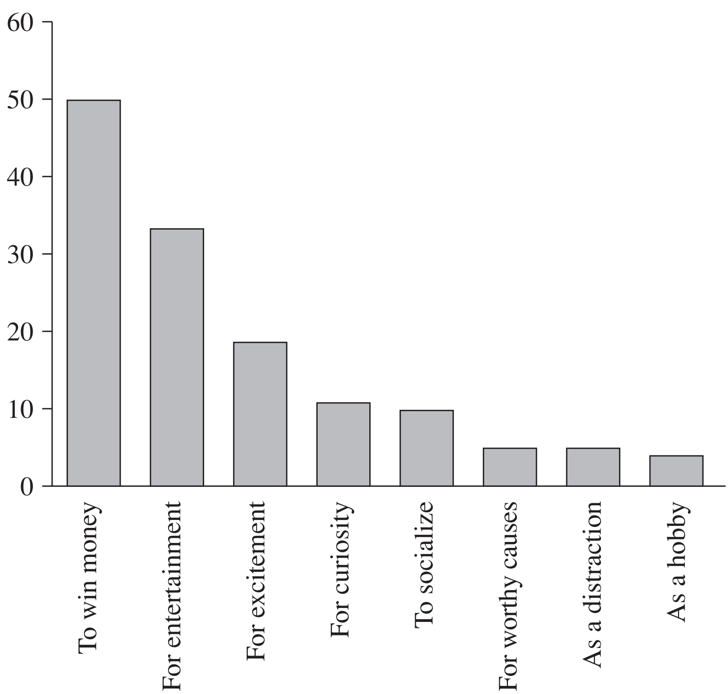
Source: Harrah's Entertainment (1999)

Figure 1.2 US acceptance of gambling

in Nevada vehemently opposed this measure by using a series of advertisements that warned Californians of the potential dangers that could result from casino gambling!

Casino gambling has clearly become the dominant force behind a virtual explosion of gambling activity in the US. Clearly gambling, and in particular casino gambling has become socially acceptable as Figure 1.2 amply demonstrates. Throughout the 1990s between 85 per cent to 90 per cent of the US adult population believed that gambling was an acceptable form of entertainment, while between 10 per cent to 15 per cent of the US adult population thought that it was an activity that government ought to outlaw or prohibit. Gambling had achieved 'legitimacy' as an activity and was now 'tolerated' by government because it was seen as a source of revenue and an engine of economic renewal for depressed areas.

Figure 1.3 illustrates the various reasons why people gamble. While 'winning money' is certainly to be expected, the next two most likely reasons for



Source: *The Wager*, Harvard Medical School, Division of Addictions, 17 March 1998.

Figure 1.3 Why people gamble

gambling, such as ‘entertainment’ and ‘excitement’, provide some interesting insights into why gambling has become acceptable, both socially and morally. Certainly winning money does not provide a reason why gambling has become a socially acceptable, even desirable activity to engage in.

The next chapter will examine why gambling has become socially and morally acceptable for the vast majority of Americans. It will focus on why the industry likes to refer to itself as the gaming industry rather than gambling industry. For some critics, this interchange between gambling and gaming is merely ‘a play on words’, or a matter of semantics. However, how a society defines ‘game’ could have some very interesting cultural and moral implications for that society.

2. From gambling to gaming: What's in a name

INTRODUCTION

Two conclusions can be drawn from the previous chapter about the current 'wave' of gambling activity. First, unlike the other previous waves that utilized either lotteries or *pari-mutuel* betting as the major source of revenues, the current wave of gambling activity is centered around casino gambling. The dramatic increase in casino gambling has fuelled the boom in gambling in every section of the US. Casinos are now operated in 27 states and for any American it is no more than a two-hour drive to a local casino (American Gaming Association, 1999). Second, the social acceptance of gambling by the US population is also unparalleled. In the previous wave of gambling activity, it was 'tolerated' as long as the 'good cause' needed to be funded. But public policy officials now seem to view gambling not as a necessary evil but, as an integral part of the entertainment industry. Currently, there are only three states without some form of legalized gambling (Utah, Hawaii and Tennessee). What changes have taken place in the moral and cultural traditions of the US that have enabled gambling to flourish?

Perhaps the answer to this question lies in how the gambling industry prefers to refer to itself in its various public forums, namely as the gaming industry. As gambling exploded throughout the 1990s, the casino industry established public interest groups that would represent its views to public policy officials. All of these organizations utilize the term 'gaming' rather than 'gambling' as they seek to curry the favour of public policy officials.

The primary organization that spearheads the gambling industry's public policy battles is called the American Gaming Association (AGA). The AGA in turn sponsors the National Center for Responsible Gaming. The suppliers to the gambling industries such as unionized workers, publishers, hotel workers and so on have established the Interactive Gaming Council (IGC). Meanwhile, the National Indian Gaming Association represents the 160 sovereign Indian nations as they seek to protect their gambling operations. The organizations that represent the other segments of the gambling industry (lotteries and *pari-mutuel* betting), such as the North American Association of State and Provincial

Lotteries and the National Thoroughbred Racing Association, also try to avoid any association with 'gambling'. Instead they highlight the 'fun' and 'entertainment' possibilities that they offer.

So, why is the term 'gaming' so preferable to 'gambling', both in the eyes of gambling officials and of public policy makers? In order to answer this question, there is a need to define what one means by a 'game', and what are the characteristics of the various types of games that we play. It will be argued later that the games that a society plays and permits are a reflection of the type of moral thinking that is prevalent for that society.

CHARACTERISTICS OF GAMES

How many times as a child did we hear the phrase 'It's only a game!'? Usually, it was reserved for someone who was taking the game 'too seriously', or taking a loss too personally. Every summer there are numerous reports of parents who have interfered with Little League games. A recent example occurred in the suburbs of Philadelphia. In this incident, the manager of a Little League team (a police officer!) paid his pitcher to hit the best hitter of an opposing team in the head. Unfortunately, the pitcher was successful and caused the hitter to be hospitalized. However, the pitcher felt such remorse over the incident that he told authorities about how he had been paid by his manager to aim at the head of the opposing player. The reaction to the previous example is summed up in the phrase 'Isn't it a shame that adults can't just let the kids play the game.' The emphasis on 'winning' at all costs is decried and there is a nostalgic yearning for simpler times when adults would not interfere in 'kids' games'. So what have these adults done that has violated our sense of a 'game'? Adults certainly regulate every other aspect of a child's life, so why shouldn't adults interfere in a child's game?

The objection to adult interference in games is that games are a special world where children are protected against the reality of the adult world. In fact, all games are construed to be occasions that operate outside the 'normal' world. What makes the world of a game so unique? It has been suggested by the French sociologist, Roger Caillois (1979), that the following three characteristics of a game are what separate games from 'reality'. These characteristics are:

1. A game must be voluntary.
2. A game must have boundaries.
3. A game must have uncertain outcomes.

Game: A Voluntary Activity

A game certainly must be defined as a free and voluntary activity. When one starts a game, it is presumed that the game will be a source of fun and amusement. If a person were forced to play a game, it would no longer be 'fun'. The entertainment value of the game would be lost. One plays a game only if and when one wishes to. In this sense, a game is a free or voluntary activity.

This desire to play a game is what makes the game entertaining. The quality of a game is judged by its ability to provide excitement and escape from the routine. This sense of freedom also extends to 'exiting' the game. A person playing a game has to be free to say 'I am not playing this game any more'. Finally, a game is something that creates neither goods nor wealth. It is an unproductive activity where participants play the game for the 'love of the game'. The 'thrill' of victory and the 'agony' of defeat are the chief emotions that describe participation in a game. That is the reason why sports purists dismiss professional athletics where the contest is played by paid professionals who no longer play for the 'love of the game'.

In the previous example concerning Little League, the manager was willing to do anything to 'win the game'. He was not allowing his players 'to be kids'. His players were not having 'fun' or, even more damning, were not playing the game for the 'love of the game'.

Game: Governed by Rules

A game is also an activity that is separate from the 'real' world. Games are isolated from the rest of life. Critics often disparage professional sports as 'men playing boys' games'. For what makes games different from the real world is that all games have precise limits of place and time. Players need a board for checkers and chess, or a racetrack, a field, a ring, a stadium and so on. To order him or her to leave the 'place' where the game is to be played is a way to disqualify the player from the game.

There are also boundaries placed on the time in which the game needs to be played. A game has definite starts and conclusions. Everyone playing the game has to follow the rules, or at least pretend that they are following the rules. In order to move the 'play' of a game along, all players agree to abide by the decisions of an umpire or referee. Every game is a restricted, closed and protected environment, very unlike the real world! Games provide their participants a certainty that the real world can never provide. To employ a person or thing that comes in from outside the ring or stadium is considered 'bad' sportsmanship, and usually disqualifies the player who brought in the outside influence.

Clearly, the manager who paid to have an opposing player hurt violated the rules of the game. Adults who inject themselves into a Little League game violate the 'enclosed' and 'protected' atmosphere that ought to characterize a game. Parents' behaviour towards umpires by constantly challenging the umpire's calls and even threatening them with violence, destroy the 'safe' and contained world that a game is designed to provide. Similarly, when parents badger the coach of a Little League to win at all costs or to play their son or daughter at various times, this is also an occasion when the 'sanctity' of the rules by which the game is operated are violated.

Game: An Uncertain Activity

The characteristic that keeps a player playing a game is the uncertainty of results. The old baseball maxim of 'you never know until the last out' explains this facet of a game. Games are stopped once the outcome is no longer in doubt. Every game of 'skill' involves the risk for the player to miss a shot, make a poor throw. The old adage of 'the thrill of victory and the agony of defeat' is what keeps a game exciting. If teams are unfairly matched, the game between these teams is boring and both players and spectators lose interest.

Even for 'unskilled' games such as lotteries or roulette, a player has to be assured that there is a possibility that the player can win or not win. The entertainment value of a lottery game or a card game rests with the ability of the player to believe or dream that every player has an equal chance of winning the game. Hence, there is a certain amount of 'trust' that the player of an unskilled game places in the operators of the game. If that trust is violated, then the game ceases to be played.

Once again, the manager in our Little League example violated this fundamental gaming principle. Clearly, the manager's wish to win at all costs is trying to remove 'uncertainty' for his players. When adults are accused of taking the fun out of the game, it is precisely because the adults want to rig the results. If there is no doubt as to the outcome of a game, then there is no joy or fun in playing the game. The child is also not free to enter or leave the game if he or she wishes.

While there are other characteristics of games, these three characteristics seem to be universally a part of every game. They also correspond to a player's conception of a 'fair' game. In other words, a game is considered fair if the following conditions are maintained:

1. The player is free to enter or leave a game.
2. The rules that govern the game are fair only if they apply to all players at all times.
3. The results of a game cannot be rigged before time.

These characteristics also point to the different types of games that are played. The next section will define and analyse the two major types of games.

TYPES OF GAMES: *AGON* AND *ALEA*

While there are many ways to classify games, the key concept that distinguishes games (especially those games that are part of gambling) is the amount and type of competition that surrounds the playing of the game. Games can not be played alone (all gambling games require competition, even solitaire is played against the 'house'). The amount of competition and skill that one needs to compete determines the type of gambling that the individual gambler wishes to engage in. It also determines the amount of entertainment or fun that players receive as they play a game. Hence games (especially gambling games) are classified in terms of whether the games involve 'skill' or 'luck'. Clearly there are gambling games that depend on both the skill of the player and luck of the draw. So, there will have to be some arbitrary assessment of whether there is more 'skill' or 'luck' involved in playing the game. In general, it can safely be asserted that the more competitive a game is, the more skill is involved in winning the game (for example, casino table games, *pari-mutuel* betting). Meanwhile, if there is little competition in a game between players (for example, lotteries, slot-machines), these types of games are said to rely on the 'luck of the draw'.

Agon: Games of Skill

Agon is the Greek word that forms the root word for agonist, a person involved in a struggle or competition. While this type of game is competitive, it needs to create an environment in which all of the competitors have an equal chance. The 'combatants' face each other under 'ideal' conditions so that the winner can claim almost unquestionable superiority. The winner of the game bases his or her triumph on superior speed, endurance, strength, memory, skill and so on. This is particularly true of sporting games. For example, in American football every team has the same number of players and plays by the same rules. It is the skill of the players as well as the planning of the coaches that is thought to make a difference to the outcome of a game. In general, the 'strategy' employed by coaches and the skill displayed by players are the qualities that are rewarded by those who play sports.

The point of an *agon* game is to reward and to recognize those who have been able to achieve superiority. That is why *agon* games presuppose 'sacrifice'. The person who plays these types of games needs to give sustained attention to the game, has to undergo appropriate training, and has to be willing to give up other activities in order to establish excellence in a given *agon* game. In general, *agon* games have a strategic element as well as a 'training' element to them. Both of these elements produce a sense of sacrifice. One plays an *agon* game to achieve a goal. This sense of sacrifice is one that certainly resonates with the American spirit and is certainly a part in producing a sports hero.

In terms of gambling, the *agon* games are horse racing, sports betting and the various table games such as blackjack, bridge, poker, even craps. These *agon* gambling games reward those who are willing to spend time in order to better one's chances of winning. One must study the habits of the horses, athletes and the trend of the cards or a wheel to ascertain where an 'advantage' can be achieved. Once these advantages have been discerned, then a 'strategy' can be developed and utilized to give the bettor a better chance of winning. The players are trying to reduce the element of luck so that through sacrifice they can develop a strategy that will ensure that they will win in the long run.

Alea: Games of Chance

Alea is the Latin name for games of chance. The Romans used this term to designate those games where the outcome is strictly outside the control of the player. Hence the outcome of an *alea* game is determined by fate rather than through any sort of competition. Fate is the sole arbitrator of winning, and the winner is the person most favored by fate. The player is entirely passive; he needs not deploy any resources, skill, physical effort or even intelligence. These games are considered 'fair' if the person is compensated exactly in proportion to the amount that the player risked.

Alea negates work and experience so these types of game are in direct contrast with *agon* games. Training oneself to become proficient in an *alea* game is wasted activity. *Alea* games are completely dependent on fate: you either win or lose completely. One magic moment grants the lucky player more than a lifetime of work or labour. Merit is something completely foreign to these types of games.

While money (betting) is certainly associated with *agon* games, it is secondary to the playing of the game (note the current controversy over permitting betting on US college athletic contests as if the 'purity' of the game would be violated). Meanwhile, the whole rationale for *alea* games revolves around money. Since these games abolish the natural or acquired differences between players, *alea* games give the weaker elements of society a chance to 'win big' or to be accepted by society because they have finally 'won'.

The attitude associated with an *alea* player is also completely opposite to that of a player of *agon*. The alea player is always looking for a sign or omen to signify a change in luck. He or she must be able to 'tolerate' whatever fate is dealt the player! Meanwhile, the *agon* player is willing to sacrifice both time and effort in order to influence the outcome of the game.

Certainly, it appears that the type of game that an individual plays indicates not only the psychological but also the moral makeup that governs an individual's life. The person who plays *agon* games is one who is willing to sacrifice in order to achieve excellence. Risk-taking would be another characteristic of the *agon* personality. The ability to sacrifice certainly requires that the person be willing to take a risk in order to obtain 'victory'. But the *agon* type of person is also one who has the tendency to become 'ideological'. The *agon* person is willing to use any means to achieve a goal. This ideological zeal can result in a self-righteous attitude towards those who might dare to disagree with the *agon* person. In general, the *agon* person is an individualist who values freedom over security and is willing to take a risk in order to preserve that freedom to pursue a goal or a dream.

Meanwhile, the *alea* person is one who values harmony. The *alea* type of personality is willing to tolerate, even celebrate differences in order to attain the consensus that is needed in order to achieve societal peace. The *alea* person is willing to exchange freedom for security. In general, risk-taking is frowned upon, getting 'ahead' at another person's expense. Community is the ultimate goal of the *alea* person and anything that prevents the individual from achieving the harmonious community is to be avoided. The *alea* individual can be construed as a conformist who is willing to tolerate and appreciate many different points of view.

While no person is completely *agon* or *alea*, these categories do represent a person's preference in dealing with risk. The same can be said of a society. In general, American society is perceived as rewarding the risk-taker while European countries seem to be much more concerned with building consensus. For example, the US is perceived as the champion of *laissez-faire* capitalism. The US firm that has achieved the greatest efficiency will receive the greatest rewards. Meanwhile Europeans appear to want to establish a 'middle-way' that will result in a society that values both equality as well as efficiency.

But this perception of Americans as risk-takers is certainly not confirmed if one examines American gambling habits. It has been estimated by Merrill Lynch (*The Gaming Industry*, 1999) that at least 70 per cent of casino floor space and 75 per cent of casino revenue are a result of patrons playing slot machines. So, if slot revenue is added to lottery sales, then it is easy to conclude that the vast majority of the gambling industry's revenues are a result of *alea* types of games. Americans are actually quite passive gamblers and view gambling as another source of passive entertainment. While Americans certainly have a fixation on celebrities (especially in the sports and film industries), stardom in these endeavors is attributed to fate rather than hard work or sacrifice. For example, Michael Jordan's success as a basketball player is portrayed as God-given talent that cannot be duplicated. But 'average' Americans who were not born to take part in the 'lifestyles of the rich and famous' hope to change their fate by betting on lotto games that entice the bettors with a prize of $200 million. However, the odds of winning the prize are 1 in 76 000 000. It appears that the majority of Americans no longer think that hard work can result in the American dream, but rather one must tempt the fickle finger of fate. This change in how the American dream is achieved has also caused a change in the basic ways that Americans make ethical decisions. It is the triumph of the Ethics of Tolerance over the Ethics of Sacrifice, and it is this change that has allowed the gambling industry to be so accepted by American society.

THE ETHICS OF SACRIFICE VERSUS THE ETHICS OF TOLERANCE

Ethics of Sacrifice

When sacrifice is used as a moral concept to advance the merits of a particular public policy issue, public policymakers must be able to persuade the public that it must give up some benefit or 'right' in order to achieve a noble goal or an end. While religious leaders can easily invoke the concept of 'sacrifice', political leaders can also employ it in times of great national crisis, especially in times of popular wars such as World War I or II. In terms of traditional ethical or moral categories, the Ethics of Sacrifice is teleological, that is, goal- or end-oriented. The goal is the 'common good' of society and the 'goodness' of any action is measured by what it contributes to maintaining the 'common good'.

In terms of public policy, the 'good end' is a harmonious society. While some might associate this type of ethical reasoning with 'conservative' policy makers, it actually has been used by both conservative and liberal thinkers to justify their stance on major public policy issues. 'Liberal' politicians such as John F. Kennedy certainly invoked the Ethics of Sacrifice with his famous phrase 'Ask not what your country can do for you; ask what you can do for your country!' In essence, those who utilize the Ethics of Sacrifice are asking the public to sublimate what is 'good' for the individual for the 'good' of all.

An interesting example of a public policy issue in which supporters invoked the Ethics of Sacrifice was Prohibition. Supporters of this total ban on alcohol consumption argued that the abuse of alcohol was a factor that led to the disintegration of many families throughout the US. So, in order to preserve the sanctity of the family, the right of a person to drink alcohol had to be 'sacrificed'. Society could no longer condone the waste of human life which could be attributed to alcohol. In the eyes of prohibitionists, the 'good' which was achieved through the establishment of Prohibition more than outweighed the right of an individual to drink alcoholic beverages. However, it soon became apparent that the majority of the public was not willing to make the sacrifice of avoiding the use of alcoholic beverages! Prohibition was repealed and this experiment of enforced sacrificial morality was abandoned. The categorical imperative of the Ethics of Sacrifice can be summarized as: an individual ought not to perform an action unless it contributes to the ‘common good’.

At its most extreme, those who invoke the Ethics of Sacrifice can be accused of employing the motto ‘The ends justify the means’. The individual’s ability to decide what is best for himself or herself needs to be subservient to the needs of the state. The good of the state overrides the rights and needs of the individual. This ethic is certainly the one under which the military and religious orders operate. However, when it is applied to a society with many diverse parts, it can have many disastrous consequences. One only needs to recall the Communist experience throughout the past five decades. Yet it is an ethic that calls forth what some would maintain is the noblest of human characteristics: the ability to give of oneself even if that giving is detrimental to that individual.

Ethics of Tolerance

One of the earliest virtues that every American schoolchild is taught is tolerance. In order to escape religious persecution in England, the Quakers settled in Pennsylvania and are celebrated in American history texts because they permitted everyone to practice their religious beliefs. In founding Maryland, Lord Baltimore also established freedom of religion, especially for persecuted English Catholics although this religious tolerance would be tested frequently throughout the Colonial period. The Pilgrims who settled Massachusetts were also trying to escape religious persecution. However, tolerance was not a Puritan virtue, as Roger Williams quickly found out when he was forced to flee Massachusetts to establish Rhode Island. While there have been difficulties throughout US history, in comparison to most societies ‘tolerance’ for different religions as well as different nationalities has been one of the hallmarks of American society.

Tolerance entails that no person has to sacrifice his basic freedoms in order to achieve some goal of public welfare or to preserve some institution. American society has to tolerate the ‘right’ of the individual to perform actions that might very well be destructive to that society as long as that right to perform those activities is guaranteed by law.

A recent example of where the Ethics of Tolerance has so far prevailed in the public policy forum is the gun control issue. Opponents of gun controls have used the Ethics of Tolerance as the basis of their moral public policy argument. They maintain that the right to bear arms has to be tolerated even if the majority of the nation wishes to put some limits on this right. Society has to tolerate the possible improper use of guns in order to uphold the rights of a minority who wish to have no limits on their ability to own guns.

The Ethics of Tolerance is based upon a noble American value and experiment, never to view a citizen as a means to achieve an end. Government exists to protect the individual's rights and must not coerce an individual to relinquish a right even for a good purpose. The categorical imperative of the Ethics of Tolerance can be summarized as: an individual ought to be able to perform any action as long as that action does not harm another person.

But, like most values, it also has its down side. At its worst, Ethics of Tolerance can promote a rather narrow, selfish focus on the individual with little regard to how individuals need to relate to one another in order to live in a society. For this glorification of the individual makes it quite difficult for society to be able to challenge the individual to make the sacrifices which are necessary so that everyone in that society can live in harmony.

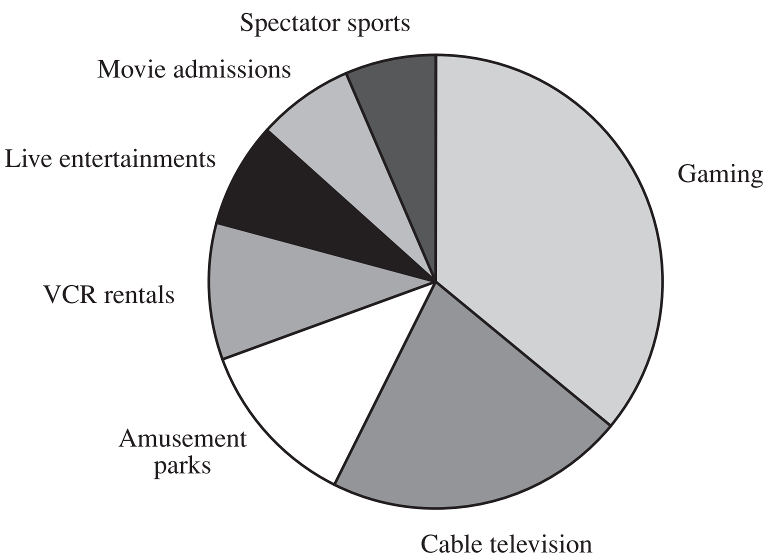
CONCLUSION

In terms of the gambling issue, the Ethics of Tolerance has certainly triumphed over the Ethics of Sacrifice. It was shown in Chapter 1 that acceptance for gambling has stabilized at about 85 per cent to 90 per cent of the American public. It appears that gambling is viewed as a 'private' activity that harms no one except the person who is gambling.

There are other examples of how the triumph of the Ethics of Tolerance has influenced public policy. The 'passive' smoking issue proved to be the Achilles heel for the cigarette industry. No longer could the cigarette industry claim that cigarette smoking was merely harming the individual smoker. With evidence mounting that the non-smoker was also being harmed by cigarette smoke, anti-smoking groups were able to apply the categorical imperative of the Ethics of Tolerance to force legislators to enact a series of anti-smoking laws (McGowan, 1995). In a similar vein, the alcohol industry has had to deal with the drunk-driving issue. The drunk-driver does not merely hurt himself or herself, but can kill innocent bystanders. Therefore, the majority of states have enacted tough new anti-drunk driving laws. One consequence of these laws has been a decrease in alcohol consumption (McGowan, 1997).

But in comparison with its other 'sin' industry cousins (tobacco and alcohol), the Ethics of Tolerance has been a blessing for the gambling industry. If a player is playing a game of chance and loses money, only the player is hurt and no innocent bystander is harmed by that gambler's action. Surely a person playing a game is in no position to harm another person? With the ascendance of the Ethics of Tolerance, gambling (gaming) becomes a legitimate form of entertainment that needs to be tolerated.

The Ethics of Tolerance has made the gambling industry's transformation into the gaming industry not only possible but also profitable. The gaming industry is now the largest segment of the overall American entertainment industry. The various segments of the entertainment industry account for the following percentage of the nearly $100 billion spent by Americans in 1999 on entertainment: gaming (36 per cent), cable television (22 per cent), amusement parks (12 per cent), VCR rentals (9 per cent), live entertainment (7 per cent), movie admissions (7 per cent) and spectator sports(7 per cent). These are illustrated in Figure 2.1. As the gambling industry has evolved into the gaming industry, it has had profound implications not only for the gambling and entertainment industries but also for American society as a whole.



Source: Adapted from US Bureau of Economic Analysis (1999)

Figure 2.1 Breakdown of US entertainment expenditures in 1999

It is these economic and political impacts that will be the focus of the next two chapters of this book. As gambling (gaming) became part of the 'mainstream' entertainment for the American public, each segment (casino, lotteries and *pari-mutuel*) of the gaming industry had to adjust to a very different market environment. These market changes resulted in a very different structure of the various segments. In order to deal with these structural changes, the firms (states) that comprised these gaming segments also had to develop different strategies (developing new games as well as marketing existing games) to deal with this new environment.

The gambling (gaming) industry is one that has always been highly regulated. Even with its new-found acceptance by the American public, the management of gaming enterprises is well aware that it will face new challenges as it attempts to solidify its political legitimacy. This legitimacy is in no small measure due to the industry's persistence in transforming itself into the 'gaming' industry, thereby enabling the industry to become part of the overall entertainment industry.

As was pointed out earlier in this chapter, a game has certain characteristics. If these characteristics are violated, then the concept of a game is violated. So if the industry would like to be judged as a game, it would be appear that public policy officials would be justified in holding the 'gaming' industry to the standards of what a game should be.

In fact, these characteristics correspond to the major public policy issues that confront the gaming (gambling) industry. The three issues and the corresponding 'game' characteristic are:

1. *The 'addiction' issue* is probably the most significant public policy issue confronting the gaming industry. This is especially true for the casino industry. If a player becomes addicted to a particular form of gambling, then that game is no longer voluntary. The player is no longer free to enter or exit whenever the player chooses.
2. *The 'fairness' issue* is one that confronts the lottery segment of the gaming industry. It actually involves two complaints that state lotteries are not 'fair'. First, the odds of winning are sometimes extremely small, but no mention of this is made by the lotteries. Second, the percentage of the jackpots that are returned to the bettors is significantly less than in other forms of gambling. Hence lotteries are often criticized as being 'unfair' to the bettors.
3. *The 'honesty' issue* has been always been the bane of the gambling industry. If bettors feel that gaming operations are 'rigged' against them, the reaction of public policy officials is usually to prohibit the playing of the game. As we saw earlier, this was certainly the case in all of the previous waves of gambling that have occurred in US history. Whether or not the current gambling wave can avoid the fate that previous waves had remains to be determined.

Part III will analyse how executives of the gaming industry and public policy officials are dealing with the above public policy issues. This discussion should be of great interest to those who are interested in how business and public policy interact and influence one another.

Part II will examine the various business strategies that the three segments of the gaming industry have developed as it becomes part of the entertainment industry. The first gaming business that will be analysed is the largest segment, namely the casino industry.

PART II

The Economics of the Gaming Industry

3. The segments of the casino industry: From gambling den to mega-resort

INTRODUCTION

Not long ago, to experience the allure of casino gambling in the United States one was required to make a trip to one of two (typically) distant locations – Las Vegas or Atlantic City. Over the past decade, however, this situation has changed drastically. With the increasing social acceptance of gambling, new locations for casino gambling have emerged across the nation, bringing this controversial attraction to nearly every region of the country. Not surprisingly, the competitive pressures that have resulted are placing considerable strain on America's traditional locations for casino gambling.

Another reason given for much of the growth in the gaming industry is the dire economic condition of some states in the early 1990s. States needed new revenues at a time when the public was unwilling to accept new tax measures. Drastically cutting state services was not a politically feasible option, either. State and local governments turned more and more to gaming in an effort to increase revenues. Lotteries had been the most public form of gambling, but a growing number of states and local governments resorted to casino gambling in order to raise money without having to do the politically unpopular act of raising taxes. In 1999, well over three hundred million tax dollars were paid to New Jersey by the gaming industry (Atlantic City Information Guide). Additionally, gaming would create more jobs and help reduce the rate of unemployment in economically depressed states. A phenomenon exists whereby legalizing gaming in one state causes some neighboring states to follow suit. Failure to do so would result in their residents' gambling dollars being spent across state lines, and the apparent loss of potential tax revenues is often enough to legalize gambling on their own turf. All of the above factors, along with the social acceptance of gambling, combined to spur a virtual explosion of gambling activities throughout the US. See Table 3.1 for the breakdown of the Casino Gaming Market.

The next section of this chapter will focus on the rise and growth of 'new' forms of gambling activities that have emerged during the 1990s, namely riverboats, Native American (Indian) casino gaming, electronic gaming devices (EGD), and the Internet gambling.

Table 3.1 Non-native American casino gaming market

Markets	*% of market*	*1999 Revenues*
Nevada	40%	$4 800 000 000
Atlantic City	22%	3 900 000 000
Mississippi	11%	2 000 000 000
Louisiana	7%	1 200 000 000
Illinois	6%	1 000 000 000
Indiana	5%	900 000 000
Missouri	4%	740 000 000
Colorado	3%	N.S.
Iowa	2%	440 000 000

Source: Adapted from *State of the States: The AGA Survey of Casino Entertainment*

ALTERNATIVE FORMS OF CASINO GAMBLING

Riverboat Gaming

'Riverboat casinos' have long been part of American folklore and their revival was meant to invoke a gentler and kinder form of gaming activity. It is simply a way to have organized gambling on a floating vessel. The term 'riverboat' includes both riverboat and dockside gaming. The difference is that while a riverboat is required to cruise for a set amount of time while gambling takes place, a dockside facility is moored to a dock and remains stationary (Talish, p. 75). Riverboat casino gambling was not available in the US until 1991 when the first boat set sail in Iowa. Since that time, the industry quickly spread throughout the Midwest and then it made its way down the Mississippi River to the capital of riverboat gaming, the state of Mississippi. By 1999, 79 riverboat casinos operated in six states and combined revenues of over $6.1 billion, an increase of 11.3 per cent from the previous year (AGA Survey of Casino Entertainment, p. 2). Table 3.2 shows the reported number of riverboats with their estimated 1999 revenues for six states that have legalized riverboat gaming.

Many believe that a city selected as the location of a riverboat is fortunate for its future economic benefit. Others do not believe that the benefits outweigh the costs of bringing gambling to society. One thing that is certain, however, that riverboat gambling has built a prominence in the gaming industry. But it also faces many difficulties that may inhibit an elevated level of growth. Some states still limit what a patron can lose on a cruise, although most states are lifting most of these restrictions. Often it is a riverboat's rural locations that make it difficult to attract high-stake gamblers, and adverse weather can cause damage to the boats or impede access to them (Talish, p. 75). Yet it is Mississippi's Tunica County (in a rural and poverty-ridden part of Mississippi) with its numerous riverboats that has led the way to Mississippi becoming the third largest casino market in the US. How riverboat casinos will fare in the future will hinge a great deal on how public policy makers in various states loosen restrictions on the boats, and whether these boats can provide the sort of entertainment that entices customers to return to gamble on the boats.

Table 3.2 US riverboat casinos

State	*Number of riverboats*	*1999 Gaming revenues*
Mississippi	31	\$2 010 million
Louisiana	11	\$1 245 million
Illinois	9	\$1 057 million
Indiana	8	\$920 million
Missouri	11	\$740 million
Iowa	9	\$440 million

Source: Adapted from *State of the States: The AGA Survey of Casino Entertainment*

Indian Gaming

With the passage of the Indian Gaming Regulatory Act in 1988, Native American tribes were granted permission to operate full-scale casinos on their reservations. The Act was in place to reduce the reliance of tribes on welfare and to promote economic development of Indian tribes. Of the 554 federally recognized tribes in the US, 146 have 'Class III' gambling facilities – a term used by the IGRA to describe casino gambling, as we know it. The Native American gambling market has achieved extraordinary growth since 1988 when its revenues totaled \$212 million. By 1997, revenues totaled \$6.7 billion for Indian gambling, while non-Indian gambling revenues were only \$20.5 billion. Despite the numbers, though, the 20 largest facilities accounted for more than half the Native American gambling revenues in 1997, and some tribes even operated money-losing casinos (NGISC, 2.9–2.10). Two of the most successful Class III Indian casinos are located in Connecticut – Foxwoods Casino and Mohegan Sun. Both enjoy a location that can draw people from New York City and Boston, and combined revenue for 1997 was approximately \$1.5 billion

(Talish, p. 112–113). However, the biggest opportunity for Indian gaming was approved in March 2000, when California voters approved the Davis Compact.

The Davis Compact (technically known as Proposition 1A of the March 2000 election) was placed on the California ballot by the California Legislature after extensive negotiations between the various California tribes and Governor Davis. The Davis Compact became a necessity when the California Supreme Court ruled that Proposition 5 (November 1999) was unconstitutional. Proposition 5 would have enabled recognized California tribes (41 out of 121 California Indian tribes are recognized by the US Federal Government as Indian Tribes) to offer casino-style gaming. It was ruled unconstitutional as a result of a provision in the law that authorized the California lottery that outlawed casino gambling in California. However, in the next election, the Davis Compact was passed overwhelmingly by California voters.

The Davis Compact gives recognized California Indian tribes exclusive rights to offer casino games for 20 years. The goal of the legislation is to make the various Indian tribes self-reliant. However, as part of the deal, these tribes will pay a certain percentage of their winnings on slot machines to the state of California. Obviously, the state will receive the maximum revenue from this source of revenue if the state permits the maximum number of slot machines (115 000) are operated in California (Dunstan, p. 2–3).

Time will tell how these California Indian casinos will affect Nevada casino operations. Clearly, it will be a major threat to the smaller Nevada markets such as Reno and Lake Tahoe. The other interesting angle to the opening of California to Indian casino gaming is the number of alliances and partnerships that will be formed between ‘traditional’ casino firms and the various tribes. Harrah’s, Station Casinos and Trump Casinos have already formed partnerships to operate casinos for various tribes in Northern and Southern California. This trend of forming alliances and partnerships will no doubt continue in the future.

But whether Indian gaming will continue to grow at its present pace is hard to determine. There appears to be a backlash to the operation of these Indian casinos developing in many states. In Connecticut, for example, there has been a concerted drive by local communities (near Foxwoods) to block additional purchases of land by Indian tribes to expand gaming operations. There have also been efforts to ‘decertify’ recognized Indian tribes since few of the tribal members actually live on the reservation or have recently returned to the reservation to take a part in gaming operations. In general, critics of Indian gaming maintain that the tribes no longer need casino gaming to be ‘self-reliant’ but instead they are growing rich on an artificial monopoly established by state governments. If Indian casinos are permitted, why not permit ‘private’ casinos in order to offer competition to the Indian casinos?

How the various Indian tribes and government handle the development of this issue will be an interesting one to observe in the near future. Another interesting aspect of this debate is the tug of war between states and the Federal government about which level of government ought to establish jurisdiction about gambling public policy.

Electronic Gaming Devices

'Is there money coming out of that video game,' you may ask? They look like video games, but they are actually stand-alone electronic gambling devices (EGDs). This includes legalized slot machines, video poker, video keno and the like in locations such as bars, convenience stores and racetracks. The Delaware racetracks are a notable example of a place that houses EGDs. An EGD is typically isolated in an awkward location, but operates just like the electronic games in casinos. These machines are open 24 hours a day and they do have a real presence in the US. In South Carolina for instance, where the largest number of EGDs is reported, about 7 500 separate establishments harbor video poker machines. The EGDs of South Carolina generated revenues of $2.5 billion in 1997 (NGISC, 2.4–2.5). The number of EGDs in six different states is reported in Table 3.3.

Table 3.3 Number of electronic gaming devices (EGDs)

State	*Reported number of machines*
Louisiana	15 000
Montana	17 397
Nevada	17 922
New Mexico	6 300
Oregon	8 848
South Carolina	34 000

Source: *Casino Player*, June 2000, 'Laugh Development' p. 49–50

With locations which are not often associated with gambling, and the opinion that EGDs provide few economic benefits (little investment in local community, no creation of worthy jobs), many would like to see more regulation on these 'convenience gaming' devices. For example, South Carolina outlawed the use of EGDs beginning 1 July 2000. It is a form of gaming that has little support within the gaming industry, and anti-gambling groups often refer to these machines as the 'crack-cocaine' of gambling. Hence the future of EGD seems to be at best quite uncertain.

Internet Gaming

There is no need to even walk out of your front door anymore if you want to gamble. Like many other Americans, you can simply turn on your personal computer and launch an Internet browser. Internet gambling was introduced during the summer of 1995 and has grown into an industry practically overnight. By May1998, the Internet offered about 90 on-line casinos. Exactly one year later, there were over 250 on-line casinos. Gambling in cyberspace produced an estimated $651 million in revenue during 1998 (NGISC, 2.15). With increased Internet access, increased Internet technologies, and the public's confidence in conducting financial transactions on-line, it seems rational to expect future increases in gambling volume. That is, if legislation does not pull the plug on it first. The Internet makes it increasingly challenging to prevent underage and pathological gambling. Like EGDs, few economic benefits arise from Internet gambling. Still, with many of the Internet gambling businesses operating offshore, preventing access to illegal sites will be difficult (O'Brien, p. 8). Again, as with the other forms of casino gaming, how regulators wish to deal with this form of gambling will greatly determine its future viability. Since state governments will be losing gaming revenue if this segment of casino gaming continues its growth, it appears that the Federal Government will increasingly put pressure on foreign government to outlaw this form of casino gambling.

So, how have all of these alternative forms of gambling affected the pioneer casino municipalities of Las Vegas and Atlantic City? They certainly have made business a bit more difficult to conduct. While riverboats (with the exception of Mississippi), the Internet, EGDs, and Indian casinos have not posed a significant economic threat to Nevada and Atlantic City, all offer an alternative to potential gamblers. There are gamblers who might choose to visit Dubuque, Iowa, or a nearby racetrack instead of flying all the way to Las Vegas. The next section of this chapter will describe the strategies that operators in Las Vegas and Atlantic City alike are making; these are sizable changes to preserve their status as a destination 'hot spot' and it will also be described how this 'entertainment' strategy has radically changed the structure of the casino gambling industry.

CREATING A 'MEGA' RESORT

Casinos in Las Vegas are shifting their focus. Giant 'super casinos' or mega-resorts have entered the picture, and while gambling is the basis of these giants, it has become only part of the total experience. These new complexes offer opportunities for the whole family. Las Vegas is no longer a place for mother and father to go alone and gamble – it is now a complete experience to which the whole family can come and enjoy themselves (Earley, p. 18). Operators are selling a total entertainment package and not just gambling. In 1989 and 1990, the huge Mirage hotel and the even larger Excalibur opened in Las Vegas. Rather than billing themselves as casinos, these two new hotels were presented as resorts that happened to offer casinos as one form of entertainment. The Mirage hotel has become a 'must-see' Polynesian-style attraction in the Nevada desert with a $31 million erupting volcano outside and a 20 000-gallon aquarium filled with exotic tropical fish. The Excalibur attempts to take guests back to an idyllic medieval time with costumed hosts and telephone operators telling guests to 'have a royal day' (Las Vegas Visitor Profile, www.vegas.com).

Other super casinos have been following this same course. The MGM Grand Hotel is the largest hotel and gambling casino in the world. In front, a seven-story lion guards the hotel. The hotel contains a 33-acre theme park with 12 major attractions plus a giant swimming complex. New mega-resorts continue to be built. An example is the $350 million New York–New York, which recreates the Statue of Liberty, the skyscrapers of the New York skyline, and the Coney Island roller-coaster. There is a Hard Rock Hotel, a spin-off of the Hard Rock Cafés, where gamblers can enjoy over $2 million in music memorabilia and around-the-clock rock and roll music.

In order to emphasize the changing nature of what they offer, Las Vegas hotel operators are using the term 'mega-resort' at an increasing rate. These mega-resorts are opening retail outlets in the hotels to offer visitors yet another opportunity to spend their money. Many of the newer tourists do not have the commitment to gamble that visitors a decade ago did, and shopping gives them the opportunity to purchase things they would buy on a visit to any other vacation spot, such as elegant clothing and jewellery. Additionally, Las Vegas is marketing itself as an even more worthy location for conventions and trade shows. Hotel rooms and meals in Las Vegas used to be cheap because the casino owners looked on food and lodging as just part of the business of getting people to bet their money in the casinos. Today, with many visitors spending less time in the casinos, more of the hotel and meal expenses have to be paid for by the tourists. As a result, hotels and meals cost more. Lodging and food in Las Vegas are now moderately priced – the $79 rooms are no longer the deal they once were. The famous low-priced buffets that used to cost just a few dollars may run in excess of $10 now (Earley, p. 18–22).

Not all casino operators are happy with the changing situation. They believe the main point of coming to Las Vegas is to gamble, and the new attractions and amusements distract visitors from the casinos. Still, those supporting the change note that these people could be somewhere else spending their money. 'Since they have come to Las Vegas, and many have never been exposed to gambling, savvy casino operators can draw them into the casinos and make gambling part of their entertainment' (O'Brien, p. 77).

Just how successful has this strategy been so far? The Las Vegas Convention and Visitor Authority has released its 1999 Las Vegas Visitor Profile Study. The study concluded that Las Vegas visitors are staying longer and spending more. Las Vegas has become a city where ironically there is almost too much to do and see in just a couple of days. Therefore it is not surprising the average length of stay has increased (please see Table 3.4) and the increase in rooms sold (11.6 per cent) is greater than the increase in the number of visitors (10.5 per cent) (Las Vegas Visitor Profile, vegas.com).

Table 3.4 Las Vegas visitors length of stay

	1998	*1999*	*% increase*
Visitors who stayed overnight	99%	99%	–
Average days stayed	4.3	4.7	9%
Average nights stayed	3.3	3.7	12%

Source: *Las Vegas Visitor Profile Study*

Las Vegas visitors are also spending more on both gaming and non-gaming activities. Table 3.5 analyses the breakdown of these increases for the typical Las Vegas visitor where the overall increase was 18 per cent.

Table 3.5 Las Vegas visitor spending

Trip averages	*1998*	*1999*	*% increase*
Gambling budget	469	559	19
Lodging	216	247	14
Food and drink	141	171	21
Shopping	80	88	10
Shows	28	34	21
Total	**934**	**1 099**	**18**

Source: *Las Vegas Visitor Profile Study*

However, Table 3.6 shows how successful this 'entertainment' strategy has been for the casino industry nationwide. Non-gaming revenues grew more than gaming revenues in 70 per cent of the major US gaming markets during

1999. So while gaming revenue grew by an impressive 12 per cent, non-gaming revenue grew 26 per cent, more than double the growth in gaming revenues. How has the industry and Las Vegas in particular been able to accomplish this feat?

Table 3.6 Gaming versus non-gaming revenue growth

	1999 % increase (decrease)	
Gaming market	*Gaming*	*Non-gaming*
Las Vegas	18	31
Laughlin	8	11
Reno	4	5
Mississippi Gulf Coast	27	46
Tunica	9	56
Kansas City	9	7
Atlantic City	4	6
Southern Indiana/Illinois	25	27
St. Louis	16	(5)
Lake Charles	1	13
Shreveport/Bossier City	7	(5)
New Orleans	9	67
Northern Illinois/Indiana	17	9
Total	**12**	**26**

Source Company reports

There are three factors that have contributed to the spectacular growth in non-gaming revenue. First, Las Vegas has evolved into a fine dining Mecca from a city primarily known for its cheap buffets. Of the 18 five-star restaurants in the US, two of them (Bellagio's Picasso and Mirage's Renoir) are located on the Las Vegas strip. The city's restaurants are now some of the 'must see' attractions, and visitors have expanded their food budget in expectation of enjoying true culinary delights.

While Las Vegas has always been known for stage production shows, these shows have become more elaborate and expensive over the past few years. Perhaps the epitome of Las Vegas entertainment is 'O' which is housed in a $100 million theater. In addition, both MGM Grand and Mandalay Bay have opened arenas that have hosted concerts by top stars such as Barbara Streisand and Elton John, and of course numerous boxing events.

But the factor that has contributed to this substantial growth in non-gaming revenue is the tremendous success of the Las Vegas Strip retail malls. Approximately 53 per cent of the visitors shopped while they were in Las Vegas in fiscal 1999. In 1999, the Forum Shops at Caesars averaged sales of $1222. This figure is almost four times the national average of $323. In fact, the 'high end' shops in the Via Bellagio generated even more revenue per square foot (Las Vegas Visitor Profile, www.vegas.com). This trend certainly appears to have momentum. The Desert Passage at Aladdin, opened in late 2000, has already leased 90 per cent of its shops. In addition, the Forum Shops at Caesar is planning a 240 000 square foot expansion while the Fashion Show Mall, north of Treasure Island, plans to double its size by 2004. Other casinos such as Mandalay have additional expansion plans for the future. So it certainly appears that retailing is a big part of Las Vegas' future. But just who is the consumer that these retailers have such fond hopes of extracting additional dollars from?

Table 3.7 displays the demographics of Las Vegas visitors. Half of these visitors come from the Western US with about a quarter coming from Southern California.

Table 3.7 Las Vegas visitor demographics in percentages (1999)

Male	47	Retired	28
Female	53	Average age	49.9 years
Household income		*Visitor origin*	
< $20 000	6	Eastern US[1]	10
$20 000–$39 999	18	Southern US[2]	12
$40 000–$59 999	22	Midwest US[3]	18
$60 000-$79 999	17	Southern CA	25
$80 000 >	22	Other Western[4]	23
No Answer	19	International	11

1 Includes CT, DE, DC, MD, MA, NH, NJ, NY, PA, RI, VT.
2 Includes AL, AK, FL, GA, KY, LA, MS, NC, OK, SC, TN, TX,VA, WV.
3 Includes IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI.
4 Includes AZ, Northern CA, CO, HI, ID, MT, NV, NM, UT,WA, WY.

Source: *Las Vegas Visitor Profile Study*

How has Atlantic City, the second largest gaming center in the US, reacted to this mega-resort mentality that has overtaken the casino industry? To combat the effects of external competition in Atlantic City, recent chairmen of the Casino Control Commission (CCC) have brought a less adversarial relationship than had previously existed between the CCC and the gambling industry.

They have introduced several major changes to improve the financial situation of the casinos. Gambling can now take place 24 hours a day. Additional space can be used for casinos, and more of that space can be used for more profitable slot machines. More and different types of games, such as keno and Caribbean stud poker, have been allowed. Simulcasting of horse races is now shown in the Atlantic City casinos. Also, the New Jersey legislature further deregulated gambling by permitting one person or company to own more than three casinos (such as Trump Taj Mahal, Trump Plaza, and Trump Castle) (O'Brien, p. 71–3).

During the middle part of the 1990s, a 'marketing war' began in Atlantic City. The current regulations attempt to:

> … limit the scope of advertising allowed by gambling facilities, but do not completely ban it. For example, casinos are allowed to advertise their restaurant and entertainment venues but not their gambling activities. (NGISC, 3.12–3.13)

Casino operators in Atlantic City recognized the loss of business to competitors, particularly the Native American casinos of Connecticut and the EGDs of Delaware racetracks. To regain market share, promotional spending seemed to be a viable answer. Casino hotels advertised at an increased rate and spent a lot of capital on customer initiatives. These included the provision of bus packages and/or complimentary rooms, meals and entertainment. Unfortunately, the low revenue growth could not offset the escalating promotional expenses, and a sharp decline in earnings had resulted for casino operators. The promotional enthusiasm is now fading, however, and expenses are beginning to decline (Talish, p. 57).

Atlantic City casino operators are catching on to the success of Las Vegas mega-resorts. In July 1997, the Las Vegas-style Wild Wild West casino opened along the Boardwalk and has attracted a lot of attention. A new convention center, the largest between New York City and Washington, DC, has been built in Atlantic City. The convention center will be tied to a new 500-room (non-gambling) hotel. A new airport has recently opened. A $225 million Corridor Project has widened and modified the approaches to the Boardwalk. The city has even signed a new minor league baseball team (*Atlantic City Information* Guide, p. 3).

While the changes in Atlantic City do not equal those occurring in Las Vegas, they are, nonetheless, significant. Furthermore, it is important to understand that Atlantic City is not Las Vegas. Las Vegas attracts visitors from all over the country and the world. Atlantic City is a regional attraction that draws visitors from the East Coast, and is often a day-trip destination. It has gambling, a boardwalk, and a beach that can attract easterners for a vacation weekend. Few people, however, are going to fly in from Paris or San Francisco to tour

Atlantic City. As a result, comparisons between the two gambling centers should be made carefully.

Clearly, the casino industry has gone well beyond merely providing the potential customer with a menu to play slot machines or various table games. It is also quite apparent that this new entertainment or mega-resort strategy is one that demands a great deal of financial resources. The next section of this chapter will analyse how the structure of the casino industry has had to undergo a radical transformation in order to acquire the funds necessary to fuel the building of these mega-resorts.

THE CASINO FIRMS

The casino industry has been moving in one general direction lately, and that is towards consolidation. The big continue to get bigger, while the competition tries to keep up, and in many cases, if you can't beat them, join them. An industry consolidates, for two reasons: first there is a mature market that needs to be 'rationalized'; and second, economies of scale enable firms to successfully compete in the industry. In the case of the casino industry both factors seem to be operative.

The industry has seen the large capitalization companies increase their size and widen the gap between the small capitalization companies more and more. They continue to grow by acquiring more existing casino locations and building new casinos and resorts. A group of large capitalized companies have emerged as the powers for future casino growth and development. New mergers and acquisitions in the industry have created increasingly large companies for the rest of the casino markets to compete. In order to understand the situation, these companies must be examined in terms of their growth and their strategies in completing this growth. The race for 'market share' in the industry has created front runners who continue to grow and build. Mirage Resorts, MGM Grand, Park Place Entertainment, Harrah's Entertainment Inc., Circus Circus Enterprises, and Trump Hotels and Casinos Inc. are a few of the companies that have been pushing to become the leaders in this highly competitive race to the top.

In order to show this trend clearly, each company and their growth strategies will be analysed. Recent acquisitions will be examined as well as financial performance for each firm. Finally, there will be an evaluation of the firm's strategy both for the short and long run.

Mirage Resorts

Mirage Resorts has become one of the leading developers of casino based resorts. Steve Wynn, Mirage's CEO, has been portrayed as the maverick of the casino industry. By early 1999, Mirage's casino holdings included: The Mirage, Treasure Island, a 50 per cent interest in the Monte Carlo Resort & Casino; and the Golden Nugget and Golden Nugget–Laughlin hotels. The Mirage is their largest casino resort, and ranks first in operating income in the state of Nevada. Treasure Island is located next to the Mirage, also one of the most profitable resorts in Nevada. The Golden Nugget is the largest hotel in downtown Las Vegas, while the Golden Nugget–Laughlin is relatively small and is located south of Las Vegas. Mirage continues to expand and develop. They have opened the Bellagio resort, a $1.6 billion dollar resort on the Las Vegas Strip, and The Beau Rivage, a $600 million resort, opened in July 1999 in Biloxi, Mississippi. These resorts have been carefully planned and are hoping to utilize the experience of the existing prominent resorts as a guide for future success. Although Mirage is constructing new resorts, Mirage had to utilize its cash flow to maintain and improve upon its existing resorts. Mirage recently had record numbers in operating income and in earnings-per-share in an increasingly competitive market.

But Mirage had to increase its debt levels substantially for the construction of its new resorts. Wynn still considered Mirage's debt levels to be low in comparison to its earnings. Mirage expected that the cash flow from the Bellagio and the Beau Rivage would be able to finance the interest on this debt. This cash flow would also have to be able to finance any other future construction and expansion. In October 1998, Mirage Resorts made agreements with the State of New Jersey and with state agencies for construction of highway improvements in Atlantic City, which are vital for Mirage to build a resort in the Marina District. Mirage completed the acquisition of 125 acres from the City of Atlantic City and is planning future expansion in the city. Mirage's plans for growth continued in December 1998, when Mirage reached an agreement to obtain Boardwalk Casino, Inc. Boardwalk operates an hotel casino on the strip in Las Vegas that is located between the Bellagio and Monte Carlo resorts. This acquisition enabled Mirage to obtain 42 acres on which Mirage can increase its development. Mirage Resorts had taken the strategy of increasing its market share through acquisition and construction (www.mirageresorts.com).

There is little doubt that Mirage Resorts is the casino firm that has shaped the landscape of what is now called the gaming industry. However, its growth strategy by acquisition could not be sustained. The debt that Mirage accumulated with its expansion has indeed overwhelmed Mr. Wynn. Much to the relief of stockholders, Wynn accepted MGM Grand's offer of $4.4 billion for Mirage. It will be MGM's turn to determine whether or not this growth by acquisition strategy can be successfully implemented in the casino industry.

MGM Grand

MGM Grand has now become the power in the casino industry. With its acquisition of Mirage, MGM Grand became the dominant player in the national destination market of Las Vegas, and a significant player in another national destination market – Atlantic City. It is the dominant player in the newly opened Detroit casino market. MGM owns and operates the MGM Grand Hotel and Casino in Las Vegas. MGM also has holdings in Australia, the MGM Grand Diamond Beach Hotel and Casino, and has a 50 per cent interest in the New York–New York Hotel and Casino in Las Vegas. MGM has expanded its properties, worked on a cost containment program and has improved the depth of its management team. It has posted strong results in the first quarter of 2000 as a result of the changes that it made (www.prnewswire.com).

In December 1998, MGM began its growth strategy with the acquisition of Primadonna Resorts, Inc. Primadonna Resorts owns three hotel-casino resorts in Primm, Nevada, and two championship golf courses in California. Primadonna's shareholders received about 9.5 million shares of MGM Grand common stock (*Travel Agent*, 1998). It then successfully opened MGM Grand Detroit which consists of a casino with about 73 000 square feet, 2300 slot machines and 80 table games, and restaurants and bars. Development plans called for it to be a temporary facility for four years, while an $800 million hotel and gaming complex was debuted. The acquisition of Primadonna and the new Detroit casino have expanded MGM's operations and will diversify revenues further strengthening its balance sheet. In general, MGM has undertaken a strategy that allows it to dominate a particular market by offering the best in hotel and entertainment facilities.

Park Place Entertainment

Park Place Entertainment has become the largest casino gaming entity as measured by the square footage of their casinos and revenue. It includes the brand names of Bally's Casinos, Conrad International Hotels, Flamingo Hotels, Grand Casinos and Hilton Casinos. Park Place is the only casino-gaming company to build a significant presence in all three of the largest gaming markets in the US: Nevada, New Jersey and Mississippi. It was created in a merger with Hilton Hotels gambling division and Grand Casinos three Mississippi resorts on 31 December 1998. This merger created a worldwide company with 18 casinos, 23 000 hotel rooms and 1.4 million square feet of gambling space. Park Place Entertainment also holds resorts in Australia and Uruguay. This merged company created $650 million in cash flow last year. This merger forced Hilton Hotels to split up into two companies, as a hotel and casino company. Hilton will now be a hotel brand name, with 260 upscale hotels in the US. Grand Casinos would then spin off its American Indian casino management company into the Lakes Gaming company. Hilton would buy the three Mississippi resorts from Grand Casinos for $1.2 billion, which includes $650 million in stock and the assumption of $550 million in debt. Steve Bollenbach would remain as President and Chief Executive Officer of Hilton Hotels and would serve as Chairman of Park Place. Arthur Goldberg would become the CEO of Park Place Entertainment after heading Hilton's casino division *(Biloxi Sun Herald*, 1998, p. 42).

Park Place Entertainment continues to expand and increase their gaming properties. On 27 April 1999, Park Place Entertainment Corporation announced that it entered into an agreement to acquire Caesars World Inc. and other gaming assets from Starwood Hotels & Resorts Worldwide Inc. This acquisition would be for a total consideration of $3.0 billion, and would exclude the Desert Inn in Las Vegas. Proposed as an all-cash transaction, it closed in the fourth quarter of 1999, when the Boards of Directors of both companies gave approval. The transaction increased Park Place's holdings significantly, giving Park Place 29 gaming properties, nearly 2 million square feet of gaming space, and about 28 000 hotel rooms throughout the US and the world. By acquiring Starwood's gaming assets, Park Place gained additional market share in the following markets:

- Caesars Palace in Las Vegas
- Caesars Atlantic City
- Caesars Tahoe
- Glory of Rome riverboat in Harrison County, Indiana
- the Sheraton Casino & Hotel in Tunica, Mississippi
- the management of the slot operations at Dover Downs Racetrack in Dover, Delaware.

Finally, Park Place would gain an interest in various other joint ventures, real estate and management interests for gaming properties in Halifax and Sydney, Nova Scotia; Windsor, Ontario; Manila, Philippines; and Gauteng Province of South Africa. Park Place Entertainment feels that this is an important strategic venture for many reasons. Park Place would gain an internationally recognized name as well as a group of premier gaming assets. The Starwood acquisition also allowed Park Place to gain earnings in the first year, and has tremendous potential for future growth and expansion. This move also increased Park Place's geographic diversification by giving it a position in Indiana; a growing market, which now ranks fifth in the US; and increasing Park Place's international presence with gaming markets in Canada, the Philippines and in South

Africa. The acquisition of the Caesars brand name and customer database increased its revenues and expanded its existing gaming markets where Park Place operates. The firm also feels that the acquired properties have great strategic locations and have future possibilities for major development in Atlantic City and in Las Vegas. This move allows Park Place Entertainment to have tremendous potential for growth and for increasing its market share in gaming's two major markets. By acquiring leading casino-gaming properties in the three largest US markets and also throughout the world, they have diversified their portfolio enough to provide a stable inflow of earnings and have reduced their exposure to volatility in any of the individual markets.

Harrah's Entertainment, Inc.

Harrah's Entertainment has become one of the most respected and recognized names in the casino industry in the US. Harrah's operates under the names of Harrah's, Showboat, and Rio brand names, and the Star City casino in Sydney, Australia. Harrah's has been building a strong financial background for years, doing this by spreading their casino-gaming facilities throughout the US. They have more markets than any other casino company and claim that there is a Harrah's casino within a three-hour drive for one third of the US population. There are a limited number of possible licences available, many of which have been allocated already, so they are confident that they are the only casino company that will be able to achieve this claim. They attempt to create a relationship with their customers, by having facilities that are close to home and through customer reward programs such as Total Gold. Total Gold is a players reward and recognition system similar to a frequent flyer program for airlines. This connects player activity to all Harrah's brand properties. They can earn points for game play and can redeem these points for cash, merchandise, food, lodging or show tickets at any one of Harrah's casinos across the country. This gives customers incentive to choose a Harrah's casino in any market they go to. Coupled with the availability of Harrah's casinos, they feel that they have an advantage over others in the industry. They feel that they have the technological tools, knowledge, and relationships with customers to achieve success in a highly competitive industry (www.harrahs.com).

In June 1998, Harrah's Entertainment acquired Showboat, Inc. This was approximately a $1.2 billion deal, involving $519 million in cash and $650 million in assumed debt. Showboat owned and operated casinos in Atlantic City and Las Vegas and the Star City casino in Sydney, Australia. It also manages 55 per cent of Showboat Mardi Gras Casino in East Chicago, Indiana. This move gave Harrah's a strategic presence in Atlantic City with a well-known brand name. This allowed Harrah's to tap into the 1.3 million customer base that Showboat held in Atlantic City and provided them with Showboat's riverboat casino in Chicago, strengthening its presence in Chicago in order to attract the city's serious gamblers (*New York Times*, 1997). In September 1998, Harrah's acquired Rio Hotel & Casino in a $518 million stock deal. The purchase provides Harrah's with a resort-style casino to go with its 19 self-contained casino properties. Nine of the Harrah's casinos have hotels attached and they have 9150 rooms and over 30 000 employees. The Rio Suite Hotel & Casino will keep its name and has about 2600 suites. Harrah's felt that it was losing an estimated $170 million from its customers who did not want the same type of experience every time they went to a casino. This merger allows the customers the ability to have a larger base of Harrah's facilities to choose from, with more diversity in the choices. Rio will retain the brand name and feels that the merger will be beneficial to both companies. They feel that they can begin to expand outside Las Vegas with the financial backing and name of Harrah's behind them. Most people do not just gamble in one casino, they will leave and go to other casinos and gamble there as well. They feel that it will be an advantage for them to be under one company to capture the customers leaving each other's casino resorts (Hotel & Motel Management,1998).

Circus Circus Enterprises, Inc.

Circus Circus Enterprises, Inc. owns 10 properties in Nevada; the Circus Circus, Luxor, Excalibur, and Slots-A-Fun in Las Vegas; Circus Circus, Reno; Colorado Belle and Edgewater in Laughlin; Gold Strike and Nevada Landing in Jean; and Railroad Pass in Henderson. CC operates Silver City and Monte Carlo in Las Vegas and owns a 50 per cent interest in the Silver Legacy in Reno. CC also owns and operate Gold Strike in Tunica County, Mississippi, and owns a 50 per cent interest in and operates the Grand Victoria riverboat casino in Elgin, Illinois. There was talk of Circus Circus merging with Hilton Hotels, but these talks fell through in March 1998. There was a legal conflict with their properties and rights to build in Detroit, and this stopped the merger from occurring (*New York Times*, 1998). CC had recently expanded and remodeled their Gold Strike Casino Resort in Tunica County, Mississippi. Circus also opened the Mandalay Bay resort on the Las Vegas strip next to Luxor. This is a 43-story, 3700-room resort with various attractions which include: an 11-acre tropical lagoon featuring a sand-and-surf beach, a three-quarter-mile river ride, a 30 000-square-foot spa, and restaurants and nightclubs. Circus Circus continues to expand through acquisitions and construction, and is posting strong financial results.

Trump Hotels and Casinos Inc.

Trump Hotels and Casino Resorts has been a prominent name in the casino and gaming industry for years. Trump owns and operates the Trump Taj Mahal, Trump Plaza Hotel and Casino (including Trump World's Fair) and Trump Marina Hotel Casino (formerly Trump's castle), casino hotels in Atlantic City, New Jersey, and an Indiana Riverboat casino at Buffington Harbor on Lake Michigan. It seems that Donald Trump was going to sell off his casino assets and was discussing this option with a couple of real estate investment trusts in January 1998. Trump felt that he could possibly get a good deal for his highly leveraged properties, which reportedly has $1.7 billion in debt. The sale never occurred and now Trump Hotels and Casinos is attempting to climb back into a position of power (*Investment Dealers Digest*, 1998).

Trump faces some of the same questions that Steve Wynn's Mirage Corporation faced before Wynn decided to sell out to MGM. While Trump showed significant profit growth for both 1998 and 1999, he is still confronted with heavy financing costs due to the refinancing of the Trump Marina and to the pre-opening costs of the Trump Indiana Hotels. The question is whether Trump can achieve sufficient cash flow.

Trump seems intent to lower costs in order to achieve this cash flow. One way he hopes to lower costs is to achieve economies of scale by centralizing certain operations and purchases for the three Atlantic City hotel casinos. Trump's promotional allowances and gaming costs were also lower than in previous years due to the management team fine-tuning the operating assets in order to maximize returns. Trump's casino patronage has increased, as they continue to improve upon existing properties. So, if Trump can lower its costs and at the same time increase its revenue, perhaps the resulting cash flow can save Trump Hotel and Casino Resorts (www.trump.co).

It will be interesting to see if Trump can consolidate his present casino holdings so that he can compete with the big three of the casino industry, namely MGM, Park and Harrah's. When Mr. Wynn sold Mirage to MGM, he retreated to the 'desert'. It appears that Mr. Trump is trying to make his last stand by the shores of Atlantic City. Trump has been counted out many times before, so perhaps he will once again survive to remain a major player in the turbulent waters of the casino industry.

CONCLUSION

If you look at the casino industry, one thing is very evident. Consolidation has become the name of the game. Mergers and acquisitions have become the dominant play for many of the large capitalization companies in recent times. Companies continue to grow and expand, through acquiring existing companies or by buying strategic space in order to build more casino-hotel resorts. The large companies eat up the smaller companies and continue to widen the gap between them. Increasing revenues and profits point out the fact that this is the most financially sound move to make if you want to succeed in this increasingly competitive industry. Over the past few years, each company has shown significant growth through acquisition and construction. These large companies are strategically acquiring more properties to give them advantages over each other. This is an industry that has exemplified the 'bigger is better' motto if you want to stay afloat.

Yet it is also an industry that has become well aware of the need to build a 'brand' name. Harrah's and Park Place have placed particular emphasis on creating a customer who is no longer 'promiscuous'. Casino experts have estimated that the average casino patron spends less than 25 per cent of gaming expenditures at any one casino (Earley, p 38). Since all of the major firms in the casino industry have a presence in various markets (national, local or even Indian locations), these firms are trying to entice players to play in their casinos in all of the various locations in which these firms operate casinos. Hence the casino industry faces the duel challenge. First, it must expand its entertainment offerings to broaden its appeal to a greater percentage of the US population. Second, firms in the casino industry need to differentiate themselves from one another in the rewards they give to gamblers. While non-gaming revenues have recently outgrown gaming revenues, the future of any casino firm rests on its ability to receive a larger portion of the individual gambler's spending.

The focus of this chapter has been on how the casino industry has competed for the gambling dollar. But there are two other segments of the gambling industry that also compete for gambling revenue, namely lotteries and *pari-mutuel* betting. The next two chapters will analyse how these segments of the gambling industry hope to develop strategies in order to compete with their very successful gaming cousin, the casino industry.

4. The States' favourite form of gaming: Lotteries and the various strategies for conducting lotteries

INTRODUCTION

In Chapter 1, it was pointed out that gambling has been permitted by American society in varying degrees throughout its history but the level of toleration that gambling has achieved at present is at an all time high. One reason for this new found 'toleration' has been a change in the perception of what a 'game' is, and the types of games (namely games of chance) that have become the norm for American society. In the case of lotteries, the lottery's ability to raise funds for 'good' causes has also contributed to this new-found tolerance of gambling. Hence the government's need for additional revenue, and a particular society's willingness to tolerate 'gaming' must always be taken into account when a lottery commissioner is formulating a 'strategy' by which it is hoped to operate a lottery.

Before describing such strategies in detail, it would be helpful to first define what the word 'strategy' means in this situation. Although its Greek meaning, the 'art of the general', frightens many individuals because of its militaristic connotations, such a definition of strategy provides a very useful analogy for anyone who operates an organization, particularly a lottery. Before even beginning to make a strategy of defense or attack, a general must first be prepared to cover all flanks. Strategists for the casino industry have developed a 'consolidation' strategy. The development of this strategy was to take advantage of the opportunity presented to the casino industry when gambling became an acceptable form of entertainment.

Like their casino counterparts, lottery commissioners are faced with the question of how to compete in this new entertainment environment. In doing so, commissioners should find out just who they are to compete with for the entertainment dollars spent by bettors, and what the bettors themselves are interested in. Since the public now views the lottery as a form of entertainment, lottery management needs to provide users with an outlet or a way to fulfill a dream. Because different bettors have different dreams, a lottery needs to be versatile in order to make some of these dreams a reality. Variety is the spice of life, and this truism is especially applicable for businesses that are trying to provide for those who desire a big change in their lives.

Unlike the casino operators who need to satisfy shareholders with the highest rate of return for an investment dollar, lottery commissioners must satisfy a variety of governmental interests. The stakeholders include such diverse groups as the legislature, the executive branch, as well as a host of interested social groups who oppose gambling ranging from church groups to Gamblers Anonymous. Hence, trying to define what constitutes a 'successful' lottery strategy involves numerous factors that are hard to quantify.

When implementing a strategic plan for a state lottery, a lottery commissioner needs to develop a variety of games to serve the differing interests of the customers. Therefore the vast majority of lotteries have 'diversified' into three types of games: daily numbers, instant games and lotto. Some states have launched into keno, while several others have permitted video lottery terminals that are in reality versatile slot machines.

Though all lotteries have used an overall 'diversification' strategy, it is striking to observe how certain games dominate the operations of most lotteries. Table 4.1 and Table 4.2 compare how lotteries have changed their mix of games from 1995 to 1999. It becomes clear that the instant game category has become the dominant segment of the lottery industry. Instant games are the dominant lottery segment in nearly two-thirds of the states that offer lotteries.

What accounts for this domination by the instant game segment? The answer can be found through analysing why a state even sanctions a lottery. Primarily, the purpose of a lottery is to create a *consistent* source of revenue for state government. A lottery game has to be viewed as a source of entertainment where the player's interest in the game can constantly be reinforced. The remainder of this chapter will examine this criterion, that is, is there a lottery strategy capable of sustained long-term growth? This 'growth' criterion will be studied in three parts. First, we classify the various strategic options for operating a lottery. See Table 4.3 for the 'niches' that various lotteries occupy as they attempt to develop a strategy that will enable them to be a consistent source of revenue. Second, the concept of a 'product life cycle' will be defined and applied to the various lottery games. Finally, the existing strategies will be evaluated as will the future prospects for these strategies.

CLASSIFYING LOTTERY STRATEGIES

Lottery commissioners seem to be employing a 'niche' strategy in operating their lotteries. It is now time to identify and evaluate these niche strategies. One way to accomplish this task is to use an analogy. The analogy that will be utilized is one employed by sports fans as they analyse the strategies developed

Table 4.1 Breakdown of US lottery sales: percentage of 1995 total sales by segment (excluding video lottery terminals)

State	*Daily*	*Lotto*	*Instant games*	*Keno*
Arizona	–	43	57	–
California	3	61	26	10
Colorado	–	40	59	2
Connecticut	25	50	25	–
Delaware	50	30	20	–
DC	74	16	10	–
Florida	21	45	32	–
Georgia	38	20	38	4
Idaho	–	27	73	–
Illinois	30	31	38	–
Indiana	10	35	55	–
Iowa	1	28	69	–
Kansas	3	34	44	19
Kentucky	21	23	56	–
Louisana	16	43	41	–
Maine	6	23	71	–
Maryland	49	13	16	22
Massachusetts	12	9	65	14
Michigan	41	23	35	1
Minnesota	6	20	74	–
Missouri	13	30	57	–
Montana	1	79	20	–
Nebraska	1	14	17	68
New Hampshire	5	32	63	–
New Jersey	46	29	25	–
New Mexico	4	28	68	–
New York	27	30	27	16
Ohio	25	22	53	–
Oregon	1	21	47	31
Pennsylvania	40	25	35	–
Rhode Island	24	27	19	30
South Dakota	3	41	56	–
Texas	4	33	63	–
Vermont	3	16	81	–
Virginia	39	28	33	–
Washington	4	42	51	3
West Virginia	12	28	49	11
Wisconsin	10	27	63	–

Source: The Massachusetts Lottery Commission

Table 4.2 Breakdown of US lottery sales: percentage of 1999 total sales by segment (excluding video lottery terminals)

State	*Daily*	*Lotto*	*Instant games*	*Keno*
Arizona	2	50	48	–
California	3	46	43	8
Colorado	–	35	65	–
Connecticut	21	19	60	–
Delaware	42	44	14	–
DC	64	21	15	–
Florida	22	49	29	–
Georgia	39	17	41	3
Idaho	–	32	68	–
Illinois	32	32	36	–
Indiana	9	35	56	–
Iowa	2	30	68	–
Kansas	2	33	45	20
Kentucky	27	28	45	–
Louisiana	20	40	40	–
Maine	6	20	74	–
Maryland	44	12	18	26
Massachusetts	11	6	67	16
Michigan	42	20	37	1
Minnesota	3	25	72	–
Missouri	11	31	58	–
Montana	–	71	29	–
Nebraska	–	47	53	–
New Hampshire	5	29	66	–
New Jersey	40	28	32	–
New Mexico	–	37	63	–
New York	32	32	26	10
Ohio	26	20	54	–
Oregon	–	25	44	31
Pennsylvania	44	29	27	–
Rhode Island	24	27	19	30
South Dakota	–	47	53	–
Texas	7	36	57	–
Vermont	3	16	81	–
Virginia	37	24	39	–
Washington	4	39	55	2
West Virginia	10	35	46	9
Wisconsin	9	32	59	–

Source: The Massachusetts Lottery Commission

Table 4.3 Lottery niches in various states

Daily number games account for the greatest amount of all lottery revenue:		
District of Colombia	Georgia	Maryland
Michigan	New Jersey	Pennsylvania
Virginia		
Lotto games account for the greatest amount of all lottery revenue:		
California	Connecticut	Florida
Louisiana	Montana	New York
Instant games account for the greatest amount of all lottery revenue:		
Arizona	Colorado	Georgia
Idaho	Illinois	Indiana
Iowa	Kansas	Kentucky
Maine	Massachusetts	Minnesota
Missouri	New Hampshire	New Mexico
Ohio	Oregon	South Dakota
Texas	Vermont	Washington
West Virginia	Wisconsin	

Source: The Massachusetts Lottery Commission

by a General Manager of a professional baseball team. A general manager creates a strategy in building her or his team in order to take advantage of the ballpark in which the team plays its home games. Baseball teams, then, are simply built according to the environment in which they play. The same is true when formulating a strategy for operating a lottery. You want to develop those games that take advantage of the particular states demographics. As a result, the three forms of lottery games – instants, daily numbers and lotto – have been made to satisfy the various interests of people throughout the US. Most states, then, analyse these demographics and use a strategy that focuses on the game that best suits the needs of its citizens.

Strategy 1: The Daily Number Game – Good Pitching, Good Defense

The first way in which a general manager can build his or her baseball team is to use the strategy that the best offense is a good defense. Here, a team must have a solid pitching staff, backed by good defense. The team takes no unnecessary risk by concentrating on its defense and, in essence, waiting for the opponent to make a mistake. As boring as it may be, this strategy allows the manager to control the nature of how the game is played. Thus, this 'conservative' approach provides the most consistent results out of all three strategies described. It follows, then, that lottery commissioners looking for a game that will provide a steady yet consistent stream of revenue as their major source would concentrate on daily numbers. This strategy presupposes an older and urban population that is content to win \$500 to \$1000 because these prizes can still make a difference in a person's life.

Strategy 2: Lotto Games – Playing for 'The Big Inning'

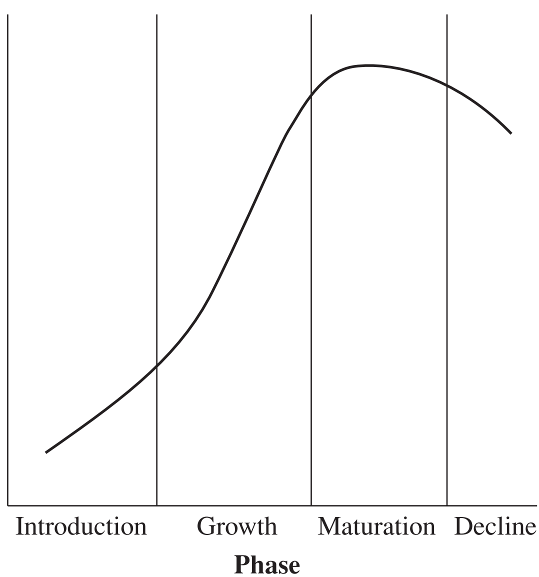
When the lotto game is used as the major source of the strategic focus, the lottery commissioner is emulating the general manager of a baseball team whose offensive strategy is to play for the big inning. This is basically a 'sit-back in your seat' strategy where the team has a few single hitters who are on base when the home run hitters come to bat. Therefore, the team depends upon the home run hitters, waiting for them to connect every once in a while so that sufficient offense is produced. In a similar fashion, successful lotto games have to be able to generate very large jackpots every once in a while in order to generate increased interest in the game, the home run. Though this does not happen every week, hopefully the jackpot builds up often enough so that existing players remain interested in the game and new players are drawn in. Ironically, either large population states such as California and New York or small population states such as Montana or Rhode Island use this strategy. In the first case, states have populations sufficiently large so that the jackpots can be built up within state. In the second case, small population states need to form an alliance in order to have sufficient population to build up the jackpots. Hence the establishment of the Powerball Game by numerous small population states.

Strategy 3: Instant Games – Playing for a Series of One-Run Innings

When playing in a ballpark that rewards speed, a general manager will want a team offense that plays for many one-run innings. Home runs are hard to hit in this kind of park, so those teams who play for one big inning will not be as successful. Therefore, in order to get these one-run innings, the general manager must develop a team of 'singles hitters' with speed so that they take advantage of the abundance of runners and score runs. Likewise, lotteries that focus upon instant games for the bulk of their revenue are using this 'big-ball park' strategy. The lottery commissioner must provide a continual stream of instant games, and must also move quickly to market a different game for different seasons as well as appealing to different customers. While no one instant game will be the source of an enormous amount of revenue, if enough successful ones are continually introduced the strategy can be termed a ‘success’(that is, an abundance of runners). The state that first developed this strategy and has been the most successful in implementing it has been Massachusetts. It has been developed to create interest in lottery games among a younger population. The games can be changed often and you do not need to wait for a drawing to see if you have won.

PRODUCT LIFE CYCLES OF THE VARIOUS TYPES OF LOTTERY GAMES

The product life cycle is a marketing concept that identifies four discrete stages that mark the evolution of a product such as a lottery (see Figure 4.1). These stages are useful in determining the correct marketing mix for a product so that revenues can be maximized at each stage. The evolution of products through the product life cycle is well documented, and therefore easy to study. However, it is uncertain whether or not decline must necessarily follow maturation for all products in the cycle. In other words, this cycle, for certain products, may in fact be more of a ‘system’. Technically, a cycle implies that there is a clear ending point to a product’s life. On the other hand, a system implies that the life



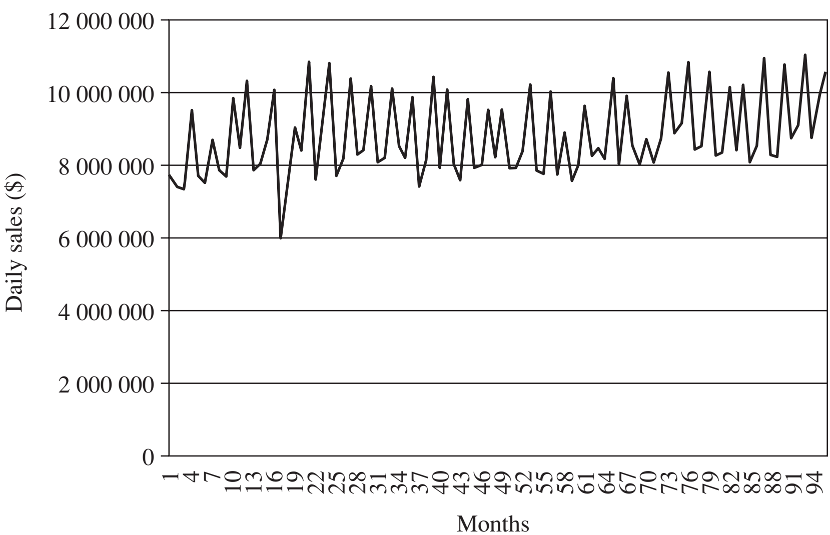
Source: Onkvisit and Shaw, 1989

Figure 4.1 Product life cycle (system) of a product can be rejuvenated. Specifically, a product in a system could possibly be 'repackaged' at maturation and enter into yet another period of renewal and growth. Thus, obsolescence would be avoided, and the 'product life system' would begin anew.

In this section, the life cycle of each lottery game will be analysed by examining the sales of the states whose sales are most dependent on a particular game. These states should have developed marketing plans that have maximized sales of a particular game. If the life of a game is more like a system than a cycle, it is capable of being 'renewed' and thus could be considered a 'consistent' source of revenue for a state.

Daily Number Games

The daily number game was characterized earlier as the most conservative lottery game, and that it is used as a main source of revenue when a lottery values a steady, consistent stream of revenue. The most successful lottery that has used this daily number strategy is the District of Columbia where 64 per cent of its sales are dependent upon daily number sales. Figure 4.2 will demonstrate how DC's lottery has fared using the daily number as its chief source of revenue.



Source: The Massachusetts Lottery Commission

Figure 4.2 District of Columbia's daily number sales (1993–2000)

The regression equation which best describes DC's daily number sales is known as the 'random walk'. This means that the best predictor for its future sales is its average. The mean (monthly) sales for DC's daily number game is 8 434 000. By using the mean, it shows that DC's daily number sales are at a steady state and its product life cycle is non-existent. Daily number sales will neither grow nor fall, solidifying the claim that this game is the most consistent in the long run, at least for the District of Columbia.

Overall, the daily number game is remarkably consistent in that its average sales are its best predictor. A daily number game can be counted to contribute a certain amount of funds each year. The negative aspect, though, is that this amount cannot be expected to increase over time. It certainly appears that DC's daily number game is on the mature phase of its product life cycle. In fact, over the past five years, four states (Montana, Nebraska, New Mexico and South Dakota) have actually abolished their daily number games. It certainly appears that the daily number is a dying game that no longer can keep the interest of even its most loyal players.

Lotto Games

The success of using lotto games as the focal point of a lottery strategy depends upon large jackpots stirring up the public's interest in the game every few weeks. Once a series of large jackpots are built up, it is hoped that these bettors will become frequent players of these lotto games. The most successful state that has used the lotto as the strategic starting point of its lottery operations is California, where lotto games account for over 46 per cent of lottery revenue. Figure 4.3 shows how California lotto games have fared.

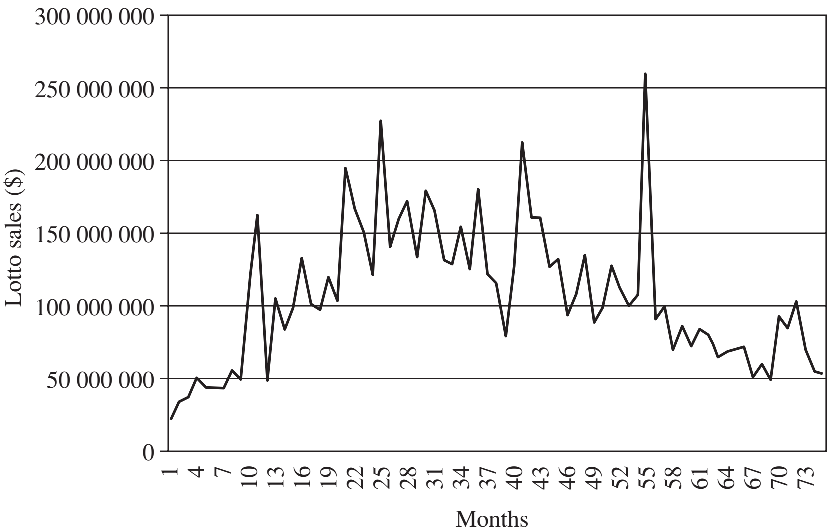
The polynomial regression equation that describes California's lotto sales is:

$$\mathrm{Y}\ (sales) = 6.4 + 1.37x - 0.0249x^2$$

where:

$$\mathrm{x} = \text{monthly sales, and } \mathrm{x} = 0, \text{ Jan. 1994, } \mathrm{p} = .005.$$

These results indicate that lotto sales in California are on the maturation segment of the product life cycle. Even though California has tried to introduce new types of lotto games, they have not been able to renew interest in the lotto. As a result the California lotto game seems to be on the downward side of the product life cycle.



Source: The Massachusetts Lottery Commission

Figure 4.3 California's lotto sales (1994–1999)

Instant Games

As was pointed out in the previous section, the strategy for successful sales in instant games involves the constant introduction of new instant games on a seasonal basis. The state that has pioneered instant games as the focal point of its lottery is Massachusetts. Instant games sales account for about two-thirds of all lottery sales in Massachusetts. Figure 4.4 shows the quarterly results of instant game sales in these states from 1985 to 1999.

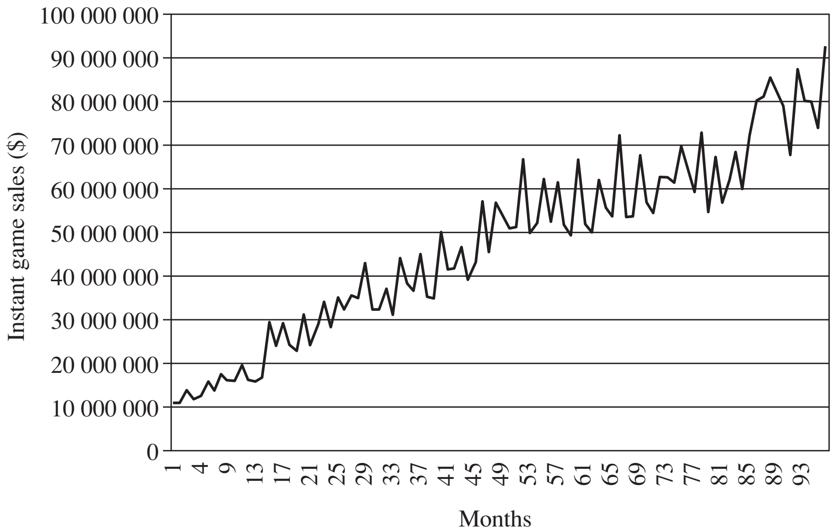
The equation that describes the Massachusetts instant game sales is the following:

$$\text{Y } (\textit{sales}) = 1.43 + 0.272x + 0.006x^2$$

Where:

x = monthly sales, and x = 0, Jan.1994, p = .001

This equation demonstrates that instant games are certainly on the increase and have not experienced any decline during the period studied.



Source: The Massachusetts Lottery Commission

Figure 4.4 Massachusetts' instant game sales (1993–2000)

In accordance with the results for Massachusetts, it can be said that the instant game strategy should be implemented in order to achieve a consistent increase in sales over a long period of time. In fact, Massachusetts has demonstrated that instant game sales can be quite lucrative, thus having the highest per capita lottery in the US. Relative to the product cycle, these instant games are still in the growth part of their lives. Additionally, it appears that the introduction of new instant games can 'renew' interest in this type of lottery game and increase sales even further.

SUMMARY

The preceding results reveal that the instant games are the only type of lottery game capable of sustainable, long-term growth. Massachusetts, for instance, has employed these instant games to their fullest advantage and, therefore, runs the most successful US lottery, at least in terms of having a consistent revenue stream. Why has Massachusetts been so successful in developing these games? One factor must be the marketing skill of the commission, while the demographics (that is, its diversity) of the Massachusetts population is another.

There is another interesting aspect to the success of these instant games. Many states, which began lotteries in the late 1980s and early 1990s (such as Texas, Minnesota, Iowa, West Virginia and Georgia), have used these instant games as their initial offerings. Obviously, they have seen how successful Massachusetts has been in developing these games and have used Massachusetts as the model lottery. It remains to be seen whether the demographics of these states will allow them to emulate Massachusetts' success.

Lotto games suffer a far different fate. Even the most successful lotto games are subject to the product life cycle effect in the long run. They may provide rapid growth during their inception, but as time passes, their sales become unsustainable and decline is imminent. It has already been mentioned that large states most often use the lotto as their focus strategy for their lottery sales. It is interesting to note that even California with the largest population of any state cannot sustain interest in lotto games. While lotto games such as Powerball and the Big Game (where states with smaller populations have joined together to have sufficient population to build large jackpots) have certainly been able to capture the public's fancy occasionally, this is hardly a sustainable source of revenue. In general, lotto games suffer from what can be termed 'jackpot fatigue', that is, lotto games can only generate interest if the jackpots are built up so that news reports make note of them.

Finally, the daily number game was earlier characterized as the most conservative approach to running a lottery. The preceding results confirmed that the daily number game did provide a lottery commissioner with a steady stream of revenue, but it is a stream of income that cannot be increased in the long run. The most successful daily number game appears to be operated by the District of Columbia, where sales are constant but at a consistently high level. The demographics of DC seem to be well suited to the daily number game, that is, an almost exclusive urban population. Meanwhile, states that have many urban centers but also have a high percentage of their population living in rural or suburban districts, such as New York, New Jersey and Pennsylvania, have not fared quite as well as DC.

So far it has been established that instant games can be counted on to provide a state with a steady (but certainly not spectacular) growth in sales in the long run. In 1999, instant games sales tickets increased by 5 per cent to $14.8 billion (*Lafleur's Lottery World*, 2000) However, if a state is in desperate need of large amounts of additional revenue, instant lottery games do not appear to provide the amount of the increases in revenue. Most states earmark lottery revenues for good causes such as education, aid to the elderly or funds for local towns and cities, but increases in instant game sales do not appear to be able to match the necessary increases in funding to provide for these good causes. Hence state governments need to reconsider seriously earmarking lottery revenues for a specific cause. If they do not, either the good cause will be under-funded or that state will have to permit other forms of gambling to cover the shortfall in revenue.

There is another trend in the lottery industry that ought to be noted. Recently, lotteries have begun to reintroduce the idea of 'sweepstake' tickets. In many ways it emulates the original lotteries that were so common in early American history. These sweepstakes usually fall into the instant ticket category, but differ in two ways from current instant game offerings. First, the sweepstake tickets are sold to support a specific purpose. For example, states support local horse racing tracks by allowing the tracks to sell tickets whose winning numbers correspond to the winning numbers in specific horse races. Another example of a sweepstake ticket is the one issued by the state of Maryland to help finance the building of Camden Yards. These Oriole sweepstakes tickets were issued with player photographs as well as famous scenes from Oriole World Series action. The tickets themselves were meant to be collector items.

The second way in which these instant sweepstakes tickets differ is the prize structure. Prizes usually include at least several $1 million prizes as well as assorted prizes such as trips, sky-box seats to games and so on. It is also ironic that these sweepstakes tickets give their players a much better rate of return compared to 'ordinary' instant games tickets issued by a state lottery commission. Hence the sweepstake instant ticket concept is one that supports a single cause for a short duration and does not need to be a consistent source of revenue. How far this sweepstake concept will spread is something that needs to be watched, as state lotteries are finding it increasingly difficult to meet revenue projections.

In the next chapter, *pari-mutuel* betting, the third segment of the gambling industry, will be analysed. It is the segment of the gambling industry that has the richest tradition and history, but it is the segment whose future looks the bleakest.

5. *Pari-mutuel* betting: A distant third

INTRODUCTION: HORSE-RACING, ITS HISTORY AND IMAGE

Horse-racing has had a long and colorful place in American history. It has always been considered a 'sport' (that is, a game of skill) with all the positive connotations which that term has. Yet it was also part of the earliest American tradition, whereby the terms 'sport' or 'professional sport' were also used as synonyms for gambling. No horse-racing competition was considered 'complete' unless someone was willing to rise to the occasion, 'to sport a little on the race'. This type of gambling differed from activities dependent entirely on chance, such as lotteries, the earliest form of gambling in the US. Because of the skill involved in racing horses, horse-racing has always been able to soften any potential image problems caused by the close interaction between gambling and racing. By the end of the seventeenth and early eighteenth centuries, horse-racing had developed into stake races between owners, generally wealthy American and English, and thus began the important relationship between gambling and racing, coming to be known as the Sport of Kings. Horse-racing was a sport for the rich where they could indulge their gambling urge (*Forbes*, 1995).

From the 1920s through to the 1950s, horse-racing became the 'tolerated' form of legalized gaming in the US. It reflects a society's preference for games that involved a certain amount of skill (that is, handicapping the race) and the ability of trainers and riders in winning the race. The industry also made a substantial contribution not only to the agricultural communities but to state treasuries. Since it was a game of skill that provided economic development and revenue to the state, state officials looked at horse racing favorably. In addition, horse-racing provided a 'mild release' to that segment of America that was hungering to gamble.

But in the mid-1960s and 1970s, new forms of gambling such as lotteries and jai alai were being legalized by state governments for the very reason that states tolerated horse-racing: revenue. Horse-racing lost its monopoly on legalized gambling and now had to compete with the other forms of gambling for the American gaming dollar.

In reaction to these new competitive pressures, the industry did introduce two innovations: off-track betting (OTB) and simulcasting races from other tracks. Critics of these innovations claim that they are merely cannibalizing traditional betting revenues. For example, money that is wagered via simulcasting is often the same dollars that would have been placed on another race, rather than representing new or growing revenues. The Thoroughbred Racing Association (TRA) also eventually agreed to organize a national series of graded races for three-year-old horses. J. Brian McGrath, the TRA commissioner, noted that 'We are faced with tremendous competition, and in most instances the competitors are more focused and united than the horse-racing industry' (ibid).

The remaining parts of this chapter will focus on how this most 'respectable' form of gambling fares in competition as other forms of gambling are introduced. Two cases will be examined. The first case involves riverboat gambling and its effects on horse-racing. In early 1996, Indiana permitted riverboat casino gambling on the Ohio River. The potential market that Indiana wished to tap lived in Kentucky, the citadel of American horse-racing. If horse-racing ought to be able to resist the lure of casino gambling, it ought to be able to do so in Kentucky.

The second case will attempt to examine the effect which Delaware's decision to permit slot machines in its horse-racing facilities had on those various tracks. The potential market that Delaware was hoping to attract to its failing horse-racing tracks was situated in neighbouring Pennsylvania, Maryland and the District of Columbia. Maryland (much like Kentucky) has a large stake in the agricultural side of the horse-racing business. At the time of Delaware's introduction of slot machines to its tracks, Maryland also had both harness and thoroughbred horse tracks. Therefore Delaware's attempt to save its tracks through the introduction of slot machines might run into some stiff competition from Maryland.

RIVERBOAT GAMBLING AND ITS EFFECT ON HORSE-RACING: THE CASE OF KENTUCKY AND INDIANA

Kentucky's Horse-racing Industry

Few would deny the claim that Kentucky is the world's capital of thoroughbred horse-racing. Supporters of thoroughbred horse-racing claim that it is an integral part of Kentucky's 'agri-business industry'. Both the racing and breeding segments of the horse-racing industry make considerable economic contributions to Kentucky's overall economy. As a result of the state's dependence on the economic contributions of horse-racing, as well as the deeply entrenched traditions that surround the sport, resistance to casino gambling has been particularly fierce in Kentucky (*US News and World Report*, 1995, p. 44).

Kentucky also represents the best (and perhaps the only) example of cooperation between racetracks and state government to preserve horse-racing from casino gambling. The last three governors have all been horse breeders, as well as advocating the passage of such measures as permitting full card simulcasting, forming a single racing commission to regulate all horse-racing activities, and developing a breeder's award program that is funded from off-track betting pallor profits (*Financial World*, 1997, p. 90). As part of this 'cooperative' spirit, Kentucky's racetracks have developed a 'revolving' racing programme such that only one thoroughbred track is racing at a time, but all tracks are available for simulcasting year round. The simulcasting programme has become so successful that Kentucky has been able to significantly increase the racing purses at all of its thoroughbred tracks. These larger purses in turn give owners and trainers more incentive to race their horses at the various Kentucky tracks. The result of this increase in the number of horses is an increase in the amount wagered, since larger fields generally attract significantly more betting action as bettors seek larger payoffs in large fields that offer longer odds on horses. One final series of measures that the racetracks (led by Churchill Downs) have instituted themselves in trying to preserve their markets have included a doubling of the marketing and promotional budgets, slashing by over one-half prices on admissions, parking and concessions, and investing in state-of-the-art video technology for simulcasting. All of these measures of cooperation between the state and the industry as well as the cooperation between the tracks themselves were a response to the threat posed by the introduction of casino gambling in Indiana (Kentucky Racing Commission, *Annual Reports*).

Indiana's Riverboat Gambling Industry

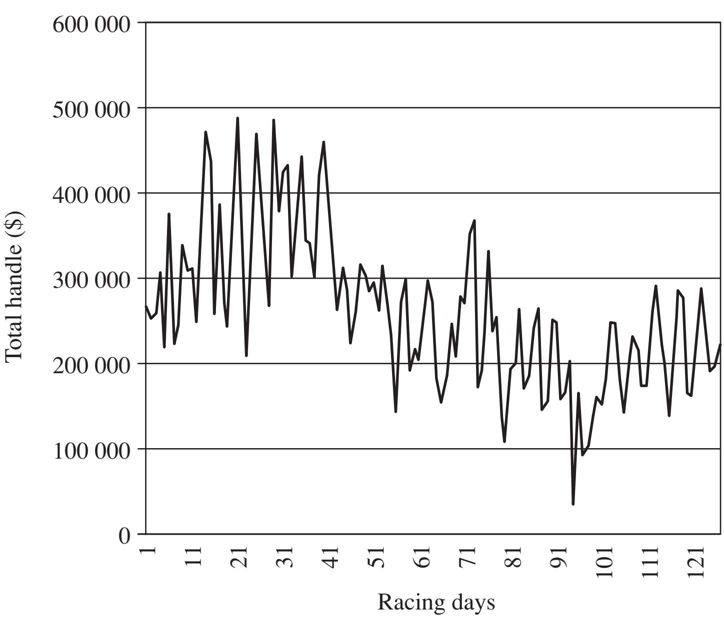
Riverboat gambling was introduced in Indiana on the Ohio River first at Evansville in September 1996, then at Rising Sun in October 1996 and Lawrenceberg in December 1996. The Evansville casino most directly threatens Ellis Park in Owensboro, Kentucky and Turfway Park in Florence, Kentucky. Meanwhile, the Lawrenceberg and Rising Sun casinos have as their primary focus the greater Cincinnati, Ohio market of 1.7 million people, of whom 300 000 live in Kentucky (*Louisville Courier Journal*, 1997). The other market that is within 80 miles of all three riverboats is the lucrative Louisville market, home to historic Churchill Downs racetrack, host of the Kentucky Derby and considered to be the capital of thoroughbred racing.

An analysis of riverboat gambling and its effect on horse-racing handle

This section will discuss the effect that Indiana's casino gambling initiative had on Kentucky's well-established horse-racing industry. Two Kentucky tracks, Turfway Park and Sports Spectrum, will be analysed. In order to determine whether riverboat gaming had an effect on horse racing 'daily handle' (that is, the amount of money wagered on the various horse races), the daily handles for these tracks will be analysed both before and after the start of riverboat gambling. For the interested reader, the statistical analysis using ARIMA intervention analysis will be included in an appendix at the end of this chapter. All the data in this chapter were obtained from the various state racing commissions which include Kentucky, Maryland and Delaware.

Turfway Park

Turfway Park is one of two Kentucky tracks that runs its races during that period of time in which Churchill Downs is closed. In other words, it tries to provide horse-racing fans with an opportunity to watch horse-racing while one of the world's most famous race tracks is down. During the 1970s and 1980s, the track was profitable and was also able to hold simulcast races from its more famous cousin Churchill during its down time. Hence Turfway Park is a track that cannot point to its 'tradition' to protect its market, but would have to employ previously mentioned marketing efforts to protect its market.



Source: Kentucky Racing Commission

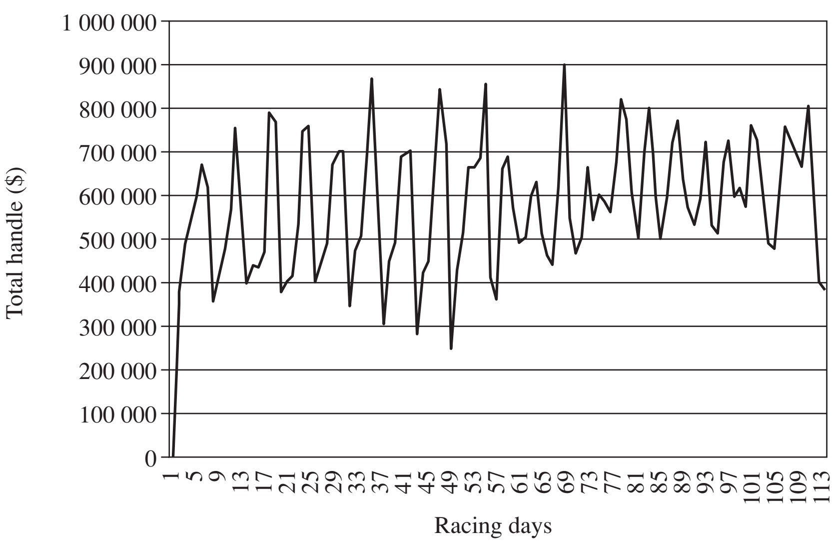
Figure 5.1 Turfway Park daily handle (1996)

Figure 5.1 provides graphic evidence that the daily handle at Turfway Park suffered a significant decline as a result of the start of riverboat gambling at Evansville. *The Auto Regressive Integrated Moving Average (ARIMA) Intervention Analysis* also confirms this finding. According to the ARIMA analysis, wagering at Turfway Park suffered a 40 per cent decline from 1996. Despite the track's continued marketing efforts, the owners of Turfway Park now seem to be conceding that the only way for racing to survive is to offer that which makes casinos so successful: slot machines.

Sports Spectrum

Sports Spectrum is located in Louisville Kentucky and is able to draw its audience from both the Louisville and the Cincinnati, Ohio areas. It is also the simulcast outlet for Churchill Downs, and often has horses from Churchill Downs racing at its facility. Hence it is a track that very much relies on the 'traditional' aspects of horse-racing and is able to draw on a fairly large and wealthy metropolitan area.

On 19 December 1995, the Argosy casino on the Ohio River was opened for operations in order to attract patrons from the greater Cincinnati area. An examination of Figure 5.2 shows that the opening of this riverboat casino seems to



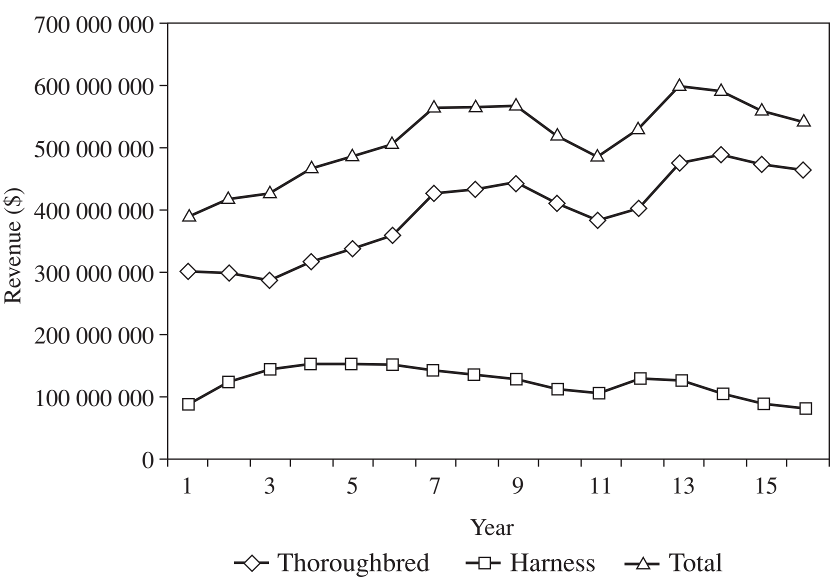
Source: Data supplied by Kentucky Racing Commission

Figure 5.2 Sports Spectrum daily handle (1996) have had little effect on Sports Spectrum's handle. Certainly, the opening of the Argosy riverboat forced Sports Spectrum to eliminate admission fees as well as conducting other new marketing devices to attract patrons. However, it does appear that Sports Spectrum has weathered the initial challenge from riverboat gambling. Sports Spectrum's association with Churchill Downs as well as its ability to draw upon the population of a large and prosperous metropolitan area have been the keys to its initial success.

PUTTING SLOT MACHINES IN HORSE-RACING TRACKS: THE CASE OF DELAWARE AND MARYLAND

Maryland's horse-racing industry

Much like Kentucky, Maryland has a long and distinguished history in the horse-racing industry. In 1996, every day of the year (including Christmas) there was a live horse-racing event occurring somewhere in the state of Maryland. The breeding and the training of horses is also an integral part of Maryland's economy. In fact, while the state collected $5 829 380 in revenue



Source: Data supplied by Maryland Racing Commission

Figure 5.3 Maryland racing revenue (1982–1997) from taxes placed on *pari-mutuel* betting, it awarded $2.1 million to help breeding activities throughout the state (Maryland Racing Commission, *77th Annual Report*, 1999). Figure 5.3 shows the breakdown of horse-racing proceeds that the state of Maryland collects from the two segments of the horse-racing industry. There can be little doubt that the state of Maryland has a major stake in preserving its horse-racing industry and is quite willing to protect it with the use of state funds.

Maryland is also similar to Kentucky in possessing a number of famous thoroughbred tracks, namely Laurel and Pimlico. Pimlico is home to the Preakness Race, which is part of the Triple Crown. Both of these sites have been the home to some sort of horse racing since the founding of Maryland. Another factor that makes these tracks so vital to Maryland's racing tradition is their ability to attract patrons from a number of states, especially District of Columbia, Pennsylvania and Virginia.

Delaware and the horse-racing industry

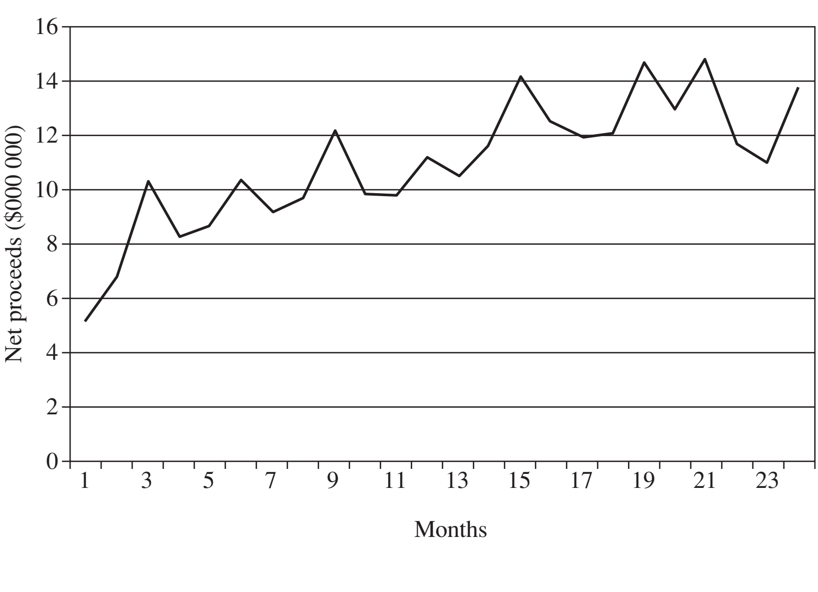
Delaware's horse industry has historically been centered around harness-racing. Up to the 1970s, there were three harness-racing facilities operating along with one major thoroughbred track, Delaware Park. Then, in the early 1980s, Brandywine Race track, which was a harness-racing track located quite near the Philadelphia market, closed. The other tracks were facing hard times from competitors located in Maryland, Pennsylvania and New Jersey. The two other harness tracks, Dover Downs and Harrington, were having an extremely hard time in attracting horsemen to fill out their racing cards. Although Delaware Park had fared better than its harness-racing cousins, it too was experiencing hard times with the reopening of Garden State Park in New Jersey.

Delaware's state government was faced with the following choices. First, it could allow its horse-racing industry to deteriorate slowly and harvest any remaining revenue it could receive from *pari-mutuel* taxes. Second, it could try and help its tracks to compete with those in Maryland, New Jersey and Pennsylvania by reducing its take from *pari-mutuel* betting or giving subsidies to the tracks. Finally, Delaware could authorize its tracks to become the state's gambling centers, that is, permit the tracks to operate slot machines as well as video poker games. While the first option might acknowledge the economic reality facing the horse-racing industry in the US, it was a politically untenable position. While the revenue from horse-racing was a small part of the state budget, the demise of the horse-racing industry would result in a loss of jobs in that part of the state which already had the highest percentage of unemployment. The second option made little sense from the economic point of view. Maryland's horse-racing tradition would make it an extremely difficult target from which to gather horse-racing patrons, while both New Jersey and Pennsylvania would certainly match any incentives in order to protect their horse-racing tracks (*Delaware Racing Commission Annual Reports*).

The third option of permitting Delaware's tracks to operate slot machines and video poker machines was met with some initial political opposition from anti-gambling groups. But, with the closing of Brandywine Harness track in the early 1990s, this third option now had the full support of the Governor's office as well as a vast majority in the Delaware legislature. The bill authorizing its tracks to have slot machines was passed in 1995 with operations beginning in 1996 (*Wilmington News Journal*, 1995).

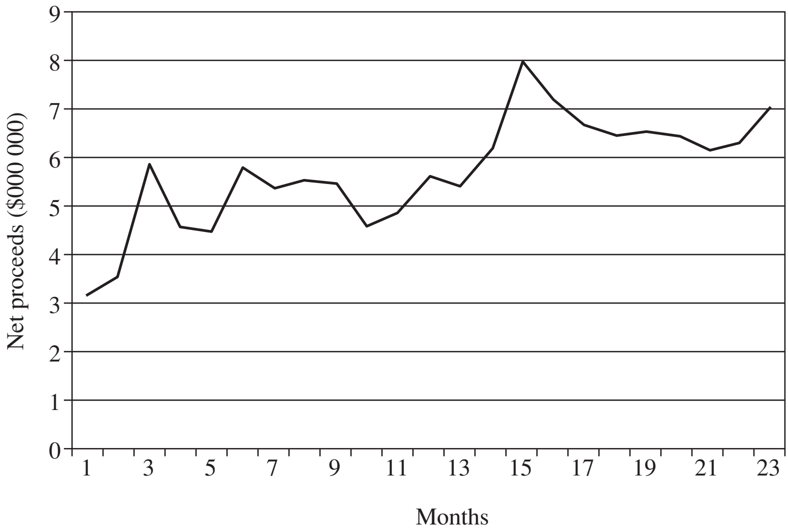
Results

Figures 5.4 (Delaware Park), 5.5 (Dover Downs). and 5.6 (Harrington) show the net proceeds that these three remaining Delaware horse tracks have garnered since they were permitted to operate slot machines. It is quite clear that the installation of slot machines in these tracks has been a rousing success. Delaware Park, the state's only thoroughbred track, has had the greatest success with net proceeds averaging nearly $13 million per month during 1997. The combined proceeds of the two harness tracks, Dover Downs and Harrington, just about equals that taken in by Delaware Park. However, the reliance on slot machine revenue by these harness tracks is nearly complete. It appears that harness racing is now merely a slightly antiquated activity which is performed



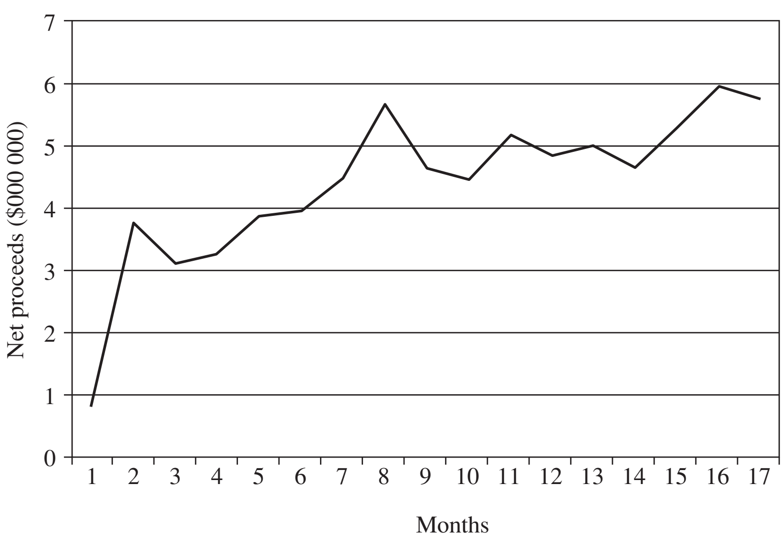
Source: Data supplied by Delaware Racing Commission

Figure 5.4 Delaware Park net proceeds (1996–1997)



Source: Data supplied by Delaware Racing Commission

Figure 5.5 Dover Downs net proceeds (1996–1997)



Source: Data supplied by Delaware Racing Commission

Figure 5.6 Harrington net proceeds (August 1996–December 1997) so that the more serious business of operating slot machines can be accomplished. The slot machine proceeds have more than doubled the proceeds resulting from *pari-mutuel* betting, with a portion of this additional revenue being used to offer higher purses and better facilities at the various Delaware tracks. In other words, the slot machine revenue is being used to subsidize the horse track operations and the employment opportunities that they permit (*Wilmington News Journal*, 1997).

Another interesting aspect to Delaware's experiment with slot machines in its horse-racing tracks is the difference in the ambiance provided by each track to its slot machine players. The section of Delaware Park that houses its nearly 1000 slot machines resembles an old English club with dark wood and furniture along with high ceilings and lighted by chandeliers. Meanwhile, at both of the harness tracks, the slot machine areas are filled with bright carnival lights and loud sounds of money dropping. There appears to be a marked difference between the thoroughbred and harness track patron, and this difference is even more pronounced as these tracks try to entice these patrons to spend even more income on slot machines.

Finally, what has been the effect of these slot machines in Delaware on the operation of horse-racing tracks in neighbouring states? The primary market for Delaware's venture into the world of slot machines was Maryland. It was shown earlier that Maryland possesses a very large stake in the horse-racing industry. The industry in both New Jersey and Pennsylvania had already suffered a steep decline in the 1980s with the advent of casino gambling in Atlantic City in 1977. While there have been calls by the few remaining track-owners in Pennsylvania to have slot machines, these calls have failed to move the Pennsylvania legislature to pass this type of legislation. New Jersey's overall gambling policy is dominated by the Atlantic City casino operations and ways to keep those operations as profitable as possible, since revenues from casino operations support programmes that benefit the New Jersey elderly, a stakeholder that carries more clout than the few remaining New Jersey racing operators and employees.

Recalling Figure 5.3, the importance of thoroughbred racing to Maryland's horse-racing industry is apparent. Over 75 per cent of all horse-racing wagers are made in thoroughbred tracks. While the advent of slot machines in Delaware's tracks does not seem to have affected the thoroughbred segment of Maryland's horse-racing industry, it has led to an even steeper decline in the harness-racing segment. Once again, it appears that traditional thoroughbred tracks can withstand the competition from casino operations, although it also appears that it prevents them from gaining any additional share of the total gambling market. Meanwhile, harness-racing patrons seem to have gone to all those harness-racing tracks that permit them to have additional types of gambling opportunities. It is not a lesson that has been lost on harness horse owners and trainers. In 1995, before the advent of slot machines in Delaware's harness tracks, there was a joint Delaware and Maryland harness-racing association. In 1997, this association was dissolved with the harness owners and trainers moving all of their operations to the state of Delaware. The ability of Delaware's harness tracks to provide better purses and facilities has clearly won the day.

The primary effect of the introduction of slot machines to Delaware's horse-racing tracks has been to deteriorate further the harness-racing market in Maryland. It appears that harness racing devotees are somewhat more devoted to the gambling aspect of horse-racing than the 'sport' of harness-racing, while Maryland's traditional thoroughbred tracks have been able to weather the onslaught of slot machines in Delaware.

CONCLUSION: THE FUTURE OF HORSE-RACING

Does the proliferation of casino gambling mark the beginning of the end for the horse-racing industry in the US? Not likely, although the horse-racing industry will be facing a major period of rapid evolution in the near future. There will always be some demand for the 'sport of horse racing', that is, the tradition and pageantry of conducting races such as those associated with the Triple Crown. But with the introduction of other forms of gambling, specifically casino games such as slot machines and video poker machines, the average horse-racing fan/gambler is spending a good portion of his or her gaming dollar elsewhere. This is especially true when it comes to the harness-racing fan. The societal acceptance of other forms of gambling has stripped the horse-racing industry of its betting monopoly and now the industry must learn to compete with other forms of gaming.

Racetracks such as Turfway Park, which are relatively minor thoroughbred tracks and do not have a long history in thoroughbred racing, will likely be closed as casino gambling grows or will be forced to add casino gambling, the solution taken by Delaware Park. There will likely be a major consolidation of horse-racing tracks throughout the US, with 10 to 15 'supertracks' emerging as the only racing outlets. This will include the country's most popular and storied tracks such as Saratoga, Churchill Downs and Belmont Park for summer racing in the north and the east, in addition to newer tracks such as Santa Anita in California and Gulfstream Park in Florida for warm-climate winter racing. If only a few tracks are running at a time, the industry will be able to offer year-round, high quality racing that can be sent to simulcasting outlets throughout the US.

State governments might be able to aid some of their tracks by allowing them to evolve into horse-racing/casino operations such as Delaware Park.

The argument that will be used to support this type of proposal will be the employment issue. Horse-racing tracks that are located in depressed areas and employing hundreds of people in medium-paying jobs will win the approval of their state legislatures. The interesting question will be to see how states compete not only for gambling revenues but for the jobs associated with the horse-racing industry. It is somewhat ironic, but the future of horse-racing in the vast majority of states in the US rests on its ability to board the casino bandwagon. While the major tracks will emphasize the 'sporting' element of horse-racing, the minor tracks, especially harness tracks, will be forced to bill themselves as mini-casinos with an occasional horse race for diversion of the slot machine playing customers.

The three previous chapters have examined the economics of the three segments of the gambling industry, namely casino gambling, lotteries and *pari-mutuel* betting. All three segments of the gambling/gaming industry have had to transform themselves during the 1990s. The primary reason for this transformation has been the public's new-found tolerance, and indeed preference, for games of chance rather than games of skill.

In Part II, how the politics of gambling/gaming has also been transformed will be investigated. Public policy officials now must attempt to regulate an industry that has transformed itself from one that was mostly prohibited to one that is now generally tolerated. The issues that confront public policy officials as they regulate the gaming industry in many ways are issues that are a direct result of the gambling industry's acceptance of the concept of 'game'.

APPENDIX: ARIMA RESULTS

Intervention analysis requires the identification of an Auto Regressive Integrated Moving Average (ARIMA) model which replicates each time series analysed. In ARIMA notation, a model is specified with two shorthand descriptors (p,d,q) and (P,D,Q). The first element (p) delineates the auto regressive term, the second element (d) is the degree of differencing required to achieve stationarity, and the third term (q) is the extent of moving average associated with the random shocks. The second notational array (P,D,Q) designates analogous terms, except these are associated with seasonality. The ARIMA model is tested against observed series until a statisically adequate model is identified. Adequacy of the model is confirmed after an examination of the autocorrelation function and partial autocorrelation function of the series and when a statistical analysis of the residuals indicates that they constitute a time series of white noise (Ljung, 1978). When an appropriate ARIMA model is specified, it is used to filter that series. At this point, a dynamic model, consistent with the postulated intervention effect is formulated. This dynamic model corresponds to the hypothesis, because its formulation specifies the configured change in the level of white noise produced by the intervention. Once formulated, the dynamic model is fitted to the residual series, its parameters are estimated and each is evaluated using the technique suggested by Box and Tiao (1975).

Turfway

The time series of revenue for Turfway (Figure 5.1) was identified as an ARIMA (0,1,1) $(0,1,1)_{12}$.

Regular and seasonal differencing achieved stationarity in the series. The MA parameter was estimated and statistically tested with the following results:

$\theta_1 = -.09871$ (t = –5.02);
$\theta_{12} = -.1329$ (t = –2.44)
Q = 17.3 with 48 degrees of freedom ($p < .01$).

We can not reject the hypothesis that the residuals form white noise, and therefore the model is accepted.

The first dynamic model postulated was:

$$y_t = \omega \, B \, S_t^{(T)}$$

where ω is the level of change parameter. This model is consistent with a hypothesis of an expectation of a sudden and permanent decrease in revenue from the introduction of casino gambling. The parameter value was:

$$\omega = -4{,}097 \ (t = -2.95).$$

There was a statistically significant decrease in revenue, and then the revenue time series again resumed its previous pattern, that is, a slow decrease in revenue. It appears that the advent of casino gambling has hastened the decline in revenues at Turfway Park.

Spectrum

Figure 5.2 representing the time series for revenue for Spectrum was identified as an ARIMA (1,1,0) $(0,1,1)_{12}$.

The parameters were estimated and found to be statistically significant ($p < .05$).

$\theta_1 = .5613$ (t = 2.21)
$\theta_{12} = .6422$ (t = 3.38)
Q = 24.2 with 48 degrees of freedom

and so the model's residuals are white noise, and the tentative model is accepted.

Once again the dynamic model postulated was:

$$y_t = \omega \, B \, S_t^{(T)}$$

where ω is the level of change parameter. This model is consistent with a hypothesis of an expectation of a sudden and permanent decrease in revenue from the introduction of casino gambling. The parameter value was:

$$\omega = 103 \ (t = .39).$$

This ARIMA model shows that revenues were actually increasing throughout the entire period examined. No other ARIMA intervention models were found to be statistically significant. Therefore it appears that casino gambling had no significant effect on Spectrum's revenues.

PART III

The Political and Social Environment for the Gaming Industry

6. A social and political model for the gambling industry

INTRODUCTION

> The Mod Squad met at Bert's every Wednesday, or Friday, or
> Tuesday, or whenever. They needed each other the way people
> in support groups do: between them there were no illusions.
> They could count on each other.
> They called themselves the Mod Squad ('Merchants of Death')
> Since they consisted of the chief spokespeople for the tobacco,
> alcohol, and firearms industries, it seemed fit. They might as well
> call themselves that since it was surely the name the press would give
> them if they ever got wind of their little circle.
>
> *Thank You for Smoking*, p. 18

The protagonists in Christopher Buckley's hilarious *Thank You for Smoking* seemed to face the ultimate challenge in defending their corporations from endless public scrutiny. Defending the tobacco, alcohol and firearms industries would seem to be a thankless and fruitless task. 'Paying the Mortgage' was the rationale that the Mod Squad used to justify their task.

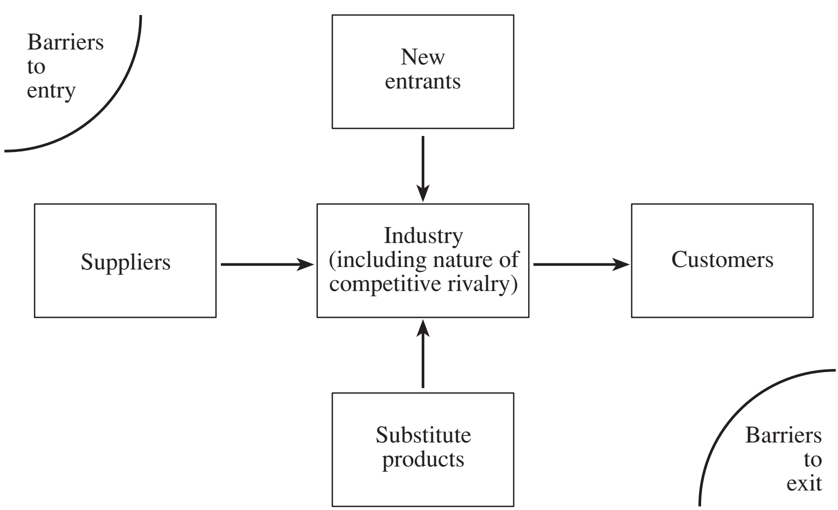
Yet while the problems facing the Mod Squad and their respective industries are particularly difficult, they are hardly unique. Certainly, spokespersons for the gambling/gaming industries face almost as intense public scrutiny. The onslaughts to the reputation of their corporate images are nearly as devastating as those faced by these Merchants of Death. Perhaps a new association should be formed, namely MOCE (Most Oppressed Corporation Ever), where industries could vie with one another for having the most difficult public relations. There is little doubt that Charlton Heston would make the ideal keynote speaker for MOCE's first annual dinner and awards!

Many leaders of the gambling industry are grateful that their industry has been spared the unending controversies that have surrounded the tobacco, alcohol and gun industries. Yet, while the gambling industry has managed to dodge many regulatory bullets, in particular the *National Gambling Impact Study Commission* report (1999) the gambling/gaming industry is hardly home free. There are many issues that the industry has yet to deal with and others are still on the horizon.

In this chapter, a model will be proposed to managers that will utilize the framework of a model that will have a familiar ring to anyone who attended a MBA programme within the past 20 years. This model will outline the various forces that corporate managers need to take into account as they examine the possible events that could affect the business and public policy environment in which their firms operate.

THE PORTER MODEL

In 1980, Michael Porter published his *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. In this work, Porter developed a model that consists of five major components that impact on the competitive dynamics of a specific industry. These components are: suppliers, industry rivalry, substitute products, new entrants and customers. In addition, Porter's model recognizes the importance of barriers to entry and barriers to exit for a given industry (see Figure 6.1). The fundamental approach rests on the notion of power in the relationships – where the power lies at a given point in time, and



Source: Porter (1980)

Figure 6.1 Porter's model of industry competitive dynamics the fact that that power can and does shift over time. The shifts in power mirror the strengths of the players in the industry and the forces that are buffeting it at any given moment. That is, doing industry analysis is a continuous activity because the competitive dynamics change over time as power shifts between and among the five forces, and affect relationships. As a consequence, a successful industry with few substitutes, a low likelihood of new entrants, and great power over either customers or suppliers, can be transformed in a very short period of time.

Utilizing Porter's model requires not only recognition of competitive dynamics over time and how they change and what is the source of that change, but the ability to identify and recognize the strengths and weaknesses of the industry and the individual firms within the industry. It is in the recognition of strengths and weaknesses that individual firms must plan for the future to adapt, survive and prosper.

All Porter's analysis takes place within the confines of the product–market–technology arena. That is, Porter's model is concerned with industry-competitive rivalry in the marketplace, where success is measured in terms of share of the market, profitability, return on equity, and indeed, survival over time. Unfortunately Porter's model does not pay much attention to non-market sources of change on competitive rivalry and industry relationships. This is one of the greatest shortcomings of the Porter model, as it may mislead organizations into believing that they are fully prepared for the future when they are only prepared for the future in a narrow product–market–technology sense. As we have seen, this is certainly true for the gambling/gaming industry.

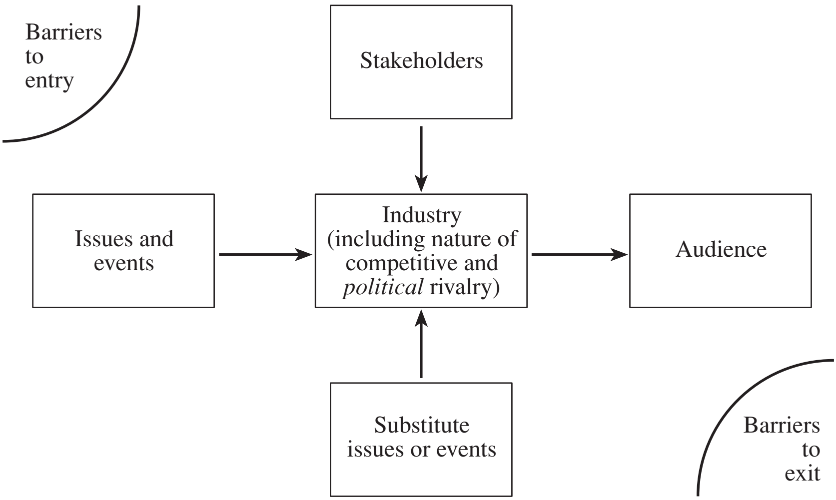
For example, the utilization of the Porter model in the analysis of competitive dynamics in the semi-conductor industry would have been of little use to Intel and its 1995 problems with the Pentium chip. The problem with this chip was that it would produce erroneous mathematical results under some conditions. A 'typical' Porter-based analysis would have suggested that once the decision had been made to produce the product, given the market/technological lead, that Intel was correct in moving to large-scale production. After all, the problem with the chip, the argument went, was only in very sophisticated mathematical applications, and those customers dealing with such applications were only a small portion of the overall market. Besides, over time Intel would solve the problem and replace the chips for those customers who use the product for sophisticated problems. Unfortunately, Intel did not foresee the firestorm of controversy that this problem would raise from all users. Once the controversy surfaced, Porter's model was irrelevant and of no help to Intel's managers in deciding how to deal with this issue, as the resolution process required technological, media, public relations, political and public interest group skills. The model afforded Intel no assistance in responding to a fast-moving public issue and image problem. Intel stumbled in their response, at first stonewalling the problem, then arguing that it was not of sufficient merit to require any large-scale recall. Intel seriously underestimated the anger of a computer user in receiving a chip that, no matter what careful phraseology was used, was defective. Intel's response had a negative spill-over effect on their customers that used the chip in their products – like Compaq. Intel's poor performance in handling this issue opened up a competitive window of opportunity that IBM was quick to act upon. IBM took the high road on this issue and refused to use the Pentium chip until such time as all defects were removed. IBM was forced, so they argued, out of concern for its customers, to use its own manufactured chips instead. Make no mistake about it, this problem with the Pentium chip had financial and competitive positioning impacts for Intel and for Intel's customers. It is precisely these types of impacts that can be planned for, and responded to, if an organization looks beyond just the marketplace and the technological arena.

The situation with Intel is not meant to be seen as a total indictment of the Porter model, but a partial one. In fairness to Porter, the model was never meant to deal with issues in the public and social arena. But its inability to deal with issues that arise in the political and social arena is a key weakness. Many of the sources of surprise for an industry and an individual firm arise out of changing social mores and action in the social and political arena. The purpose of the subsequent model is to offer an approach that compliments the Porter model in that it assists practising managers in understanding and dealing with political and social issues, especially for an industry like the gambling industry.

A MODEL OF SOCIAL AND POLITICAL INDUSTRY ANALYSIS (S&P MODEL)

This model will enable managers to capture the political and social dynamics surrounding an industry and an individual firm within that industry (see Figure 6.2). The major purpose of this model is to enable managers to recognize and address social and political action, and to develop credible responses and strategies for shaping these concerns. The S&P model is not designed to deal with the financial and economic impacts of political and social action *per se*. However, it does recognize that these actions can and often do have profound economic and financial impacts on an industry and on individual firms; again, this certainly applies to the gambling industry. Hence Part II of this book!

Like the Porter model, this model recognizes that the fundamental approach is to analyse where the power lies at a given point in time, and how these dynamics change over time. In the Porter model, in addition to the five elements noted earlier, there are what we call three underlying but critical assumptions.



Source: Mahon and McGowan (1996)

Figure 6.2 The S&P model of industry competitive political dynamics

These assumptions center on the product, the theater of transaction, and the unit of currency as shown in Table 6.1.

Table 6.1 Critical assumptions of the Porter and S&P models

	Porter's model	*S&P model*
Product:	Goods and/or services	Issues/ideas or events
Theater of transaction:	The 'marketplace'	A chosen arena of resolution
Unit of currency/exchange	Money	Influence

A product is defined as something produced, which is not much help. To produce, however is defined according to the dictionary as '... to offer to view or notice; to give birth or rise to; to present to the public on the stage or screen or over radio or television; and to give being, form, or shape to ...' In Porter's model the product is either a good, a service, or a combination of goods and services that identify the industry and its competitors. For example, the automobile industry is clearly identified by its production of a good called an automobile. The financial services industry is identified by the range of both goods and services that it provides and produces to individuals, banks, and other financial institutions through a varied set of financial instruments. The theater of transaction is the marketplace, which can be conceived of on several levels. There is a local market, a state market, a regional market, a national market, and an international market. In addition, one can conceive of markets based on specific needs and desires that are addressed (commonly referred to as niche markets). Each of these levels has certain shared characteristics and concerns as well as unique aspects.

Finally, the unit of currency in industry and business is money. Organizations keep 'score' by using monetary based measures (sales, profit, costs, returns on sales, equity, invested capital and so on). The traditional definition of money is a medium of exchange, a store of value, or a unit of account. Therefore, how do we use money? – to get what we want (exchange), to bank it for later use (store of value), and to measure how much we have (as a unit of account).

In the S&P model, the three driving assumptions are the same: that there exist a product; a theater of transaction; and a unit of currency. However, the specific meaning of each of these terms is different because of the focus on political and social dynamics and not on marketplace dynamics. The product in the S&P model, following the dictionary definition noted before, is an issue/idea or an event. The issue or idea is something that can be created as an input to the firm or industry (that is, as a supply) or by an individual firm within the industry. It is the issue/idea or event that is being supplied (Bigelow, Mahon and Fahey, 1993), but not just to customers in the sense of the Porter model, but rather to external groups that can impact on the industry and its competitive dynamics.

Issues

An issue can be defined as a disagreement between at least two individuals or groups over the facts, values or means (either individually or in combination) for resolution to a given problem. Shell Oil was recently involved with the British government and Greenpeace (an international environmental public interest group) over Shell's proposed abandonment of an offshore oil rig. Shell proposed to sink the rig into the North Sea. Greenpeace opposed this, and effectively argued that such a procedure would dump a great deal of oil into the ocean. Shell was precluded from carrying out this plan by the British government largely because of Greenpeace's efforts and publicity on this issue. In September 1995, Greenpeace apologized to Shell because it had its facts wrong. Greenpeace had argued that a much greater volume of oil was contained in the rig and its piping than Shell's calculations showed. Indeed, Shell was right but it nonetheless lost on this issue. In the US, the lengthy battles over silicon breast implants and the use of alchior on apples reflect disagreements over the 'facts' of the situation. In both situations, the industries and firms involved lost the debate and were regulated in some manner, even though later research revealed the original factual concerns to be incorrect. It is clear then, that being 'right' on the facts is not a guarantee of success.

Issues may also arise from disagreements over the values surrounding a situation. Values reflect people's beliefs and the 'rightness' or 'wrongness' of a given action. The field of genetic engineering reflects this type of conflict. It is recognized from a factual basis that we can alter genetic tissue and change outcomes. The argument by opponents to this process is not a factually-based one, but rather based on values – we *should not* do this because it is not the right thing to do. Issue disagreements rooted in value conflicts are extremely difficult to deal with from an industry or individual firm perspective. The difficulty lies in the degree to which the values held are deeply ingrained in the opposition and their unwillingness to yield to fact-based arguments. This is certainly the case with the issues that the gambling industry faces with anti-gambling groups. These groups base their opposition to gaming either on religious beliefs (for example, Tom Grey is a Methodist minister who leads what he labels an 'anti-gambling ministry') or emphasize the harm that gambling does to the poor. The leading group that espouses this position is the National Coalition Against Legalized Gambling (NCALG).

Finally, issue disagreements can be based on means conflict. Means conflict deals with the proposed solution and implementation of that solution to a given issue. The current debate in many countries around how to increase national competitiveness is illustrative. Every nation desires to increase the international competitiveness of its goods and services. The benefits can be easily demonstrated on a factual basis, and most value-based positions support it. The problem arises in the specific manner in which competitiveness is to be enhanced. Some questions that get raised are: Is it to be accomplished by private or public funds and oversight? Are specific firms and/or industries to be targeted, and if so by whom and based on what criteria? As a result, dealing with a specific issue is far more challenging than might be initially imagined.

For example, an issue or idea that may arise with regard to any industry is regulation. The accounting profession, for example, currently is self-regulated. That is, the members of the accounting profession police themselves (also found in law and medicine). In recent years, there have been proposals for the governmental regulation of the industry from individuals outside the industry itself. This idea or issue becomes in a sense a 'supplier' to the industry that requires a response from the industry (Mahon and McGowan, 1996). An interesting aspect of the response is whether the response will be an industry-wide one or differentiated by individual member firms.

An issue or an event serves as the trigger for action or reaction by the industry. Issues/events are what ignite an industry or firm to specific action. It is issues or events in the political or social arena that fuel the debate and require industry response. For example, when Union Carbide's plant blew up in India, it fuelled intensive investigations and scrutiny into the issue of plant, worker and community safety. As such, issues and events as noted serve as the basis for industry action and reaction, they are the elements in the supply chain.

Arena

Just as a product is put up for sale in a given market (the theater of transaction), so too an issue is put up for discussion (and purchase through the development of support by various stakeholders) in a given arena. These arenas also have different levels. An issue can be discussed at the local, state, regional, national or international level as well as being addressed in different arenas. These arenas can be either informal or formal. Informal arenas include such things as public discussion in the electronic media and meetings between organizational representatives and members of the public or elected bodies. Informal arenas do not necessarily lead to the resolution of an issue, but can lead to an understanding of where each participant is in relation to the issue, and can result in useful coalitions for action later on. Formal arenas include mediation, arbitration, legal action, regulatory action and legislative action. Each of these levels and arenas has certain shared characteristics and concerns as well as unique aspects. The choice of an arena is important as it defines the target audience that needs to be addressed and satisfied if a resolution is to be achieved on the issue. Therefore, when a firm or a public interest group files a lawsuit they are in essence defining the critical audience as the judiciary. Note that the specific tactics used in each arena will be different because both the arena selected and the specific target audience are contained therein.

Influence

In the product market situation, the unit of currency is money. In the political and social arena the unit of currency is influence. Influence, like money, can be used as a medium of exchange, held for later use, and measured over time to see how much an organization has and how it has used it. In Tom Wolfe's book *Bonfire of the Vanities*, there is a wonderful discussion of the 'favour bank'. The favour bank, as described by one of the characters, is something that everyone knows exists, and that people routinely make deposits into so that in the future a 'withdrawal' can be made. According to the character in the book, the idea is to bank favours for the future and never make a withdrawal that will bounce (in other words, there have not been enough favours done or the favours are not of sufficient value to merit a response in kind). This is what influence is about, the trading of favours over time – and such favours can take a variety of forms: information provided, services rendered or not rendered and so on. A firm will support a given position now in the expectation that a favour may be requested in the future. In the political and social arena, this is the major unit of exchange. The other five elements (substitute issues, stakeholders, industry rivalry, audience and barriers to entry and exit) of the model will now be defined and discussed.

Substitute Issues

Just as a manufacturer has to be concerned with the possible entry of substitute products, in the political and social arena we must be concerned with substitute issues. That is, over time and with discussion of an issue, its focus may be changed. The changed focus may be narrower or broader than the initial issue and this may or may not have implications for the industry and individual firms within the industry. As the issue changes, the pattern of stakeholder involvement changes and the arena of resolution may shift as well. If an issue, for example, initially begins as a civil rights based disagreement, then it is reasonable to conclude that civil rights organizations (for example, NAACP) and civil liberties groups (for example, ACLU) will become involved. Over time, if the issue is redefined to mean something else, then these two groups are likely to withdraw from the contest. More importantly, as briefly noted earlier, the specific nature of the issue and its definition can have very different implications for individual members of an industry.

As an example, consider the alcohol industry and its annual battles with state legislatures to increase excise tax rates. These taxes are an easy target for legislators in their constant search for new revenues. The industry constantly reminds state legislators that this excise tax is ‘regressive’ and not fair to consumers. What is curious is that organizations such as MADD (Mothers Against Drunk-Driving) are not supporters of excise tax increases. While MADD is a consistent supporter of stricter anti-drunk driving legislation such as lower BAC (Blood Alcohol Content) laws, MADD is politically astute enough to realize that it does not want to risk the public’s anger over additional taxes. While no one can support drunk driving, one can easily mobilize the public over additional taxation.

Stakeholders

Closely allied with the entry of substitute issues is the entry of stakeholders (Freeman, 1984) into the debate and ultimate resolution. Similar to new entrants in the product market sense, the entry of stakeholders into the debate can dramatically alter the competitive issue framework in terms of both definitions and the balance of power and influence with the target audience. Stakeholders can be defined in a variety of ways. In this particular framework, stakeholders are those individuals, groups and firms that can:

- alter the definition of an issue;
- impact on the power relationships among players involved in the issue at hand; and
- influence the target audience and the resolution of the issue and/or the implementation of the resolution.

As an example, the entry of someone like Ralph Nader into the discussion on automotive safety dramatically alters the issue dynamics, the number of additional stakeholders likely to be involved, and the costs of dealing with the issue or problem.

Industry Rivalry

Just as in the Porter model, the degree of intensity of industry rivalry impacts on the dynamics of the situation. Issues as they arise have impacts on the industry, but not necessarily in an equal and uniform impact. Recall the alcohol industry example discussed earlier concerning alcohol excise tax increases. While all producers of alcoholic products resist additional taxation, the three segments (beer, distilled spirits and wine) have different interests as far as excise tax increases are concerned. Since distilled spirits are taxed at a substantially higher rate than beer, one would think that distilled spirits would be the most concerned about excise tax increase (McGowan, 1997, p. 131). In reality, the beer industry is the segment of the alcohol industry that mobilizes its considerable political muscle in state legislatures. Beer drinkers tend to be younger and have less disposable income than consumers of distilled spirits who tend to be older and wealthier than beer drinkers. Curiously, when one uses an analysis of industry that breaks the competitors into strategic groups, those groupings can often be insightful as to how the industry might shake out on a political or social issue.

For example, an analysis of the soft drink industry reveals several strategic groups. Some of these groups are:

- Coke and Pepsi, the behemoths of the industry.
- The second tier players, for example, Dr. Pepper.
- Regional players like Shasta and Franks.

When Congress proposed eliminating saccharine as an approved artificial sweetener, the impact on the industry was very uneven. The greatest impact was on Shasta who received approximately 70 per cent of their income from diet drinks. As such they had the most to lose by this proposal and fought it, whereas the rest of the industry either supported it or did not care. Similar patterns can be observed in the banking industry with regard to deregulation of banking.

The national/international banks are for it, while the state and local banks are opposed to it. The state and local banks are opposed to deregulation because they see it as having profound economic and financial impacts on them.

Audience

In Porter's model the final element is the customer. The customer is the one who purchases the good or service and who can exercise power over the industry and individual players if dissatisfied. The concept in Porter's model is that customers serve as a feedback mechanism to the industry regarding how they are performing in addressing, meeting and satisfying their needs. If their needs are not being met, customers react by not buying the industry/individual firm's products and services – that is, they withhold financial support in the form of purchasing. The industry and/or individual firm then has to either change what it is doing or seek a different customer base that will be satisfied with the given product or service.

The 'audience' in the political and social arena is the equivalent of Porter's customer. Schattschneider (1960) knew of the importance of the audience in political and social contests.

Every fight consists of two parts:

1. A few individuals who are actively engaged at the center.
2. The audience that is irresistibly attracted to the scene.

The latter are an integral part of the overall situation.

Schattschneider goes on to argue at length that it is not the strength of the individuals who are directly involved in the dispute that necessarily determines the winner, but rather the side that the audience chooses to join and support. We can see, then, that in the political and social arena the 'audience' serves two purposes. The audience is both a stakeholder as defined earlier (and can be in the observer role in Schattschneider's view), and the judge that can provide resolution to the issue or problem if it (the audience) is convinced by the participants' arguments and presentations on the issue/event. The firm and industry must approach an issue in a manner that appeals to the audience in some way. Much like the customer in Porter's model, the audience must have its needs addressed and satisfied in some manner. The audience in this model can be defined as that set of individuals (or groups) that exercise recognized control over the solution to the issue and problem. Therefore an audience can be society at large, the media, the judiciary, the legislature, the regulatory agency and so on. The argument is straightforward – if the given audience is satisfied with the arguments by the firm or industry over an issue, the audience will rule (as in an act of law, a regulatory or judicial finding, or in the support of society at large that notes it is no longer interested in the problem) and the given issue is resolved *at this time*. If a given audience is satisfied (for example, a regulatory agency) then the issue *may* go away permanently. It is important to note that these audiences have limited attention spans and time to deal with an enormous set of issues. As a consequence, some important issues may never get the attention of a target audience because their agenda is too crowded to deal with this issue, or because an issue of higher priority and importance demands immediate action – and thereby throws an issue off the agenda until a later time.

Unfortunately, issues and problems are often resolved that deal with a very narrow subset of the main issue due to the overall context of the situation, or one of the stakeholders involved in the issue appeals for the resolution of the issue in a different arena. For example, when the judiciary was deciding on the exact breakup of American Telephone and Telegraph (AT&T), AT&T was frustrated in seeking its goals. At one point, AT&T unleashed its lobbyists in Congress seeking to force Congressional interest in the issue and possibly engineer a legislative vice or a judicial solution. Although AT&T was not successful in this attempt, the judiciary got the message and moved faster on the breakup and resolved some points in AT&T's favour. Therefore, the threat of moving an issue to another arena may be sufficient to compel favourable action in the current arena where the issue is being resolved.

Nonetheless, an issue considered 'resolved' may arise again at some future date. An example of an issue being repeatedly dealt with, among others, is plant and worker safety. When situations change or new technological knowledge is developed, it can lead to new demands for workplace safety and the regulations and legislation are revisited. In addition, a given audience may be satisfied but the losing party can raise the issue in a different arena with a different audience as noted earlier. In this example, a firm may lose in the regulatory arena because the agency rules against them. However, the firm (or individuals or representatives of public interest groups) may appeal the decision to either the judicial or legislative arena with a different audience and a different set of rules and mix of stakeholders. Fixes to the social security funding situation occur at fairly frequent intervals. A logical question is, why isn't the problem fixed permanently? It might be that this particular problem is so difficult, and imbued with such strong and active stakeholder interests, that a permanent solution is just not achievable, so temporary 'patches' are placed on the system with the understanding that this problem will be addressed again at a later date.

Audience satisfaction can also include non-resolution, that is nothing happens at a given point in time because adherents and opponents are so evenly balanced that no change in the *status quo* occurs, or another more pressing issue arises that demands attention – so the original issue is dropped from consideration. The issue of abortion is one that seems to be evenly balanced and at this time incapable of any final resolution.

Barriers to Entry and Exit

In addition to the forces noted above, there are barriers to entry and barriers to exit in the political/social field. Barriers to entry in the political/social field center around access and legitimacy; and they are closely related. Access to the system is the ability to meet with and influence key actors and stakeholders in the process. Money allows an organization in the Porter model to purchase rivals or to engage in intense price-cutting to weaken rivals in the marketplace. Access allows for the exercise of influence, without access influence does not exist in the political/social arena. Stakeholders in an issue that do not have access to the system can and often do engage in violent or illegal action to gain attention to their cause and thereby gain access to the arena where the issue will be resolved (Cobb and Elder,1972). Legitimacy is the recognition by others that you have a reason to be involved, that is, it is legal or the issue affects you or your organization in some clearly defined manner, and that your involvement is not damaging. For example, the People for the Ethical Treatment of Animals (PETA) are recognized as militant supporters of the rights of animals. Their militancy, however, has denied them access and legitimacy – because their approach to defending animals includes destruction of laboratories and years of research. Few stakeholders and public officials wish to meet with PETA because of these actions. As a result, PETA has encountered a barrier to entry into the political and social process. In addition, barriers to entry can be raised by an organization's own past performance. Many years ago, General Electric (GE) was involved in a price-fixing scandal. Prior to that, GE had an excellent reputation. When Congressional hearings were held on the issue, GE was not a credible witness to address the issue of price-fixing and what should be done about it as they were tainted by past behaviour – again a barrier to entry. A key difference here is that the barrier to entry was not raised by the industry's actions (as in the Porter model) but by the combination of the specific issue, the arena in which it was to be resolved, and the stakeholder or firm's prior performance.

Barriers to exit are similar. An industry or firm may be precluded from exiting the political or social issue because of the nature of the industry and/or the nature of the issue itself. As noted earlier, if the issue is centered on a discussion of governmental regulation of the accounting profession, the accounting profession cannot exit the discussion of the issue without profound consequences. During the discussion of plant safety in wake of Bhopal, Union Carbide might have preferred to stay out of the discussion. Indeed, the chemical industry as a whole might have preferred Carbide to remain silent on this issue, but the target audience (Congress) would not let Carbide exit the discussion of the issue.

An industry that exits a discussion of issues that impact on its performance and survival loses all rights to complain about the resolution of the issue, and indeed has no role in the shaping of the issue and the enforcement of the outcome. This is one of the key reasons for raising industry and individual firm understanding of the political and social process, and their need for intimate and ongoing involvement in it.

The next section will utilize the S&P model to analyse two perennial issues that have plagued the gambling/gaming industry even during this period of unprecedented growth.

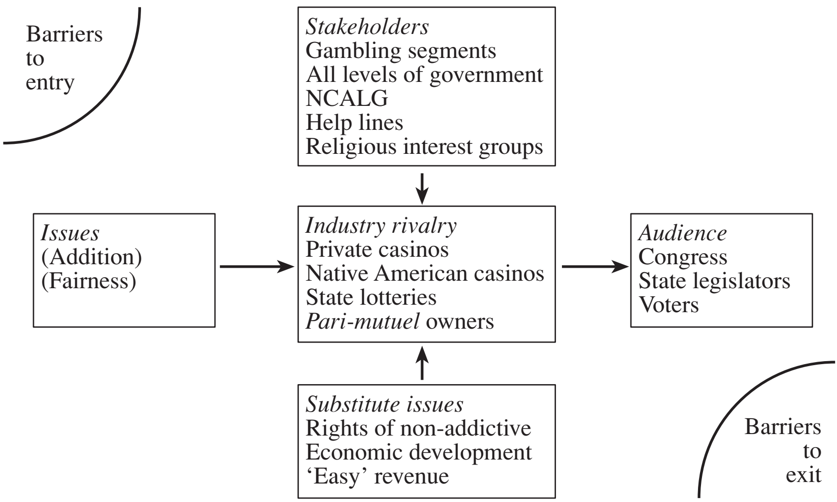
GAMBLING INDUSTRY: THE 'ADDICTION' AND 'FAIRNESS' ISSUES

Critics of the gambling/gaming industry such as National Coalition Against Legalized Gambling (NCAGE) often disparage the use of the word 'gaming' to describe gambling activity. Yet the major criticisms that the NCAGE as well as other anti-gambling groups have of the industry involve the characteristics of a game. Specifically, these attacks center on the addiction problem that some gamblers have with gambling activity. Some of the players are not free to enter or exit a game. It is no longer a voluntary activity for a small segment of the players of gambling games and thus violates one of the basic characteristics of a game. This 'addiction' problem has been the focus of a great deal of research. Even more interesting is the amount of support that the gaming industry gives to those who are actively investigating the relationship between gambling and addiction. The S&P model will be utilized to analyse how this addiction issue has evolved and how the gaming industry has dealt with the issue.

The other issue that the gaming industry has had to deal with and continues to deal with is the 'fairness' issue. Critics of the gaming industry point out that these gambling games are 'rigged' so that the house (that is, the casino or lottery) has to win. Once again, a fundamental characteristic of a game is violated. For lotteries, fairness has become much more an issue than for the other two segments of the industry. While slot machines in casinos have at least a 91 per cent 'payback' (that is, the bettor loses \$.09 of every dollar bet in the long run) the payback for the *best* lottery game is at most 60 per cent (that is, the bettor loses \$.40 of every dollar bet in the long run). Hence, the payback to the bettors has been the object of much criticism for lotteries. Besides utilizing the S&P model to analyse the politics of this issue, Chapter 7 will examine the effects that warning label requirement had on lottery sales.

S&P MODEL FOR THE 'ADDICTION' AND 'FAIRNESS' ISSUES

In the previous section, the addiction and fairness issues, the primary public policy issues facing the gaming industry, were discussed. How these issues play out in the remaining parts of the S&P model will now be examined. An overall view of the S&P analysis is given in Figure 6.3. It is hoped that the analysis that follows will shed some light on how the various stakeholders are interacting as they deal with the five elements of the S&P model.



Source: Mahon and McGowan (1996)

Figure 6.3 The S&P model of the gambling industry

Substitute Issues

In dealing with the addiction issue, the strategy of the industry is to acknowledge that an addiction problem exists but that the vast majority of gamblers can gamble safely without becoming addicted to gambling. The gaming industry will point out to public policy officials that the majority of gamblers set budgets for themselves when they gamble. The American Gaming Association (AGA) has sponsored research that found that only about one per cent of the adult population are current pathological gamblers (Shaffer, Hall and Vanderbilt,1999). Hence the vast majority of Americans can 'safely' gamble and should have the 'right to gamble'. The industry concludes its argument in favour of gambling by stating its willingness to help problem gamblers, but that gambling is certainly an important part of an individual's entertainment options.

The other substitute issue that the gaming industry employs to counteract the addiction issue is that gambling is a good vehicle to achieve economic development. The AGA has sponsored research by respected consulting firms, such as Arthur Andersen and the Evans Group. These reports estimated the economic impact of various types of gambling legislation and its effects on employment and tax revenues. Both of these reports maintain that gambling (casino gaming in particular) is an effective engine for economic development. Critics such as Thompson (1997), and Gazel and Rickman (1997) pointed out that these reports failed to measure the social costs of gambling and these social costs (for example, addiction) outweigh any economic gains by a community. However, Walker and Barnett (1999) attacked the assertion that social costs outweigh economic benefits. They maintain that the definition of 'social' utilized by critics of the gambling industry is too broad, and estimates of the social costs of gambling are too high. Needless to say, the issue of estimating the economic and social costs of gambling is one that deserves further scholarly research.

As for the fairness issue, the gaming industry's typical response is that gambling is a good way to generate revenue without raising taxes. Although the casino segment of the industry utilizes this argument, it is the lottery that employs this argument to answer critics that the odds given to gamblers are not 'fair'. Lottery officials typically will defend their poor odds by showing legislators all of the 'good' works that the lottery supports, such as aid to education, aid to the elderly, even new fire trucks! In general, lottery officials justify their strategy of low returns to lottery players by demonstrating that the projects that the lottery supports need all the funds that can be squeezed from the unsuspecting players.

Stakeholders

Clearly, the stakeholders that have the biggest interest in the eventual resolution of the addiction and fairness issues are the various segments of the gaming industry. All of these segments are affected by both of these issues, but clearly not all of the segments have equal stakes in how public policy officials deal with these issues. With regard to the addiction issue, it would appear that the casino industry is the one that is most targeted when it comes to this issue. Certainly, the casino industry's interest group, the AGA, takes this view. The only external scholarly research that the group sponsors involves the examination of the addiction and gambling issue.

Meanwhile, the lottery appears to be most in jeopardy in the eyes of public officials when it comes to the fairness and gambling issue. As was pointed out earlier, lotteries give by far the lowest payout to their customers compared with other forms of gambling. Another aspect of this fairness issue is that lotteries are accused of 'preying' on the poor, much more so than casinos.

It is interesting to note that the *pari-mutuel* industry's basic public policy issue is survival. While the *pari-mutuel* industry is sometimes associated with these issues, its demise makes its role a moot point. No doubt the owners of *pari-mutuel* tracks would like to have enough patrons in order to have to deal with these public policy concerns!

Another major stakeholder in the gaming industry would be Native American casinos. Like the private commercial casinos, the Native American casinos often face the accusation that they are causing a number of their patrons to become addicted to gambling. The fairness issue has another connotation for the Native American casinos. Since they are not directly subjected to taxes (since they are recognized as sovereign nations) Native American casinos are considered to have an unfair advantage over the private commercial casinos. The combination of both of these issues has caused a 'backlash' against the establishment of any more Native American casinos. But this question is one that has become a source of controversy for the other powerful stakeholder in the gambling industry, namely government.

Government's role in the regulation of the gaming industry is one that has pitted the various levels of government against one another. It appears that the federal government and states governments have at times very different interests with regard to the regulation of the gaming industry. This difference became even more apparent in the National Impact Commission on Gambling Study report published in June 1999. In respect of this problem and the pathological gambling issue, one of the recommendations of this report (4–2) was that states be required to enact a gambling privilege tax whose revenues would be earmarked to support gambling education and treatment programmes. Another recommendation of the NICGS report (3–4) was that labels warning about the risk of gambling as well as the odds of winning be posted in prominent locations in gambling facilities. (The next chapter will analyse what possible effects this might have on lottery sales.) Needless to say, there were a number of state officials who complained that this was unwarranted interference by the federal government over an industry that has been traditionally regulated by state governments. These recommendations were also seen as threats to the revenue streams that state governments presently enjoy from operating lotteries and taxing commercial casino establishments. The conflict between states and the federal government over the ability of Native American tribes to operate casinos has also developed into another clash between states' rights versus the power of federal government. In general, it appears that state governments are very much interested in the revenue and economic development potential of additional gaming venues, while the federal government appears to be determined to stem the tide of additional gaming opportunities except, ironically, for Native Americans! Another factor that has caused this conflict between state governments and the federal government can be attributed to the final set of stakeholders within the gambling industry, namely the anti-gambling groups.

Anti-gambling groups can be classified in two ways. First, there are groups that are opposed to gambling on religious grounds. In general, these groups would fall under the rubric of the Evangelical Right. The opposition to gambling is based on a moral conviction that gambling violates the commandment that one should not covet one's neighbours' goods. The second type of anti-gambling group bases its concerns on a belief that gambling preys on members of society who cannot defend themselves against its evil influences. Ironically, members of the National Coalition Against Legalized Gambling (NCALG) would most likely be classified as 'liberal' in their political leanings. Hence these two anti-gambling groups have a curious mixture of conservative and liberal political philosophies. Even though their anti-gaming beliefs come from very different rationales, they are united ideologically against any form of gambling. Meanwhile, the vast majority of Americans tolerate gambling, but it has been extremely difficult for the gambling industry to mobilize this rather indifferent majority to defend their right to gamble. The prime example of how the anti-gambling coalition works was its influence in getting the NICGS approved. In order to secure its passage, anti-gambling groups were able to utilize a conservative Republican Congressman, Frank Wolfe from Virginia, and a liberal Democratic Senator from Illinois, Paul Simon, to co-sponsor the bill establishing the commission. At the state level of government, the success of the anti-gambling groups is much more mixed. While most legislators could not be classified as 'pro-gaming,' the vast majority of legislators are willing to let the voters decide for themselves what type of gaming options they would like to be available. Sometimes the anti-gambling forces can muster enough support to defeat a gaming initiative, while at other times the appeal of additional revenue without additional taxes persuades voters to approve pursuing other gaming activities.

Industry Rivalry

In the previous section, it was observed that the three segments have very different stakes in dealing with the issues confronting the gaming industry. Yet one key interesting question that has not been asked is whether the various segments of the gambling industry can cooperate with one another in influencing the public policy process. In terms of the addiction and fairness issues the answer is negative. Both lotteries and *pari-mutuel* betting segments perceive that the addiction issue is primarily associated with the casino industry. Lotteries and *pari-mutuel* betting try to portray themselves as the non-addictive or 'good' forms of gaming. They disassociate themselves from casino gaming as much as possible. Yet it is casino gaming that now dominates the gambling industry, and is certainly the fastest growing segment of that industry. When it comes to dealing with the fairness issue, the casino industry appears to take the stance that the lottery segment will take the greatest brunt of this criticism, so it too tries to keep its distance from its gaming cousin.

Even in the face of the NICGS, the gambling industry could not form a united front. Frank Fahrenkopf, the president of the AGA, presented the casino industry's response. Fahrenkopf dutifully acknowledged the addiction problem and immediately presented all the academic research that the AGA had sponsored and would be sponsoring in the future. Meanwhile, the lotteries and Native American gaming interests challenged the commission's right to question how they conducted their business. Since the states themselves determined whether a lottery ought to be operated, the federal government has no role in determining a state's lottery policy. Meanwhile, the representatives of the Native American casinos reminded the commissioners that they represented a sovereign territory whose gaming was sanctioned by the federal government.

It is not surprising, then, to note that the final NICGS report was far more critical of the lotteries and Native American gaming than it was of the casino industry! But the commission also made as its first recommendation (3–1) that the states are 'best equipped' to regulate gambling within their own borders. Its primary recommendation that there be a moratorium on further expansion of gambling was greeted with a yawn by both the press and the public. While the industry breathed a sigh of relief, it showed that it was incapable of achieving any unity when it comes to dealing with the public policy process.

Audience

While the public no longer views gambling as a moral evil, it is also apparent that most Americans are generally indifferent to the gambling industry. They may like to have the opportunity to gamble, but they also suffer from the NIMBY (Not In My Back Yard) complex if a casino is proposed for their immediate neighbourhood.

It has been pointed out earlier in this chapter that two levels of government have become the battlefield for gambling legislation, namely the state and the federal levels. State legislators in general seem to be more receptive to the idea of permitting additional gambling opportunities throughout a state. The chief motivations for these state legislators are the possibility of economic development and the lure of additional tax-free revenues. Meanwhile, the federal government seems to be casting a wary eye on any further expansion of gaming opportunities. However, given that the mood of Congress during the 1990s (as well as the US Supreme Court) is to re-establish state prerogatives over federal initiatives, the gambling/gaming industry has been able to establish itself so that no American is more than four hundred miles away from a casino.

What is truly remarkable about the gambling industry's dealing with government has been its lack of interactions with the courts. Certainly, the addiction issue has caused the cigarette industry to deal with numerous lawsuits.

Yet none of the anti-gambling groups have supported any suits that involve addicted gamblers suing the gaming industry at either the state or federal level.

The gambling industry has been fortunate that its political audience (as opposed to its customer base!) has been kept quite narrow and to just one branch of government. Neither the anti-gambling forces nor the gambling/gaming industry have been able to provoke any interest in gaming issues. The image of gambling portrayed by the media is that it is a slightly naughty but harmless pastime. Whether the media will eventually side with the anti-gambling forces to expand the audience for gambling issues in the future remains to be seen.

Barriers to Entry and Exit

In this analysis, the legislative branch of every level of government has been the one stakeholder which has the access and the legitimacy to enter the debate on the issues facing the gambling industry. But it is even more interesting to note the other audiences that have declined to become part of the audience that will decide the debate over gambling. Many interest groups (for example, anti-smoking and anti-drinking groups) have turned to the courts when legislatures have failed to enact legislation that limits offending industries such as tobacco and alcohol. Yet, as was noted earlier, this appeal to the judiciary has not happened with the gambling industry.

Why hasn't the general public become more interested in gambling issues? There are two reasons. First, there is the public's acceptance or toleration of gambling. The public is willing to put up with any activity as long as that activity does not harm another person. *My Way* has become the theme song of American Society. Second, the gambling industry, even with the explosion of gaming opportunities, has managed to be scandal-free. The press has not had the opportunity to uncover scandals that would shock the American conscience about the evils of gaming. Gambling is now viewed as a 'game' with all the 'child-like' characteristics that were described in Chapter 2. The boom in gambling has seemingly caused no one direct harm, and so the public is willing to tolerate if not support the gambling/gaming industry's right to exist.

As for barriers to exit, the one stakeholder that has clearly signaled that it wishes to exit any future debate over gambling is the US Congress. The NICGS Report, authorized by Congress to examine the national impact on US society, had as its first recommendation that 'states are best equipped to regulate gambling within their own borders' (NICGS, 3–1). This is a clear signal to the gambling industry and to anti-gambling forces that any future battles over the expansion of gambling will be conducted at the state level. The American public has not demanded that the federal government regulate an industry that the vast majority of Americans deem to be acceptable.

Clearly, the three segments of the gambling industry, anti-gambling groups and state governments will remain the primary stakeholders in the gambling industry. For state governments and the gambling industry, the stakes are economic. Meanwhile, for anti-gambling groups the ideological imperative to oppose gambling remains as strong as ever. These stakeholders will be engaged in any future confrontations about expanding gambling or trying to roll back gambling.

CONCLUSION

In this chapter, a model has been developed to analyse the political and social forces that confront the gambling industry. Two issues were analysed: the addiction and fairness issues. Both of these issues have plagued the gaming industry throughout the 1980s and 1990s and will continue to do so in the future. Government (Congress and state legislatures) were the primary audience for the arguments presented by the gaming industry and anti-gambling groups. The various segments of the gambling industry were not able to present a united front, but neither were the anti-gambling groups able to convince legislators that gambling ought to be prohibited.

So where do the gambling industry and its foes find themselves in the year 2000? Perhaps, a stalemate is the best description of the current state of social and political environments in which the gambling industry finds itself. Since the federal government has seemingly washed its hands of any responsibility for regulating the gaming industry, the states have become the primary battleground for gambling and anti-gambling forces. At the state level, both the gaming industry and anti-gambling groups have won victories. Lotteries have been both approved and disapproved. Riverboat gaming has also had its share of triumphs and setbacks. It certainly appears that the trend of victories and defeats for both sides of the gaming debate will continue. The arguments surrounding gambling are complex economically, socially and psychologically. The American public seems to enjoy the opportunity to gamble but it still questions the overall effect that this additional gaming has on quality of life.

One of the political and social issues that was examined in this chapter was the fairness issue. One of the recommendations by the National Impact Commission on Gambling Study was to post odds of winning so those bettors would have an idea of just how fair the bet was that they were making. The next chapter will attempt to analyse, using empirical methods, what effect posting odds had on lottery sales in two areas of the US.

7. Gambling and warning labels: A new danger for the gambling industry

INTRODUCTION

The 1980s and 1990s have been characterized by social commentators as a period of time when conservatives dominated the political landscape with a pro-business agenda. However, for the 'sin' industries (tobacco, alcohol and gambling – the legal ones!), this era is one that will be remembered as the time when these industries were under enormous economic and political pressure to justify their existence. One of the public policy measures that officials employed to attack the legitimacy of these industries has been the 'warning label'.

In 1968, cigarette makers were required to include a warning label on the packages of cigarettes, such as 'Cigarette smoking may be hazardous to your health'. It was the first victory that anti-smoking forces won over the cigarette industry. Eventually, the message of the warning label had to change every three months and the placement of the warning label on the package itself had to rotate to different locations on the package. It was the first victory of anti-smoking groups in their effort to legitimize the smoking and health issue as an object for vigorous public policy experimentation and public debate (McGowan, 1994).

The alcohol industry managed to avoid having warning labels placed on its products until 1990. The alcohol industry was required to place warnings such as: 'Women should not drink alcoholic beverages during pregnancy because of the risk of birth defects', or 'Consumption of alcoholic beverages impairs your ability to drive a car and may cause health problems.' The history of the alcohol industry is strikingly similar to that of the cigarette industry. First, the warning label was the only requirement, then the various segments of the alcohol industry (beer, wine and distilled spirits) were required to change the location of the various warning labels to different locations on their bottles. Once again, the warning label requirement was one of the first salvos fired by anti-drinking groups such as MADD against the alcohol industry.

So, when Congress established a National Impact Commission on Gambling Study in 1996, one might have thought it would be a good 'bet' that one of the proposals that the commission recommended would be to require a type of 'warning label' around gambling activities (NICGS, Final Report, Chapter 3–4).

These warning labels could take two forms. First, all types of gambling would be required to post a toll-free telephone number where help could be found for those who believed that they were or were becoming addicted to gambling. A second type of warning label that is being proposed would mandate that the odds of winning or the percentage of 'payouts' would have to be posted by casinos and by all merchants who sell lottery tickets. So while the gambling product or service will not have a 'label' placed on it, these proposed 'warnings' would inform potential gambling customers about the unfavorable risk that they will be taking, either with possible addiction to gambling or their money!

Needless to say, the gambling industry has not been exactly enthusiastic about this pseudo-warning label proposal by the National Gambling Commission. The casino and lottery segments of the gambling industry are resisting these various warning label measures, much as their other 'sin' cousins in the tobacco and alcohol industries had previously done. Hence the final outcome of this warning label proposal will be an interesting political contest between the monetary resources of the gambling industry and the ideological fervour of the anti-gambling forces.

This chapter will examine the economic issues that surround this warning label proposal for the gambling industry. The economic effects of the proposed national warning label will be studied by analysing the effects that warning label requirements have had on lottery sales in states that require the posting of odds and '800' numbers for gambling addiction.

ECONOMIC EFFECTS OF WARNING LABELS

The requirement to post '800' help numbers or the probability of winning a jackpot has been advocated by anti-gambling groups such as the NCALG. Clearly, it is their hope that gamblers will be discouraged from gambling because they might either fear a possible addiction to gambling activity or realize that the odds are so great against the gambler that gambling is a worthless activity. In other words, the warning label is a device to take the 'entertainment' value out of gambling activity and thus decrease such activity.

In order to ascertain whether this goal is being met, lottery sales from various states will be analysed for the three types of games (daily number, lotto and instant games) that most state lotteries offer. The analysis will determine whether lottery sales of states with the warning label requirement differ significantly from those of states without such a requirement. Two pairs (one state has a warning requirement and the other does not) of states will be compared from two different parts of the country. Lottery sales from a pair of Midwestern states (Minnesota and Wisconsin) along with a pair of Southwestern states (Arizona and New Mexico) will be studied.

Product Life Cycles of the Various Types of Lottery Games

As was pointed out in Chapter 4, the product life cycle is a marketing concept that identifies four discrete stages that mark the evolution of a product such a lottery (see Figure 4.1 on p. 54). The evolution of products through the product life cycle is well documented. This section will be devoted to an examination of whether the life cycle of a particular lottery game has been altered with the introduction of a warning label when compared to the life cycle of a particular lottery game in a state where no warning label requirement exists.

The comparison is based on weekly sales data of each lottery game (instant, Powerball, and daily) for the period from January 1998 to August 1999. Since this sales data is autocorrelated (this is usually the case), the data was differenced once and then various life cycle models were fitted to the differenced data. All of the sales data was provided by the Massachusetts Lottery Commission and adapted for this analysis. The results of this analysis will be the basis for the discussion of the rest of this chapter.

Minnesota and Wisconsin

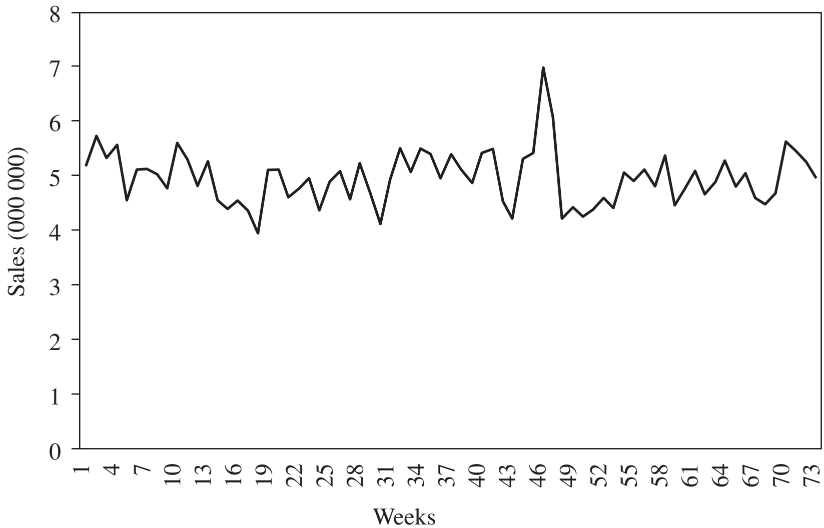
Minnesota and Wisconsin established their lotteries in 1990 and 1988 respectively. The introduction of these lotteries was a relatively recent development compared to other Midwestern states such as Michigan (1972) and Illinois (1974). So the institution of these lotteries does not appear to be a competitive reaction to a neighbouring state. However, both Minnesota and Wisconsin experienced a dramatic increase in Indian casino gambling after 1988. Hence the development of both of these lotteries is an attempt by both state governments to reclaim potential gambling revenue that was being lost to Indian casino gambling.

The major difference in the approach that each state took in establishing their lotteries was Minnesota's requirement that the odds of winning a lottery game as well as toll-free '800' problem gambling telephone numbers had to be posted at each lottery location. Given that both lotteries were established fairly close to one another, and that both were dealing with a dramatic increase in Indian casino gaming, the only factor that would produce a significantly different product life cycle for the various lottery games was Minnesota's requirement of a warning label. In the next section, we will examine whether these neighboring states' lotteries did in fact develop differently due to the warning label requirement.

Life cycle results for Minnesota and Wisconsin

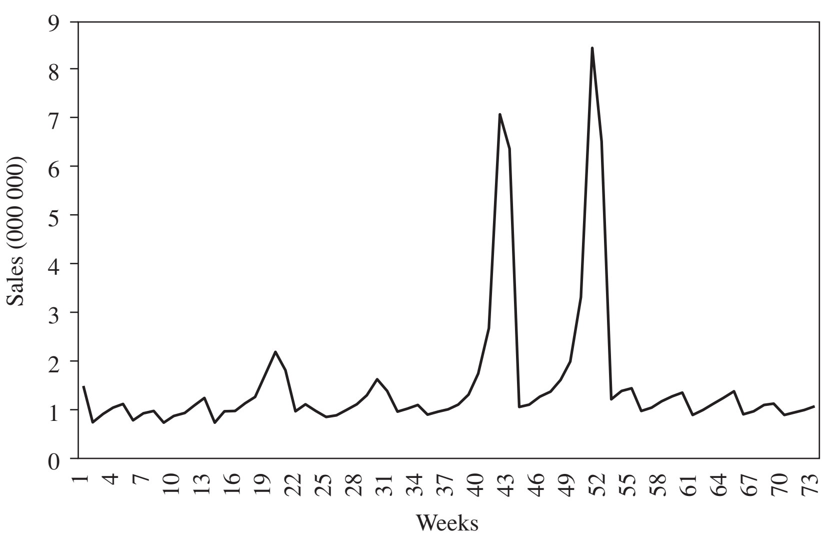
Minnesota

Instant sales = $.455X - .0112X^2 + .00081X^3$ ($F = 357.59$, $p = .000$, $R^2 = .931$)
Powerball sales = $.0831X - .0007X^2 - .000003X^3$ ($F = 57.28$, $p = .000$, $R^2 = .589$)
Daily sales = $.0226X - .0006X^2 + .00004X^3$ ($F = 424.11$, $p = .000$, $R^2 = .942$)



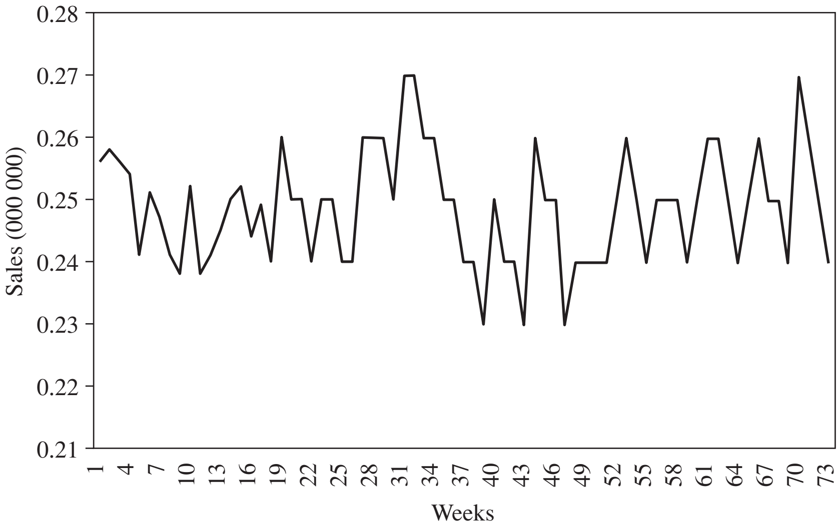
Source: Data supplied by Massachusetts Lottery Commission

Figure 7.1 Minnesota instant sales (1999 and part of 2000)



Source: Data supplied by Massachusetts Lottery Commission

Figure 7.2 Minnesota Powerball sales (1999 and part of 2000)

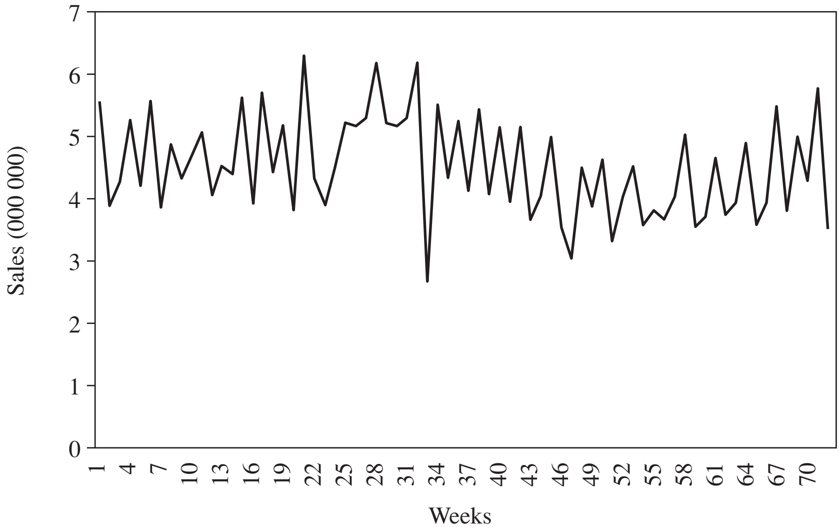


Source: Data supplied by Massachusetts Lottery Commission

Figure 7.3 Minnesota daily game sales (1999 and part of 2000)

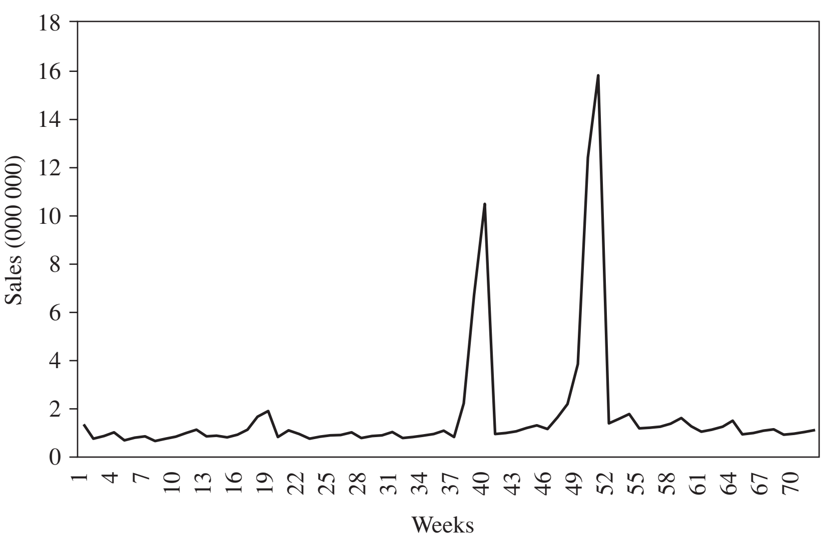
Wisconsin
Instant sales = .4745X –.00124X^2 + .00092X^3 (F = 301.06, p =. 000, R^2 = .921)
Powerball sales = .0378X –.0014X^2 –.00002X^3 (F = 21.79, p = .000, R^2 = .471)
Daily sales = .0174X –.0005X^2 + .000033X^3 (F = 266.09, p = .000, R^2 = .884)

These results indicate that the life cycle patterns for lottery ticket sales confronting both states are remarkably similar. It is interesting to note that in both states, sales for daily number tickets are fairly stagnant while sales for instant tickets are experiencing a very slight growth. Meanwhile, Powerball sales are declining even with the occasional 'spike' in sales due to a very large jackpot. This coincides with the perception that 'lotto' games in general are suffering from a phenomenon known as 'jackpot fatigue', that is, a majority of lotto players will only play these games if the jackpot has grown quite large and are not 'regular' players. In general, it appears that lottery revenue is fairly stagnant for both Minnesota and Wisconsin. Hence the imposition of a warning label on Minnesota's lottery tickets appears to have no effect on lottery sales in that state.



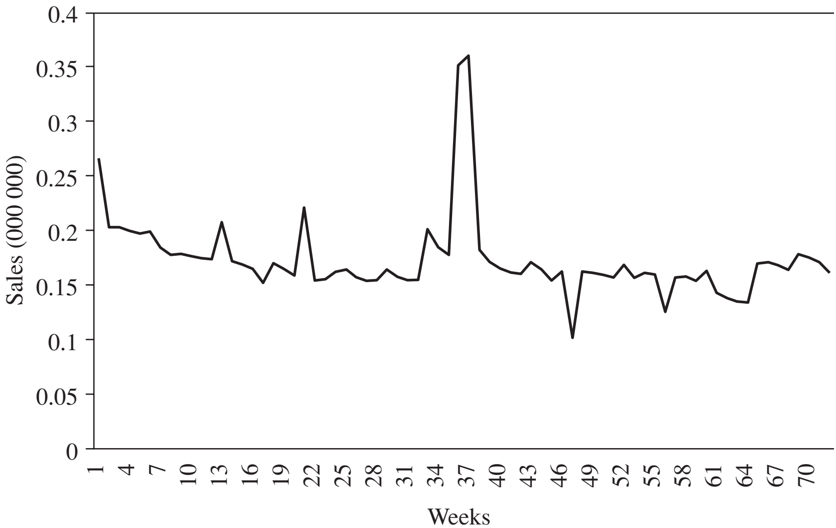
Source: Data supplied by Massachusetts Lottery Commission

Figure 7.4 Wisconsin instant sales (1999 and part of 2000)



Source: Data supplied by Massachusetts Lottery Commission

Figure 7.5 Wisconsin Powerball sales (1999 and part of 2000)



Source: Data supplied by Massachusetts Lottery Commission

Figure 7.6 Wisconsin daily game sales (1999 and part of 2000)

Arizona and New Mexico

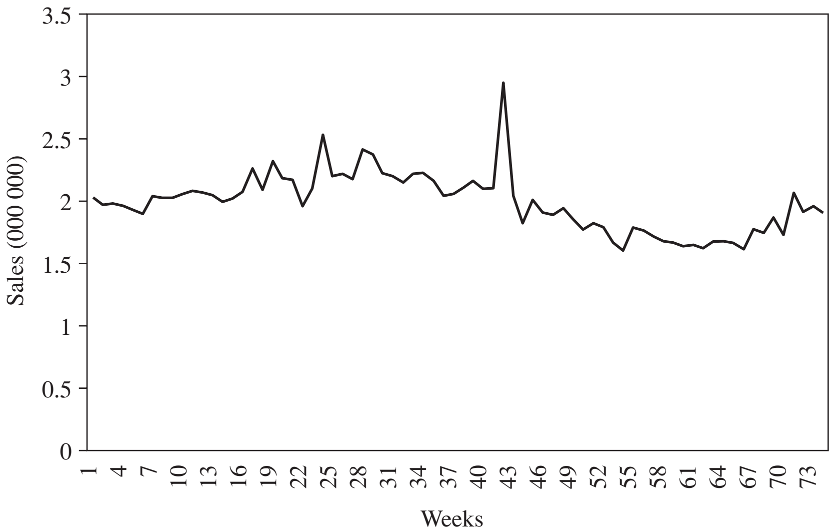
The Southwestern part of the US was one of the last sections of the US to succumb to the allure of the potential revenue that lotteries could bring. While the vast majority of lotteries in the Northeast or the Midwest had been established by the late 1970s, the first Southwestern lottery was established in Arizona in 1981, and the last state to approve a lottery was New Mexico in 1996. Hence, lotteries are a fairly new gambit to be utilized by Southwestern states to gather revenue.

One criterion that was included in the initiative that authorized the Arizona lottery in 1981 mandated that all lottery tickets must include the odds of winning that particular game. This provision no doubt was included in order to placate opponents of the lottery and Arizona voters who were concerned with the ‘fairness’ of the lottery games. Meanwhile, in 1996, when New Mexico’s legislature approved of the establishment of a lottery no such ‘odds of winning’ proviso had to be included. It appears that New Mexico’s legislators took longer to approve a lottery but had much less qualms about any possible addictive or fairness issues!

Life cycle results for Arizona and New Mexico

Arizona

Instant sales = $.2158X - .0057X^2 + .00043X^3$ ($F = 597.75$, $p = .000$, $R^2 = .957$)
Powerball sales = $.0775X - .0003X^2 - .000006X^3$ ($F = 34.18$, $p = .000$, $R^2 = .459$)
Daily sales = $.0216X - .0006X^2 + .00004X^3$ ($F = 378.57$, $p = .000$, $R^2 = .934$)



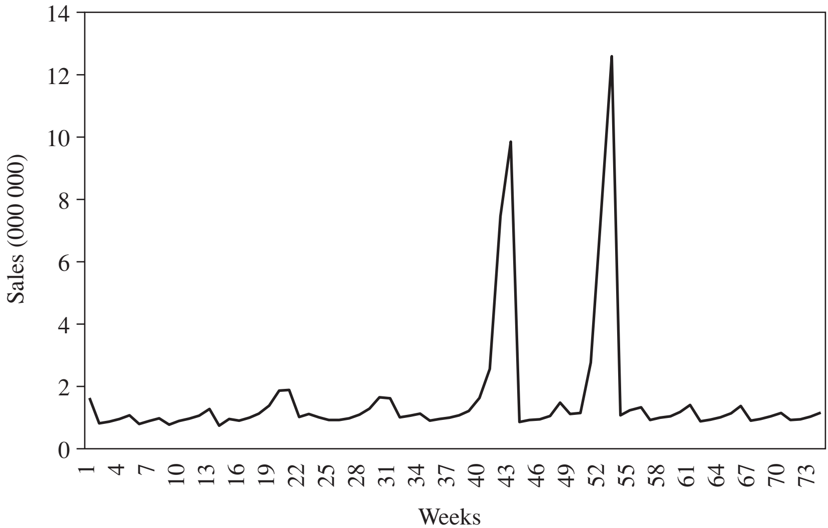
Source: Data supplied by Massachusetts Lottery Commission

Figure 7.7 Arizona instant sales (1999 and part of 2000)

New Mexico

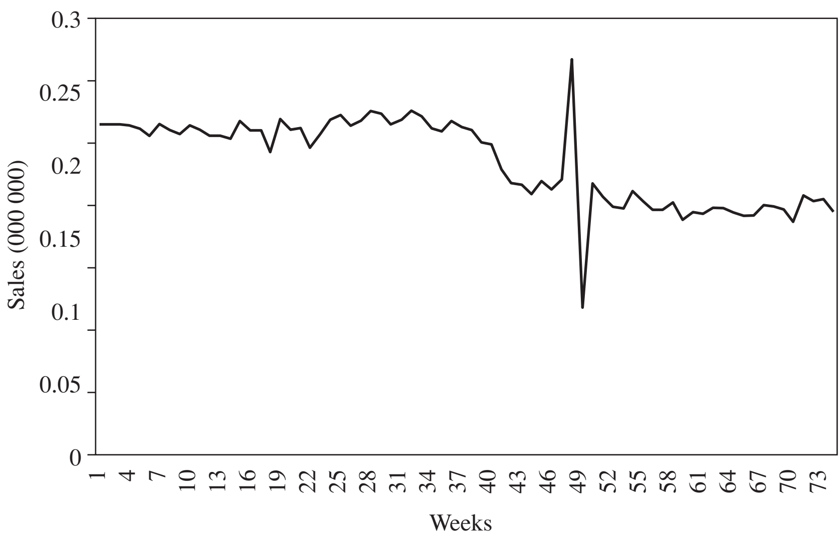
Instant sales = $.0905X - .0023X^2 + .00017X^3$ ($F = 496.5$, $p = .000$, $R^2 = .948$)
Powerball sales = $.0323X - .0002X^2 - .000002X^3$ ($F = 64.28$, $p = .000$, $R^2 = .511$)

Once again, the inclusion of the odds of winning or 'warning' about possible addiction to lottery tickets appears to have had no significant effect on lottery sales. As was the case in Minnesota and Wisconsin, the Powerball game suffers from the 'jackpot fatigue' syndrome, and the instant games appear to provide the greatest potential for growth. It is interesting to note that New Mexico gave up its attempt to establish a daily number game in mid-1998 and has tried to focus on developing instant and lotto games.



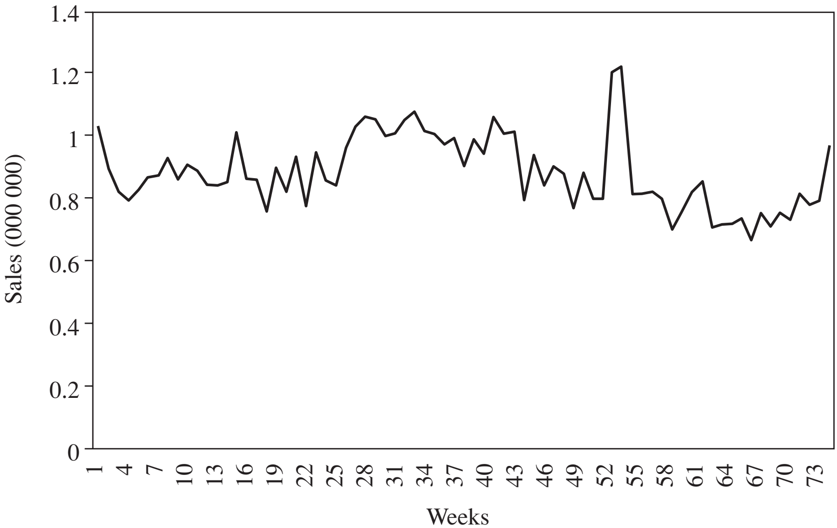
Source: Data supplied by Massachusetts Lottery Commission

Figure 7.8 Arizona Powerball sales (1999 and part of 2000)



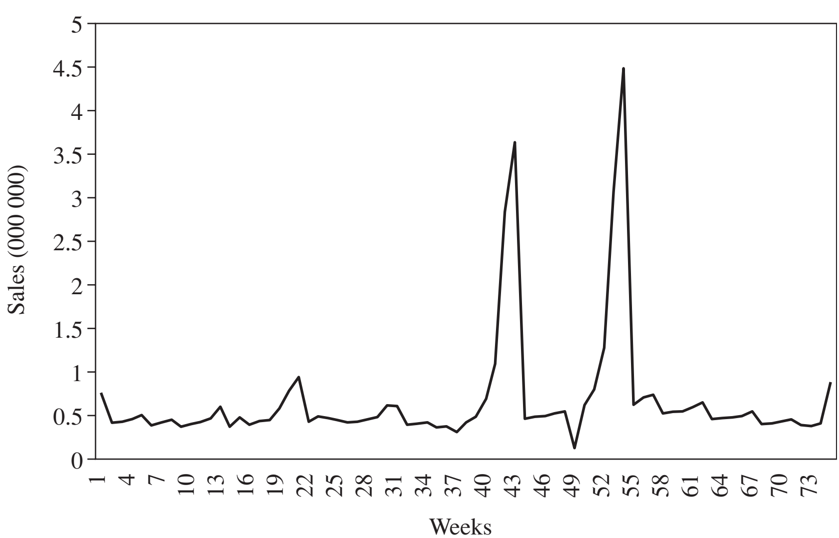
Source: Data supplied by Massachusetts Lottery Commission

Figure 7.9 Arizona daily game sales (1999 and part of 2000)



Source: Data supplied by Massachusetts Lottery Commission

Figure 7.10 New Mexico instant sales (1999 and part of 2000)



Source: Data supplied by Massachusetts Lottery Commission

Figure 7.11 New Mexico Powerball sales (1999 and part of 2000)

CONCLUSION

It appears that the inclusion of warning labels or the chances of winning at a particular lottery has had no effect on lottery sales. Given the past experience with warning labels on cigarettes and alcohol, this is not surprising (McGowan, 1995). However, this lack of effect on lottery sales does not indicate that the warning label is a failed policy, especially if one takes a ‘long-run’ view of the controversies surrounding gambling.

For example, the warning label that has been placed on tobacco products since 1968 has done little to deter cigarette smokers from buying cigarettes. Yet for anti-smoking advocates it was a major victory in establishing that cigarette smoking was an addictive activity. The warning label undermined the ‘legitimacy’ of cigarette smoking as an acceptable activity by non-smokers! It was the piece of legislation that gave credibility to all the other restrictions that have been placed on cigarettes over the years.

Whether or not gambling follows the path which cigarettes travelled remains to be seen. Currently, the vast majority of Americans view gambling as an acceptable activity. As we saw earlier, the percentage of Americans who view gambling as an acceptable social activity has steadily increased throughout the 1990s (Harrah’s, 1999). These findings confirm the earlier observation that the majority of Americans utilize the Ethics of Tolerance in developing their social conscience.

Until the late 1980s, the anti-gambling groups based their opposition to gambling primarily on religious or moral grounds. Anti-gambling groups still contain a strong religious element; witness the work of Tom Grey, a Methodist minister who has crusaded all over the US against gambling. However, the majority of anti-gambling activists have rallied around the ‘addiction’ issue. In many ways, it is a similar argument that anti-smoking groups made about the addictive nature of cigarette smoking. While the anti-smoking groups will acknowledge the individual smoker’s ‘right to smoke’, they maintain that the harm done to others (because of the dangers of passive smoking) more than outweighs an individual’s desire to continue an addictive activity. Anti-gambling groups are certainly attempting to make the same sort of argument. The social cost of addictive gambling (crime, the financial distress of families and so on) more than outweighs a person’s right to gamble.

Whether or not the inclusion of a warning label about the addictive nature of gambling will in the long-run lead to other restrictions on gambling remains to be seen. While the gambling industry has resisted the warning label proposal, the gambling industry has certainly dealt with the addictive issue in a very different fashion than the cigarette industry did when it was confronted with the same issue in the late 1960s. While the cigarette industry denied that cigarettes were addictive, the gambling industry has never denied that gambling could be addictive for certain individuals. In fact, the gambling industry has been the chief source of funds for researchers who wish to examine the nature of addiction to gambling. Perhaps this 'pro-active' stance will save the industry from additional steps by government to rein in gambling activities. But the gambling industry will certainly be the recipient of much more governmental scrutiny in the years to come.

The final chapter will attempt to provide a framework to analyse the future of the gambling industry both in terms of its economics as well as its future relationship with government.

8. Gambling: Where we are and where we might go

INTRODUCTION

It has been the thesis of this book that the evolution of the ‘gambling’ industry into the ‘gaming’ industry is more than just a matter of pleasant semantics. This evolution coincides with profound changes in the economic and political environment in which this new gaming industry operates. This chapter will have three parts. First, there will be a summary of the economic and political changes that have been described in the previous chapters, and the implications that the changes have for the future of the gaming industry. The second part of this chapter will consist of a series of trends that will affect the future of the gaming industry. Finally, there will be a series of policy recommendations that might help to alleviate some of the problems faced by public policy officials as they attempt to regulate the gaming industry.

SUMMARY OF THE ECONOMICS AND POLITICS OF THE GAMING INDUSTRY

Economics

One of the reasons why the gambling industry has morphed itself into the gaming industry is to become part of the ever-increasing entertainment industry. But as it became part of the entertainment industry, two important changes were to be hallmarks of this new gaming industry.

Clearly, the entry into mainstream entertainment has facilitated the industry’s tremendous growth throughout the 1980s and 1990s. The focus of the gaming industry is not merely to provide the bettor the thrill of winning, but to become the venue where the customer can spend a good deal of his or her entertainment budget. The typical customer of the gaming industry was one who expected to be entertained over a long period of time and by a variety of games.

The other change that the transition from ‘gambling’ to ‘gaming’ effected was the transition from *agon* type games to *alea* type games. Americans wanted to enjoy games that involved ‘chance’ rather than those that involved ‘competition’. In general, Americans seem to crave passive entertainment that is fast paced and doesn’t involve much mental exercise.

Given these criteria for competing in this new gaming industry, the segment of the industry that could most benefit from the above changes was undoubtedly the casino industry. The casino industry has been able to provide its customers with a variety of games as well as numerous non-gaming entertainment opportunities. Slot machines and video poker machines that demand little of the bettor except to pull the handle (or in many cases push the button) dominate the modern casino. While casino operators still vie with one another for the ‘whales’ (high rollers who play table games), the primary objective of a successful casino is to provide enough incentives so that customers will do the majority of their gambling, shopping and eating at their casino. Of course, this formula for success depends greatly on the type of destination in which the casino finds itself. Obviously the national destination sites (Las Vegas, Atlantic City and Mississippi) can utilize this ‘full-entertainment’ strategy more effectively than a riverboat, but even riverboat gaming is certainly using the boat as a source of entertainment. This emphasis on entertainment has also played a central role in the strategy employed by the operators of Native American gaming establishments. The most successful Native American casino, Foxwoods, now offers golfing, shopping and shows as well as a Native American history museum.

Throughout the 1990s, the older established state lotteries have experienced little or no growth. What growth there has been in lottery sales nation-wide has been the result of the introduction of lotteries in such states as Georgia and Texas. During the 1990s, the introduction of video lottery also led to spectacular increases in lottery revenue, but this is of little consequence if one is concerned with the long-term viability of traditional state lottery games such as the daily number or even the various lotto games.

The game that all (whether new or established) lotteries have relied upon to provide growth is the instant game. These instant games are the only lottery games that can provide some variety to customers. Instant games can provide players with a small measure of entertainment. But as we saw in Chapters 4 and 7, the growth in instant game sales would hardly generate the funds necessary to satisfy state legislators. Hence, while overall gaming revenues have increased significantly, state lottery sales have for the most part remained stagnant.

Meanwhile, the *pari-mutuel* industry has become the sick man of the gaming industry. The segment of the gaming industry with the most ‘tradition’ and pomp has fared quite poorly in trying to provide entertainment for its patrons. But the fate of the *pari-mutuel* industry merely reconfirms the earlier observation about the type of game (*alea*, games of chance) that the public wishes to engage in as it seeks to spend its entertainment dollar. The salvation of the dying *pari-mutuel* industry is the installation of slot machines at the *pari-mutuel* tracks. It appears that the slots are the only way that tracks can provide the entertainment for patrons and their short attention span. But is this really a solution to the problem faced by the *pari-mutuel* industry? Delaware's Governor Thomas Carper (who opposed the 'racino') certainly doesn't believe in this solution. In commenting on the Delaware's legislature's override of his veto, Carper said, 'It does not take a genius to conclude that if slots are necessary for the survival of racing, then one is not regrowing the racing business, but rather substituting a casino gambling business for a traditional sport' (*Lexington Herald–Leader*, 1999, p. 1). It appears that the *pari-mutuel* industry's only means of survival is to become part of the fastest growing segment of the gaming industry, namely the casino industry.

Hence, the casino industry's future has become synonymous with the future of the gaming industry. It is the only segment of the industry that is growing and capable of sustaining growth. The casino industry has achieved 'legitimacy' in the eyes of the public. It has also greatly expanded its entertainment capability. Yet even though the casino industry has achieved a large measure of economic success, its future very much depends on how public policy process 'tolerates' this revenue producer for states. The next section will review the issues that are critical to the gaming industry's present and future.

Politics

In Chapter 6, the S&P model was developed and utilized to analyse two of the social and political issues that have plagued the gaming industry, namely addiction and fairness. Although both issues are still very much 'alive' and on the agenda of public policy officials, the gaming industry has managed to hold its own in dealing with these issues. While gambling foes have achieved some success (South Carolina's decision to outlaw video gaming and Alabama's vote against starting a lottery), these forces have yet to roll back gambling in a non-Bible belt state.

So while these issues are still very much on the public's agenda, why have the anti-gambling forces gathered such meager results with such potent issues? Why haven't the anti-gambling groups posted the number of victories that the anti-tobacco groups have accomplished in bringing the tobacco industry to its knees?

First, the anti-gambling forces have no common ideology. The anti-gambling coalition is composed of two groups: religious conservatives who believe that gambling is sinful because it is a form of covetous behaviour; and traditional liberals who maintain that gambling preys upon the impoverished and is a poor economic-development strategy. Uniting the anti-gambling factions would be analogous to having Jesse Helms and Hillary Clinton achieve a common position on gun control.

Meanwhile, the gaming industry (particularly the casino segment) is well organized. The American Gaming Association funds numerous studies that focus on addiction (it is also interesting to note that they have not funded independent economic research on the impacts of gaming) and certainly acknowledge the issue. Casinos are notably generous to politicians (Native American Gaming to the Democrats, private casinos to the Republicans) and of course provide tremendous revenues to state and local governments.

But the most fundamental reason why anti-gambling groups have been frustrated in getting the public's attention is that Americans love to gamble. The guilt and shame of being a 'gambler' has vanished from the American conscience. Chapter 2 hypothesized that the Ethics of Tolerance was the primary moral guide for most Americans. This ethic permitted the gambling industry to transform itself into the 'gaming' industry and thus enter the mainstream of American entertainment. The ethic has also allowed the gaming industry to avoid the pitfalls that have befallen its other 'sin' cousin, namely the tobacco industry. In the case of tobacco, the use of tobacco does indeed affect the health of the non-smoker. The addicted gambler really does not affect the non-gambler in any direct way. The anti-gambling groups have tried to make a case that an increase in gambling activity leads to an increase in crime and in bankruptcies. But so far these arguments have failed to be proven by economists and certainly have not caught the public's fancy.

The next section will analyse what are the likely future trends and events that could change the present economic and political environments that presently shape the gaming industry.

FUTURE TRENDS AND EVENTS

There is little doubt that the most important trend that observers of the gaming/gambling industry must watch is the social acceptance of gambling. How the public accepts gambling determines both the type of 'games' that the industry will provide its customers and the type of regulations that public policy officials will impose on the industry. So in listing those trends and events that will determine the future of gambling, the focus will be on those trends and events that will affect the public's acceptance of gaming/gambling.

Since the public has accepted that gambling is a game, it follows that the public's acceptance of gambling is tied to gambling's ability to conform to the characteristics of a game. If the gambling industry violates these 'rules' that guide games, then it risks the public's acceptance of the gambling industry. Once again, these rules are:

1. The player is free to enter or leave a game (the addiction issue).

2. The rules that govern the game are ‘fair’ (the fairness issue).
3. The results of a game can not be rigged before time (the honesty issue).

It is now time to summarise some of the political and economic trends and events that might impact upon the gambling industry’s ability to fulfil the rules of a game.

The Addiction Issue

So far, the addiction issue has been contested in the legislative branch of government. Anti-gambling groups have utilized the addiction issue to have legislatures either prohibit further expansion of gambling or place limits on how and when gambling can take place. In the future, anti-gambling might very well turn to a different branch of government, namely the judiciary.

Anti-tobacco groups have achieved extraordinary success in American courts using the addiction issue as the primary weapon against the tobacco industry. So why shouldn’t anti-gambling groups employ the same type of ‘addictive’ argument that anti-tobacco groups have used in their fight against the evil tobacco industry? Both activities have been declared as addictive and individuals have suffered greatly from engaging in these activities, a good proportion of them smoking and gambling at the same time as anyone who has been to a smoke-filled casino knows!

Yet, there are subtle differences that anti-gambling lawyers would need to overcome as they plead their cases against the gambling industry. In the case of the tobacco industry, physical damage (death) can be attributed to the use of tobacco. While the anti-gambling lawyers would try to show that gambling had driven a person to commit suicide or had spent the family fortune, the ‘causal’ connection between a person’s addiction to gambling and the ‘bad’ consequences of gambling appear much more tenuous.

Another obstacle that anti-gambling lawyers would face is the fact that all segments of the gambling industry have long acknowledged the addiction problem and are required by law to contribute to compulsive gambling organizations. While the tobacco industry denied the addictive aspect of smoking, the gambling industry has piously acknowledged the existence of addiction. Lawyers would not be able to present some great ‘conspiracy’ theory on the part of the gambling industry to ‘hook’ gamblers.

Finally, the courts are a reflection of society. While the use of tobacco no longer seems to be ‘tolerated’ by society, gambling has managed to transform itself into the ‘gaming’ industry thereby gaining social acceptance. While juries in the South might be much more sympathetic to a lawyer’s argument concerning the addictive qualities of gambling, it is quite doubtful that juries in most sections of the US would find themselves agreeing with the 'absolute' evil of gambling activity.

The Fairness Issue

In the previous chapter, it was shown that posting odds on lottery games has no statistically significant impact on the sales of lottery games. While the majority of the 'fairness' criticism has been directed at state lotteries, this criticism has seemingly had no effect on sales or even the way lotteries have been operated.

However, this criticism is just beginning to be leveled at the casino industry. Chapter 3 illustrated that the overall corporate strategy of the casino industry is consolidation. This strategy was developed in order to accumulate the capital necessary to provide all the types of entertainment that a modern casino needs to present to its customers. This strategy has certainly been taken to heart by the casino industry. For example, in Atlantic City, three companies own eight of the twelve existing casinos. Of the four that are not owned by the 'mega' operators, two are for sale (Trump and one owned by Merv Griffin) and one had the only losing year in the Atlantic City market (*Casino Player*, 2000).

But while the mergers and acquisitions, the end result of the consolidation strategy, have been deemed a success for the shareholders of the huge corporations that are now needed to sponsor a casino, the same cannot be said for casino players. With fewer competitors, it becomes less urgent to keep customers. In others words, the casino industry has become an oligopoly. Firms no longer compete through price (in this industry, the amount returned to bettors) but by providing the best 'amusement' or attractions. For example, the average payback on a slot machine in North Las Vegas (an area that the mega-casinos have abandoned to focus on the 'Strip' and have left to numerous 'small' casino firms) is 96 or 97 per cent. Meanwhile the average payback in Atlantic City and on the Vegas Strip is 90 or 92 per cent. Needless to say, this lack of competition has also affected table games such as blackjack where $5 tables have become an almost non-existent entity during weekends or any holiday period.

The Honesty Issue

This is an issue that has also plagued the gambling industry from its inception in the US. Ironically, it has been a non-issue during the period of gambling's greatest expansion. Throughout the 1700s and 1800s, the honesty of lottery operators was constantly questioned. Clearly, one of the reasons why the honesty of current lotteries is seldom questioned is that state governments operate them. In the past 40 years that state lotteries have been operating, there has been only one minor scandal.

The casino industry suffered from its early 'mob' image from the 1920s until the 1970s. But as the casino industry became 'big business' the honesty issue has virtually disappeared. The logic behind this statement is why would a casino cheat when it can make a huge amount by operating an honest operation. While customers might resent the odds (the fairness issue again!), they do not feel as if they are 'cheated'. The other factor is the amount of state regulation of gaming facilities. Casino firms support this rather strict regulation for two reasons. First, it does give casino customers assurance that the state is making sure that they are not 'being ripped-off'. Secondly, regulation acts as an entry barrier. Competitors cannot enter a market without state approval. So in essence, the state provides protection to casino operators so that it can prevent any scandals surrounding its sanctioning gambling.

But with the advent of Native American gaming the honesty issue once again could become an issue. State governments have no power to regulate this type of casino gaming. Nor were the states particularly helpful in assisting Native Americans to establish these establishments. But without state regulation the public has little assurance that Native American slot machines or the other casino games are 'fair'.

For example, in the first two years of this new century, California will experience a huge increase in the number of Native American casinos. The majority of these casinos will be located in northern California and will compete with the Reno and Lake Tahoe casino markets. The state will provide no supervision of these casinos outside regulating the number of slot machines that can be operated. But even the regulation that limited the number of slot machines has been subjected to widely different interpretations so that the number of slots will, for most practical purposes, be unlimited (Eadington, 2000).

Hence these Native American casinos will not only be competing with Nevada casinos, but it appears that tribes will be competing with each other for gambling dollars. With little or no regulation, it will be quite tempting for a tribe whose casino is failing to cut corners and play loose with the rules that guide casino play. As the number of casinos increases, the possibility that a scandal could occur also increases greatly, especially if unregulated competition is the name of the game.

While the gaming industry would no doubt try to contain the damage done if a scandal broke loose, it is safe to say that a scandal in any segment of the gaming industry would affect the public's perception of the entire industry. Nelson Rose's prediction that 'all gambling will be outlawed by 2029' could come true if the honesty issue were once again the primary concern of the American public with gambling (*New York Times*, 1993, p. E3). Both the tribes and the gaming industry have a great deal at stake in maintaining the trust and confidence in the games that the public so enjoys playing.

POLICY RECOMMENDATIONS

As the gambling/gaming industry enters the twenty-first century, it has just emerged from a giddy period of unprecedented expansion yet the future is beginning to look a bit more uncertain. Any growth in the gaming industry is currently being fuelled by the expansion of the casino segment of the industry. Lottery sales are basically constant while the *pari-mutuel* industry is still experiencing a significant decline. Casino revenue is increasing, but this increase is slowing significantly. Clearly, the gaming industry has made a very successful entrance into the mainstream of the American Entertainment Industry. However, it is just as apparent that the other segments such as movies, sports and so on are beginning to develop strategies to reclaim some of the market share that they have lost to gaming interests. The gaming industry is no doubt betting that technology will enable it to offer a variety of new games that will entice gamblers to stay within the casino's confines.

But it is on the social and political fronts where the gambling/gaming industry will find its greatest threats. How the industry deals with the addiction, fairness and honesty issues will in large measure determine the industry's reception with public policy makers. The following public policy recommendations will prove helpful to the customers of the gaming industry as well as to the industry itself. They are intended to make the gambling industry less addictive, fairer and less corrupt to its many customers, thereby strengthening the gambling industry's legitimacy to exist in the long run.

Raising the Minimum Age to Gamble

Currently, the minimum age to play the lottery is 18 in all but three states that offer lottery games. The majority of states that sanction casino gambling have made 21 the minimum age to participate in those games. Once again, it appears that lawmakers are establishing lottery as the 'good' form of gaming while a casino is the 'bad' form of gambling! Yet, for the young gambler, why such a distinction has been made between either form of gambling is hard to fathom. There is clearly very little scientific evidence to show that casino gambling is any more addictive than playing lottery games.

What serious scholars of the addiction process have established is that concern over the overall gambling addiction rate for the entire population is misplaced. The rate of addiction to gambling varies greatly between age groups (Shaffer et al., 1999). The 18–25-year-old age group has been found to be the segment of the population that has the most serious problem with gambling addiction. While other age segments certainly have addiction problems, gambling addiction occurs most often in this age group. So clearly this is the group that public policy makers must pay the greatest attention as they concern themselves with the question: How accessible should gambling be?

The most obvious and direct way to deal with the youth gambling addiction problem is to raise the minimum ages to engage in various gambling activities. For example, the minimum age to buy lottery tickets or to bet at a *pari-mutuel* track ought to be raised to 21, while the minimum age to enter a casino ought to be raised to 25.

If the gambling industry were truly serious about the gambling addiction problem it would not hinder any proposals to increase the minimum age to play lottery games or to enter a casino. First, it would help to establish that the gaming industry really did care about the addiction problem. This is a problem that tobacco ignored for far too long and it is now fighting for its very existence. Second, the long-run effects on sales and revenue might not be as great as one might expect. In the case of lotteries, the typical player of the daily number and lotto games is much older than the 18–25-year-old bracket. Hence, it would be the instant ticket segment that would need to readjust its sales pitch to an older but more affluent population. Meanwhile, the casinos industry would merely be reinforcing the notion that the age of its median player is nearly 50 years old.

Increasing Competition

Although the executives of the gaming industry will often complain about the amount of regulation and public scrutiny of the industry, the amount of regulation has served the industry quite well. First, the public feels reassured that the games are honest and 'fair' when the state has a role in regulating the industry. But more importantly, the gaming industry has utilized government regulation as an effective entry barrier to any competitors who wish to compete in the industry. Yet, as we have seen throughout the course of this book, the monopolistic structure of state lotteries and the oligopolistic structure of the casino industry has certainly not served the customers of the industry in a fair or efficient manner. The customers of the gaming industry deserve to have a competitive market environment just as much as customers of any other industry. The following recommendations will hopefully respond to the wants of the customers of the gaming industry and to societal concerns with the advent of a competitive gaming industry.

Privatize state lotteries

It is clear that sales of state operated lotteries have stagnated. In fact, two of the three segments are in decline while the other (instant games) depends upon innovative technology and marketing. Since most state lotteries are expected to deliver a steady steam of income, this condition hardly makes state lottery commissioners the most innovative lot of entrepreneurs! Of course, that is exactly what most state legislators want, namely an inefficient lottery that is able to provide income to the state.

However, if customers of state lotteries are going to be treated in a fair manner they clearly deserve a better rate of return. The present return to a bettor of less than 50 per cent return on the daily number game and lotto games is totally inadequate. For the instant game category, Massachusetts has the highest per capita lottery sales because it has maintained a strategy of giving customers at least a 60 per cent rate of return on instant tickets.

Given the current lottery trends, it has become apparent that the daily number and traditional lotto games will die slow but inevitable deaths. If instant games are the way of the future and a constant stream of these games needs to be developed, then the state ought to get out of the lottery business. The state would have two roles to play in this new 'privatized' lottery scheme. First, it would ensure that the licensed competitors (non-profit organizations) provide fair and honest games. For example, the state could insist that instant games have a return of at least 70 per cent and that only non-profit making organizations would be able to issue tickets for instant games. The maximum number of tickets per non-profit making organization would be two per year. Second, it would continue to raise revenue by taxing both the licenses to sell lottery tickets as well as tax lottery winnings. The purveyors (again, these would be non-profit making groups) of instant tickets would compete in two ways. First, they would be able to advertise the percentage of return given to the bettor and the 'good' cause proceeds it would be supporting. Second, the introduction of new types of tickets or prizes would also be announced to the customers. In this new competitive structure, the customer would determine which instant tickets survived and which ones would fall out of circulation.

This book has chronicled how the casino industry has triumphed over both the *pari-mutuel* tracks and the lotteries. If the present trends continue, the casino industry will soon have a monopoly position over the entire gaming industry. Up to this point, neither the lottery nor the *pari-mutuel* industry has joined forces in order to combat the casino industry. One measure that might help both lotteries and *pari-mutuel* betting is the sweepstakes concept. This 'sweepstakes' could be based on the famous Spanish game, 'El Gordo' (The Fat One). In this sweepstakes, there are a limited number of tickets sold for $300 per ticket. There would be 95 winning tickets earning a tax-free $3.2 million each. The winning numbers for the sweepstakes tickets would be based on the finish of the premier horse races (such as the Triple Crown) held during the early spring. This sweepstake concept would guarantee bettors at least a 75 per cent rate of return and might be able to be held twice a year. Proceeds of the sweepstakes could be divided between state governments and of course the *pari-mutuel* racing industry. The advantage of the sweepstakes concept might provide enough excitement for the occasional gambler, and of course it would help preserve the *pari-mutuel* industry.

State governments should exit from the lottery business. Letting non-profit organizations and other forms of gaming operate lotteries would make lotteries entertaining as well as providing the occasional gambler with a viable alternative to casino gaming.

Opening the casino market

The casino industry is the only segment of the gaming industry that was able to capitalize on the acceptance of gambling as a form of entertainment. But the capital required to expand into the entertainment industry has changed the structure of the casino industry. The family-operated casino is certainly a thing of the past. Five major firms now dominate the industry. This consolidation of the casino industry has also been reinforced by the way state governments regulate the industry.

Except for Mississippi, states usually limit the number of licenses to operate casinos. The rationale behind limiting licenses is to ensure that the casino is an economic success! For example, only three licenses were issued by the state of Michigan when casino gaming came to the Detroit area. Regulators wanted to make sure that the initial casinos were an economic success in order to ensure that casino employees would have stable jobs. But this 'stability' comes at a high cost. For many more jobs would be created if more casinos were operating and competing for the gaming dollar. Also, this lack of competition gives customers less choice and poorer paybacks.

But a more fundamental question is: why shouldn't casinos fail? Would the state impose limits on the number of movie theatres in an area? Why should casino operators be exempt from anti-trust laws? Why shouldn't casinos compete for customers like any other industry? Certainly, the states need to tax casinos not only to pay for state supervision of gaming operations, but also to help support a state's compulsive gambling centers. But as long as potential casino operators can pass the regulatory requirements, why should the state limit the number of casinos? Just as the casinos allow their patrons to roll the die, so the state ought to allow casino operators to place bets on their ability to operate a successful casino.

The role of the Federal Government

One of the perennial issues that have plagued American government is the relationship between the states and the Federal Government. The Supreme Court is constantly wrestling with cases where it has to rule whether or not a state's rights have been violated by Federal mandates. The gambling industry is certainly one where these jurisdictional issues have been and will continue to be debated.

Besides the competition that exists between the various segments of the gaming industry and within each segment of the gaming industry, there exists fierce competition between the states on how to either attract gamblers to a state or to keep gambling revenue within the confine of a state. So, for practical purposes, the gambling industry is 'interstate' commerce. Gamblers travel across state lines in search of the best gambling opportunities, and state governments from non-casino gaming states shoulder the cost for those residents who get addicted to gambling. It certainly appears that the Federal Government is the one level of government that could referee conflicts that develop between states over gambling policies.

While the casino industry would dearly love to have all forms of Internet gambling outlawed, this is a case where the industry would have to invite the Federal Government's intervention into the industry (*Business Week*, 2000). So, if the Federal Government has a role in regulating one type of gaming activity, why shouldn't the Federal Government have a role in regulating other forms of gambling? As we have seen throughout this book, the addiction and fairness issues are ones that need to be dealt with in some centralized way. Research on gambling addiction needs a source of funding other than those funds provided by the gaming industry. As states compete more and more for gambling revenue, many states will be tempted to cut corners in order to protect or increase this source of revenue. Again, the Federal Government is the only level of government that can regulate the behavior of a state that has become too greedy in its grab for gambling revenue.

Certainly, the opponents of gambling are appealing to the Federal Government to halt the further growth of gambling. This odd coalition of social conservatives and traditional liberals had enough political clout to force the formation of the National Impact Commission on Gambling Study. But the report's emphasis on state's rights showed that they did not have enough political strength to overcome the present bias in letting the states set their own individual gambling policy.

Yet it has become apparent that since the states are in the business themselves, the present regulatory setup is actually *laissez-faire*. But even the gambling industry would readily admit that it needs government regulation to reassure gamblers that the games are honest. The gambling industry is one by its very nature that demands regulation. Hence there needs to be an unbiased observer to determine the appropriate amount of gambling and the appropriate rates of return to bettors. The Federal Government, whether it wants the role or not, eventually has to take a much more active part in regulating the gambling industry.

FINAL OBSERVATION

Bowling Alone written by Robert Putnam, a Harvard political scientist, provides an interesting portrait of American society. Putnam offers a thought-provoking portrayal of modern America. He begins by showing how much the bowling leagues have changed in New London, Connecticut. The ‘game’ of bowling used to be played by teams in leagues. Now, modern bowlers bowl alone while watching giant television screens. They don’t compete against anyone and they don’t disturb anyone. The modern bowler just wants to be left alone.

Putnam’s major thesis is that Americans are increasingly becoming more socially isolated while they work feverishly to amass physical and human capital. Putnam maintains that Americans need to start creating ‘social’ capital again. Social capital is those social connections and formal civic engagements where the individual needs to give of himself or herself in order to achieve a common goal for society. Putnam then gives public policy makers as well as other civic leaders a series of recommendations why they should adopt those policies in order to increase social capital.

The explosive growth in gambling documents the same sort of trend that Putnam describes in his world of bowling. Gamblers are now playing ‘games’ that demand no social interaction (and thus they are less competitive). The slot machine is the perfect non-competitive game to avoid any contact with your fellow gambler. It also gives you a chance to spin for a fortune that would allow you to live in further splendid isolation. The phenomenon that Putnam describes as ‘social capital’ is ‘justified’ by the Ethic of Sacrifice and the justification for developing ‘human and physical capital’ comes along with the adoption of an Ethic of Tolerance. So when Putnam is calling for the formation of more social capital, in many ways he is asking policy makers and civic leaders to once again reintroduce a sense of ‘sacrifice’ and to develop policies that take into account a sense of the Ethic of Sacrifice.

Three policy recommendations were made earlier in this chapter, namely to raise the minimum age to gamble, to increase competition (or give players a better rate of return) and to increase Federal regulation of the gaming industry. Each of these recommendations involves a ‘sacrifice’. In raising the minimum age to gamble, the gaming industry is asked to forsake additional profits that can be made from the most vulnerable group to gambling addiction. By advocating a series of sweepstakes for supporting non-profit organizations, the advertising needed to stimulate interest in these games will help to keep the plight of the unfortunate in the public’s eyes. Given the proclivities of American society to isolate those segments of society that cause the majority to feel uncomfortable, this change in lottery policy could have the dual effect of raising funds for the poor and the unfortunate while reminding people that they have a duty to sacrifice for those who are not as fortunate as themselves. Finally, increasing the role that the Federal Government plays in the gambling industry will involve a sacrifice by state governments. States will have to give up some sovereignty and revenue in order to assure that all US citizens are treated equally by the gambling industry.

While the rise of 'gaming' has many implications about American societal values, perhaps the greatest challenge that the gambling industry poses is how does a society steer a middle course between prohibition and a *laissez-faire* attitude towards a potentially addictive activity? Americans clearly need to restore a balance on both the types of games that they use to entertain themselves and the ethical systems they utilize to justify their moral decisions. If Americans can achieve these balances, they will have a created a healthy and vibrant democratic system. It will be a society that will be the envy of the world not just for its high levels of human and physical capital but because of an equally high level of social capital.

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