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**The Society for the Study of Gambling**

[www.societystudygambling.co.uk](http://www.societystudygambling.co.uk)

# **NewsLetter**

# The Society For The Study of Gambling

## Newsletter Spring 2003, Number 36

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## The Society For The Study of Gambling

The Society for the Study of Gambling was formed in 1977 to provide a forum for those concerned with research into gambling; to promote its scientific study, especially as far as the psychological, social and economic aspects are concerned; and to inform the public about these matters. In more recent times the Society has broadened its focus to include a wide range of issues relevant to the field of gambling.

The membership of the Society is drawn from a wide circle of people who have interest in various aspects of gambling. They range from those that deal with problem gambling to members of the commercial gambling industry. It is a condition of the Society that there should be freedom of opinion and practice among its members. Consequently the Society does not take any particular stance in relation to gambling.

Talks and papers presented at Society meetings are often reproduced in the Newsletter. They are published at the invitation of the Editor and with the permission of the author. They are not intended to be an alternative to publication in a learned journal. The Editor welcomes unsolicited manuscripts, correspondence book reviews and other items which are of interest to SSG members.

The Society holds regular meetings twice a year in London. **The next meeting will be held on Tuesday 6<sup>th</sup> May 2003.** For further details please contact the Treasurer.

Information about the Society and a précis of the articles that have been published in recent Newsletters can be found on the Society's website:

[www.societystudygambling.co.uk](http://www.societystudygambling.co.uk)

# **NEWSLETTER**

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## EDITORIAL

In this first issue of the *Newsletter* edited by the Centre for the Study of Gambling and Commercial Gaming at the University of Salford nothing has changed with respect to either physical design or editorial policy. We thought it appropriate before making any changes to seek the views of members of the Society for the Study of Gambling and hope to receive any comments or suggestions either by letter to the addresses given below or in the course of discussion at the Society's AGM.

This means that the contents of this edition are a mixture of two kinds of article. The first kind consist of published versions of material originally prepared for oral presentation in contexts where society members not present might be particularly glad to have access to what was said and, indeed, where members who were present might be glad to have a more enduring record of it. The second kind of article makes available to society members in accessible form the fruits of recent scholarly research which may be expected to be of particular interest to them.

In many ways this mixture of styles may be felicitous. On the one hand it means addresses and presentations may enjoy a wider and more enduring audience; on the other, it provides scholars in the field with a vehicle through which they can disseminate their findings beyond the confines of the academy. It would be good to know what readers think about this.

In 2002 the Society for the Study of Gambling celebrated its twenty fifth anniversary with an excellent meeting and excellent hospitality in the conference facility adjoining *Les Ambassadeurs*. Lady Littler's opening address and Roy Ramm's ingenious fable first delivered on that occasion are preserved in this issue. In the course of the year Mark Griffiths was promoted Professor of Gambling Studies at Nottingham Trent University and we reprint a version of some of the material he presented in his inaugural lecture.

In general, the intellectual energies of members continued to be focussed on the proposed changes to UK gambling law which are intended both to extend consumer choice and to afford greater protection to the vulnerable. The government published its response to *Budd* under the title *A Safe Bet for Success*. This was followed by hearings by the DCMS parliamentary sub-committee and the publication of their report. We also had a preliminary parliamentary debate and there were two well-attended Salford Seminars. We reprint here the address with which Sir Alan Budd opened one of these seminars, in which he surveys the past and anticipates the future. John Lucas also reviews a radio programme in which a panel of the (?self-)righteous interviewed diversely knowledgeable people, including a number of members of this society.

Mark Nichols of the University of Nevada at Reno has done ground-breaking work in trying to measure the effects of introducing international-style casinos in the USA and we thought it would be valuable to make his findings known to a wider UK audience even though they will please neither those who claim that the consequences of introducing casinos are uniformly benign nor those who claim that they are severely maleficent.

Finally, David Forrest of Salford University and one of the country's most distinguished gambling economists deploys economic arguments to make the case against having a monopoly National Lottery. This is certain to provoke controversy and we look forward to publishing, in our next issue, scheduled for the autumn, the arguments of those who continue to favour a monopoly National Lotto game.

## **The Society for the Study of Gambling: Twenty Five Years On**

**Lady Littler**  
**Chairman of the Gaming Board 1992-1998**

### Introduction

We are here to celebrate the Silver Jubilee of the Society for the Study of Gambling. I am pleased to have been asked to give a bird's eye view of the events of the last 25 years with some comments on the proposals for new legislation. I shall concentrate on developments in the regulation of gaming as I know most about these.

### I "Then": The Scene in 1977

25 years ago was the Queen's Silver Jubilee – incidentally a bumper year for casinos in Great Britain. It was nearly 10 years after the Gaming Act of 1968 and the year in which the Board's first Chairman, Sir Stanley Raymond, retired.

The Act was deliberately restrictive; gaming was regulated within a system of "unstimulated demand". It was also detailed, laying down specific provisions for different parts of the gaming industry which were seen as operating in entirely separate compartments. By 1977 the new Gaming Board had made good use of its formidable powers and had largely brought order and honesty into gaming. We take this for granted now, but it was not an easy task, and there were hiccups – as Bill Galston can tell you better than I.

Thus the Act introduced an effective regulatory system which not only kept criminals out and protected the gaming public, as were its primary intentions, but also, because it was successful in doing this, created for its industries over time a valuable reputation for honesty and competence. This is important.

In need of modernisation as it now is, the current system has carried with it the respect of gaming regulators in other countries and created a firm foundation on which new legislation can build.

In parenthesis I might add that different countries have different systems for gambling, some less and some more restrictive than ours. This is very much a matter of what suits different cultures when their systems are set up or modified. In other words I do not believe that Las Vegas is or need be the model for every one else. However, any effective system needs to follow the three principles of gambling regulation, i.e. to keep criminals out, to ensure that gaming is honest and carried out in accordance with regulations, and to ensure that protection is provided for children and (nowadays) for other vulnerable persons.

My next major point about 1977 concerns the Rothschild Commission and the foundation of the Society. The Rothschild Commission on Gambling was taking evidence in 1977.

It had been set up by the then Labour Government in 1976, to review gambling as a whole and was looking at all aspects of gambling systematically.

I assume that it is no coincidence that, when your Society was founded in 1977, it was seen as a forum for those concerned with research into gambling to provide for a more scientific approach to all aspects of gambling (social, legal, psychological and economic), and to encourage free exchanges of views among its members. This approach would mirror the approach of the Commission and help individual members of the Society in giving evidence to the Commission and preparing for subsequent action on its Report.

On a personal note, I was concerned with the regulation of broadcasting from the end of 1977 to 1990. I mention this because broadcasting and gambling provide some interesting contrasts of public reaction.

The organisation of broadcasting was, and is, constantly under scrutiny – in Parliament where there was legislation every two or three years in the 1980s and 1990s, in the media, in the academic world, and by the public. But there was also a strong professional body in the Royal Television Society where managers, engineers, academics, programme makers and regulators regularly discussed relevant issues. Even Mrs Whitehouse was a member.

By contrast, when I became Chairman of the Gaming Board in 1992 I found that gambling was an arcane world, even though the public spend huge amounts gambling each year. There was little or no Parliamentary concern, or media or academic (other than the occasional press comment, usually in August and on an alleged scandal) and practically no public interest in the way it was organised. On the whole gambling was regarded as a rather shady world, which needed to be strictly regulated, but which was of little general interest.

I do not think that this was healthy either for broadcasting, which was over-exposed, or for gambling which would have profited from wider objective study than it got. That is why I applaud the scientific approach of the Society and the fact that its founders wisely, in my view, wanted it to cover all aspects of gambling, and not just the problems arising out of addiction, important though these are. This helps to avoid polarisation between those who are pro and those who are anti gambling. On the other hand, I could wish that the Society had a wider membership and attracted more public interest.

Given that the Society draws its membership from different backgrounds, I can see that it needs to operate under Chatham House rules, and that it could not attempt to provide an agreed view, say, in evidence to an inquiry. However, your website also says that the Society aims to inform and educate the public. Assuming that your useful and informative Newsletter primarily goes to members, I am not sure how you set about carrying out this difficult but important task and whether you feel that you are achieving it. Perhaps this is something you might like to think about?

## II Changes in the 1980s and 1990s

Be that as it may, in the event the Rothschild Commission reported in 1978, but its proposals were pigeonholed by the new Conservative Government. Things chuntered on in gambling much as they were until the National Lottery and the Deregulation Act in 1994.

The National Lottery introduced a fundamentally new idea into the British gambling scene. The Lottery was required to maximise profits to help “good causes”, and was therefore allowed to stimulate demand for its products. At first the Conservative Government tried to square the circle by claiming that the Lottery was not gambling, but that argument was seen through quite quickly. With the Deregulation Act it became possible to modernise and relax regulation, within limits, without primary legislation.

Although the industry would have liked more, significant relaxations were made in the 1990s in gaming services. Perhaps even more important, there was a sea change in the attitude of the informed public to gambling (though this is probably still only a small proportion of the general public). Gambling was becoming an acceptable part of the leisure industry, provided that it remained strictly regulated.

Another welcome change in the 1990s was that those concerned were providing more coherent information about their activities. For instance, the Deregulation Orders needed information and – indeed – consultation. The Gaming Board became more open: it had regular discussions with industry representatives and used its Annual Reports to record its policies and procedures as well as the year’s events. The new Centre for the Study of Gambling and Commercial Gaming at Salford University provided courses for gambling operatives and undertook research. Trade associations provided more information about their industries. There were useful discussions between international regulators (e.g. in IAGR and GREF) about matters such as the Internet.

More attention was also being paid to the size and nature of gambling addiction and means of dealing with it. GamCare was founded.

I know that these developments were discussed in your Society, and that your members contributed individually to the various consultations.

However, although the shape of the gaming industry was still recognisable as that created by the 1968 Act, by the mid-1990s regulation was becoming more difficult and the legislation was creaking. The boundaries between the various parts of the gambling industry were breaking down. There was consolidation of ownership in the industry. Technology was changing fast. The Gaming Board took the lead in pressing for a widespread review of gambling and its regulation. I think we were all pleased when the Budd Committee was appointed to undertake this in 2000.

### III “Now”: Proposals for a new Gambling Act

Like many others, I read the Report of the Gambling Review Body with great interest and agreed with most of its recommendations. It was encouraging to see such a well balanced and practical set of proposals set out in a clear, intellectually consistent framework. I hope that legislation will not be long delayed.

I specifically welcomed the proposals for:

- (a) a comprehensive framework for all gambling in Great Britain, including internet gambling provided from Great Britain;
- (b) a single regulatory body for all gambling, i.e. the Gambling Commission, with strong powers, adequate resources, the responsibility for adjusting detailed regulations to meet changing needs, and the ability to publish codes of social responsibility;
- (c) additional responsibilities on operators for protecting and helping the vulnerable, in return for their increased opportunities to provide gambling services;
- (d) no increase in “ambient gambling”, banning gaming machines in premises such as cafes and taxicab offices, and new restrictions on gambling by children;
- (e) further research into the impact of machine gaming by children and a review in five years time to determine whether any such gaming by under 18’s should continue to be permitted.

I am sorry that the DCMS do not seem to have accepted the last two of these proposals, but no doubt they will be fully debated when the Bill comes before Parliament.

Some words of warning.

First, the pressure for relaxation has come from the industry, the regulators and the Treasury, rather than from the public. I hope therefore that it will be recognised in Parliament and by the public as debate on the Bill proceeds, that the combined effect of the deregulations in gambling services proposed will transform the gambling scene in Great Britain sooner rather than later. There will be an increase in the total amount of money spent on gambling, the introduction of a range of new customers, particularly women, to harder forms of gambling at the expense of soft. The changes will intensify competition within the industry and add to the problems of regulating the industry effectively. This needs to be understood and accepted, in Parliament and by the public, if there is not to be a backlash.

Secondly, it is fundamental to the proposals that a system of regulation of operators at least as effective as that now operated by the Gaming Board can and will be extended to the much wider gambling industry (including in particular betting and arcades) to be regulated by the Gambling Commission. Government agrees that the Commission should build on the Gaming Board’s experience and I personally hope that the Board, possibly

with some additional members, could be designated as the Shadow Commission. A Shadow Commission is likely to be set up after the Bill's Second Reading, if not before.

In any event, it is essential that the Commission should have proper funding arrangements and the powers, the resources, the experience and the time to prepare for the new system. I hope that all this is in hand, for if the Commission is not able to establish its authority from the start, in my view new legislation of the kind proposed is not merely pointless, it is positively damaging.

Thirdly, while most of the adults who gamble now or in the future, will enjoy the new freedoms and can manage their gambling successfully, there will be increases in the debts incurred by some individuals and in the problems of gambling addiction.

I may be old-fashioned, but I am concerned about allowing the use of credit cards in gambling and the Board's and the Government's recent relaxations in this field. The Report sees the use of credit cards primarily as a convenient method of payment, and disregards it as a vehicle for incurring debt. However, we all know that many people are tempted by easy access to credit, and that the management of debt (and the misery caused by debt) is one of the major problems now dealt with by Citizens Advice Bureaux and in the advice columns of newspapers. Governments have already accepted the principle that consumers need protection from themselves and from high-powered salesmen in the Consumer Credit Acts which provide for a cooling-off period in which contracts can be rescinded and purchases returned. The circumstances of gambling (with the desire to chase losses) provide similar high pressures on people to run up debts.

Clearly it is not possible to make retrospective adjustments of gambling losses, as it is under consumer credit legislation. While the prohibition on the direct use of credit cards in gaming machines is, clearly, the most important and essential restraint on their use, I think that the use of credit cards in gaming needs to be monitored carefully and should be governed by the codes of social responsibility which the Commission will publish. The banks and credit card issuers should also be consulted about this aspect of the codes, as they have responsibilities too.

One last point on the legislation. It is right that in return for the new opportunities, substantial funds should be provided by the industry to a Trust to finance research into gambling and gambling addiction, and treatment for addicts. £3 million a year seems a reasonable sum. However, it would be a huge increase on what is provided for these purposes now and I doubt whether this level of funding will be achieved on a voluntary basis. I am glad therefore that government intends to provide a reserve power in the legislation to collect funds for the Trust through the licence fees paid by those providing gambling services.

### Conclusion

I should like to congratulate the Society on achieving its Silver Jubilee, and I hope it will go on from strength to strength to achieve an even more distinguished Golden Jubilee.

## **From White Paper to Legislation**

### **From an address to a Salford Seminar in June 2002**

**Alan Budd**

**Provost, Queen's College, Oxford**

I shall not, in general, comment on the Gambling Industry's response to my report. This is mainly because I am only dimly conscious of it.

While writing the report I regularly received publications as the Racing Post and Coinslot. That stopped when we submitted our report so I wasn't aware that to the readers of Coinslot I was a villainous and indeed wholly discredited character. Calumny was apparently heaped upon me. I only became aware of it when Dave Bawden kindly and chivalrously came to my rescue. So, first, some reflections on the Gambling Review Body. Please note these are my personal views. I shall not breach any confidences about our discussions but I have no further role as Chairman of the Review Body.

I think that we correctly identified the central dilemma – the age-old question of freedom versus protection. I personally start from the presumption that you do not constrain an individual's behaviour unless you have good reason to do so. This includes an individual's ability to do things that harm him or herself, provided they don't harm anyone else.

In terms of gambling we recognised that there are problem gamblers. Their life styles cause grief to themselves and can cause grief and harm to other people.

How is one to deal with that? The existing legislation does it by making access to gambling – particularly gaming difficult for everybody. A liberal approach would suggest that the present controls cause unnecessary restriction of a basically harmless activity and that they cannot be justified in their present form. Hence the belief that a move towards liberalisation is justified and it is further justified if separate steps can be taken to reduce the risks of harm to vulnerable gamblers.

That, as I have said, is the liberal approach; but the liberal approach is a political philosophy; it's not some scientifically established law. People are perfectly free to reject it and many honourable people do so. There is a respectable view of the role of law and of institutions that they should be guided by a view of what is desirable in society, by a concern for what is called the social environment. Some people do not include gambling in their view of a desirable society – certainly not public gambling. This is, of course, a much broader criticism of gambling than that some people become pathological gamblers. In this view all gambling is, in a sense, problem gambling and it is a legitimate role of government to limit it if not to ban it completely.

The Review Body could not reject that view and, indeed, was partly influenced by it as can be seen from some of its recommendations, e.g. the recommendation that local

authorities should have the right to impose a blanket ban on further commercial gambling opportunities in their communities.

I'll make one further point about the liberal approach before I move on to other points. John Stuart Mill himself said that while no one should be prevented from conduct, which only harms him or herself, it was quite another matter to encourage people to harm themselves, (or even to make it easy for them to harm themselves). In fact he refers to gambling, among other things and I'll quote him:

“Thus (it may be said) though the statutes respecting unlawful games are utterly indefensible – though all persons should be free to gamble in their own or each others houses, or in any place of meeting established by their own subscriptions, and open only to the members and their visitors – yet public gambling-houses should not be permitted”.

Mill does not commit himself to this view. Instead, he asks the question and is unable to answer it. He certainly cannot reject it. And note that Mill was, I think, assuming that gambling was intrinsically harmful – again that all gamblers are problem gamblers. If you don't believe that, then of course you will be more willing to deregulate gambling and, indeed, to allow it to be advertised.

The only point I shall make about all this is that the extent of deregulation (if any) must be a matter of judgement. There isn't much scientific evidence to help us.

The Review Body was, on balance, persuaded that children formed a vulnerable group who required additional protection and whose vulnerability justified restrictions that would, inevitably, apply to those who could gamble without any harm, temporary or permanent.

There were a number of issues which could perhaps have received more attention but which we ignored or dealt with rather briefly, either because we didn't have time, or the problems were too difficult or both.

In no particular order they were:

Prize competitions. A very difficult area because they serve two uses: first as a form of product promotion, which seemed harmless; second as a means of escaping the constraints of the Lotteries Act, which of course, without defining lotteries makes them all illegal apart from a particular list of exceptions such as society lotteries. Some of them look to all intents and purposes like gambling, others look like simple rackets. That was a difficult area.

Another topic which interested me perhaps more than my colleagues – what I shall call insider trading in betting. It is quite clear that things happen in betting which would be illegal if they happened in financial markets. Is that a matter for gambling regulation or for the industry itself? Perhaps it's for the industry itself. Perhaps, the answer will depend on whether the betting industry wants to be an international market?

A related area which we basically said was not our business is competition in gambling. That includes competition between tote and fixed odds bookies on racetracks. Though we did propose abolition of limits on entry charges.

Deliberately we did not discuss how the gambling industry might be expected to support the associated activity – e.g. how bookies should support horseracing. Though this was not a job for us, it brings me to what is possibly the most important omission – taxation. Our report just included a few general comments. We were aware that the threatened loss of revenue because of the internet was one of the motives behind the establishment of the Review. While we were deliberating, the changed policy towards General Betting Duty was announced.

I realise that the taxation of gambling is a major issue. Incidentally, the one reaction to the Review body's report which really annoyed me was the assertion that our proposals were wholly designed to increase revenue for the Treasury. At no time was that a consideration (not even subconsciously).

So let's move on to the DCMS response.

One question which interests me, but which I shall not attempt to answer, is whether the response would have been different if the Report had been delivered to the Department which commissioned it – namely the Home Office – rather than to DCMS which inherited gambling after the General Election.

As the Report says, my dream was that our recommendations would all be accepted. My benchmark was our predecessor, the Rothschild Commission, which reported in 1978. It made 303 recommendations. As far as I can tell, none of them were accepted - at least at the time and apart from recommendations to leave things as they were. However, recommendation 127 stated "There should be a single lottery for good causes, run by a National Lottery Board" and that did of course happen many years later.

We made 176 recommendations. The DCMS response

Agreed with	142
Suggested modifying	14
Said it would consider further	10
Rejected	<u>9</u>
	175

That totals 175 rather than 176 because DCMS didn't give a response to recommendation 1 that a new single regulatory authority should license all gambling, all gambling operators and key workers. Basically they did accept that except with respect to some lotteries and (possibly) betting shop employees. So even if we didn't achieve the Chairman's dream we certainly beat my benchmark. This was an extraordinary degree of acceptance.

So let's look at proposals which were rejected or modified. Do they reflect some difference in principle? *No*. They are within the spirit of our proposals.

They can be grouped as follows:

1. Who should register with the Gambling Commission?
2. Powers of local authorities (and appeals from their decisions).
3. Protection of National Lottery.
4. Protection of children.

Who should register with the Gambling Commission?

Two issues:

- (a) Lotteries
- (b) Betting shop managers

Lotteries. We proposed for neatness that all societies and local authorities who wish to operate lotteries should register with the Gambling Commission. DCMS leave small lotteries registered with Local Authorities and do not require Local Authority Lotteries to register with the Gambling Commission. I think that's a matter on which one might reasonably disagree.

The same is true of betting shop managers. We were conscious of the risk of an excessive regulatory burden if they had to register with the Gambling Commission, but we were only asking for a light qualification. It is perfectly reasonable to consider the matter further.

Powers of local authorities.

The main issue here is the so-called blanket ban. The Review Body's proposal was an example, as I have said, of the view that society is entitled to take a view about the sort of social environment in which it lives. We did not, incidentally, intend that existing permissions to operate gambling establishments would be withdrawn but we did believe that a local community was entitled to say we don't want gambling here. The analogy was with sex shops. Of course, that may not seem to be consistent with the liberal approach we adopted elsewhere, and indeed it isn't, but we leave logic to other nations.

I am not completely surprised that the recommendation of the blanket ban was rejected.

In addition the DCMS said it wished to modify some of our other recommendations relating to the power of local authorities. We proposed, for example, that the local authorities should rule on such questions as opening hours. While the DCMS said it accepted that licensing of premises should be the responsibility of local authorities, it was unwilling to give them the discretion that we proposed and wanted the Gambling

Commission to issue guidance and advice on premises licensing matters which local authorities should be obliged to take into account.

I would not regard the Review Body as expert on these constitutional questions. I do not know whether the fear of inconsistent and arbitrary exercise of power by local authorities is justified, but there obviously were very strong feelings on this matter in the industry and I can understand why DCMS responded in the way it did. DCMS also altered our recommendations as to appeals, which is not a matter on which we could claim to be experts.

The protection of the National Lottery.

The National Lottery was excluded from our review but in our terms of reference, we were specifically instructed to look at the impact on the Lottery of any proposed changes, including an assessment of the potential effect on the income to good causes.

We did not interpret that as meaning that we were banned from making recommendations that might harm the National Lottery or good causes generally. Some of our recommendations were judged to do so. Two in particular:

- (a) Betting on the National Lottery.
- (b) Removing limits on prizes of society lotteries.

I am also not completely surprised that our recommendation that betting be permitted on the National Lottery was rejected. Betting on the National Lottery is attractive to the punter for two reasons:

- i) Bookies can offer better odds in general (the National Lottery only pays out 50% the stake),
- ii) In particular bookies can offer better odds on 3 or 4 correct numbers, since the National Lottery piles the prizes into the jackpot.

We argued that the National Lottery wouldn't necessarily lose from this but DCMS (which does look after the Lottery) didn't want to take this risk.

As to limits on prizes, the DCMS proposes a doubling of the maximum prizes not removing limits on prizes.

The argument here is interesting. It is widely accepted (and I have no reason to disagree) that people will willingly accept very unfavourable odds for the chance of a big prize. The evidence for this is everywhere. So lotteries are a natural monopoly. The bigger the prize the bigger the profit. Government gets the profit so Government wants a monopoly.

The DCMS argued, reasonably enough, that competition between lotteries, all of whom could offer unrestricted prizes would not only harm the National Lottery but could harm good causes generally. That is one of the interesting issues that has been raised by Peter

Collins in the past. Do we regulate gambling in order to bring maximum benefits to the consumer, i.e. the punter, or do we have some other social purpose? We have a mixed system with special treatment for lotteries.

Protection of children.

This was a difficult topic for the Review Body and, inevitably, there were differences of opinion. The Report was unanimous, as I wanted it to be, but that inevitably involved compromises (by all members).

We received evidence suggesting that children were a particularly vulnerable group and that some could become obsessed with gambling, particularly on machines, to an extent that they become withdrawn and/or truant and/or turn to crime. There was also some evidence that adult problem gamblers started gambling as children, though of course that doesn't establish causation. We also noted that no other comparable country allows children to gamble.

We seriously considered banning all access to gaming machines by under 18's. But our compromise was to propose three measures in particular:

- (a) To ban gaming machines from all premises other than those that would be licensed under our other recommendations, i.e. remove them from take-aways, cafes, minicab offices, etc.
- (b) Where children did have legitimate access to machines to freeze the stake at 10p and the prize at £5.
- (c) To remove jackpot machines from clubs.

There was some misunderstanding about recommendation 60. No doubt that was our fault. We said that in five years the Government should decide whether to ban under 18's from access to gaming machines. We were open-minded about the outcome. The DCMS say that the situation will remain under review. Fine.

The DCMS response was somewhat different. In effect they want to define a low stake/low prize machine which is not subject to special controls. They can be anywhere and children can play on them.

That proposal, as did ours, assumes that the potential harm from playing a machine depends on the stake and the prize. Low stake low prize machines are harmless.

One word of caution about that. Professor Geoffrey Gray, the distinguished psychologist, told us of an experiment in which rats can become addicted to a form of gambling in which the only pay-off is a puff of cold air. I assume that the Government and the gaming machine industry will carefully monitor how children are affected by gaming machines of any type.

In conclusion, let me, briefly, look forward.

My contribution to all this ended on 30 June 2001 and I'm now just an interested onlooker, though I shall be giving evidence to the House of Commons DCMS Committee.

We know that there are a number of issues which DCMS are considering further and we now seem to be having yet another process of consultation. The House of Commons DCMS Committee seems to be looking at all the issues all over again.

We'll wait and see when legislation is brought forward and what it contains.

The DCMS has said that its approach to gambling regulation is morally neutral, so its main concern must be, as I have said, the balance between freedom and harm. They have drawn the line much where we did but it will be essential to monitor what happens to the incidence of problem gambling. Go slowly and be prepared to stop if evidence of significant harm emerges.

Peter Collins has identified an issue of which we were perfectly aware but which we chose not to discuss, namely the extent to which gambling can be used as a particularly rich source of revenue – for public purposes – or as a way of achieving local social objectives, e.g. rehabilitation of depressed areas. We have a mixed system. Lotteries are a special case as is, to some extent the Tote (and the horserace betting levy). Our proposals for casinos do allow an extension of, what one might call, the Lottery principle. I have no views on that.

## **Once Upon a Time in Gambling World – With deference to JRR Tolkein**

**Roy Ramm**  
**London Clubs International**

Since the great wars in the year of our Regulator nineteen hundred and sixty eight there had been harmony amongst the four great tribes of the peoples in the land of Punterdom, known as the Operatagogs.

The four tribes, the Stanleygogs, the Galagogs, the Elsieagogs and the other gogs known as Rankers had lived and traded together for almost two score years. There were other gogs in the land, some from the far North known only as the 'Overmydeadbodagogs'. But, though they spoke in different tongues, in the main the Operatagogs did not fight, nor shed blood and even some of the old traditions, like copying the car numbers of punters, had long since been forgotten.

In truth though, theirs was a peace not born of affection and honour, but of Fear. A mortal fear of the terrible Trolls who lived in a castle, on a mountain of fire, in centre of Punterdom, in a place called Holborn.

Legend had it that there was a dark lord of the Trolls known only as the Chairman. The Chairman, like Dr Who, changed form every few years but remained just as fierce and terrible as ever. In ancient times few saw the Trolls in their lair and survived. The Trolls Decertificated any that crossed their drawbridge – the lady Trolls were said to be fiercest of all – whilst the older male Trolls, exhausted by their nightly prowling of Punterdom, hung slavering from the dark turrets, leering and lusting at young women cavorting in the oasis far below. It was a truly terrifying place.

Years of meek servitude passed, but then the Operatagogs became restless. Some of the gogs in the centre of Punterdom had grown thin and were much wounded by a cruel monster who took nearly all their money with one fell swoop of his mighty tax. He was known to the Elsiagogs as Swinebrown.

So the Operatagogs pleaded with the Trolls for crumbs from their high table: a little advert perhaps, an end to the hangings for breaches of Section 12. Just small things. The Trolls shrugged and gave nothing, for nothing was all they claimed to have. But the floggings had become noticeably less frequent.

Then some three years back, rumour came that there was friendly wizard who worked for the Trolls. Twas said he was the son of Gandolf but he was known only as Tom. Twas said that Tom was a decent and sympathetic man who spoke the tongues of the Trolls, but understood a little of the tongue of the Operatagogs and had taken pity on them – poor as they were.

Tom's main job had been to incant to the Operatagogs the Trolls magic mantra. "This is a grey area, but the board says, No." "This is a grey area, but the board says, No." "This is a grey area, but the board says, No." This Mantra kept the Operatagogs docile.

Tom was so tired of the constant begging by the Operatagogs that he and the new Dean of the Trolls - who twas said was bigger than the last, or was it that she was littler. Any way twas said that the new Dean of the Trolls would conjure from Straw a force so powerful that it would dumpeth the problems of the Operatagogs at somebody else's door. (It is said by those who dream that the new Dean of the Trolls had come from another world. A world where the inhabitants were free to sell their wares as they wished. Where there were no Trolls. Can that be true? Can there be such a place?)

I digress.

So in the land of Punterdom after two score years of stasis, there came a mighty knight from a land called ANIDEA. (Apparently, Its like IKEA but its ready assembled.) His name was Sir Alan Budd. Budd of Anidea twas rumoured had a brain as big as Gondor. And that he knew what it was like to have been held commercial captive.

Twas said he had been imprisoned for years in a think tank – no one amongst the Operatagogs knew what this was, but it sounded unpleasant. Twas said that he was a free-marketeer : no one amongst the Operatagogs knew what this was, but it sounded unpleasant. Twas said he had worked for a woman called Thatcher, everyone knew who she was, but that sounded ....ah twas long ago and best forgotten.

Sir Alan and his brave band of the great and the good – and the downright bloody attractive barrister - soon set about slaying dragons and piercing preconceptions and spreading light throughout Punterdom. Verily it was good.

He visited casinos and *spake* unto the Operatagogs. He did not turn them into toads, nor did he tread upon them, nor brush them like slime from the sleeve of a coat. – as had been the policy of the Trolls for aeons past. And nor did he taketh their certificates. He set forth in a great tome his idea of the future. He called it a 'A Safe Bet.' Not very Tolkein, but to the point.

The Operatagogs could hardly believe what they read. The Trolls had not resisted. They had been offered not just the crumbs from the table, not just the cake, but the whole bloody dinning room suite!

And verily, the Tome was not, in the great tradition of reports into gaming, ignored or buried. Such was Budd of Anidea's influence that the great god Blair, who had ignored and buried everything from principles to parliament, smiled his special smile on the report and gave it a new home. A home in a castle where people run and jump and sing: The castle of culture media and sport. And instead of the fierce, bearded and confused man with the big black dog who lives in The castle of Home: a kindly man – with no dog,

a much smaller beard, and a lady - who looks remarkably like my sister-in-law Susan - are in charge.

Surely we must be dreaming said the Operatagogs.

And as time passes, perhaps they are. The Operatagogs talk now to the Trolls and to new creatures from the place called dcms. They dream dreams. Dreams of a day when adults in Punterdom can walk freely into a casino and play a slot machine that runs not on steam, but on electricity! And when the jackpot pays, they do not run hither and thither lest they are buried in the coin that pays. A time when the punter can spend his own money from his own bank as he wishes. And when the places where casinos are, is not known only to MI5 and sad men who read the classified sections of newspapers looking for female, non-smoker, with good sense of humour, who likes nights in, country walks, friendship and perhaps more.

Ah some day soon.

But Punterdom is already changing. Just as in the real world the Operatagogs and the Trolls, like Labour and Conservatives, now have almost indistinguishable policies. There is little real conflict.

So where does the balance of power now lay. (Are there Lib Dems in Punterdom?) In the darkest recesses of their dingy caves the Operatagogs have been working on a magic potion with the Mistress of Magic of the BCA. The potion is called Social Responsibility Policy.

It is whispered that without such a potion all the wars between the Operatogogs and the fearsome Trolls will have been for nothing. And that the light brought by Budd of Anidea will fade into a darkness, darker than the black dog Blunkett!

How will we know when it is right the Operatagos wail?

Well it is written that when the potion is rich enough and the golden ewer is full a great bell will ring.

To be continued.

Thank you

## **Technology and gambling : The social impact of Internet gambling\***

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Griffiths (1999a) has argued that technology has always played a role in the development of gambling practices. Technology continues to provide new market opportunities with Internet gambling being at the forefront. It would appear that Internet gambling will take off for several reasons. For instance, it is easy to access and participate in an activity that comes into the home via television. Furthermore, there are many other developments that look likely to facilitate uptake of Internet gambling services including (i) sophisticated gaming software, (ii) integrated e-cash systems (including multi-currency), (iii) multi-lingual sites, (iv) increased realism (e.g., “real” gambling via webcams, player and dealer avatars), (v) live remote wagering (for both gambling alone and gambling with others), and (vi) improving customer care systems.

Another factor relating to Internet gambling is the changing nature of family entertainment. The increase in, and development of, home entertainment systems is changing the pattern of many families’ leisure activities. The need to seek entertainment leisure outside the home is greatly reduced as digital television and home cinema systems offer a multitude of interactive entertainment services and information. The result of this is that many families adopt a leisure pattern known as “cocooning” where the family or individual concentrates their leisure time around in-house entertainment systems (Griffiths & Wood, 2000). Rather than going out, the entertainment comes to them direct via digital television and Internet services. In the not-to-distant future, part of this entertainment for many families may be Internet gambling. It is argued that this situation is of great potential concern given the increasing literature on the dangers of offline gambling proliferation. Therefore, the rest of this paper examines two main areas in relation to Internet gambling. Firstly, it overviews some of the main social concerns about the rise of Internet gambling. Secondly, it examines whether Internet gambling is ‘doubly addictive’ given research that suggests that the Internet can be addictive itself.

### **Internet gambling : Social issues**

The uptake of gambling depends on many factors. Internet gambling is provided by a network of networks that spans geographical borders and is not discrete. Therefore, Internet gambling is global, accessible and has 24-hour availability. In essence, technological advance in the form of Internet gambling is providing convenience gambling. Theoretically, people can gamble all day every day of the year. The rise of Internet gambling will provide both marketing opportunities and marketing threats. Many may start to set up their own Internet gambling sites because the initial set-up costs will be minimal in comparison to (say) a casino. This will have implications for the social impact of Internet gambling. The following are areas of concern that build and expand on Griffiths’ (1999a) previous work.

Protection of the vulnerable – There are many groups of vulnerable individuals (e.g., adolescents, problem gamblers, drug/alcohol abusers, the learning impaired etc.) who in offline gambling would be prevented from gambling by responsible members of the gaming industry. However, Internet gambling sites provide little in the way of ‘gatekeeping’. In cyberspace how can you be sure that adolescents do not have access to Internet gambling by using a parent's credit card? How can you be sure that a person does not have access to Internet gambling while they are under the influence of alcohol or other intoxicating substances? How can you prevent a problem gambler who may have been barred from one Internet gambling site, simply clicking to the next Internet gambling link? These are all serious concerns that both regulatory authorities and Internet gambling service providers will have to take on board.

Internet gambling in the workplace - Internet gambling is one of the newer opportunities for gambling in the workplace. An increasing number of organizations have unlimited Internet access for all employees and many employees have their own computer terminal in their own office which allows such activity to take place without arousing suspicion. Internet gambling is a somewhat solitary activity that can happen without the knowledge of both management and the employee's co-workers. This has potentially large implications for work efficiency and productivity. This is an issue that employers will have to take seriously and develop effective gambling policies for the workplace environment (see Griffiths [2002] for an overview of issues concerning Internet gambling in the workplace).

Electronic cash – For most gamblers, it is very likely that the psychological value of electronic cash (e-cash) will be less than "real" cash (and similar to the use of chips or tokens in other gambling situations). Gambling with e-cash may lead to what psychologists call a "suspension of judgement". The suspension of judgement refers to a structural characteristic which temporarily disrupts the gambler's financial value system and potentially stimulates further gambling (Griffiths, 1993). This is well known by both those in commerce (i.e., people typically spend more on credit and debit cards because it is easier to spend money using plastic), and by the gaming industry. This is the reason that ‘chips’ are used in casinos and why tokens are used on some slot machines. In essence, chips and tokens “disguise” the money's true value (i.e., decrease the psychological value of the money to be gambled). Tokens and chips are often re-gambled without hesitation as the psychological value is much less than the real value. Evidence would seem to suggest that people will gamble more using e-cash than they would with real cash (Griffiths, 1999a).

Unscrupulous operators – Many concerns about the rise of Internet gambling concern unscrupulous practices operated by some Internet gambling sites. A major issue concerns the ‘trustworthiness’ of the site itself. For instance, on a very basic trust level, how can an Internet gambler be sure they will receive any winnings from an unlicensed Internet casino operating out of Antigua or the Dominican Republic? There are, however, other issues of concern including the potentially unscrupulous practices of (i) embedding, (ii) circle jerks, and (iii) online customer tracking. These are briefly overviewed below.

*Embedding* – One seemingly common practice is the hidden ‘embedding’ of certain words on an Internet gambling site’s webpage through the use of ‘meta-tags’. A meta-tag is a command hidden in the Web page to help search engines categorize sites (i.e., telling the search engine how they want the site indexed). One common way to get extra traffic flowing through a webpage is to embed common words that people might be searching for on the Internet (e.g. ‘Disney’). Some Internet gambling sites appear to have used the word ‘compulsive gambling’ embedded in their webpage. In essence, what such unscrupulous sites are saying is "index my casino site in with the other compulsive gambling sites" so people will 'hit' this site when they are looking for other information related to compulsive gambling. Someone looking for help with a gambling problem will get these sites popping up in front of them. This is a particularly unscrupulous practice which at the moment is perfectly legal.

*Circle jerks* – Another potentially unscrupulous tactic used by both Internet sex and gambling sites is telescoping windows often referred to as ‘circle jerks’. If someone online accesses a particular type of site and try to get out of it, another box offering a similar type of service will usually ‘pop up’. Many people find that they cannot get out of the never-ending loop of sites except by shutting down their computer. Obviously, those sites that use ‘circle jerks’ hope that a person will be tempted to access a service they are offering while their site is on the screen.

*Online customer tracking* - Perhaps the most worrying concerns over Internet gambling is the way sites can collect other sorts of data about the gambler. Customer data is the lifeblood of any company. Internet gamblers can provide tracking data that can be used to compile customer profiles. Such data can tell commercial enterprises (such as those in the gambling industry) exactly how customers are spending their time in any given financial transaction (i.e., which games they are gambling on, for how long, and how much money they are spending etc.). This information can help in the retention of customers, and can also link up with existing customer databases and operating loyalty schemes. Companies who have one central repository for all their customer data have an advantage. It can also be accessed by different parts of the business. Many consumers are unknowingly passing on information about themselves which raises serious questions about the gradual erosion of privacy. Customers are being profiled according to how they transact with service providers. Linked loyalty schemes can then track the account from the opening established date.

The technology to sift and assess vast amounts of customer information already exists. Using very sophisticated software, gaming companies can tailor its service to the customer’s known interests. When it comes to gambling, there is a very fine line between providing what the customer wants and exploitation. The gaming industry sell products in much the same way that any other business sells things. They are now in the business of brand marketing, direct marketing (via mail with personalized and customized offers) and introducing loyalty schemes (which create the illusion of awareness, recognition and loyalty).

On joining loyalty schemes, players supply lots of information including name, address, telephone number, date of birth, and gender. Those who operate Internet gambling sites will be no different. They will know your favourite game and the amounts you have wagered. Basically they can track the playing patterns of any gambler. They will know more about the gambler's playing behaviour than the gamblers themselves. They will be able to send the gambler offers and redemption vouchers, complimentary accounts, etc. Supposedly all of these things are introduced to enhance customer experience. Benefits and rewards to the customer include cash, food and beverages, entertainment and general retail. However, more unscrupulous operators will be able to entice known problem gamblers back onto their premises with tailored freebies (such as the inducement of "free" bets in the case of Internet gambling). The introduction of Internet gambling has come at a price, and that price is an invasion of the gambler's privacy.

### **The impact of technology on gambling : Salient factors**

To what extent does technology facilitate excessiveness? There are a number of factors that make online activities potentially seductive and/or addictive. Such factors include anonymity, convenience, escape, dissociation / immersion, accessibility, event frequency, interactivity, disinhibition, simulation, and associability. In general, structural characteristics of gambling appear to be enhanced through technological innovation.

Some researchers have made attempts to explain the Internet's seductiveness. Cooper (1998) proposed the Triple A Engine (Access, Affordability, and Anonymity) which he claimed help to understand the power and attraction of the Internet for sexual pursuits. Young (1999) also claimed to have developed a variant of the Triple A Engine which she called the ACE model (Anonymity, Convenience, Escape). Neither of these are strictly models as neither explains the process of how online use develops. They do, however, provide in acronym form, the main variables that account for acquisition and maintenance of some online behaviours. The variables that can lead to such activities as virtual adultery outlined by Young and Cooper (i.e., anonymity, access, convenience, affordability and escape) do appear to provide the explanatory building blocks for the development of other online behaviours such as Internet gambling. These are briefly looked at in turn as well as other reasons such as social acceptability and long working hours. It would also appear that virtual environments have the potential to provide short-term comfort, excitement and/or distraction.

*Accessibility* - access to the Internet is now commonplace and widespread, and can be done easily from the home and/or the workplace. Given that prevalence of behaviours is strongly correlated with increased access to the activity, it is not surprising that the development of regular online use is increasing across the population. Increased accessibility may also lead to increased problems. Research into other socially acceptable but potentially addictive behaviours (drinking alcohol, gambling etc.) has demonstrated that increased accessibility leads to increased uptake (i.e., regular use) and that this eventually leads to an increase in problems - although the increase may not be proportional (Griffiths, 1999a).

Since technology has played (and will continue to play) a critical role in the development of increased gambling opportunities (e.g., Internet gambling), this will lead to increased accessibility. What has been clearly demonstrated from research evidence in other countries is that where accessibility of gambling is increased there is an increase not only in the number of regular gamblers but also an increase in the number of problem gamblers (Griffiths, 1999a). This obviously means that not everyone is susceptible to developing gambling addictions but it does mean that at a societal (rather than individual) level, the more gambling opportunities, the more problems.

*Affordability* - given the wide accessibility of the Internet, it is now becoming cheaper and cheaper to use the online services on offer. Although very excessive use will still lead to large monthly bills for those who pay by the minute, for most people the cost compared to either a telephone call and/or postage will be cheap to moderate.

*Anonymity* - the anonymity of the Internet allows users to privately engage in gambling without the fear of stigma. This anonymity may also provide the user with a greater sense of perceived control over the content, tone, and nature of the online experience (Young, Griffin-Shelley, Cooper, O'Mara & Buchanan, 2000). Anonymity may also increase feelings of comfort since there is a decreased ability to look for, and thus detect, signs of insincerity, disapproval, or judgment in facial expression, as would be typical in face-to-face interactions. For activities such as gambling, this may be a positive benefit particularly when losing as no-one will actually see the face of the loser.

*Convenience* - interactive online applications such as e-mail, chat rooms, newsgroups, or role-playing games provide convenient mediums to engage in online behaviours. Online behaviours will usually occur in the familiar and comfortable environment of home or workplace thus reducing the feeling of risk and allowing even more adventurous behaviours which may or may not be potentially addictive. For the gambler, not having to move from their home or their workplace may be of positive benefit.

*Escape* - For some, the primary reinforcement to engage in Internet gambling is the gratification they experience online. However, the experience of Internet gambling itself, may be reinforced through a subjectively and/or objectively experienced "high." The pursuit of mood-modifying experiences is characteristic of addictions. The mood-modifying experience has the potential to provide an emotional or mental escape and further serves to reinforce the behaviour. Excessive involvement in this escapist activity may lead to addiction. Online behaviour can provide a potent escape from the stresses and strains of real life. These activities fall on what Cooper, Putnam, Planchon and Boies (1999) describe as a continuum from life enhancing to pathological and addictive.

*Immersion/Dissociation* - The medium of the Internet can provide feelings of dissociation and immersion and may facilitate feelings of escape (see above). Dissociation and immersion can involve lots of different types of feelings. This can include losing track of time, feeling like you are someone else, blacking out, not recalling how you got somewhere or what you did, and being in a trance-like state. In extreme forms it may include multi-personality disorders. All of these feelings when gambling on the Internet

may lead to longer play either because “time flies when you are having fun” or because the psychological feelings of being in an immersive or dissociative state are reinforcing.

*Disinhibition* - this is clearly one of the Internet's key appeals as there is little doubt that the Internet makes people less inhibited (Joinson, 1998). Online users appear to open up more quickly online and reveal themselves emotionally much faster than in the offline world. For the gambler, being in a disinhibited environment may lead to more money being gambled.

*Event frequency* - The event frequency of any gambling activity (i.e. the number of opportunities to gamble in a given time period) is a structural characteristic designed and implemented by the gaming operator. The length of time between each gambling event may indeed be critical as to whether some people might develop problems with a particular type of gambling. Obviously gambling activities that offer outcomes every few seconds or minutes (slot machines) will probably cause greater problems than activities with outcomes less often (weekly lotteries, football pools). The frequency of playing when linked with the two other factors - the result of the gamble (win or loss) and the actual time until winnings are received - exploit certain psychological principles of learning (Moran, 1987). This process (operant conditioning) conditions habits by rewarding behaviour, i.e., through presentation of a reward (e.g. money), reinforcement occurs. Rapid event frequency also means that the loss period is brief with little time given over to financial considerations and, more importantly, winnings can be regambled almost immediately. Internet gambling has the potential to offer visually exciting effects similar to slot machines and VLTs (two of the most problematic forms of gambling). Furthermore, the event frequency can be very rapid, particularly if the gambler is subscribed or visits several sites.

*Interactivity* – The interactivity component of the Internet may also be psychologically rewarding and different from other more passive forms of entertainment (e.g., television). It has been shown the increased personal involvement in a gambling activity can increase the illusion of control which in turn may facilitate increased gambling (Langer, 1975). The interactive nature of the Internet may therefore provide a convenient way of increasing such personal involvement.

*Simulation* – Simulations provide an ideal way in which to learn about something and which tends not to have any of the possible negative consequences. However, Internet gambling simulations may have unthought of effects. Many online gambling sites have a practice mode format, where a potential customer can place a pretend bet in order to see the procedure of gambling on that site. Although this activity can not be regarded as actual gambling as there is no 'real' money involved, it can be accessed by minors and possibly attract an underage player into gambling.

*Asociability* - One of the consequences of technology and the Internet has been to reduce the fundamentally social nature of gambling to an activity that is essentially asocial. Both Fisher (1993) and Griffiths (1991) have carried out observational analyses of slot machine players (particularly adolescents) and have reached similar conclusions. Those who

experience problems are more likely to be those playing on their own (e.g. those playing to escape) (e.g., Griffiths, 1990). Retrospectively, most problem gamblers report that at the height of their problem gambling, it is a solitary activity (e.g. Griffiths, 1995a). Gambling in a social setting could potentially provide some kind of “safety net” for over-spenders, i.e., a form of gambling where the primary orientation of gambling is for social reasons with the possibility of some fun and chance to win some money (e.g. bingo). However, it could be speculated that those individuals whose prime motivation was to constantly play just to win money would possibly experience more problems. One of the major influences of technology appears to be the shift from social to asocial forms of gambling. From this it could be speculated that as gambling becomes more technological, gambling problems will increase due to its asocial nature.

### **Internet addiction and Internet gambling addiction**

Gambling has long been known to be potentially addictive. Coupled with increasing research reports that the Internet is addictive (Griffiths, 1995b; 1996a; 1998; 2000a; Young, 1996; 1998; 1999), it has been speculated that Internet gambling may be ‘doubly addictive’. However, further examination of this appears to show this may not be the case. Technological addictions such as Internet addiction can be viewed as a subset of behavioural addictions (see Marks, 1990) and feature all the core components of addiction (e.g., salience, euphoria, tolerance, withdrawal, conflict and relapse - see Griffiths, 1995a; b; 1996b). Young (1999) claims Internet addiction is a broad term that covers a wide variety of behaviours and impulse control problems, and categorized by five specific subtypes. These are :

- *Cybersexual addiction* : compulsive use of adult websites for cybersex and cyberporn.
- *Cyber-relationship addiction* : over-involvement in online relationships
- *Net compulsions* : obsessive online gambling, shopping or day-trading.
- *Information overload* : compulsive web surfing or database searches.
- *Computer addiction* : obsessive computer game playing (e.g. *Doom*, *Myst*, *Solitaire* etc.)

Griffiths (1999b; 2000a) has argued that many of these excessive users are not "Internet addicts" but just use the Internet excessively as a medium to fuel other addictions. Put very simply, a gambling addict who engages in their chosen behaviour online is not addicted to the Internet. The Internet is just the place where they engage in the behaviour. However, in contrast to this, there are case study reports of individuals who appear to be addicted to the Internet itself (e.g. Young, 1996; Griffiths, 1996a; 2000b). These are usually people who use Internet chat rooms or play fantasy role playing games - activities that they would not engage in except on the Internet itself. These individuals to some extent are engaged in text-based virtual realities and take on other social personas and social identities as a way of making themselves feel good about themselves. In these cases, the Internet may provide an alternative reality to the user and allow them feelings of immersion and anonymity which may lead to an altered state of consciousness. This in itself may be highly psychologically and/or physiologically rewarding.

To a gambling addict, the Internet could potentially be a very dangerous medium. For instance, it has been speculated (Griffiths, 1995c; 1996c) that structural characteristics of the software itself might promote addictive tendencies. Structural characteristics promote interactivity and to some extent define alternative realities to the user and allow them feelings of anonymity - features that may be very psychologically rewarding to such individuals. However, to date there is no evidence that Internet gambling is 'doubly addictive' particularly as the Internet appears to be just a medium to engage in the behaviour of choice. What the Internet may do is facilitate social gamblers who use the Internet (rather than Internet users per se) to gamble more excessively than they would have done offline.

## Conclusions

As was asserted right at the beginning of the paper, technology has always played a role in the development of gambling practices and will continue to do so. The impact of the technological revolution should not be examined uncritically particularly if there are areas of potential concern. The author makes no apologies for presenting what could turn out to be 'worst case scenarios' as all possible implications of increased Internet gambling need to be considered. The first part of this paper highlighted social issues that were all bona fide concerns. What is uncertain at the present time is how much of a concern they are or will be. Future research and monitoring of potentially unscrupulous practices will give a clearer indication in the years to come.

Clearly, many of the ideas and speculations outlined in this paper need to be addressed further by large-scale empirical studies. As a consequence, the potential social concerns are not borne out by the empirical data although this is not something to be complacent about. Since there is so little data, no firm conclusions can be drawn either positively or negatively. Participant recruitment is currently very difficult for this particular group. However, it is anticipated that as this population grows and the use of Internet data gathering techniques become more commonly accepted, researchers will have access to larger samples.

Whether Internet gambling will turn out to be "doubly addictive" remains to be seen. The limited data appear to suggest individuals who are actually addicted to the Internet itself are not those people who experience other addictions (like gambling) online. However, for the social gambler, the Internet may be more addictive-inducing because of factors such as convenience, event frequency, asocial nature, and anonymity. Clearly this is an area of concern that must be addressed sooner rather than later given the almost exponential increase in Internet gambling globally.

The primary intention of this paper was to draw together what little we know about the *recent* and perhaps more importantly, the *potential* future effects that the Internet will have on gambling behaviour. What is clear from this account is that several aspects of the Internet (the structural characteristics) will make gambling significantly more convenient and enjoyable. Furthermore, its appeal might be enhanced by catering for certain psychological needs (e.g. self-esteem and competition) that other traditional forms of

gambling do not currently offer. It could therefore be argued that such developments will increase the potential for problem gambling globally.

\* This paper constituted the second half of Mark Griffiths' inaugural professorial lecture at Nottingham Trent University (October 30<sup>th</sup>, 2002). Parts of this paper have been published in *Social Science Computer Review* and the *Journal of Gambling Studies*.

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## **Gambling in the media**

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Why might we listen to a current affairs radio programme? Perhaps to gain knowledge, or even to learn from those who know more than we do? Not at all. We listen to be entertained by the presentation of extreme views and pretend that we have understood enough about issues to vote sensibly in elections. At least that is the opinion I formed after listening to the following programme. Last autumn, an edition of Radio 4's 'The Commission' was devoted to the impending relaxation of the gambling laws. I had never previously listened to this programme, but spotted a reference to it in the 'listings' and thought it would be of interest and perhaps informative.

'The Commission', for the uninitiated, is Chaired by Nick Ross of BBC1 *Crimewatch* fame, and consists of a panel of three 'Commissioners' selected from the *great and good* who listen to, and question, invited speakers on contemporary issues. At the end the 'Commissioners' sum up and give their conclusions. The 'Commissioners' on this occasion were Martin Stephen, High Master of Manchester Grammar School, David Beam QC, Chair of the Bar Council, and Caroline Phillips, Director of the Policy Unit of the Institute of Chartered Secretaries and Administrators. Frankly, the whole style of titles and Star Chamber discussion seemed a bit twee, but let me give you a flavour of the content.

The first guest speaker was a former professional Blackjack player, Sandra Newman, who has written a book on her experiences. Nick Ross told us of the prize that the book was nominated for. I wonder if it is possible to not have a book nominated for some prize these days. Her general argument was that Gambling firms existed to make profits by exploiting compulsive gamblers and should accordingly be prohibited. Strangely, she approved of private gambling by individuals, pointing out how exciting it could be. It was the profit-making by firms that she objected to. She said, in an accusatory tone, that firms only offer odds that give them a certain long-run gain. She seemed to think that punters would be unaware of this aspect of the business. When Nick Ross suggested to her that by taxing gambling the government was 'pimping off gambling' she agreed enthusiastically with that sentiment. I suppose it would have been impolite of the 'Commissioners' to ask if her real objection to casino firms was that they would not allow her to use her Blackjack system on their premises, and made more money from gambling than she did. Perhaps she regarded private gambling as harmless because she could now only make money in that way. I was surprised that she was not asked how problem gamblers would be kept away from private gambling. Presumably she was taking advantage of the programme to raise the sales of her book.

Paul Bellingranger, Director of GamCare, was the next guest speaker. He expressed the view that the Budd report and Government's response did a good job in bringing social responsibility to the fore, and was thus helping to protect those vulnerable to gambling

opportunities. When Paul was invited to ban gambling by Nick Ross, he assured the 'Commission' that you can not ban gambling since humans are instinctive risk takers. Closing the industry would, he suggested, just drive gambling underground and into the hands of illegal exploiters. This view did not go down well with Martin Stephen. He asked Paul if his attitude amounted to the Anglican Church approach that we must accept and work with "devil worshippers" because we cannot stop them. Martin Stephen also spoke of the "massive" and "huge" increase in gambling that was already taking place and would go further in the changed legal environment. Paul clearly favoured responsible gambling and repeated his view that current proposals would go some way towards achieving that. David Beam sought assurance that social responsibility in gambling establishments could be actually enforced.

The next guest was Penny Cobham, Chair of the British Casino Association. She faced the toughest line of questioning, typified by Martin Stephen's reply to her approval of a growing leisure industry that gave pleasure to many people, when he opined that firms would do that by "extracting more money from them even than the industry does at the moment". Martin seemed to have taken Sandra Newman's line to heart in this somewhat Marxist 'profit is theft' approach to business. Nick Ross expressed disbelief in Penny's description of the UK casino industry as being 'crime-free', claiming that this was an "extraordinary statement". He stated categorically that money laundering must occur in UK casinos, because rules are 'permeable' to casino operators. Since Nick presents *Crimewatch* listeners may regard him as an expert in such matters. Penny responded firmly with respect to the value of existing regulations and casino management practice. Martin Stephen asked if Penny thought that having, "the largest gambling industry in the world would add lustre to the image of UK plc". I can only assume that his obviously unrealistic claims for growth in the UK industry to a size greater than that in the United States were meant to provoke rather be taken seriously. However his lack of statistical awareness became apparent later. Perhaps some listeners believed him, which would be sad. Penny's advocacy of gambling firms providing leisure services to many customers, and acting in a way that was socially responsible, did not seemingly convince any of the 'Commissioners'.

The next guest speaker was Professor Jeffrey Gray, a member of the Budd Committee and Professor of Psychology at the Institute of Psychiatry in London. He supported the Budd recommendations and felt that society should not ban gambling just because a small minority may suffer from its effects. He compared gambling to alcohol: legal and a source of pleasure to many, but capable of causing harm. There was some confusion after Professor Gray stated that the proportion of gamblers who were problem gamblers would probably be constant as gambling expanded. Martin Stephen insisted that as the numbers of gamblers rose, so would the proportion of problem gamblers also rise! He claimed that mathematical logic would support his inability to distinguish between proportions [ratios] and absolute numbers. He did not understand that constancy in the former was quite compatible with a rise in the latter as the population rises. We really should expect better from a High Master. The 'Commissioners' seemed surprised that 'fruit machines' were regarded as the form of legal gambling most likely to create and exploit problem gamblers.

Peter Dean, Chair of the Gaming Board for Great Britain, was next for the hot seat. He did not actually say it, but few hearing him would doubt that he felt that the proposed Gaming Commission should be responsible for the National Lottery. He was asked about the difficulty of regulating and taxing internet gambling. He recognised the difficulty and suggested that licensing and ‘approval’ of a site, in ways that customers could identify, should be accompanied by an ability to tax firms operating them. For the firms the choice would be between paying taxes or not being licensed.

The ‘Commissioners’ then discussed the issues. David Beam feeling that banning gambling was impractical but that regulation was necessary to protect the vulnerable. Caroline Phillips saw nothing morally wrong in gambling, but wanted more information given to gamblers about the games they were playing [or “going in for” as she described it]. Martin Stephen likened the industry currently to a “cuddly bear cub” that could grow into a “beast”. Accordingly he thought there was no reason for change, but that the internet should and could be regulated. They all agreed that gaming machines should be banned from premises where admission was not age controlled, so that under18s were prevented from gambling. There was also agreement that there should be a levy on the industry and the funds passed to a body, independent of the industry, which could then establish a University Chair to research the psychology and psychiatry of gambling to provide good independent academic research. The ‘Commissioners’ seemed to be unaware of the work of Professors Mark Griffiths, Peter Collins and others. However, their identification of the need for the body that spends money from the industry on research to be clearly independent of the gambling industry is one shared by many observers. On the subject of the internet, it was proposed that the Police set up a special section to undertake the challenge of regulation and recruit from skilled graduates who could envisage a career in this area of work.

What did I learn from the programme?

Firstly, that in future I should not criticise students any longer as being journalistic in their essays. I was surprised at how ill-informed the ‘Commissioners’ and Nick Ross were about the facts of the industry. Of the ‘Commissioners’, only Caroline Phillips seemed to have read either the Budd report or ‘Safe Bet for Success’. I was even more surprised at the use of unsubstantiated value judgements in a serious debate. Students very rarely descend to such forms of argument. The only statistical fact presented was by Paul Bellringer who quoted the £3M per year fund to be provided by the industry for research, education and treatment of problem gamblers. It seems that wild assertions and inflammatory language is good for the media even if it is at the expense of an informed debate.

Secondly, I suppose that the roles adopted by the individual ‘Commissioners’ were predictable. Caroline Phillips taking a line favouring ‘business with responsibility’, and wanting good information for customers. David Beam focused on the effectiveness of the regulatory framework. Martin Stephen provided a convincing display of ‘unreasoned moral outrage’. I suspect these roles were deliberately rehearsed beforehand. Prior to asking Caroline Phillips and David Beam about their conclusions Nick Ross enquired about any pre-conceptions they might have had before the programme. He did not bother to ask the same question of Martin Stephens. Martin Stephens’ whole approach was

consistent with a High Master who does not allow either Economics or Business Studies to be taught in his school. Despite my reservations about the style of the debate I think the overall 'agreed' conclusions were acceptable.

I guess the message given to listeners was that the gambling industry is dangerous and needs to be strictly controlled but that government was going to free it from previous tough regulation. Surprisingly no reference was made to football pools, local lotteries, bingo or spread betting. Even less was there any reference to the BBC inviting viewers to phone in to high priced telephone lines with answers to easy questions, which if they happen to answer correctly allows their name to go into a prize draw. Perhaps these gambling activities are seen as non-threatening. Despite the focus on problem gambling no evidence for the percentage of gamblers that are problem gamblers was provided. Prevalence surveys put it at below 1%. That is 1% more than we would wish but I was amazed that this statistic was not quoted. Might the listeners have concluded that it was not worth bothering about? After all, less than 1% sounds like a very small proportion and might have taken away the basic fear of gambling firms that the programme was featuring and encouraging.

As an economist I was disappointed that there were no references to competition in the industry. It seemed to be assumed that the firms were able to fix games and odds to suit themselves without any regard to the fact that other firms could compete by offering better winning chances. Since the industry will be more competitive post deregulation, profit margins are likely to fall. Higher profits from additional customers could well leak away in competitively rising customers' complimentaries and fees to advertising agencies. Given the attention that was given to casinos in the programme, there was no mention of the cessation of the 'permitted areas' and 'demand test' laws that provide the main strategic driver of the future of the industry. The shape of the casino industry and how gamblers access it will be determined by the way in which public authorities react to casino firms' applications for new premises. Will small local casinos be allowed in every town, or will there be a restriction to favour a few holiday resorts that can develop resort style casinos? I suspect that concept would be too complex for a radio programme. However, that is the main sense in which the industry is being deregulated, whereas the impression that listeners would have from the programme is that casinos will enjoy a complete end to regulation by doing whatever they want and reaping fantastic rewards in high profits.

Another opportunity lost in the programme was a failure to consider the invasion of our shores [you see how my academic vocabulary has been replaced by outrageous metaphor after being exposed to radio 4] by overseas gambling firms. Some of our domestic casino firms could be wiped out by new competitors with long experience of mass gambling and the management of large numbers of gaming machines. Overseas firms may also have a greater financial capacity than UK firms to pay for the changes in casino premises – larger casinos being needed to cater for new entertainment and more machines. The central theme of the programme, that UK casino firms will have a profitable future, is not at all certain.

If you wish to listen to the programme you can do so at the following web address provided by the BBC,

<http://www.bbc.co.uk/radio4/news/thecommission.shtml>

## **Effects of Casino Gambling on Crime and Quality of Life in New United States Casino Jurisdictions**

**Mark W. Nichols, B. Grant Stitt, David Giacomassi**

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With the dramatic increase in casino gambling in the United States during the 1990s, one of the most important domestic policy questions became, what impact do casinos have on communities? Rancorous debate often erupted among the residents in jurisdictions where casino legislation was proposed. Proponents of legalization stressed the economic benefits thought to result from the establishment of a casino. Increased job opportunities, a new (or enhanced) tourism industry, and increased tax revenues were compelling arguments, especially in economically depressed communities that had few other options available.

Opponents tended to stress the social problems believed to result from casinos and the change in the nature of the community itself, as many expected the gambling industry would become a major force in the daily life and politics of the community. Crime, divorce, bankruptcy, and a change in traditional community values were seen as problems that would inevitably accompany casino legalization.

Despite the level of acrimony generated by the casino legalization debate, an empirical foundation was missing. Voters and policy makers were often unable to separate rhetoric from reality, for research on many of the key questions was incomplete or totally lacking. Consequently, one of the goals of the current research was to provide an objective and multi-dimensioned assessment of the impact of casino gambling in new casino jurisdictions.

To accomplish this, a research team composed of an economist and two criminologists, assisted by demographers and experts in survey research, completed perhaps the most intensive community based research ever conducted on new casino jurisdictions at that time. The research plan as completed involved eight new U.S. casino jurisdictions: Alton and Peoria/East Peoria, Illinois; Sioux City, Iowa; St. Joseph, St. Louis (city) and St. Louis County, Missouri; and Biloxi, Mississippi. The communities were chosen because each had recently initiated casino gambling and law enforcement officials were willing to make available Part I and Part II crime data for four years before and four years after the casinos began operation.

The communities ranged in population from 22,385 for East Peoria and 32,905 for Alton, Illinois, to 113,504 for Peoria and 396,685 for the city of St. Louis. All of the communities lost population from 1980 to 1990 (Bureau of the Census, 1992). Each community has a riverboat, with the exception of Biloxi, Ms., which has nine casinos located on stationary barges. These barge casinos tend to be larger than the riverboat casinos and their size and concentration in Biloxi have resulted in the casinos and the tourists they draw playing a much larger role in Biloxi than in the other communities studied. The other extreme is St. Louis, a relatively large city with a single riverboat casino, although several others are in nearby communities. In St. Louis, unlike some of the other communities included in the study, their riverboat casino has relatively little impact on tourism and on the overall economy.

Significant findings of the research indicate that most community leaders in the new casino jurisdictions believe that the casinos have been good for the communities, although 10% to 20% of the leaders saw casinos as a negative influence. The casinos do not appear to have any general or dramatic effect on crime, especially in communities that do not have a high concentration of casinos. The data indicate that minor crimes are more likely to increase in casino communities than are the index offenses, although there is little consistency in types of crimes that significantly change when all the new jurisdictions are compared. Bankruptcy does appear to be influenced, with a significant increase in rate of personal bankruptcy found in five of seven communities. In only one community did divorce significantly increase, while it significantly decreased in four of the eight casino communities. Suicide increased significantly in two casino communities, and significantly decreased in one.

The findings suggest that casinos do not affect all communities in a simple, similar, or nonvariant fashion. The evidence suggests that casinos appear to be neither as good for a community as supporters contend, nor as negative as opponents argue. More detailed descriptions of the research and findings are presented in summary form below.

## **Method**

There were three main components of the research plan. The first component consisted of site visits to each of the eight communities selected for inclusion in the study. Research teams composed of an economist and one or two criminologists visited each community and sought to interview community leaders to get their views on why casino gambling was introduced into the community and their perspective on the impact the casino had on their community. A broad spectrum of community leaders were interviewed, from mayors to police chiefs and heads of social service agencies, to get feedback from leaders representing diverse perspectives.

A second major component of the research consisted of telephoning several hundred residents in each community to obtain their opinions regarding the impact of the casino on the community and their views on how the casino affected day to day living within the community. The survey consisted of a variety of open ended as well as fixed response questions covering, among other topics, questions concerning their gambling experiences,

whether the casino changed their neighborhoods, and whether they knew individuals who were problem gamblers. A total of 2,768 individuals were interviewed for the project.

The third component consisted of gathering a variety of official data to determine how the communities changed once casinos were introduced. Comparisons were also made between the casino communities and a number of matched control communities. Bankruptcy, divorce, and suicide data comprise important data sets for this analysis. Other data collected had never before been analyzed in such an in-depth manner. For example, crime statistics were gathered not simply for Part I or Index Offenses, but also for the more minor Part II offenses, such as simple assault, prostitution, and DUI, which many criminologists believe are more likely to be associated with casinos than are the more serious crimes, such as murder and forcible rape. Also, the crime rates were calculated using both the residential population of the community and the population at risk, which includes tourists in the crime rate population calculations.

## **Results**

### *Community Perceptions*

The interviews with 128 community leaders in the seven casino communities revealed that a clear majority (59%) were in favor of the casino's presence. Most (65%) believed that the casino enhanced the quality of life in the community, had a positive effect on the economy (77%), and had little, if any, effect on crime (69%). In all of the seven communities, the majority of community leaders believed that the casino contributed to the economic well-being of the residents. In six of seven communities, the leadership believe the casinos have little effect on crime. In five of the seven communities, the majority of the key individuals agreed that the quality of life was enhanced by the casino.

Degree of agreement varied by community, with the most favorable responses on several dimensions, especially economic impacts, coming from the leadership of Biloxi. It appears that one of the main determinants of attitudes towards casinos by those in leadership positions is degree of economic impact the casino has on the community. In those communities that depend heavily upon a casino for their economic well-being, the casinos have been enthusiastically embraced; in those communities where casinos are only a minor part of the economy, the leaders tend to be more moderate in their appraisal of the impact of the casino on the community.

The second major component of the study is the community survey. The analysis is based on a total 2,768 voluntary and anonymous interviews of adult residents of the seven communities. The interviews were accomplished through use of a computer assisted telephone interviewing (CATI) survey. The number of interviews for each community varied from a low of 101 in East Peoria to a high of 420 in St. Joseph.

One element of the survey data examines resident perceptions of problem gambling within their communities and, more specifically, prevalence of problem gambling among friends and relatives. Combining the responses of all seven jurisdictions, residents

perceive that, on average, 16% of the population has a gambling problem, noticeably higher than estimates of the incidence of actual problem gambling. The range is from 11% in St. Louis County to 18% in Sioux City. The results specifically suggest that when problem gambling occurs "close to home" (among friends or relatives) it has a more salient effect on the individual's perception of problem gambling in the community.

### *Crime Data*

To determine the effect of casinos on crime in new casino jurisdictions, crime data were collected from police department records in seven jurisdictions. East Peoria was not included in analysis of crime issues due to unavailability of data from their police department. Each initiated casino gambling in the 1990s and has had casino gambling for a minimum of four years. This time frame allows comparisons to be made before and after casinos were in operation. Crime rates were calculated for each offense in each community based both on population and population at risk, which adds average daily tourist population to the resident population. Crime data for both serious crimes and for relatively minor offenses were collected.

Comparing the before and after crime rates utilizing the population at risk (the more conservative measure to gauge a possible casino effect), the data reveal few consistent trends in crime. In three communities (Sioux City, Peoria, and Biloxi), there were many more crimes that significantly increased than decreased. In three other jurisdictions (Alton, St. Louis (city), and St. Louis County), there were many more crimes that significantly decreased than increased. In one city (St. Joseph), the vast majority of crimes showed no change. The Wilcoxon Signed Rank Test for Paired Differences was used to analyze offense categories for which data were available in five or more communities to compare crime rates before and after the introduction of casinos. Few statistically significant changes are found in pre and post casino periods. Analyzing the traditional crime rate measure based on resident population, data for burglary and larceny are found to be significant at the .10 level and suggest that there was a decline in burglary and an increase in larceny. Results for drug violations and family offenses are significant at the .05 level and are consistent with increases in these offenses. When examining crime rates normalized by the population at risk, only burglary and drug violations are statistically significant, with the former decreasing and the latter rising.

In a second phase of the analysis of the crime data, rates of serious (Part I) and less serious (Part II) offenses in each community were compared to a control community matched on fifteen demographic, economic, and social variables. Crime rates were again calculated in two ways: based on the resident population and based on the population at risk.

Results indicate little consistency in crime trends for the communities studied. Of the 169 comparisons between the casino and control (noncasino) community crime rates, 45% revealed no significant difference between the casino and control communities. A simple tally of the direction of the t values provides a rough indication of the evidence concerning a possible casino effect when there is a significant change. Using per capita

population as the basis for standardization, 55% of the 51 comparisons that achieved statistical significance were positive, indicating an increase in crime in the casino communities, whereas 45% were negative, indicating a decrease in crime. When the communities were compared using the population at risk as the basis for standardization, 52% of the 40 statistically significant comparisons were positive, 48% were negative. In some communities, the majority of significant changes in crime rates were negative; in other communities, the majority of the significant changes were positive.

The examination of the results indicate that there can be no conclusive statement regarding the effect that casinos have on crime. The fact that the results are mixed suggests that there may be some contextual factors operating in some communities that allow for casinos to increase crime under certain, as yet unknown circumstances.

### *Suicide and Divorce*

To analyze the impact that casino gambling has on the social fabric of a community, suicide and divorce rates in eight casino communities were compared to the rates in non-casino control communities. Five matching control communities were selected for each casino community to ensure the results were not sensitive to the selection of any one particular control jurisdiction. The control communities were selected based on their similarity to the casino communities on 15 demographic, social, and economic variables.

Calculating the difference in divorce rates before and after casinos entered communities and comparing the changes to their respective control communities indicate that the rates significantly decreased in four of the eight casino communities; in only one of the comparisons did the divorce rate in the casino community show a significant increase when compared to the control communities. These results suggest that statements proclaiming that casinos increase divorce in a community are not supported by the data.

When suicide rates are compared for casino and control communities, results reached statistical significance in only three of the eight comparisons, increasing significantly in two cases and decreasing significantly in one case. When a regression equation was run controlling for economic, demographic, and social integration factors, the findings indicate that the presence of a casino in and of itself is not associated with a statistically significant increase in per capita suicide, but that the size of the casino industry does matter. In particular, larger casino markets (measured by per capita casino revenue) are positively associated with higher suicides. It should be noted, however, that the overall fit of the equation is somewhat low ( $R^2=.20$ ), and that once Biloxi is removed from the sample, casino size is insignificant.

Based on the findings of the present research, it is difficult to generalize about the effect of casino gambling on suicide and divorce. Casino communities tended to experience a greater decrease in divorce than in the control communities, whereas suicide showed the opposite effect. However, in examining both divorce and suicide, a few communities went against the general trend. What is apparent is that attempting to understand how

casino gambling affects divorce and suicide in a community is not a simple matter and the effect of casinos on these phenomena does not lend itself to sweeping generalizations.

### *Bankruptcy*

Bankruptcy rates in the eight new casino communities were compared to bankruptcy rates in eight non-casino control communities. The control communities were chosen based on their similarity to the casino communities matched on 15 demographic, social, and economic variables. Comparisons of bankruptcy rates were based on county-level data for personal bankruptcy, both Chapter 7 and Chapter 13, which were analyzed for 1989:Q4 to 1998:Q1.

The results indicate that casino gambling is associated with an increase in personal bankruptcy in seven of the eight communities. In five of the seven communities the increase is statistically significant. The most significant changes in bankruptcy occurred among Chapter 13, as opposed to Chapter 7, filings. The results also tend to suggest that there is a direct and positive relationship between length of time casinos have been in a community and bankruptcy rate, as those communities that have had casinos the longest tended to have the greatest increase in bankruptcy. However, the study shows that an increase in bankruptcy rate is not an inevitable product of casinos opening in a community. One community (Biloxi/Harrison County, MS) actually experienced a significant decrease in bankruptcy rate.

### *Social Capital and Quality of Life*

Analyses of social capital are attempts to measure degree of residents' connection to their neighborhood and community. Several questions included in the community survey were designed to measure satisfaction with neighborhood and community well-being, neighborly behavior, and trust in neighbors and government officials. The independent variables used were whether respondents believed gambling was good for the community and how the respondents' gambling behavior influenced their views of community cohesion.

The analysis of the social capital variables suggests that, contrary to assumptions, the introduction of casinos did not tear the fabric of the community. Overall, although there are perceived negatives (increased crime, fear of crime), the perceived positives (increased standard of living, the community being a better place to live) are given greater importance in contributing to the community's quality of life. In all the communities studied, the belief that gambling was good for the community was positively and significantly related to social capital whereas the respondents' gambling behavior was significantly and positively related to social cohesion in only three communities (Biloxi, St. Louis (city), and East Peoria).

Five questions in the community survey were included to permit an analysis of respondent perceptions of changes in quality of life due to the casinos' presence. The results of the analysis indicate that while many in the community believed that casinos

increased or decreased their quality of life, none of the measures reached statistical significance. The fact that respondents were fairly evenly divided on the issue of how casinos affected quality of life in the community indicates that, even after a minimum of four years of a casino's presence in these communities, opinions continue to be divided regarding the impact of casinos on the community.

#### *Limitations of the Research*

It should be noted that the new casino jurisdictions included in this research tended to have a single casino. The findings for Biloxi, a community with a high concentration of casinos, frequently tended to differ, both positively and negatively, from the other communities studied. It is also important to note that the communities had had casinos for less than ten years. The positive or negative impact could well change given greater duration within the community.

The analysis indicates that there are few consistencies between communities when comparing the before and after rates for new casino jurisdictions. It is possible that the numbers (as crime and tourism statistics) are so imprecise as to result in these inconsistencies. It is equally plausible that the effects of casinos in a community are quite varied, depending on a multitude of variables beyond the scope of the present research. Finally, the results are only based on communities in the United States. Comparison with other countries would lend greater insight into the overall impact of casino gambling. Based on the differential impact that casinos have on the communities studied here, we conclude that simple analyses and broad generalizations are not sufficient to capture the complexity of what occurs in communities when legalized casino gambling is introduced.

## **The National Lottery: The case for competition**

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Through the era of deregulation of utilities, transport and other public services, the lottery industry worldwide has remained untouched. In Britain, as elsewhere, the state-sanctioned lottery enjoys a territorial monopoly despite growing concern at the pace of decline in sales and the consequent shrinking of the pot of revenue available for distribution to 'Good Causes'. This paper examines the proposition that it would be feasible and desirable to address the lottery problem with a species of reform based on the notion that consumer and public welfare is improved when competition is introduced into a market.

The organisation of the paper is as follows. First I review the traditional case for treating a national lottery as a natural monopoly. Next I question whether the assumption that the lottery is a natural monopoly is justified and sketch an outline of how a competitive lottery industry might be organised. Finally, I argue that, in addition to the usual benefits of competition, liberalisation of the National Lottery would bring particular gains related to the nature of the lotto game itself.

### **The Peculiar Scale Economies of Lotto**

Despite their general presumption in favour of competition, economists have long conceded that there may be cases, termed natural monopolies, where cost conditions in an industry dictate that there is room for only one supplier. Classically, the situation arises in an industry with high infrastructure costs. In such a case, an individual producer will enjoy falling unit costs as production rises because the high overheads get to be spread over more and more units of output. With sufficiently high infrastructure costs, relative to the available size of market, unit costs may still be falling as production reaches the level where the whole market is supplied by one firm. Such a firm will be able to maintain monopoly over the market because any new entrant, starting up with relatively low output, would be unable to compete on price given the high overhead costs. Artificially to force the monopolist to concede some of the market to a new entrant would raise unit production costs in the industry as a whole. In these circumstances, economists have concluded that monopoly will be unavoidable but there would be a case for regulation to restrain the monopolist from fully exploiting its strong position in the market.

Textbook examples of natural monopoly used to be from industries such as gas supply. There was room for only one gas supplier in a local community because a high proportion of total costs are accounted for by the pipeline infrastructure. High fixed costs could be recovered only if spread across the whole population of potential gas users in the area. There was room for only one firm. Two firms could not survive because

neither could recover its high overhead costs if these were spread over only half the market. At least local monopoly would have to be tolerated.

Of course, there is no exactly equivalent 'economies of scale' situation in the organisation of a game such as lotto. The computer infrastructure of the retail network generates a high proportion of total operating costs; but these costs are low on a per-ticket basis even in jurisdictions much smaller than Britain. Nevertheless, Cook and Clotfelter (1993) were able to coin a famous phrase, 'the peculiar scale economies of lotto', that captured a parallel situation to that of gas and other utilities. The lotto game had economies of scale linked not to technological cost conditions, as in the familiar case, but rather to consumer preferences.

The unique attraction of a long-odds game such as lotto is that players have a (small) chance of winning a genuinely life changing prize. In the words of Forrest, Simmons and Chesters (2002), they are 'buying a dream'. Indeed, a recent survey of lottery players in China suggested that 91% of participants literally dreamed about winning. But a vivid dream requires a seriously large sum of money to be on offer. Perhaps only a monopoly lotto game would be able to gather together stakes from sufficient bettors for a truly interesting jackpot to be available and only then will the full revenue-generating potential of lotto be realised. After all, but for the jackpot, bettors may as well wager on other forms of gambling where take-out rates are much lower.

The Cook-Clotfelter contribution had important policy implications. A lotto game would be more successful in terms of *per capita* sales the larger the population amongst which it could be marketed. That insight explains why small American states don't offer their own lotto games and why small countries, such as the six that organise the Nordic Lottery, join forces on occasions to offer supranational games that collect together the money of sufficient bettors for an appealing jackpot to be advertised.

With regard to our question of market structure, the peculiar scale economies of lotto might be taken as validating the current monopoly situation. If lottery players' money were split across two or more providers, jackpots would be small and sales would suffer. This is perhaps why UK local authority lotteries, briefly successful from their launch in 1976, enjoyed only very fleeting popularity. Individual council-sponsored games were marketed on a national basis but too many local authorities promoted lotteries for any one to be able to offer an appealing product with a large prize. The history of Britain's pools industry is also instructive. When it switched, after World War II, from short-odds-style football betting to a lotto-style game called treble chance (pick eight numbers from about fifty, with numbers corresponding to football games), the number of firms contracted rapidly from hundreds to just three (Munting (1996), Forrest (1999)). The feasibility of a competitive industry disappeared with the switch in emphasis to high-prize betting. Smaller firms could not survive because their customers switched to suppliers offering larger jackpots. On this view, a dynamic process would lead eventually to the survival of just one lottery firm even if government issued multiple licences.

This, then, is the traditional reasoning. The provision of lotto is a special sort of natural monopoly. Two or more operators would split the market and render jackpots at individual firms unappealing. Either sales would be permanently lower or one survivor would emerge from a wasteful competitive struggle. On this view, monopoly should be accepted as inevitable though one may try to exert pressure on the monopolist to perform adequately by the threat that its franchise might not necessarily be renewed. This, however, may not be an effective stick with which to control the monopolist. On the renewal of the first UK licence, only one other firm applied for the franchise and the result indicated that strength from incumbency might prevent any challengers from emerging next time.

### **Is liberalisation feasible?**

The case, outlined above, that the gas (or electricity or telephones) sector constituted a situation of natural monopoly was once unchallenged. Yet consumers in such industries now benefit from vigorous competition. What changed was the recognition by economists and politicians that, while the natural monopoly argument was valid, it did not apply to the whole industry. For example, in gas the element of natural monopoly was related to the provision of an expensive pipeline distribution system. Probably pipelines were indeed too costly for duplicate provision to be feasible; but regulation could permit numbers of gas retailers access to the pipeline system with each contributing access fees towards the pipeline cost; competition could then operate in the sale of gas to final consumers without loss of economies of scale. Of course, there were practical problems – a regulator was needed to ensure fair and equal terms of access to the distribution network – but the idea of separating out the natural monopoly element from the rest of the industry proved a useful template for liberalisation of the electricity and telephone markets. The idea was less successful on the railways because even service to final consumers is a natural monopoly in nearly all cases (i.e. there are sufficient customers on any one line to support only one operator).

The ‘peculiar’ natural monopoly element in lotteries lies in the jackpot prize. The appeal of the game is much stronger where the grand prize is large and splitting the jackpot funds across the lotteries of several competing companies is almost certainly not feasible given the size of the overall market. However, it could be feasible to collect together a single jackpot fund to which several lottery operators contributed while competition reigned at the level of selling to final consumers. The analogy with the introduction of competition into utilities appears close.

Here is a sketch of how the UK National Lottery could be operated after the expiry of the current franchise. The National Lottery Commission would organise the Wednesday and Saturday Lotto draws and perhaps (depending on practical considerations) organise some central marketing. The Commission would issue licences to any fit and proper organisation that wished to sell its own brand of the National Lottery product. Each licence holder (likely to include organisations such as Littlewoods and the large bookmakers as well as Camelot; supermarket chains and the Post Office might also enter the market or might choose to act as retailers of other brands) would contribute the same

proportion of stake money as now for tax and 'Good Causes' and would also contribute the same proportion as now to the jackpot prize fund. A single national jackpot would therefore be preserved. But what the operators did with the revenue that remained would be at their discretion. They would be likely to compete both on the size of take-out and, crucially, on the prize structure they offered. For example, one firm might target those bettors who are interested only in the grand prize by using all their funds for topping up the national prize for any of their customers who won it. Others might eliminate the smallest prizes, the fixed £10 payments to bettors who have selected three of the six numbers drawn, and add the money saved (38% of current payouts) to the higher prize tiers. Others again might shift the emphasis from five and four-ball prizes to more generous fixed payments at the three-ball level (the potential market for small-prize lottery games is illustrated by the success of bookmakers '49's game). If, after a period of experimentation, all ended with similar offerings, this would be indicative of homogenous preferences on prize structure amongst potential players. However, if preferences are heterogeneous across bettors, a long-run equilibrium would permit the survival of different versions of lotto with quite different prize structures from each other. The scale of decline in Lotto sales might be slowed or postponed to the extent that potential bettors who dislike the current prize structure might find it worthwhile to play the game again. One might even permit firms to name the 'good cause' funds to which *their* bettors' money would go: 28% of stakes are claimed by the various distribution funds and allowing bettors' decisions in the market to determine their relative size may itself alleviate the problem of growing disillusion with the National Lottery.

### **Benefits of liberalisation**

Liberalisation of the market for Lotto (and other UKNL products) would carry the usual advantages that any move to competition hopes to achieve. It is true that there is very limited scope for 'price' (take-out) to be reduced to the extent that the proportion of stakes accounted for by operating costs and profit is already capped at 11% by regulation. But the pressure to win or maintain market-share should lead to better performance in product and marketing innovation with consequent benefits in terms of protecting tax revenue for government and 'Good Causes'.

There are though specific benefits to be expected from a liberalisation agenda that are particular to the context of lotteries. These are now discussed.

1. The process of firms experimenting with different prize structures would induce *revelation of preferences* by consumers. A serious problem in evaluating the rival bids for the last UK licence was that there was no reliable evidence on what sort of game would appeal to the largest number of bettors. The People's Lottery proposed a tougher (6/53) version of Lotto which would lead to larger individual jackpot payouts. But those who assessed the bids had no convincing evidence available on whether this move to greater 'skewness' in prize payouts would or would not raise sales. This is despite the best efforts of economists. Studies such as Forrest, Gulley and Simmons (2000), Farrell, Morgenroth and Walker (2000), Walker and Young (2001) and Forrest, Simmons and Chesters (2002) have applied the full weight of econometric technique to modelling the

determinants of draw-to-draw variation in UK Lotto sales. As a result, relatively precise estimates of the impact of different sizes of rollover or different additions of ‘Superdraw’ funds to the grand prize pool may be made. But the ability of the statistical models to give practical guidance on lotto policy and strategy is limited by the fact that the only variation in the terms of the lottery occurs when extra money is added to the jackpot. On such occasions, both the expected value of a ticket (the proportion of stakes to be returned to bettors) and the structure of prizes (more emphasis on the jackpot) are altered. There is little or no basis for saying whether sales are responding primarily to the total level or to the structure of prizes. Worse, even if the authors suspect that the response observed is to the enhanced value of the jackpot prize rather than to the overall value in the draw, that response is to a transient change in the terms of the lottery. Players and syndicates of players may bet more heavily on those draws which offer superior expected value or a higher jackpot; but this does not necessarily indicate that they would bet equally heavily if those terms were on offer every Wednesday and Saturday rather than just occasionally. For that principal reason, economists have limited scope to offer advice, even on overall prize levels. Currently they can offer no guidance at all on issues such as whether the game would be more appealing if there were re-weighting between the funds allocated to the four prize tiers below jackpot level. With a single exception in 1998, every UK draw has offered the same ‘deal’ on lower prizes. There is therefore no opportunity to model bettors’ response to any variation in prizes other than to enhancement of the jackpot in a rollover or ‘Superdraw’.

An advantage of competition is that new entrants would have an incentive to test different prize structures in an effort to gain market share. Which were successful would reveal information on bettor preferences that are at present unknown or even unknowable to us because the current product only ever varies in one dimension (jackpot size).

2. A related but separate point is that, given that over half the adult population plays Lotto on occasions, there is likely to be *heterogeneity of preferences* across potential bettors. Even if the data on past draws contained sufficient information to infer the average preference of bettors with respect to prize structure, a monolithic lottery game would fail to win support from some potential customers who favoured greater emphasis either on the high prizes or on the consolation prizes.

Purfield and Waldron (1999) found that side-betting (at bookmakers) on the Irish lottery increased with sales for the draw itself and interpreted this as evidence that some bettors, given the opportunity, will construct a portfolio of bets on a single event to give them a profile of possible returns that more closely matches their preferences than if they purchased only lottery tickets. But the success of Lotto depends on its ability to attract bettors who don’t gamble at all on any other product. It would therefore be unsafe to rely on bettors’ willingness to support a National Lottery as part of an overall gambling strategy that gives them their preferred exposure to risk. Likewise, Camelot has introduced new games with different prize structures to cater for niches in the market. But its own willingness to experiment with new products will be constrained by the fear that it will cannibalise its existing games; and reliance on new games to cater for diverse

tastes takes no account of the existence of a constituency that will gamble, if at all, only on the national institution that is the main Lotto game.

If several operators were selling entries to the same game, it is reasonable to suppose that some will cater for parts of the market that would, for example, welcome a greater chance of winning something even if it meant that payouts from the five-and-four-ball pools would be less. Greater variety in the product should lead to higher sales and higher revenue for general and 'Good Cause' hypothecated taxation.

3. Whatever challenges may be posed to the National Lottery Commission in the co-ordination of a multi-operator lottery, they are unlikely to be as unsolvable as *the problem of devising a satisfactory process for awarding a single franchise*. The contest between Camelot and The People's Lottery brought discredit on the lottery industry; but it could be argued that it would be unfair to put all the blame on the individual decision-takers involved -with present knowledge, any competition for the licence could indeed be little better than a beauty contest. The interest of the government is to maximise the value of lottery sales but it has no basis for choosing between bidders once they have been screened for probity and basic business competence. If one bidder predicts higher turnover because it is offering something different (e.g. more emphasis on large payouts), there is no basis (other than market research that asks hypothetical questions) for judging the claim. Opening the market to any fit and proper organisation would force enterprises to risk their own money in seeking to market a brand with particular characteristics for which it thought there would be sufficient demand. Then there need never be another unseemly competition for the right to hold a monopoly in the market.

Government must decide relatively soon on arrangements for the organisation of the lottery once Camelot's second licence period has been completed. This paper has not set out a detailed blueprint for reform (for example, there would be scope for consultation on whether and how to fund a common computer network and on whether to limit affiliates' ability to offer one-off extreme superdraws); but it is hoped that its argument that the market has the potential to be freed up will be a useful contribution to the debate over the future of the lottery that should now be taking place.

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