

LOOK WHO'S ADDICTED TO GAMBLING NOW

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and Jim Cosgrave

State-run gambling looks like the taxpayer's dream: taxes can be cut without public expenditures being cut. In fact, the nationalization of Canada's gambling industry over the last three decades has led to an increase, not a reduction, in the state's role in society. Not only do provinces and municipalities set up Crown corporations to run the gambling business, they also establish agencies both to help distribute the funds to worthy community causes and to provide counseling and other assistance to compulsive gamblers. It is time to reconsider the wisdom of this policy strategy.

Les jeux de hasard étatisés semblent concrétiser le rêve de tout contribuable de réduire les impôts sans sabrer dans les dépenses publiques. En fait, la nationalisation du secteur canadien des jeux de hasard a renforcé et non réduit le rôle de l'État au cours des trente dernières années. Car les provinces et municipalités ont non seulement créé des sociétés publiques chargées de gérer ce secteur, mais elles ont mis sur pied des organismes participant à la répartition des fonds entre diverses œuvres collectives et d'autres encore qui viennent en aide aux joueurs compulsifs. L'heure est venue de mettre en cause la pertinence de cette stratégie politique.

In the past several decades the call for smaller and more accountable government has been widespread in Canada. In many cases, governments have reacted by privatizing Crown corporations, limiting services, reducing benefits and instituting user fees. But the general trend toward smaller, less government has had one dramatic exception: the explosive expansion of gambling. In legalizing and expanding gambling in the past several decades, but especially in the 1990s, provincial governments across Canada have created a source of non-tax revenue that currently generates as much money as tobacco and alcohol taxes combined and will soon surpass the revenues from gasoline taxes. In 1999, provincial governments' net income from gambling was \$5 billion. A decade earlier these gambling profits had been one-fifth that size, while just two decades earlier they had been virtually nil. Indeed, until 1969, gambling had been a *Criminal Code* offence in Canada.

In expanding gambling, governments have not just created new regulatory frameworks, policies and Crown corporations; they have also promoted behaviour previously considered deviant, immoral, dangerous and illegal. In doing

so, they generally were not reacting to a widespread pro-gambling grassroots movement, but, quite the contrary, have often had to try to co-opt anti-gambling groups and stifle anti-gambling sentiment. They have succeeded spectacularly. Thanks to relentless marketing by the state, most Canadians have now become gamblers. More than three-quarters of us gamble each year, primarily by buying tickets for government lotteries at corner stores. In addition, Canadians can now make bets at any of 38,000 video lottery terminals, 59 casinos, or 117 racetracks and tele-theatres. Among households that do gamble, the average annual expenditure on gambling was \$499 in 1999, with Manitobans wagering the most money (\$673) and New Brunswickers the least (\$431).

Like most addictions, governments' addiction to gambling revenue began almost imperceptibly. The liberalization of morals in the 1960s and the desire to have a means to raise funds for the 1976 Olympic Games in Montreal led to a 1969 amendment to the *Criminal Code* permitting the federal government and the provinces to operate lotteries and other games of chance. Until that time

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most types of gambling—the exceptions were some forms of horse racing and occasional small-scale lotteries for charitable and religious groups—had been illegal since the mid-1800s. By the early 20th century the development of modern forms of taxation and the expansion of banking had erased the need for lotteries, which had been used in the early 1800s as a means to raise funds for public works projects. Moreover, the dominant religious beliefs of the day regarded gambling as a morally problematic activity, if not an outright vice. The post office routinely intercepted mail believed to relate to commercial lotteries outside of Canada. In 1961, for instance, 150,000 pieces of mail were intercepted, of which more than half were related to a sweepstakes operating in Jamaica.

Once the ban on gambling was lifted, however, governments quickly saw the advantages of this new source of non-tax revenues. This was particularly the case for the provinces, whose taxation powers are limited. In 1979, Joe Clark's Progressive Conservative government agreed to withdraw from the sale of lottery tickets, leaving sole control over gambling to the provinces. During the 1980s, and even more so in the 1990s, gambling allowed provincial governments to raise revenues without raising taxes. Of course, an additional allure of gambling is that it can also apparently create employment, generate economic development and increase tourism. And it can accomplish all these objectives in relatively short order without a large expenditure of capital.

Not surprisingly, lotteries, which require the lowest up-front investment and have the least risk, were introduced and expanded first. Lotteries are the most democratic form of gambling, as nearly all citizens can easily participate. The cost to play can be as low as 50 cents and tickets can be purchased at the corner store, so it is not surprising that lotteries tend to be targeted at lower-income Canadians, or that "scratch and win" games, sports gambling and other forms of lottery are widely marketed. Unfortunately for those buying tickets, lotteries have the worst odds of any common form of gambling, with the probability of winning a major prize being between one in 10 million and one in 30 million.

Since the early 1990s, as both public deficits and the pressure for tax cuts have risen, governments have sought bigger revenues from gambling by building casinos. Canada's first casino opened in 1989 in Winnipeg, followed in 1994 in Windsor by its first mega-casino, which was the

brainchild of a New Democratic government desperate for new revenues. More mega-casinos followed rapidly so that today there is at least one in every province except for New Brunswick, Prince Edward Island, and Newfoundland and Labrador. The largest of these—in Windsor, Niagara Falls and Montreal—are each more than 100,000 square feet in area, and house more than one hundred gaming tables and about 3,000 slot machines each. A new and much larger casino and associated facilities, rivaling the scale and entertainment features of some Las Vegas casinos, will soon be constructed in Niagara Falls at a cost of \$800 million. Canada's favourable exchange rate *vis-à-vis* the U.S. dollar is expected to attract a record number of American tourists to the facility.

This unprecedented expansion of state-sponsored gambling has not been without opposition from citizens. A common tactic by governments in expanding lotteries and building casinos has been to earmark the profits for specific popular causes, typically health, public works and culture. This is usually achieved by establishing a new agency to distribute funds to charitable and other groups. The result is that non-profit groups must now compete for funds from the state, rather than organize their own small-scale, community-based raffles, wheels of fortune, Monte Carlo casinos, bingos and other events, as they had in the past.

Such earmarking of funds does not necessarily mean that expenditures on these activities have increased. Governments can obviously reduce funds that otherwise would have been spent by the amount earned by the lottery. There is in fact no evidence that gambling revenues have caused expenditures on targeted programs to increase from pre-gambling revenue levels. It is interesting in this regard that Alberta, with the lowest tax rate of any jurisdiction in the nation, derives the highest percentage (four per cent) of its revenues from gambling profits.

A second strategy to reduce citizen opposition has been the establishment of charitable casinos in some provinces. These casinos are depicted by governments as being different from their commercial counterparts. In actual fact, the revenues from charitable casinos flow into consolidated revenue in the same manner as monies from the commercial casinos. The major differences between the two types of casinos are the slightly lower betting limits at the charitable casinos and the smaller scale of their facilities.

A third strategy to manage gambling, especially the introduction of new casinos, is for the provinces to share some of the profits with the municipality in which the casino is to be located. Municipalities, after all, must approve zoning and construction and can often mobilize citizens to lobby for or against a new casino. Typically, municipalities are offered a five per cent cut of revenues to ensure their silence, if not support.

A fourth strategy to sell gambling to citizens is to establish a set of agencies to manage the risks inherent in gambling. Most provinces direct a small percentage of their gambling profits to programs that assist problem or pathological gamblers. Despite the money spent trying to alter their behaviour, problem gamblers very likely are a profit centre for governments: their compulsive spending on gambling usually more than offsets what is spent on them. In some cases, governments have established separate agencies to fund research on problem gambling, which allows them to argue that they are addressing the social problems associated with large-scale gambling. Whether the government-sponsored problem-gambling programs are effective in reducing the rates of pathological gambling behaviour is as yet uncertain, since most of the programs are relatively new.

In expanding its role in gambling, the state has made it harder for charitable and religious groups to raise funds by organizing their own gambling activities. The most common form of non-government gambling is bingo. Bingos have traditionally been privately owned and operated, have offered small prizes, and have given their profits directly to local charities. Until the late 1980s in most parts of Canada, bingo was almost exclusively a family or social game held in community halls and church basements. In the past decade, however, bingos have had to compete with government-operated gambling, in terms of both prizes and technological innovation. In some provinces, the provincial lottery corporation now runs electronic bingo games on a scale that individual bingo operators can never hope to attain. As a result, not only are some charities having difficulty raising money, but the small private-sector entrepreneurs who traditionally operated bingos on behalf of charities are increasingly being squeezed out of business.

Hheavy reliance on gambling revenues is not without risk for governments. A particular dynamic of gambling is that new games or products must continually be introduced since players

gradually lose interest in existing games. A common pattern is for a new lottery or other gambling game to attract many players and generate large profits for only a few years, after which both the number of players and the profits earned decline substantially as players seek out new products. Governments and the marketing firms they hire to promote gambling must therefore constantly revolutionize their products and advertise aggressively to create and sustain interest in them. In the 1980s and early 1990s, lotteries of various kinds dominated gambling expenditures so that in 1992, 90 per cent of government gambling revenues were derived from lotteries. However, after the expansion of casinos and video lottery terminals in the 1990s, lotteries now account for only one-third of total gambling revenues.

Another risk for governments is the competition from other jurisdictions, particularly the United States. The majority of the major casinos in Canada were established with the objective of attracting residents of the United States. For example, after British Columbia began its gambling expansion, Washington state's Lummi Casino closed. B.C.'s casinos offered higher betting limits and longer hours, a combination that kept many Canadian gamblers at home and lured many Americans across the border. The Windsor Casino was built just across the international border from Detroit with the explicit objective of attracting a large number of American visitors, an objective that was achieved in impressive fashion: Americans currently provide 90 per cent of the casino's revenues. However, Detroit has recently approved three mega-casinos, which will inevitably reduce profits in Windsor. In response to the potential economic threat posed by the new casinos, the *Criminal Code* was recently amended to allow for the legalization of dice games. As a result, Canadian casinos can now introduce new games such as craps in order to stay competitive with the types of games allowed in the United States.

Although the expansion of gambling has created jobs for 42,000 Canadians, most of these are low-skill and relatively low-wage service jobs. Only nine per cent of workers in gambling-related jobs have a university degree, compared to 20 per cent in non-gambling jobs. In the year 2000, the average hourly earnings, including tips, of men employed full-time in gambling jobs were \$15.70, almost four dollars less than in non-gambling jobs.

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Another risk associated with large-scale gambling is the potential for increasing the social problems traditionally associated with such activity: various forms of crime (organized crime, loan sharking, prostitution, theft and fraud) and increased rates of problem and pathological gambling. In managing and reducing these risks, governments seek to reconcile the contradictions of their roles as both gambling promoters and gambling regulators.

A final drawback of gambling is that, as already mentioned, it further widens the gap between the social classes in Canada. Unlike income tax revenue, gambling revenue is highly regressive. In 1996, households with annual incomes of over \$80,000 spent just 0.4 per cent of their income on gambling, while households earning less than \$20,000 spend 1.5 per cent of their income on gambling.

The dramatic expansion of government-sanctioned, regulated and promoted gambling has turned out to be a politically effective response to the demand by many citizens and lobby groups for tax cuts without spending cuts. The state made legal a previously forbidden activity, marketed it to the population and retained the profits during a period of high deficits and

limited opportunities to raise traditional taxes. In promoting gambling, it not only established various gambling corporations and regulatory bodies, it also set up new agencies to distribute (some of) the profits and manage the risks of gambling.

As revenues from existing "games" flatten and possibly decline, the search for additional sources of non-tax revenues is likely to intensify. Newer and riskier games may be introduced and Internet gambling may be regulated and taxed, if not directly operated by government. In the longer term, if even more non-tax revenues are desired, other previously illegal, deviant, and heretofore non-taxed activities—pornography, the sale of recreational drugs, prostitution—may be either taken over or legitimized and then taxed by the state. Just as gambling was re-defined as leisure and renamed "gaming," these activities may also be sanitized by the state. The irony is that reducing governments' ability to raise revenue with personal income and corporate taxes has in the end increased the state's role in citizens' lives.

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