

The Tale of Two “Sins”: Regulation of Gambling and Tobacco

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Introduction

The year is 1964. Nearly 40% of the adult population in the US smokes cigarettes and cigarette commercials accounting for 15% of network television advertising. Meanwhile, New Hampshire became the first state in over sixty years to conduct a lottery. The New Hampshire lottery will conduct a weekly drawing and tickets will cost \$.50. There is only one state that permits casino gambling while the form of gambling that the majority of states permit is betting on the “sport” of horse racing.

Now let us move forward forty years to 2004. Only 25% of the US adult population smokes cigarettes and cigarette makers are not permitted to advertise in any media. North Carolina becomes the thirty-ninth state to enact a state lottery while twenty-seven states have some sort of casino gambling. Ironically, Churchill Downs the home of US Horse racing pins its survival on obtaining a license to operate slot machines.

So in a forty year period, the fortunes of these two “sin” industries changed radically. Why did this occur and what were the rationales utilized by public policy makers as they went about making decision-making process? Trying to provide answers to these questions will be the focus of this paper.

Lawmakers love the revenue and hate the social costs from the sin industries, and as such they are forced to carefully analyze the costs and benefits of each industry. What is the goal of introducing new forms of gaming to a state? Perhaps it is to maximize revenue, but much more likely is that strategies of limited expansion are followed. Is the goal of tobacco tax policy to reduce smoking, increase revenue, or in some cases, to support the very industry itself? These are not easy questions to answer for state legislators.

In order to attempt to give some answers these questions this paper will be divided into two parts. First, a brief history of each sin industry in the United States will be given followed by discussion of how two types of ethical decision making made significant contributions to how the view of public policy makers' towards these industries changed over this forty year period.

The second part of the paper will examine state track records on the relationship between revenue from a given sin industry and spending on the associated social costs. The objective is to build on the work of prior research in an attempt to develop a more comprehensive understanding of the relationships among spending on social costs across the sin industries. Hopefully the outcome of this analysis will be useful to states as they continue to make difficult policy decisions in the face of increasing budget pressure.

Part I:

Public policy makers have never been known for their consistency in addressing the various issues that confront them during the public policy process. Some observers maintain this inconsistency merely demonstrates the highly "irrational" nature by which policy decisions are achieved. However, these inconsistencies could very well have an explanation that goes well beyond typical cost-benefit analysis that economists might utilize in what they would term a "rational" public policy decision. One area that could provide a handle on how the public policy process has evolved over the past forty years would be an examination of the "ethical" reasoning that public policy makers employ as they go about the task of enacting legislation.

In order to demonstrate the importance of "ethical" reasoning in the public policy process and how ethical argumentation has changed over the past forty years, this paper

will analyze the changes that have occurred in two of the so called “sin” industries, namely cigarettes and gambling. In the next section, the very different scenarios that cigarettes and gambling industries have undergone will be chronicled. It should be noted that both of these industries depend on the “tolerance” of public policy makers for their very existence. It will be shown that how the ethical thinking of public policy as it pertains to these industries has radically changed over the course of the past forty years. It is this shift that has made a profound difference in the fate of these two industries in the public policy realm.

Cigarette and Gambling Industries (1964 to the present)

The Cigarette Industry (1964 to the present)

In 1964, the Surgeon General of the US published the now famous report that concluded that “cigarette smoking is a health hazard of sufficient importance in the United States to warrant remedial action.” (Department of Health Services, 1964).

It was with this simple conclusion that the cigarette industry began its endless battles with government officials at all levels and branches of government.

From 1964 to 1985, the US Congress passed two significant measures that it hoped would curb cigarette sales: The Cigarette Warning Label Act of 1966 and the TV and Radio Cigarette Advertising Ban of 1971. Ironically these measures did not have their intended effects. Cigarettes sales still increased throughout the period of 1964 to 1985 (although the rate of increase was less than the rate of increase prior to 1964). Why didn’t these public policy measures have their intended effect? The following reasons ought to give the readers a moment to pause before they advocate various public policy measures to regulate the gambling industry.

First, while cigarette makers could no longer advertise, the anti-cigarette smoking groups were no longer free access to play their anti-smoking advertisements. The anti-smoking advertisements had proven to be much more powerful in persuading current smokers to quit smoking than cigarette commercials in making cigarette smoking to be glamorous. Second, the cigarette warning label was not only largely ignored by cigarette smokers (as is the case with alcohol warning labels) but has provided cigarette makers with much legal comfort in their legal battles concerning their liability in regards to wrongful deaths of cigarette smokers.

Ironically, this period of renewed regulation of the cigarette industry resulted in higher profits due to the fact that the industry spent significantly less on advertising and it also allowed the cigarette firms to diversify into the food industry with Phillip Morris' purchase of Miller Beer and General Foods and RJR's purchase of Nabisco.

On December 20, 1985, Surgeon General C. Everett Koop announced the results of research on the effects of "second-hand" smoke or the passive smoking issue (Department of Health and Services, 1985). The most controversial finding of this report was that there was a significant increase in the rate of lung cancer among nonsmokers in households where nonsmokers were living with cigarette smokers. This report sparked off a flurry in two areas: first, state legislators became extremely active in regulating where smokers could smoke; secondly, the excise tax increases became much more common and pronounced. Figure 1 and Figure 2 illustrate this renewed interest in state regulation of the cigarette industry.

**Figure 1:
Excise Tax
Rates 1990**

| # of Prohibitive Laws Passed | Excise Tax Level | | |
|------------------------------|---|---|---|
| | Low Level (2-20/pack) | Mid Level (21-49/pack) | High Level (50+/pack) |
| 0-5 | Alabama Georgia Indiana Kentucky Mississippi North Carolina Tennessee West Virginia Wyoming | Arkansas New Mexico Texas | Arizona Wisconsin |
| 6-11 | Colorado South Carolina Virginia | Idaho Louisiana Minnesota Nebraska Nevada North Dakota Ohio Oklahoma Pennsylvania South Dakota | Alaska District of Columbia Hawaii Illinois Maryland Massachusetts Michigan New Jersey Oregon Rhode Island |
| 12-14 | Missouri Montana | Delaware Florida Iowa Kansas Vermont | California Connecticut Maine New Hampshire New York Utah Washington |

**Figure 2:
Excise Tax
Rates 2002**

| # of Prohibitive Laws Passed | Excise Tax Level | | |
|------------------------------|---|---|--|
| | Low Level (2-40/pack) | Mid Level (41-60/pack) | High Level (61 to 150/pack) |
| 0-5 | Alabama Georgia Indiana Kentucky Mississippi New Mexico North Carolina Tennessee West Virginia Wyoming | Arizona Indiana Texas | |
| 6-11 | Colorado Idaho Iowa Louisiana Oklahoma Nevada South Carolina South Dakota Virginia | Minnesota Nebraska North Dakota Ohio | Alaska District of Columbia Hawaii Illinois Maryland Massachusetts Michigan New Jersey Oregon Pennsylvania Rhode Island Wisconsin |
| 12-14 | Delaware Florida Missouri Montana | New Hampshire | California Connecticut Kansas Maine New York Utah Vermont Washington |

These two figures certainly illustrate the powerful effect that the “passive” smoking issue had on state public policy makers. In terms of the number of smoking prohibition laws, the vast majority of states were prohibiting cigarette smoking in public places and the only real battle ground left for the cigarette industry was whether or not smokers could smoke in bars or restaurants. Even international airline flights now had banned all cigarette smoking.

The other striking aspect is the large increases in the excise tax rates. In 1990, the state excise tax rates on cigarettes ranged from \$02/pack to a maximum of \$.65/pack. By 2002, there were three states with excise tax rates of \$1.50/pack! In fact, the average state excise tax rate on cigarette increased from \$.32/pack in 1990 to \$.68/pack in 2002 and by 2005 to \$1.00/pack. (www.tobaccofreekids.org). During the same period, the federal excise tax rate on cigarettes doubled from \$.16/pack to \$.32/pack! While Congress and most state legislatures were heeding a call to lower taxes throughout the 1990s, it appears that cigarette excise tax rates were exempt from this trend. Even more startling was how powerless the cigarette industry was in fighting against these increases. Clearly public sentiment had turned against the cigarette industry.

The Gambling Industry (1964 to the present)

Just as 1964 became a landmark year for the US cigarette industry, that same year also became the year when its cousin in the “sin” industries, the gambling industry began a revival that has not abated in the forty-three years that followed. Prior to 1964, gambling was confined to two venues. In 1933, Nevada legalized casino gambling and it established Las Vegas as the “Meca” of casino gambling. The other outlet was pari-mutuel betting on horse and dog racing which portrayed itself as a sport. But overall, gambling was

considered an unacceptable social activity. Figure 3 gives a reader a brief history of gambling in the US.

Figure 3: The Five Waves of U.S. Gambling

1st Wave (1607 – 1840s): State Sanctioned Lotteries

Beneficiaries: Allowed private operators/colleges to operate lotteries in order to subsidize costs of capital improvements such as buildings or roads. Lotteries were given permission to operate only during the financing of the capital improvement. The lottery ceased operation after the completion of the project.

2nd Wave (1865 to 1890s): National Lotteries

Beneficiaries: Southern States offered prizes through the US mail in order to gather funds to reconstruct roads and railways after the Civil War. These lotteries ceased operations after numerous scandals involving the private operators.

3rd Wave (1920 to 1964): The Golden Age of Horse Racing

Beneficiaries: With the advent of pari-mutuel betting machines, states permitted betting on “sporting” events such as horse and dog racing. Of course, the states received a percentage of the revenue in taxes.

4th Wave (1964 to 1993): The Golden Age of State Lotteries

Beneficiaries: In the search of new sources of revenue, state governments began to operate their own lotteries. These lotteries differed than previous lotteries in that they were state operated and played on a continuous basis.

5th Wave (1993 to the present): The Triumph of Casino Gambling

Beneficiaries: As gambling became more social acceptable, casino gambling was the logical progression in enhancing a state’s ability to raise revenue. Casino industry becomes more concentrated while the federal government permits Native Americans to operate casinos in order to become economically self sufficient.

In 1964, New Hampshire voters approved a state lottery. Lotteries had once been socially acceptable in colonial period of US history but had fallen out favor due various scandals. The rationale used to “justify” the New Hampshire lottery is now a familiar one: Proceeds from the lottery were to fund education thereby averting the enactment of either a sales or income tax in New Hampshire. In another familiar scenario, the lottery was

declared a success because most of the tickets were purchased by customers who did NOT reside in New Hampshire.

But this lesson was not lost on New Hampshire's neighboring states. In the next ten year, every state in the Northeastern part of the US approved a lottery. Then the lotteries spread to the Midwest and Western part of the US with the South being the last part of the U.S. to establish lotteries. By 1993, only Utah and Hawaii did not have some form of legalized gambling. Gambling had gained a social acceptance that it never been able to achieve in any period of American history.

1993 was also watershed for the gambling industry in another way. It marked for the first time in U.S. history that casino revenues surpassed lottery revenues. It also cemented gambling's claim to be the most utilized form of entertainment in the US.

How did this expansion of casino gambling take place? There were three sources that contributed to this rapid expansion of casino gambling. First, there was the expansion of the number of what can be termed, "National Destination" markets for casino gambling. Throughout the 1980s and 1990s, Las Vegas transformed into itself from a strictly casino operations to full entertainment center. As a result of this trend, visitors to Las Vegas not only stay longer (3.5 nights in 2005 compared with 2.3 nights in 1970) and the amount that visitors spend in Vega on non-gaming activities has increased by more 20%! (Standard and Poor's Credit Week, June 14, 2006). In 1978, casino gambling was legalized in Atlantic City and while it is not the national destination that Las Vegas is, Atlantic City has experienced a 22% in crease in gambling revenues as well as 24% increase in visitors since the advent of casino gambling (ibid.)

Another form of casino gambling that has exploded during the 1990s was riverboat gambling. In 1989, Iowa became the first state to permit it soon followed by Louisiana,

Illinois, Mississippi, Missouri and Indiana. This form of casino gambling at first had a great of restrictions placed on operators. For example, the boats actually had to cruise and patrons were limited on the amount of money they could bring aboard and they had to leave the boats after the boats cruised. All of these restrictions were gradually lifted as states competed with each other for the gambling revenues. By the far, the most successful state in the riverboat arena is Mississippi. It is now the third largest market for casino gambling in the US.

The final source of casino gambling revenues is Native American Casinos. In 1988, Congress passed the Indian Gaming Regulatory Act (IGRA). This legislation permitted tribes that were recognized by the Federal government to develop gaming facilities. Some indication of how successful Indian gaming have become it is estimated that revenue at American Indian casinos grew to nearly \$23 billion in 2005. Currently there are 420 Indian casinos in the US that account for 310,000 full-time jobs as well as \$10.5 billion in wages (www.richmondregister.com, 6/22/2006). Hence, by any measure, Native American casinos have been an economic success for the tribes as well as the states where they operate where the tribes have contributed \$6.9 billion in tax revenues.

Casino Gambling has clearly become the dominant force behind the virtual explosion of gambling activity in the US. State legislators give many reasons for why they might approve the expansion of gambling: first, taxes and economic activity generated by casino gambling are useful sources of revenue and economic development; second, if a neighboring state has casino gambling, a state risks losing all of the potential tourist and tax revenue to its neighbor thereby putting additional tax burdens on its citizens.

But there also appears to be another overarching reason besides the above economic reasons. It is the social acceptance of gambling over the past forty-three years.

The public not only tolerates additional gambling opportunities but in many ways demands that a state provides them these opportunities or the gambler will leave the state and gamble where they are permitted. The next section of this paper will try and give reasons why this fundamental change has happen and hopefully it will permit the readers to use these concepts as they explore the various options that legislators face as they decide on the gambling issue.

II.) The “Ethics of Sacrifice” Versus the “Ethics of Tolerance”

In the previous section, it has become apparent that gambling and cigarette smoking have experienced an almost complete role reversal in the public policy process. Why has cigarette smoking been condemned by the vast majority of public policy makers whereas gambling has seemingly become the darling of legislators as a painless source of revenues for pet projects? Why has the debate over gambling and cigarette smoking evolved so differently over the past forty-three years? One way to account for this development is to examine the manner in which the merits of a public policy issue are debated. In the US, the conflict between the societal “good” and the “rights” of the individual has been historically the focus of the ethical controversy surrounding numerous US public policy debates. Debates over controversial issues such as Prohibition were constantly appealing to either of these ethical stances in making their cases either “pro” or “con” whether or not to prohibit all consumption of alcohol. This conflict between the “societal good” and the “rights of individuals” is still the basis for debating the ethical merits of public policy issues ranging from gun control to environmental issues. Hence throughout American history, public policy makers have had to deal with conflict between

the common good versus the individual's right to choose freely. It has resulted in what we call the "Ethics of Sacrifice" and the "Ethics of Tolerance."

Ethics of Sacrifice

When "sacrifice" is used as a moral concept to advance the merits of a particular public policy issue, public policy makers must be able to persuade the public that the public must "sacrifice" some "right" (think of the War on Terror and the right to privacy) or benefit in order to achieve a noble goal or end. Most moral arguments that have a religious basis utilized this type of rationale, i.e., sacrifice in order to please God. It is also be employed by political leaders during times of crisis, especially times of war such World War II or the War on Terror. In terms of traditional ethical or moral categories, the "Ethics of Sacrifice" is teleological, i.e., it is goal or end oriented. This goal is the "good" of society and one can ascertain whether or not a public policy measures is correct if it contributes to the "good" of society.

In terms of public policy, the "good-end" is a harmonious society. Traditionally, this ethic has been invoked by those who wish to maintain social institutions and structures that they deem as desirable and should be maintained at any cost. While some might associate this type of ethical thinking with "conservative" public policy makers, it actually has been employed by both liberals and conservatives to justify their stances on public policy measures. Certainly, President John F. Kennedy employed the "Ethics of Sacrifice" when he made his famous challenge to the American people, "Ask not what your country and do for you but ask what you can do for your country!" It was a time when the President was asking the country to make a sacrifice in order to meet the challenges that

lay ahead for the US in the 1960s. In essence, those who utilize the “Ethics of Sacrifice” are asking the public to sublimate what “good” for the individual for the “good” of all.

The authors of *Habits of the Heart* employ the “Ethics of Sacrifice” when they recall the work of the French Social Philosopher, Alexis de Tocqueville. When Tocqueville analyzed American life in the 1830s, he labeled American mores as “Habits of the Heart” and demonstrated how they helped to mold our national character. Tocqueville singled out family life, our religious traditions and our participation in local politics as helping to create the kind of individual who would be willing to make sacrifices in order to sustain a wider political community and maintain free institutions. It is this identification of the “common good” with the maintenance of societal institutions that are the hallmark of the “Ethics of Sacrifice” (Bellah et al., 1985)

In a later work, *The Good Society*, these same authors once again return to the concept of a society which needs to employ an “Ethics of Sacrifice.” In this work, they refine their analysis on what the proper role of societal institutions. They define institutions as “normative patterns embedded in and enforced by laws and mores (informal customs and practices).” (Bellah, et al., 1991). In order to show how our understanding of institutions has an influence on the manner in which we conduct our lives, they give various examples. One of the examples has a great deal to do with the issue of gambling. It was written by A. Bartley Giamatti, then the Commissioner of Major League Baseball, on his decision to ban Pete Rose from baseball. Giamatti wrote:

I believe baseball is an important enduring American institution. It must assert and aspire to the highest of principles, integrity and of fair play within its rule. It will come as no surprise that like any institution composed of human beings, this institution will not always fulfill its highest aspirations. But his one, because it is so much a part of our history and because it has such a purchase on our national soul has an obligation to the people for whom it is played—to its fans and its

well-wishers—to strive for excellence in all things and to promote the highest ideals (*The Good Society*, 1991)

The advocates of the “Ethics of Sacrifice” equate the preservation of institutions with the maintenance of the “good” life. Pete Rose’s decision to gamble had to be punished severely because his gambling had damaged an institution that inspires people to act virtuously. In fact, gambling should be discouraged or banned on a permanent basis because it does not promote the virtuous life. The decision whether or not a person has the “right” to perform certain actions has to be measured in terms of what effect that action will have on an institution or society at large.

At its most extreme, those who invoke the “Ethics of Sacrifice” can be accused of employing the motto, “The ends justify the means.” The individual’s ability to decide what is best for herself/himself needs to be subservient to the needs of an institution such as the state, corporation, even Church. The good of society/institution overrides the rights and needs of the individual. This ethic is certainly the one under the military operates. However, when it is applied too rigorously to a society with many diverse parts, it can have many disastrous consequences. One only needs to recall America’s Prohibition era to realize that one can not impose virtue on an entire population. Yet, the “Ethics of Sacrifice” calls forth what many would maintain is the noblest of human characteristics, the ability to give of one’s self even if that giving is detrimental to that individual.

Ethics of Tolerance

One of the earliest virtues that every American schoolchild is taught is tolerance. In order to escape persecution in England, the Quakers settled in Pennsylvania and are celebrated in American history texts because they permitted everyone to practice their

religious beliefs. In founding Maryland, Lord Baltimore also established religious freedom and welcomed the persecuted English Catholics although this religious tolerance would be tested frequently throughout the colonial period. Meanwhile, the Puritans who settled Massachusetts were also trying to escape religious persecution. However, tolerance was not one of the virtues that Puritans cherished in the building of the new Jerusalem as Roger Williams quickly found out as he had to flee Massachusetts and went on to found Rhode Island. So while there have been differences of opinion about just “tolerant” American society would be, in comparison to European societies, tolerance of various religious beliefs as well as other nationalities has been a hallmark of American society.

Tolerance entails that no person has to “sacrifice” her/his basic freedoms in order to achieve some goal of public welfare or preserve some institution that promotes the societal good. When tolerance is promoted as one of the chief societal virtues, society must preserve the rights of minorities at all cost even at the expense of the majority. It also entails that American society has to tolerate the “right” of the individual to perform actions that might very well be destructive to that society as long as that right to perform those activities is guaranteed by law. In traditional ethical thought, the “Ethics of Tolerance” would fall into the deontological mode of thinking, i.e., the means which a person uses to achieve a goal are important than the goal itself.

An example of continuous public policy controversy where the “Ethics of Tolerance” has played a part is the gun control issue. Opponents of tougher gun control laws have utilized the “Ethics of Tolerance” as the basis for their ethical argument against tighter controls on guns. They maintain that the right to bear arms is protected in the US Constitution. Therefore even if the majority of Americans favor stricter gun restrictions,

their right to bear arms has to be tolerated to uphold the rights of the minority who wish to have no limits place on their ability to own and utilize guns.

The “Ethics of Tolerance” is based on an American ideal that founding fathers such as Adams and Jefferson insisted be part of the US Constitution that no citizen’s rights can be violated to achieve an end. Government exists to protect an individual citizen’s rights and must not coerce an individual to relinquish a “right” even to preserve an institution that has served society well. It is virtue and a value that in many ways has served a nation of immigrants very well. Immigrants had to be tolerated and protected by the majority in order to promote the diversity needed for a dynamic society.

But like most virtues and values, this conception of “tolerance” has its down side. At its worst, the “Ethics of Tolerance” could promote a rather narrow, selfish focus on the individual. The individual has to find a place in a society and if individuals are going to live in a community then there has to be some sort of hierarchy of “rights” but the “Ethics of Tolerance” provides very few clues about to set this hierarchy. The glorification of the individual that is essential to the “Ethics of Tolerance” makes it quite difficult for a society to be able to challenge the individual to make sacrifices that are necessary in order to preserve those institutions which in turn help that society to function for the common good.

Conclusion

So why did the cigarette industry so fall out of favor with public policy officials? Why has its “sin” cousin, gambling flourished as it has suffered a rapid decline? In comparing the evolution of these two controversial public policy concerns, it would be instructive to analyze the role that the “Ethics of Sacrifice” and the “Ethics of Tolerance” have played in determining how public policy makers view each issue. Let us once again examine how

each type of ethical reasoning is utilized by groups that either oppose or support these activities.

Advocates of increase gambling activities (whether lottery, casino, internet gambling or sport gambling) and those who wish to limit government's involvement in the cigarette industry, invariably employ the "Ethics of Tolerance" as their primary moral argument as they make their case in the public policy arena. Their argument for both issues is simply that society must tolerate these activities since individuals have the "right" to engage in them as long as they are not harming anyone else. Of course they will also point out the economic benefits that government enjoys from these industries. While they will also acknowledge that these activities might be harmful to a few individuals, the states ought to be able to profit from these activities since the vast majority of smokers and gamblers will continue to smoke or gamble whether or not the state permits these activities. So why shouldn't the state use the profit from smoking and gambling for the "good" causes such as education and aid to the elderly?

Meanwhile opponents of these two "sin" industries have generally utilized the "Ethics of Sacrifice" as their primary ethical retort in their fight against these vices. They would argue that any benefits that accrue to society by allowing these activities in no way "justify" them. Society must protect itself from these activities since they bring great harm on some segments of society. The harm done to society more than outweighs the harm done by violating an individual's right to engage in these activities. Therefore, government ought to "sacrifice" to right to gamble and to smoke cigarette for society's overall good.

So why has the cigarette industry become the endless target of public policy initiatives to restrict the use of cigarettes while the gambling industry has not only withstood attacks but has actually increased its presence throughout the US? It is because

the cigarette industry has lost its ability to utilize the “Ethics of Tolerance” to defend its right to exist while the gambling industry has very effectively employed the “Ethics of Tolerance” so much so “a majority of US adults now favor licensed casinos in their own states.” (Harrah, 2006).

Since the advent of the Passive smoking debate in 1993, opponents of the cigarette industry have begun to utilize an “Ethics of Tolerance” argument that they were not able to use prior to 1993. The opponents of the cigarette industry make the following argument: Cigarette smokers no longer have the “right” to smoke because it has been proven that non-smokers are negatively affected by cigarette smoke. In other words, the right to smoke can no longer be tolerated since it interferes with the rights of non-smokers to live in a smoke free environment. Meanwhile, the vast majority of Americans seem to believe that gambling is an individual’s right. Since the individual gambler is not hurting anyone else, then it is quite acceptable for the state to profit from this activity.

In part II of this paper, we will examine whether shift in ethical thinking has had any impact on public policy towards treating the social costs associated with gambling and tobacco usage.

II.) Public Policy Implications

Data Collection

Gambling

Unlike the tobacco industry, data for state spending on gambling is not easily found. Whereas the tobacco data is aggregated and readily available, the quality of state reporting for gambling treatment varies greatly. The data for revenues from gambling and

spending on problem and compulsive gambling comes from a variety of sources, depending upon the state. The last known aggregation of data like this was in 1998 and was commissioned by the North American Association of State and Provincial Lotteries (NASPL). Their data collection was based on a survey which was sent to state governments, local affiliates of the National Council on Problem Gambling (NCPG), lottery commissions, and casino operators. These groups self-reported contributions made to problem and compulsive gambling. The NASPL is planning on conducting another survey into state spending on problem gambling in 2006.

However, with that data unavailable, we attempted to piece together state spending on problem and compulsive gambling with public information. When looking at state revenues from gambling, we looked at five main categories: commercial casinos, racinos, Indian casinos, noncasino devices, and state lotteries. The American Gaming Association (AGA) has made publicly available all of the data used for commercial casinos and racinos. Indian casino revenue generally does not make its way back into state coffers, unless the tribal compacts between the states and the tribes specifically allocate some monies. For instance, in Arizona, the tribes must pay a certain percentage of net win to the state's general fund, part of which is allocated directly to problem gambling programs. In Connecticut, the two tribal nations that do have casinos pay an annual fee to the state, which essentially amounts to a non-compete agreement, where the state of Connecticut agrees to allow a monopoly on gaming activities to the two extant casinos. Noncasino device revenue is only included for Connecticut and Montana, because each of these states publicly reported additional gaming revenue from charitable gaming and video game machines, respectively. Finally, state lottery websites publicly disclose the net revenue that returns to state coffers, after prize payouts and administrative costs. The figures are

included irrespective of how the state chooses to use the dollars, whether for general fund contributions, education, property tax relief, or otherwise. All data is from the most recent year available, usually calendar 2004 for the non-lottery revenue and fiscal 2005 for the lottery revenue. Due to this, census figures from the U.S. Census Bureau that were used to calculate per capita numbers are from 2004. A detailed listing of state by state data and sources is available in the Appendix.

It is important to note that the revenue figures do not truly reflect the gross economic benefit (before any social costs) of gambling. The lottery revenues do not account for the federal or state income tax on winnings. They also do not count the jobs created within the lottery commissions and possibly in lottery outlets. This is even true in the case of non-lottery forms of gambling. The American Gaming Association reports gaming tax revenue in the state of Mississippi to be \$333.01 million. This does not even count the 28,932 jobs that result in \$1.009 billion in casino employee wages. (American Gaming Association). The large economic impact of casinos is one of the reasons why states have taken increasingly more positive stances towards their introduction. In summary, the economic benefit is difficult to measure, though perhaps not as difficult as the social costs.

State reporting on problem gambling spending is even more dispersed than revenue reporting. The data was culled from a variety of places, from lottery websites, to state-sponsored gambling studies, to newspaper articles, to legislative appropriations. Data was also used from the Association of Problem Gambling Service Administrators, the North American Association of State and Provincial Lotteries, and the National Council on Problem Gambling. Once again, this data is what is most recently available, and per capita

amounts of spending are calculated based on 2004 U.S. Census figures. State by state data and sources are available in the Appendix.

It is important to note that these numbers are clearly much lower than what states actually spend on problem gambling. For instance, almost all state lotteries spend some money on running 24-hour problem gambling hotlines, which is not reported. Private contributions to problem gambling services are also not counted, unless the contribution is part of a tribal compact or a legislated agreement between the state and the commercial casinos/racinos. In most cases, state mental health spending and other medical spending for gambling addiction is not reported separately, and as a result is not included. As in the case of the revenue figures, it is important to consider how much higher the actual social costs are than the reported spending numbers. It is probably the social costs, as hard as they are to estimate, that are the relevant costs for policy makers as they attempt to set optimal tax rates.

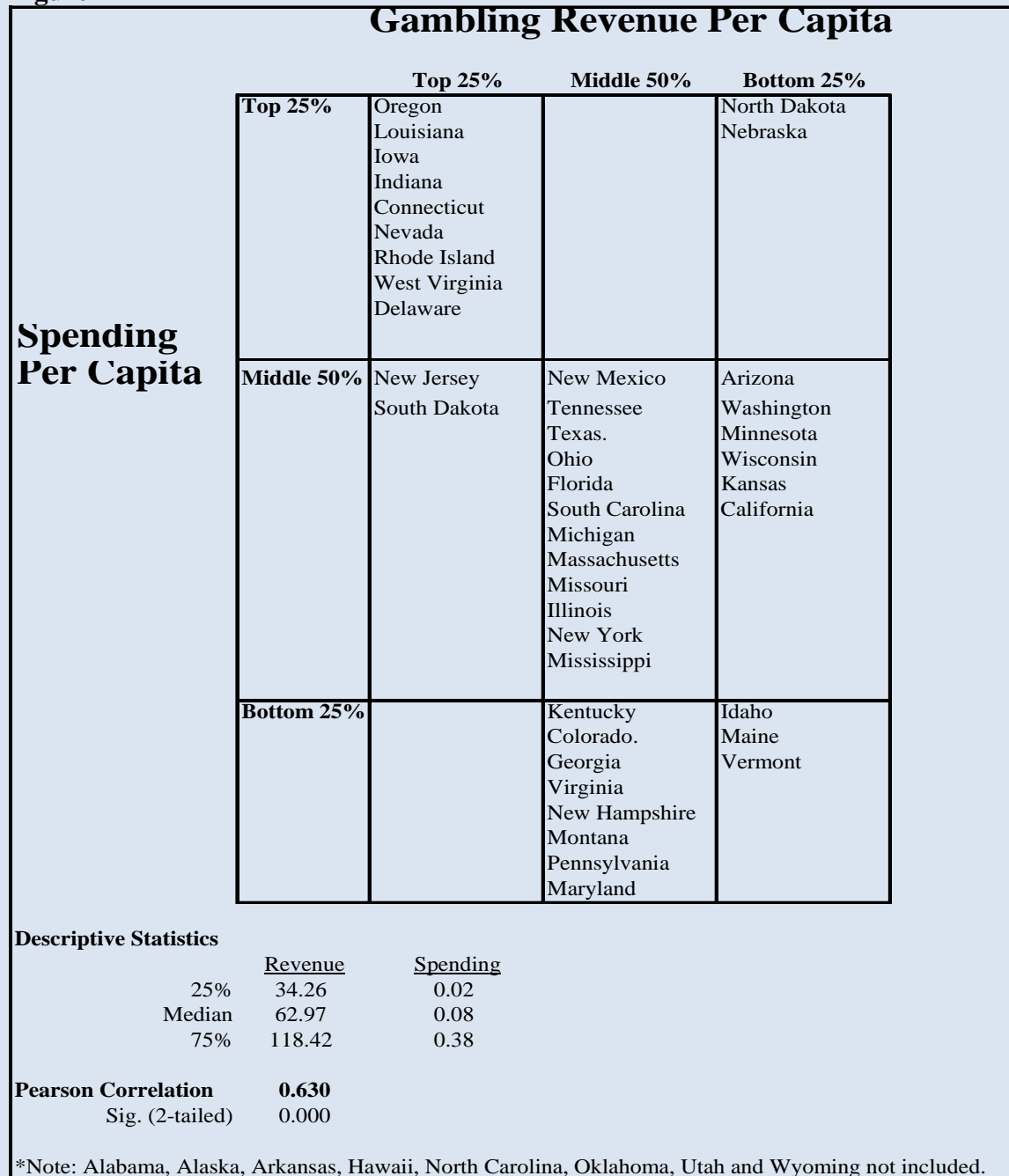
Tobacco

Data for the tobacco industry is much more readily available and is aggregated. This paper uses tobacco revenue and state funding data from the Campaign for Tobacco-Free Kids. Alcohol revenue data comes from the 2000 U.S.Census. state by state data is available in the Appendix.

Data: Summary Statistics

Gambling

Figure 4



Presented above are the summary statistics for the gambling revenue and addiction spending data in the Appendix. Clearly, not many of the states spend a significant amount per capita on problem gambling treatment and prevention (median = 0.08). The Pearson Correlation Coefficient, which measures how the relationship between the revenue and the spending, is 0.63. Importantly, the null hypothesis that there is no relationship between revenue and spending ($r = 0$) can be rejected at a statistically significant level. This suggests that revenue and spending are positively related; the more revenue a state takes in from gambling, the more spending it usually does on problem gambling programs. It also appears that states with casinos (i.e. Iowa, Indiana, Louisiana, Nevada) generally have good records relative to other states on their addiction spending per capita.

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Tobacco

Figure 5

| Tobacco Revenue Per Capita | | | | |
|-----------------------------------|-------------------------------|---|---|--|
| | Top 25% | Middle 50% | Bottom 25% | |
| Spending Per Capita | Top 25% | Alaska Delaware Hawaii Maine Vermont | Arkansas Minnesota Montana North Dakota Washington Wyoming | Colorado Mississippi |
| | Middle 50% | Massachusetts New Jersey Oregon Pennsylvania Rhode Island | Arizona California Illinois Indiana Iowa Louisiana Maryland Nebraska Nevada New Mexico New York Ohio South Dakota West Virginia Wisconsin | North Carolina Oklahoma Utah Virginia |
| | Bottom 25% | Connecticut Michigan New Hampshire | Florida Idaho Kansas | Alabama Georgia Kentucky Missouri South Carolina Tennessee Texas |
| | Descriptive Statistics | | | |
| | | <u>Revenue</u> | <u>Spending</u> | |
| | 25% | 24.25 | 0.66 | |
| | Median | 44.77 | 1.81 | |
| | 50% | 60.38 | 4.28 | |
| | Pearson Correlation | | | |
| | | 0.185 | | |
| | Sig. (2-tailed) | 0.199 | | |

The data presented above are the summary statistics for the tobacco revenue and addiction spending data found in the Appendix. When looking at the descriptive statistics, it is fairly clear that states spend more on tobacco problems than on gambling problems (median = 1.81). There is also an interesting difference in the significance of the Pearson coefficient. Though the coefficient of correlation is positive (0.185), it is not statistically significant. Therefore, unlike in the case of gambling, it cannot be said with confidence that states which take in more revenue from excise taxes on tobacco generally spend more on tobacco addiction.

Conclusions and Implications for Future Research

In conclusion, then, we have found that states seem to be very inconsistent with their policies towards the gambling and tobacco industries. Only in the case of gambling is addiction spending significantly and positively related to state revenues. These inconsistencies certainly arise because of how conflicted state governments are when they make policies decisions in these industries. They want people to use these industries, but not too many people. They sometimes want to discourage use, but again not too much. There is almost a golden mean in each industry, and the lawmakers' task is to find that mean with good public policy. This task is made much more difficult, because the mean changes over time, due to changing state budget needs, political pressure, or social attitudes. Finally, the goal for states is not as clear as the goals for private firms. Should states maximize profits? Or stakeholders' interests? Even if states were to maximize profits, there is no reliable means of measuring costs and benefits. The above analysis clearly points to a trend of states "harvesting" revenue from the cigarette industry while placing a "bet" that the gambling industry will continue to flourish.

There is much room for further research into the policy decisions of states in the sin industries. This is true especially in the gambling industry, where information on state spending on addiction and revenues going to state coffers is not widely available. Further research must also be done in trying to quantify social costs in the sin industries, so that states might have better information in making policy decisions.

Finally, we need to ask the question whether or not the spread and acceptance of gambling as a form of entertainment will continue at its present pace? Clearly this depends on whether it can produce the revenue that the public policy makers seek and the continued acceptance by the public of an ethic which places an absolute premium on the expression of the “self” over any claim for communitarian or institutional need. It is this glorification of the “self” which not only makes gambling a possibility but a necessity in the near future. While the rise of gambling has and will have many implications for American society as well as many societies throughout the world, perhaps its greatest challenge to any society is the need to establish a balance between the concerns of the “Ethics of Tolerance” and the concerns of the “Ethics of Sacrifice.” The ability of a society to balance these moral viewpoints is the hallmark of a healthy and vibrant democratic system which the world so desperately needs in the 21st century.

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www.tobaccofreekids.org. This website contains a wealth of information about cigarette
excise tax rates as well as smoking prohibition laws.