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Predatory Gambling, Democracy and the American Dream

Summary : "It's predatory, deceptive, addictive and undermines the purpose and promise of America."

An Overview

No major public policy issue exists in America that is more talked about yet less understood than casino-style gambling. While there are many well-intentioned public officials, reporters, editorial writers and bloggers who discuss the issue in terms of state revenues and potential jobs, most know virtually nothing about the product design, the technology, the marketing and the business model used by the casino trade. Most don't even use the products frequently, if at all. And most don't have personal relationships with the out-of-control gamblers who make up nearly all of the profits.

The debate on slot machines and casino-style gambling is not about jobs and revenues. Nor is it about whether we "permit" gambling. It's not about buying a square in the Super Bowl office pool or playing poker with the guys from the neighborhood on Friday night. Those are examples of *social* forms of gambling.

The debate is about predatory gambling - using gambling to prey on human weakness *for profit*-and it is government's version of subprime lending. The key question in the debate is this: Why is government, especially during these severe economic times, trying to convince citizens to spend large sums on virtually worthless gambling products instead of urging them to save and invest in their future?

By promoting predatory gambling, we are turning millions of people who are small earners with the potential to be small savers into a new class of habitual bettors - the Lottery Class. They represent the more than 1 out of 5 Americans who, according to the Consumer Federation of America, think the best way to achieve long-term

financial security is to gamble.¹ The emergence of the Lottery Class reveals an unvarnished failure of the purpose and promise of America and it is why the time has come to rethink predatory gambling as public policy.

Imagine if Franklin Roosevelt, in the shadow of the Great Depression, had said he was going to legalize and promote slot machines to make up for "lost revenue" and to pay for the war effort. How easy it would have been. Instead, he challenged the country to act together and buy savings bonds, which ultimately led America to achieve the highest savings rate of the 20th century. It helped spur a massive economic boom in which everyone prospered. The gap between rich and poor was the smallest it has been in the last 80 years.

Leaders like Roosevelt led America through turbulent times by inspiring us to hope for the best and then challenging us to go work for it. They called on us to invest in a common purpose. It's the same kind of spirit we need today.

Sixteen Short Questions & Answers About Predatory Gambling

1. "What is predatory gambling?"

Predatory gambling is the practice of using gambling to prey on human weakness *for profit* and it has become government's version of subprime lending. Slot machines represent predatory gambling in its purest form.

2. "How is predatory gambling different than social forms of gambling?"

There are at least four major differences between social forms of gambling like church bingo, Friday night poker games or picking the Patriots in the office football pool versus predatory gambling products like slot machines: 1) The speed of the games; 2) the kind of "buzz" or high people get when they play; 3) the amount of money people lose; and 4) the predatory marketing used to promote it.

Most important of all, 90% of casino profits come from 10% of the gamblers.² Out-of-control gamblers are the profit center for the casino trade.

3. "What makes slots so predatory and deceptive?"

There's little understanding of the machines and marketing that drive the predatory gambling trade. According to MIT Professor Natasha Schull, the goal of slots technology is no secret: how to get people to play longer, faster and more intensively. Every feature of the machine- the mathematical structure, visual graphics, sound dynamics,

¹ "Lottery Taxes Divert Income from Retirement Savings" The Tax Foundation, Alicia Hansen and Gerald Prante January 19, 2006 <http://www.taxfoundation.org/news/show/1302.html>

² Winner Takes All By Christina Binkley, 2008. Pg. 184

seating and screen ergonomics- is geared, in the actual language of the casino world, to get gamblers to “play to extinction” – which means until their money is gone. A modern slot machine doesn’t have a handle to pull or use reels – they use buttons and video screens. Instead of coins, they take player consumer cards. Dozens of games can be played per minute. Instead of actual reels, they have virtual reels that rely on complicated algorithms and virtual reel mapping, concepts that few people in the casino trade itself understand – much less policy makers and citizens considering these machines in their own communities.

According to Dr. Schull, when you look at what these algorithms are doing, it’s a high tech version of “weighting the deck” or “loading the dice.” (For you non-gamblers out there, that means the machines are cheating.). What you are seeing on the screen is not an accurate representation of what’s happening inside the machine.³

4. “How addictive are electronic gambling machines? Aren’t people already traveling out of state to gamble and bringing these problems back?”

Predatory gambling supporters nearly always refer to gambling addiction rates in general population numbers but most people don’t gamble regularly. A truer representation of the addictiveness of the product is to look at the people who use electronic gambling machines once a month or more. After all, isn’t that really the key public health question? Is there a difference between traveling out-of-state a handful of times a year versus putting these machines near your community where people can play them every week or monthly?

The answer is yes, there is a major difference between traveling out-of-state a handful of times a year versus putting these machines near your community where people can play them every week or monthly. A prominent Canadian study spotlighted that more than 63% of the people who use electronic gambling machines once or more per month show problem gambling behavior.⁴ And it’s these out-of-control gamblers who are the primary source of the casino trade’s profits.⁵

Why are the machines so addictive when people are provided frequent access to them? Because they cause changes in brain chemistry that are as addictive as drugs, according to National Council on Problem Gambling Executive Director Keith Whyte.⁶ Neurological studies show that gambling rewards the body with the release of dopamine, a brain chemical that causes a sensation similar to taking cocaine.⁷

³ Testimony delivered by MIT Professor Dr. Natasha Schull to the Massachusetts Legislature, October 31, 2007

⁴ Nova Scotia Gambling Prevalence Study, Office of Health Promotion, June 2004. Page XI

⁵ Winner Takes All By Christina Binkley, 2008. Pg. 184

⁶ “When Gambling Gets Out of Control” *Kalamazoo Gazette* by Linda Mah September 9, 2008
<http://www.mlive.com/features/kzgazette/index.ssf?/base/features-0/1220971845287050.xml&coll=7>

⁷ Dr. Hans Breiter, Massachusetts General Hospital. Director, Motivational and Emotional Neuroscience Center. Video interview http://www.youtube.com/watch?v=jNL3FzU_gIU

5. “Aren’t people playing voluntarily? How does it relate to the casino’s business model?”

The predatory gambling trade has taken consumer loyalty cards and player tracking system technology to a whole new level. Anyone comforted by the idea that playing the slots is voluntary should spend a day with those who work for the predatory gambling trade. People are targeted based on factors such as how *fast* they play a slot machine, information that can be collected through their “Player’s Rewards card” because many players use these cards directly in the machine. The faster someone plays, the more likely they are to play recklessly. And reckless gamblers turn into out-of-control gamblers who make up 90% of the profits. The casino staff also use statistical models to set calendars and budgets that predict when a targeted person will gamble and how much. It calculates how much each gambler is likely to lose to the slot machines over his or her lifetime. It’s called their “predicted lifetime value.”⁸

That’s why the debate is not whether we “permit” people to gamble...it is about incenting people to gamble. The nation’s biggest casino operator, Harrah’s, acknowledges outright that’s what they are doing. “Are we doing the right thing? Is it right to incent people to gamble?” said Richard Mirman, Harrah’s V.P. of Business Development.⁹

6. “What are some of the predatory marketing practices used to incite out-of-control gambling?”

- Phone and email solicitations
- Free Alcohol
- Direct mail offering free slot play
- “Hosts” who are in constant contact with heavy gamblers away from the casino
- Free meals
- ‘Luck Ambassadors’- casino employees who hand out small cash vouchers to gamblers who have been identified by the player tracking system as losing big money in an attempt to uplift their spirits and keep them in front of the gambling machine. This all happens in real time on the casino floor.
- Small cash vouchers
- Free or reduced lodging
- Sponsoring Meals on Wheels trucks in retirement communities

How good is the casino trade’s marketing? Harrah’s can trace more than 75 percent of its gambling revenue back to specific customers.¹⁰ With such state-of-the-art technology, wouldn’t you think they know who the out-of-control gamblers are that make up 90% of their revenue?

Penn National, one of the major casino companies, was recently fined \$800,000 in Illinois for marketing to problem gamblers who had voluntarily banned themselves from entering a casino— a self-exclusion list. What was Penn National’s defense? As part of a campaign to develop new customers, the casino rented a list of names from

⁸ Winner Takes All By Christina Binkley, 2008. Pg. 175

⁹ Winner Takes All By Christina Binkley, 2008. Pg. 197

¹⁰ “Harrah’s uses science to lure gamblers; Company amasses data on customers” *The Wall Street Journal*, Christina Binkley, Nov. 28, 2004

a firm that operates ATM machines at Illinois casinos and the casino's marketing department failed to check the list against the names of people enrolled in the Self-Exclusion Program.¹¹ But why does Penn National and casinos like it aggressively market to gamblers who take money out of casino ATMs? Because these gamblers are the ones most likely to lose control of their spending. They lost the money they arrived with at the casino and then needed to withdraw more of their savings to chase the money they lost earlier.

7. "Isn't predatory gambling simply entertainment?"

Advocates of the predatory gambling trade say it's no different than other forms of entertainment. They describe it the same as "drinking wine, going out to a restaurant or going to the movies." Yet, the owner of the vineyard drinks the wine he makes. The owner of the restaurant eats the food he serves. The movie producer watches the movies he makes. This is the only product or service we can think of where most of the people who own it and promote it, including public officials, don't use it and don't want to live near it.¹²

8. "Shouldn't people have the freedom to gamble if they want?"

Predatory gambling advocates promote the notion that the public should be able to gamble if they want to. But the question is not whether you or I have the freedom to gamble. Or whether we "permit" gambling. The question is whether you, me and our democratic government have the freedom to use predatory, deceptive and addictive gambling products to exploit the human weaknesses of other citizens in our community *for profit*. After all, if it was really a matter of "personal freedom," then why do many of the people who promote predatory gambling rarely exercise *their* personal freedom to use the product?¹³

9. "If we don't have predatory gambling, what do you propose instead to make up for revenues?"

When states are deciding who they can turn to for more money to fund public services, the answer is nearly always the Lottery Class. They do it by adding faster, more intense and more expensive gambling products and then they sell them at even more locations in our communities.

It's time we had an adult conversation about the government we want and how we want to pay for it. We need to put aside "childish things," in the words of President Obama, which includes stopping our reliance on predatory gambling to pay for public services.

One of America's most sacred founding principles was "no taxation without representation" and it's time the principle of "no taxation by exploitation" was added right beneath it.

¹¹ "Casino fined \$800K for marketing to banned gamblers" *Chicago Business*. Bob Tita, May 19, 2008
<http://www.chicagobusiness.com/cgi-bin/news.pl?id=29493&seenit=1>

¹² Winner Takes All By Christina Binkley, 2008. Pg. 177

¹³ Winner Takes All By Christina Binkley, 2008. Pg. 177

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10. "Legalizing casinos will create thousands of jobs. What is your plan to create jobs?"

Legalizing slot machines is not going to rescue us or the state's economy. We're going to have to get out of this economic crisis the old-fashioned way--by digging inside ourselves and getting back to basics: improving U.S. productivity, saving more, reducing our debt, strengthening our families, studying harder and inventing more products and services to export. The days of phony prosperity are over.¹⁴

The crisis on Wall Street- AIG, Lehman Brothers, Bernie Madoff and so on - are all part of what's been called "casino capitalism" – using predatory practices and financial gimmicks to promote an illusion of free money, all at the expense of unsuspecting Americans. Most of us know a government run like a casino is not going to turn out any different.

11. "Isn't there an element of elitism or paternalism to those who oppose predatory gambling?"

What is elitist is the fact that many of the people who own the casinos or promote them don't use the product.¹⁵ What is elitist is how people refer to slots as a "tax on the stupid" and a "tax on people who can't do math." What is elitist is while most of us are part of the investor class, putting money away in retirement accounts and 529 college funds for our kids, we have allowed our government to turn millions of people who are small earners with the potential to be small savers into a new class of habitual bettors - the Lottery Class. They represent the 1 out of 5 Americans who, according to the Consumer Federation of America, think the best way to achieve long-term financial security is to gamble.¹⁶

Now to contrast, can you imagine the class action law suits by state attorneys general everywhere if Vanguard, Charles Schwab or Fidelity Investments offered to the public "an investment portfolio for the stupid" and marketed it as the "All It Takes Is a Dollar and a Dream Fund"?

¹⁴ "China to the Rescue? Not!" *The New York Times*. Thomas Friedman, Dec. 20, 2008

¹⁵ Winner Takes All By Christina Binkley, 2008. Pg. 177

¹⁶ "Lottery Taxes Divert Income from Retirement Savings" The Tax Foundation, Alicia Hansen and Gerald Prante January 19, 2006 <http://www.taxfoundation.org/news/show/1302.html>

The injustice of predatory gambling has prevented millions of low and moderate-income Americans from joining the class of savers and investors... from living the real American Dream, trapping a majority in a cycle of debt and poverty.

It's time government encouraged people spending thousands of dollars a year on state-sponsored predatory gambling products instead to save and invest. If these same people put this money in an investment product, over 40 years they will have hit the jackpot. That's the real American Dream.

12. "How does predatory gambling impact America's democracy?"

"State-sponsored predatory gambling is essentially a corruption of democracy because it violates the most basic premises that make democracy unique: that you can be self-governing, you can be honest and open about your disagreements as well as your agreements, and that you trust other people that you are in this together. That's what a compact of citizens is. And the first-step away from it is to play each other for suckers. We're going to trick them into thinking they are going to get rich but they are really going to be paying my taxes." – Quote from Taylor Branch, the Pulitzer Prize-winning historian of the civil rights movement and biographer of Martin Luther King, who continues to be one of America's most outspoken voices to stop predatory gambling.¹⁷

13. "There are many important issues facing the state and the country. Why should predatory gambling be near the top of the list?"

When it was revealed that companies like Countrywide Financial issued predatory subprime loans to millions of American families, most of us were angered by it. We felt for the families who were suffering as a result. But we were not executives who profited at the expense of low and middle income families. We weren't owners of the company. However, predatory gambling is being done in my name and your name. Each of us is responsible for helping to turn the American Dream upside down for tens of millions of Americans. All of us are equal partners and shareholders in our democratic government that is pushing predatory gambling. And because we own it, it's up to us to fix it.

14. "Most people gamble without a problem. What's the big deal?"

The casual player who visits a casino a couple of times a year is not much value to the casino from a revenue perspective. The lifeblood of the casino trade is the out-of-control gambler. 90% of the profits come from 10% of

¹⁷ Taylor Branch, StopPredatoryGambling.org National Conference, Sept. 28, 2008.
http://www.youtube.com/watch?v=jNL3FzU_gIU

the gamblers.¹⁸ And they have a very good idea who these out-of-control gamblers are. Companies like Harrah's can trace 75.6 percent of its gambling revenue back to specific customers.”¹⁹

15. “Not everybody loses at the casino. Somebody wins the jackpot. What’s wrong with that?”

Any money someone wins at slots doesn’t come from the casino. They didn’t beat the casino. Casinos do not gamble – the odds are always fixed on their side. The money a person “won” came from the gambling losses of the other citizens in their local area. It came from the checking, savings and credit card accounts of their neighbors.

16. “Isn’t playing the stock market the same as gambling?”

A few try to claim that investing in the financial markets is gambling and playing the lottery is no different. But clearly it’s not the same. An applicant for a bank loan can put down \$10,000 worth of stock certificates as collateral. Try putting \$10,000 worth of lottery tickets on the table instead and see if the bank will make the loan.

¹⁸ Winner Takes All By Christina Binkley, 2008. Pg. 184

¹⁹ Harrah's uses science to lure gamblers; Company amasses data on customers” *The Wall Street Journal*, Christina Binkley, Nov. 28, 2004