Creating Legal Versus Illegal Gambling Businesses: How Proper Government Regulation Makes a Difference

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Abstract Casino gambling has been introduced in the United States to revive local economies by providing a desired activity without raising taxes on individuals. An important question is how to minimize the potential deleterious effects of legalized gambling while maximizing its economic benefits. From a criminological and economic perspective, central questions include the following: (1) to what extent legalized casino gambling has impacted rates of pathological gambling, (2) what its impact is on crime rates, (3) to what extent organized crime has infiltrated legal gambling, and (4) what the best methods are to protect legal gambling from illegal activity. This analysis examines what is known about these impacts, and it reviews methods to maximize the positive impacts of casino gambling while minimizing its negative social and economic impacts.

Creating Legal Versus Illegal Gambling Businesses

Casino gambling has been introduced in the United States to revive local economies by providing a desired activity without raising taxes on individuals. There are approximately 500 casinos currently operating in 28 of the 50 US states (American Gaming Association 2016; OG Paper 2017).[1] This growth in legal casinos has occurred primarily during the last 40 years because, before 1978, casinos existed only in one state, Nevada. Atlantic City started adding casinos in the 1970s and 1980s, making only two states with casinos as of late 1989. This era of legalized gambling witnessed the establishment of casino gambling as a mechanism to raise money through tourist spending to improve local economic conditions while avoiding additional taxes on residents.

[1] This count includes only land-based casinos, excluding dog tracks, horse tracks, riverboats, and poker rooms.

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An important issue to address is how to minimize the potential deleterious effects of legalized gambling while maximizing its economic benefits. From a criminological and economic perspective, four questions are central:

1. To what extent has legalized gambling impacted rates of pathological gambling?
2. Has legalized casino gambling impacted crime rates?
3. To what extent has organized crime infiltrated legal gambling?
4. What methods will best protect legal gambling from illegal activity?

The analysis presented here examines what is known about these impacts, and makes recommendations for ways to maximize the positive economic impacts of casino gambling while minimizing its negative social and economic impacts.

To What Extent Has Legalized Gambling Impacted Rates of Pathological Gambling?

It might be expected that a dramatic increase in the presence of legal casinos would correspondingly increase the extent of pathological gambling. As a definitional issue, there is a difference between problem gambling and pathological gambling, both of which are usually measured using screening instruments based on questionnaires about gambling behavior, negative consequences of gambling, the methods used to obtain money to gamble, and the symptoms of addiction.[2] Pathological gambling is more serious, and describes compulsive, uncontrollable gambling that produces negative consequences, whereas problem gamblers experience some adverse consequences from their habit that are less serious than pathological gambling (National Center for Responsive Gaming 2016; Neal et al. 2005).

There have been many studies on the prevalence of problem and pathological gambling, varying widely based on the screening instrument used and the nature, location, and size of the samples employed. Results show that rates of problem and pathological gambling have changed very little over time, despite the growing opportunities to gamble legally. Studies have found pathological gambling rates of about 1– 2 percent of the population and problem gambling of about 3–5 percent (Kessler et al. 2008; Petry et al. 2005; Volberg 1994).[3] It is important to be aware

[2] Primary methods to diagnose problem and pathological gambling include the South Oaks Gambling Screen (SOGS) and the American Psychiatric Association's Diagnostic and Statistical Manual, edition IV (and a newer edition 5) (APA 1994; Lesieur and Blume 1987). The SOGS uses twenty questions, and affirmative answers on five or more questions designate pathological gambling, while three or more positive answers are now commonly used to designate problem gambling. The DSM-IV uses 10 criteria to define pathological gambling. A respondent who answers affirmatively on five items is considered a pathological gambler (or has a "gambling disorder" in DSM-5). A third tool, the Problem Gambling Severity Index (PGSI), is growing in usage in gambling surveys (Williams et al. 2012).

[3] In a nationally representative sample of 43,093 households, the lifetime prevalence rate for pathological gambling was found to be 0.42 percent (Petry et al. 2005). Representative samples from five

that problem gambling is a continuum and different screens identify it differently by using different questions and cut-off rules.

Looking at studies that measure changes over time is the primary interest here, given the expansion of legal gambling opportunities. In one study, surveys of adults in the United States were conducted in 1999–2000 and again in 2011–2013, using the same screening questions. Interestingly, a reduction in the percentage of past year gambling and in the frequency of gambling was discovered, while rates of problem gambling remained unchanged (Welte et al. 2015). Williams et al. (2012) conducted a comprehensive review of all 202 prevalence studies that have been conducted internationally. These studies were not directly comparable for reasons of design, method, sample, and location, but they concluded that between 1988 and 2008 in the United States, problem gambling rates rose during the late 1980s and 1990s and then fell. The rates of estimated past year pathological gambling was 2.2 percent, a rate that has remained unchanged over the years despite the growth of legal gambling. They concluded, "Current rates are now very similar to where they were in the late 1980s prior to gambling expansion" (Williams et al. 2012, p. 7).

In summary, rates of problem and pathological gambling rose in North America, but then fell to lower levels, although legal gambling opportunities continue to expand. There is ongoing research into the relationships between problem gambling, proximity to casinos, comparing actual casino patrons to the general population, social casinos (gambling-themed activities on social media sites), and related variables, but the results are mixed (Gainsbury et al. 2015; LaPlante et al. 2013; Welte et al. 2016). Studies that examined the different individual motivations among casino visitors have found that these motivations were associated with higher or lower probability of problem gambling (Lee et al. 2015; Sundqvist et al. 2016; van der Maas et al. 2017). In addition, research confirms that problem gamblers often have co-morbid behaviors, especially alcohol use disorders and drug abuse, but the causal ordering is not clear (see Johansson et al. 2009; Welte et al. 2004). Therefore, problem and pathological gambling have correlates that have not been established as causally related to the growing availability of legal gaming.

Has Legalized Casino Gambling Impacted Crime Rates?

Many claims have been made about the impacts of casino development on crime in communities and on police department workloads in the affected jurisdictions. Numerous studies have been performed over the last 30 years to examine these links.

different states found prevalence rates ranging from 0.1 to 2.3 percent (Volberg 1994). Another study involving a nationally representative sample of US households found a lifetime rate of 0.6 percent for pathological gambling and a lifetime problem gambling rate of 2.3 percent (Kessler et al. 2008).

A recent report examined 32 empirical studies published since 1985 that analyzed crime and casino-related data in various ways (Albanese 2018). These studies varied by the locations involved, the crimes measured, and each study's methodological strengths and limitations. Many of these studies (38 percent) examined casino impacts in only a single jurisdiction.

Half of all the studies carried out focused only on street crimes, that is, crimes of assault (rape, assault) and crimes against property (robbery, burglary, larceny, motor vehicle theft). Most of the remaining studies added measurements of minor crimes, such as disorderly conduct and other misdemeanor offenses. White collar and organized crimes have received very little attention in the research on casino impacts.

Perhaps even more significant is the fact that two-thirds of prior studies did not account for increases in the visitor population to the casino jurisdiction when calculating crime rates (Albanese 2018, p. 10). Indeed, a primary purpose of casino gambling as an economic development tool is to increase the tourist visitor population. Raw numbers of crimes do not account for changes in the local population, which can greatly affect the degree of crime risk faced by individuals. Tourist and visitor destinations (like casinos) raise the average daily population of a jurisdiction, which must be accounted for in determining crime rates.[4]As another review of multiple studies concluded, "Empirical studies that adjust the population for tourism generally find a weak or no relationship between casinos and crime" (Walker 2013, p. 114).

Summarizing the Findings of Prior Studies

The findings of the prior empirical studies on casino-crime impacts can be grouped into three categories: those that find that crimes increased after casinos opened (13 percent), those that found decreased or no changes in crime after the opening of casinos (59 percent), and those that found a mixed effect (28 percent). Because all the studies looked at multiple crimes (a median of seven crimes per study), a mixed effect was defined as an increase in more than one crime category, even if the increase was outweighed by decreases in other crimes. The results indicate that in most studies there was no casino-crime link, with only 13 percent of studies finding a post-casino increase in crime rates.

The visitors attracted to casinos might either commit or be victimized by street crimes (Grinols and Mustard 2006; Grinols and Mustard 2011; Stitt et al. 2003; Reece 2010). However, most offenders who commit these crimes in the United States are young, aged 16–24, as shown by police statistics. Casino patrons are much older than this (with an average age over 40), so unlike other tourist destinations such as theme parks or ski destinations that attract large numbers of young people, casino visitors are considerably older and much less likely to be involved in

[4] The formula for calculating crime rates is the number of crimes divided by the population at risk. A study of visitors to national parks found that while visitors do not affect crime, the type of visitor and the nature of the attraction can have different effects on crime (Grinols and Mustard 2011).

street crimes. This is due to their age and exposure (i.e., older people go out less often, come home earlier, and visit less dangerous places than do younger people).

As a result, it is not a surprise, demographically, that most empirical studies have not found a significant casino-crime impact. Given the typical age of casino patrons (the median age is 47), this finding should be expected, because casinos do not attract large numbers of young people (who commit most street crimes), and those under age 21 are excluded from participation in US casinos. In addition, casino patrons are well-educated (56 percent have some college education, 47 percent have earned a bachelor's or graduate degree), and 41 percent hold white-collar jobs (American Gaming Association 2007; Morrison and Braunlich 1996; Scott-Halsell et al. 2010). Therefore, casino patrons are at lower risk for involvement in street crimes due to their age and backgrounds. No prior study that found an increase in street crimes accounted for the increase in visitor population to the casino jurisdiction(s). This can be seen as a major omission, considering that increasing visitors is a central objective for casino gambling jurisdictions—both the population at risk and the backgrounds of those visitors are crucial factors in obtaining a true assessment of crime impacts (see Albanese 1985; Grinols and Mustard 2006; Grinols and Mustard 2011; Hakim and Buck 1989; Friedman et al. 1989; Stitt et al. 2003; Thompson et al. 1996; and for a critique, Walker 2008).

To summarize, the consensus of more than 30 past empirical studies indicates that casinos do not generally have a major impact on street crime. As noted above, an important omission in this body of research on measuring casino-crime connections is that most of this work has focused on street crimes rather than other kinds of organized crime (which have a potentially greater logical connection to casino gambling). These more organized crimes are considered next.

To What Extent Has Organized Crime Infiltrated Legal Gambling?

The specter of organized crime has played an important role in both government and voter decisions regarding casino gambling (Dombrink and Thompson 1990). The response to this concern has been exhaustive investigations of casino applicants in all jurisdictions, large monetary deposits required from casino developers, and other hurdles to keep out illegitimate operators.

Some historical background on the genesis of casino gambling in Nevada offers clues about its role as the "test case" for legal gaming in North America. Nevada legalized all forms of gambling in 1931 for the same reason it has since been legalized elsewhere. It was seen as a way to generate revenue by providing a desired activity without raising taxes on the resident population. Nevada legalized gambling under worse conditions than today's, those of the Great Depression. There were no North American precedents to rely upon, and little regulation of gambling was imposed. Most of the early investors in legal gambling were career gamblers, and most gambling occurred in pool halls (Demaris 1987). As Zendzian observed, Las

Vegas was not infiltrated by mobsters, "but rather mobsters controlled casino operations from the start" (1993, p. 125).

Organized crime involvement in the Las Vegas casino industry has been traced back to Meyer Lansky and Benjamin "Bugsy" Siegel. In 1941, they and their criminal associates usually used "front men" to own a casino on paper while they exercised actual hidden control. Much of the money used to buy and operate the casino appears to have been taken from pension funds, most notably the Teamsters', and primarily from Chicago (Cook 1980; Fidance 2009). Meyer Lansky, who lived in Miami, played the accounting role, keeping track of everyone's interests in the casinos, whether they were in Chicago or elsewhere (Lacey 1991; Skolnick 1978). Using this method, Siegel had Lansky finance the first Nevada hotel/casino, *The Flamingo*, named after Siegel's girlfriend (Gragg 2015; Jennings 1992).

The method by which organized crime made much of its money with Las Vegas casinos was "skimming." Before the daily take from slot machines and table games was calculated, part of it "disappeared," making the casino look on paper somewhat less financially successful than it really was. According to former FBI agent William Roemer, the money skimmed from Las Vegas casinos was the primary source of income for the Chicago "Outfit" crime group for more than two decades (Roemer 1991). Organized crime groups from New York, New Jersey, Cleveland, Kansas City, and Milwaukee also have been linked to the financing and skimming of profits from some Las Vegas casinos from the 1940s into the 1980s (Reid and Demaris 1963; Roth 2010; Turner 1984).

A New Era of Casino Regulation and Its Impact

The Kefauver hearings in 1950, convened by the US Senator Estes Kefauver, took place in 14 US cities (including Las Vegas) and were televised in an era when only three television channels existed, so their impact on public perceptions was huge. The hearings concluded that the Mafia nationally controlled much of the organized crime in the United States (rather than only city-based groups), and that gambling profits supported most of its illegal activity (US Senate Special Committee to Investigate Organized Crime in Interstate Commerce 1951; Kefauver 1951). Although subsequent investigations found the conclusions of the Kefauver Committee to be overblown and not based on any actual investigation, it had the effect of placing the Mafia in the public consciousness as an issue of national concern, and connected it with gambling (Moore 1974; Bell 1953; Woodiwiss 1988).

The result of the Kefauver Committee hearings was to usher in a new era of scrutiny for Las Vegas. In 1955, the *Las Vegas Sun* newspaper published an exposé of hidden ownership of the Thunderbird Hotel and Casino, which was built in 1948. By 1959, new legislation in Nevada created the State Gaming Commission and the Gambling Control Board, which exercised broad legal authority to regulate casino gambling. These agencies also exercised their authority to remove stockholders and to refuse casino licenses to those linked to organized crime. This occurred with the new Dunesand Frontier hotel/casinos (Zendzian 1993, p. 32).

The Nevada Corporate Gaming Act of 1967 specifically made publicly held corporations (i.e., large companies that sell stock and are therefore publicly owned) the preferred avenue for casino investment. This sparked the entrance of large, established corporate interests into the casino business (e.g., MGM, Harrahs, Caesars). It also brought the US Securities and Exchange Commission (SEC) into the regulatory process through the SEC's responsibility to monitor and regulate all publicly held corporations in the United States.

The new regulatory framework in Nevada that developed through legislation in the 1950s and 1960s had a significant impact on organized crime in the casino industry. It led the National Gambling Commission in 1976 to conclude that organized crime had become a "negligible factor" in Nevada casinos. The change to corporate ownership and control and the moderate crime rate in Nevada were used as evidence to support this conclusion (US Commission on the Review of the National Policy Toward Gambling 1976).

Another attraction of the Las Vegas casinos, besides the money earned, was their appeal to celebrities (Gragg 2015). The glamor of associating with well-known singers and actors was important to organized crime figures, who were largely uneducated street toughs from poor neighborhoods. This combination of ego involvement; a high cash-yield business; and questionable casino backers, operators, and controls resulted in some notorious cases over the years. Improved controls on casino ownership produced a marked decline in organized crime involvement in the industry, as ownership became more concerned about stock prices and reputation than about celebrities or personalities. In fact, most scandals in recent years involve organized crime in vendor businesses, such as labor unions and suppliers, rather than involvement in the casinos themselves (Peterson 2004; Rose 2014; Zendzian 1990).

Perhaps the most significant factor in the removal of organized crime figures from the ownership (hidden or otherwise) of casinos was the shift from individual to corporate ownership. This shift was spurred largely by the popularity of Nevada as a tourist destination. The capital needed to build a casino with restaurants, entertainment areas, and an attached hotel with hundreds of rooms is beyond the means of virtually all individuals (and organized crime groups), and this resulted in corporate acquisitions of casino properties. Again, due to the size of investment required, only large, publicly held corporations can usually qualify. As a result, minor operators and smaller corporations, more easily infiltrated or controlled by organized crime elements, found themselves excluded from the market. Therefore, the growth of casinos in Nevada from nightclubs to multi-million-dollar hotel and entertainment complexes did much to squeeze out traditional organized crime elements. As a former FBI agent noted, "Today, the situation in Las Vegas is entirely different than it was...I feel quite strongly that the mess is pretty well cleaned up" (Roemer 1991, p. 135).

The Atlantic City Experience

Atlantic City became the second major US tourist destination to establish casino gambling. The first casino opened there in May 1978.

Learning from the experience in Nevada, Atlantic City placed extensive controls on casino gambling from the very start. New Jersey also had a long history of problems with organized crime. New Jersey Governor Brendan Byrne commented in 1977, when he signed the Casino Control bill, “Organized crime is not welcome in Atlantic City! And we warn them again: keep your filthy hands out of Atlantic City and keep the hell out of our state!” These comments imply, of course, that organized crime was already present in New Jersey, which it was (see Dorman 1972; Linnett 2013).

Ironically, the genesis of organized crime in Atlantic City had similar roots as in Las Vegas. In the late 1800s, Atlantic City had illegal gambling and 24 brothels (Demaris 1987). Atlantic City was booming by the early 1900s, largely due to Prohibition and its associated speakeasies, gambling, and prostitution. It was a popular summer resort for celebrities, politicians, and gangsters (Demaris 1987; Eisenberg et al. 1979), although it was never a year-round destination until the advent of casino gambling in 1978. Consider this description of Atlantic City in 1925:

> By 1925 Atlantic City was bursting at the seams. It had 1,000 hotels and rooming houses that could accommodate 400,000 visitors, 99 daily trains in the summer and 65 in the winter, and three airports. It had the world's longest boardwalk, stretching seven miles, with five piers, and a fabulous beach...The city had 21 theaters, three country clubs, four newspapers, the Miss America Pageant, and an Easter Parade as famous as Fifth Avenue's [in New York] (DeMaris 1987, pp. 28–29).

The downfall of Atlantic City as a thriving center of activity can be linked to a changing national economy and political corruption. The Great Depression and the repeal of Prohibition dealt a severe blow to the area (as they did in Nevada). By the late 1930s, Atlantic City’s real estate base was two-thirds of what it was in the 1920s. By the time the national economy turned around during the 1950s, combined with the advent of low-cost air travel in the 1960s, Americans looked further from home for their vacations. Miami, Las Vegas, the Caribbean, and even Europe became popular destinations, leaving the remaining Atlantic City tourists older and less affluent (DeMaris 1987).

Atlantic City also has a long history of corruption in local government, dating back to the early 1900s, which hampered its effort to remain a relevant tourist destination in favor of local payoffs and the protection of vice crimes. What historian Mark Haller found to be the case in many neighborhoods during the early twentieth century has been true in Atlantic City throughout its history: “it was not so much that gambling syndicates influenced local political organization; rather, gambling syndicates *were* local political organizations” (Haller 1979, p. 88; Fabian 1990, p. 142).

This history was part of the reason for a stringent casino licensing and regulatory regime, and legalized casinos in Atlantic City were economically successful. According to the 1976 Casino Act in New Jersey, 2 percent of gross profits were earmarked for city, county, and state non-gaming development. From 1978 to 2015, casinos contributed $1.3 billion from their gross profits in taxes and fees (New Jersey Division of Gaming Enforcement 2016). Visitors increased from about 7 million to more than 30 million annually. Casino revenues peaked in 2006 in Atlantic City, but have declined since then, as the surrounding states opened legal casinos of their own, providing competition for legal gaming destinations. There are currently seven Atlantic City casinos in operation (Huba 2016).

The stringent requirements placed on casino/hotels undoubtedly contributed to their success. All casino applicants in Atlantic City must undergo a prolonged and detailed background check that the applicant pays for. These strict licensing requirements have been upheld in court challenges (O'Brien and Flaherty 1985). To eliminate small-time operators, all casinos in Atlantic City must have a minimum 500-room hotel attached. Requirements were also established regarding the surveillance of games, obtaining credit, junkets, and even prohibiting dealers from dealing cards with their hands (only a "shoe" was permitted). Vendors and ancillary services to casinos are regulated as well (see Gutierrez 1979; Hicks 1981).

Ancillary services include tobacco, cleaning, construction, food, catering, flowers, furniture, equipment, entertainment, laundry, liquor, garbage, and security services, all of which do more than $10,000 worth of business with any one casino, totaling $150,000 worth of business with the casino industry in general. In Atlantic City and now in Nevada, these ancillary services must be licensed and have their backgrounds checked. Vendors provide the same services but do business with casinos in smaller volumes. These businesses must only register with the casino control authorities; there are simply too many of them to license. A study of ancillary services and vendors in Atlantic City found, as in Nevada, that "the weakest of all casino controls is... where vending registration rather than licensing occurs" (Zendzian 1990, p. 10; State of New Jersey Commission of Investigation 1977, 1991). A proper balance must be reached in this situation between the costs of compliance (by the government, and by the casino industry and its vendors) and the costs of possible infiltration of organized crime into the casino industry.

Atlantic City's strong regulatory structure has resulted in surprisingly few substantiated allegations of organized crime involvement in casinos there. The Senate Permanent Subcommittee on Investigation found one exception, reporting that Local 54 of the Hotel and Employees International Union was under the "substantial influence" of organized crime. It was said that Local 54 was controlled by Frank Gerace, who was in direct contact with Nickodemo Scarfo, alleged head of the Bruno organized crime family in Philadelphia and Atlantic City. Along with a New Jersey State Commission of Investigation report that linked the Scarfo group to promoting and managing boxing there, the Casino Control Commission forced Frank Gerace to resign as president of Local 54 (Demaris 1987; Zendzian 1993). This example demonstrates that gaming-control officials do not have to wait for a criminal conviction to oust those found to have ties to organized crime. Bona fide allegations of misconduct or improper associations are sufficient.

The decline of organized crime in Atlantic City is also shown in a submission by the Philadelphia Police Department presented to the New Jersey Casino Control Commission in an oversight hearing. It showed that the local branch of the Cosa

Nostra had declined from 80 members in the 1980s to only 20 members, and that 9 of those 20 were in prison (Considine 2010). Another study also found that"there has been no significant evidence of racketeering operations associated with casino activities in Atlantic City thus far" (Zendzian 1993, p. 133).

Extensive methods have been adopted over the years to eliminate any organized crime influence from the casino industry. New casino jurisdictions have similar licensing arrangements to maximize the economic benefits of casinos while minimizing the potential for criminal infiltration (Regulatory Management Counselors 2016).

Illegal Gambling Businesses

Despite the dramatic growth of legal casino gambling in the United States over the last 40 years (since the first casino in Atlantic City), there continues to be illegal gambling occurring in the shadows. In a review of gambling law enforcement in 16 large US cities in 1978, police in about half the cities did not believe that illegal gambling operations were directly controlled or run by regional syndicates, and others said that some bookmakers were completely independent of larger-scale criminal organizations: "In about half the cities in this country the police do not see a direct link between organized crime and gambling" (Fowler et al. 1978, p. 37).

Nevertheless, in the same way that Prohibition served to organize criminals into partnerships and networks that survived its repeal, it would not be surprising if other profitable vices like illegal gambling were run by these same criminal groups (see Albanese 2015; Rosecrance 1988). More recent data can be used to determine the extent to which legal casino gambling has displaced illegal gambling businesses, some of which may be associated with organized crime.

An analysis of all US prosecutions involving the operation of an illegal gambling business during a single year (2014) was undertaken to assess the nature and extent of illegal gambling businesses and any connections they might have to organized crime (Albanese 2017).[5] The analysis found that in a single year more than 80 persons were charged and convicted of participation in illegal gambling businesses involving prosecutions in 23 states.[6] The broad scope of illegal gambling businesses might be surprising given the correspondingly broad scope of legal gaming opportunities in the United States (40 states have some form of legalized electronic gam-

[5] Under federal law, an illegal gambling business is defined as one that violates state law, involves five or more persons, and remains "in substantially continuous operation" for more than 30 days or grosses more than $2000 in a single day (18 US Code § 1955). Federal law also permits both criminal and civil forfeiture of gambling proceeds, so state and local law enforcement officials have incentive to pursue cases under federal law because forfeitures are not always available under state law. A full calendar year of cases was reviewed. Analysis of a larger group of cases over a longer period (several years) would provide an even broader perspective on the nature, operation, and impact of illegal gambling enterprises.

[6] Most of the cases involving illegal gambling businesses were jointly investigated by local, state, and federal law enforcement agencies.

ing device—including traditional slot machines, video poker, and bingo—at Indian casinos, commercial casinos, racetrack casinos, or other licensed establishments). In addition, 44 US states have lotteries of various kinds. Therefore, many people remain interested in gambling that is not legally available in regulated venues, and these customers are served by illegal gambling operations.

The more than 80 individual convictions for operating illegal gambling businesses were centered around 40 distinct enterprises, which can be grouped into 4 general types: online and off-shore gambling, gambling parlors, and in-person games, gambling operated by established organized crime groups, and animal fighting and betting. Online and offshore gambling was the most common type, and we can expect this form of gambling to grow further, given widespread Internet access and the establishment of online gambling websites in international jurisdictions.

In sum, illegal gambling enterprises were found to be large illicit businesses involving an average of between 8 and 33 participants in operation for long periods of time (averaging 4–11 years). Therefore, there exists a large demand for gambling beyond legal gaming, and there is a corresponding development of criminal enterprises to cater to this demand.

What Methods Will Best Protect Legal Gambling from Illegal Activity?

The consensus of the evidence to date shows that the significant expansion of legal gambling alternatives in recent decades has not significantly increased the percentage of problem and pathological gamblers in the population, and it has not generally increased crime, but it has not eliminated illegal gambling businesses, either. There are likely three reasons for this (presented in Table 19.1) involving competition, convenience, and technological and legal concerns.

Of the three kinds of concerns presented in Table 19.1, only the technological and legal ones might be changed so that the law conforms more closely to public demand. The competitive and convenience reasons listed above will be more difficult for legal

Table 19.1 Why both legal and illegal gambling will continue to exist

Types of concerns	Reasons
1. Competitive	Illegal games often do not have minimum bets, they permit lending money for betting, and winnings are untaxed because they are not declared as lawful income.
2. Convenience	Even though there are more than 500 legal casinos in the United States, many people live far from them, so they are not easy to visit, it is expensive to travel, and it is simpler to gamble locally.
3. Technological and legal	Gambling is evolving as a leisure activity, and Internet and sports gambling have become popular in recent years, yet they remain illegal in most of the United States. This promotes gambling outside the law.

Table 19.2 The regulation of illegal vs. legal casino gambling

	Illegal gambling businesses	Legal casinos
Regulation of the gambling	Police investigation of illegal gambling (funded by taxpayers)	Regulatory agency monitoring of casinos (funded by the casino industry)
Organized crime threat	Operation and management of illegal gambling operations and associated loansharking and extortion in debt collection and paying for "protection"	Screening and monitoring of applicants, casino operators, employees, vendors, and unions for organized crime links and to prevent skimming
Profits	Used to fund other organized crime activities (e.g., loansharking, extortion, money laundering)	Casinos are taxed by the government to pay for industry regulation and employee and corporate benefits.

gaming to overcome. Just as legal casinos provide many games and desirable locations for gambling, public preferences continue to change faster than any changes made in the law. The result is the creation of new illegal gambling opportunities, many of which are created due to untimely or tardy legal and regulatory changes.

A Regulatory Approach

A regulatory approach to gambling appears to be the most desirable given the experience of the last 40 years. A carefully regulated approach to legal casino gambling has produced large economic benefits (employment, revenue, spending, taxes, fees)[7] without corresponding large negative impacts on street crime and organized crime (as shown above). In addition, legal casino gambling has moved gambling in many jurisdictions from a police concern funded by the public to a regulatory concern funded by the casinos themselves. Table 19.2 summarizes this comparison between legal and illegal casinos and their implications for regulation, organized crime, and gambling proceeds.

It can be seen from Table 19.2 that properly regulated and monitored casino gambling can reduce the burden on local taxpayers as the sole source of funding in the battle against street crime and organized crime. The profits from casinos, which are generated largely through tourist and visitor spending, can be used to support law enforcement efforts to suppress illegal gambling, organized crime, and the dishonest operation of legal games. In this way, casino gambling is an industry that can pay for the prevention of negative outcomes from this kind of economic activity.

Of course, there is a need for vigilance in the casino industry (and in all legalized gambling) for three primary reasons:

[7] Multiple studies have been conducted on various economic impacts of casino gambling in different jurisdictions. Most studies find positive impacts, although there is variation in their nature and extent by geographic location, local conditions, and the specific impact studied (Alexander and Paterline 2005; Fenich and Hashimoto 2004; Garrett 2004; Janes and Collison 2004; Oxford Economics 2014).

1. The long history (and current data) documenting organized crime involvement in illegal gambling lets these crime groups use their pre-existing interest and expertise in running (and stealing from) gaming operations, and money is then invested into organized criminal activities such as loansharking, fraud, extortion, and money laundering. These individuals and groups must be monitored continuously.
2. Casinos must be regulated closely due to the speed at which they accumulate cash. Unlike other cash businesses, which must wait for a product or service (e.g., drink, food, laundry, entertainment) to be used or exhausted before the customer can be solicited again, casino games move much more quickly. Multiple bets and payouts occur in seconds, permitting many business-customer transactions in a very short period, resulting in large accumulations of cash and the need for continuous monitoring. In addition, potential pathological gambling might be impacted by limiting the size of jackpots, regulating the nature of advertising for gambling opportunities, and carefully restricting underage gambling (Quinn 2001).
3. Casino vendors, labor unions, and government officials and regulatory bodies must be monitored closely, as these are the most vulnerable remaining avenues for organized crime infiltration now that casinos are run primarily by large publicly held corporations (whose size, regulatory oversight, public image, and stockholders reduce their susceptibility to criminal infiltration). Casino-supported state-level agencies provide oversight and regulation of the industry, and rent-seeking opportunities for public officials and the potential for regulatory capture are risks to be monitored (Walker and Calcagno 2013).

The dual markets of legal and illegal gambling will continue to exist into the foreseeable future for reasons involving competitiveness, convenience, and technology and the law. Nevertheless, legalized gambling has been shown to increase government revenues while providing a service in high public demand without raising local taxes on individuals. Casino development in the United States also could fund crime prevention efforts formerly charged to the taxpayer in the form of policing illegal games.

The ability to regulate a widely desired public activity such as gambling allows for better control of those involved in the business and their customers, and the ability to plan and fund efforts to prevent potential negative impacts without relying on public funds to do so. The analysis of existing illegal gambling businesses points to the large demand for gambling outside legalized gambling and the corresponding development of criminal enterprises to cater to this demand. This threat can be reduced through more efficient government responses to changes in technology and law that responds to public preferences.

A proper balance must be reached between the costs of compliance by the government, the casino industry, and its vendors in licensing and oversight (see Cabot 2015; Maloney 2004; McCulloch 2015) versus the costs of possible organized crime infiltration into the casino industry. Therefore, a balanced regulatory approach, one that combines carefully designed regulation based on prior experiences in the industry with objective impact assessments of the regulated conduct, has the potential to meet public demand while effectively minimizing harm.

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