

Findings



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Video Gambling

Why a Total Ban is a Safe Bet

By Stephen Daniels



In October 1999, the South Carolina Supreme Court ruled that a portion of a law passed by the state legislature enacting a statewide referendum on video poker was unconstitutional.

However, the court upheld another portion of this same law that required a total ban on all video poker as of July 1, 2000, if the voters did not approve it. In June of 1999, South Carolina possessed more gambling machines than any other state in the nation. Some estimates indicate that there were around 34,000 machines statewide (nearly twice the amount in Nevada).¹ The ban ordered all video poker machines to stop operating on July 1st and further requires that each machine be either moved out-of-state or destroyed within the week following the ban's starting date.

NC's Video Poker Threat

This ban—including the mass exodus of video poker machines out of South Carolina—has literally brought the issue of video gambling right to North Carolina's doorstep. Video poker machine operators will likely ship a large number of their machines into the Tar Heel state. With them comes a whole host of social ills and illegalities. It is because of this looming threat that a total ban on all video poker machines is the best thing for North Carolina.

Currently, video poker machines are legal in North Carolina. However, gambling for money is not. The payout from these machines is limited to coupons and merchandise that must not exceed \$10 in value.² It is estimated that there are more than 20,000 video poker machines in North Carolina, according to the state Alcohol Law Enforcement.³

Despite the payout limitations North

Carolina law places on video poker machines, many are used for illegal gambling. Law enforcement agents have described the process of targeting and apprehending violators as difficult and time consuming.⁴ In fact, the North Carolina Sheriffs' Association has stated that it "opposes the use of video poker machines in North Carolina and supports legislation to totally outlaw the possession or use of video poker machines."⁵ If enforcement of the current law is difficult, it is certain that an inflow of video poker machines from South Carolina will exacerbate an already existing problem.

Without a ban, North Carolina is vulnerable to legal exploitation and the possibility that video gambling could become legally accepted statewide.

Video Poker parlors were positioned close to North Carolina's borders. Travelers on major highways that cross the state line into South Carolina were greeted by flashy signs and casino-like buildings designed to lure patrons into their parlors. Such border locations drew from North Carolinians just as they did from South Carolina residents.

To illustrate: In Cherokee County, South Carolina, there were eleven parlors along U.S. 29 at the I-85 interchange near Grover, NC. There were thirteen parlors along U.S. 301 in Dillon County. And in Spartanburg County, there were six video poker parlors along U.S. 221 near the border town of Chesnee, South Carolina. According to the South Carolina Department of Revenue, 42 percent of the video poker machines that were operating in late 1999 were located in ten border counties including Cherokee,

Chesterfield, Dillon, Greenville, Horry, Lancaster, Marion, Marlboro, Spartanburg and York.⁶

The strategic placement of parlors in these border counties has paid off. Of the total gross receipts generated from video poker machines in the last quarter of 1999, half came from machines in these counties.⁷

The close proximity of video gambling to North Carolina and the intentional placement of parlors close to the state line are strong indications that once video poker machines are illegal in South Carolina, these same machines will flood into our state.

South Carolina's Lesson

Prior to the ban, South Carolina has had more places to gamble than any other state (including three times as many locations as Nevada).⁸ With over 7,000 gambling outlets, South Carolina had become a haven for video gambling.

This trend did not develop overnight however. Instead, the gambling industry quietly crept into the state, eventually establishing itself as a strong force. It all began when a small amendment slid unnoticed through the legislature in 1986 that legalized video gambling.⁹ The rapid increase in video gambling machines occurred in 1991 after the South Carolina Supreme Court, in response to a legal challenge by the gambling industry, ruled that video poker machines did not violate gambling laws if winnings weren't paid out directly by the machines. As a result, players simply cashed in the coupons dispensed by the machines to the parlor operators who, in turn, reimbursed them with cash. This way, players could receive high payouts but were not considered to be gambling.¹⁰ After this, machines flooded the state. All attempts to regulate the machines were weak and hard to enforce. All legal attempts to challenge the machines as gambling also failed. South Carolina had

become the land of video poker.

South Carolina's history with video gambling offers a strong lesson to North Carolina. Unless video poker machines are banned outright, any attempt to regulate them will be challenged by the gambling industry and may result in their eventual legalization. The video poker industry has taken advantage of any loophole created by legislation that tries to limit the expansion of video poker. Without a ban, North Carolina is vulnerable to legal exploitation and the possibility that video gambling could become legally accepted statewide.

Current NC Law

Video poker machines are allowed to operate in North Carolina, but they may not offer a cash payout to the player. According to state law, exempted machines are ones that "limit to eight the number of accumulated credits or replays that may be played at one time and which may award free replays or paper coupons that may be exchanged for prizes or merchandise with a value not exceeding ten dollars (\$10.00), but may not be exchanged or converted to money."¹¹ These games must also involve the use of skill and dexterity to be considered legal. Machines whose operation depends mainly on chance are gambling devices.

It is illegal to gamble for money in North Carolina. Current law clearly states that "any person or organization that operates any game of chance or any person who plays at or bets on any game of chance at which any money, property or other thing of value is bet, whether the same be in stake or not, shall be guilty of a Class 2 misdemeanor."¹²

North Carolina law defines what types of machines are forbidden by stating that "it shall be unlawful for any person, firm or corporation to operate or keep in his possession or the possession of any other person, firm or corporation, for the purpose of being operated, any punchboard, slot machine or device where the user may become entitled to receive any money, credit, allowance, or any thing of value, as defined in G.S. 14-306."¹³

Current statutory language could be strongly enhanced and loopholes avoided by adopting language that bans video poker in North Carolina.

The Enforcement Dilemma

Despite these limitations, enforcing these regulations remains a challenge. As stated earlier, it is difficult for law enforcement officers to regulate the payout activity of video poker machines. Though many

machine owners operate their machines in a lawful manner, there are others who misuse them in ways that violate current law.

News stories that report raids on video poker parlors engaged in illegal gambling are common. An April 2000 raid in Cumberland County busted a family-run gambling business that had numerous devices being used for gambling, including video poker machines. Police also seized guns and more than \$160,000 in cash. According to reports, complaints about gambling activities had gone up 600 percent in an eight county area over the previous three months.¹⁴

Instances of crime, like the one in Cumberland county, show that unlawful gambling practices are a big risk when video poker machines are allowed to operate in North Carolina. It does not take much for the owners of these machines to alter their use and make them gambling devices. By simply ignoring the ten dollar limit on payouts, operators can offer large payouts to patrons who use them. As a result, people are more likely to play, and operators are more likely to make a profit.

The likelihood that a dramatic inflow of video gambling machines would increase illegal activity among operators is not the only issue that warrants consideration. Video gambling itself can be a harmful addiction that ruins lives and places a huge economic burden on the state.

Social Costs of Video Poker

The costs of video gambling have been described as "socially devastating," not only for the individuals who get caught up in the addictive behavior that can result, but for entire communities who end up having to deal with and clean up the social problems associated with problem gambling. Video gambling has been referred to as the "crack cocaine of gambling" by Robert Hunter, a clinical psychologist in Las Vegas, Nevada who specializes in problem gambling.¹⁵ Former South Carolina Governor David Beasley called video poker machines a "cancer."¹⁶ Along with the financial devastation that arises from problem or pathological gambling behavior comes criminal activity, family difficulties, and emotional problems.

Video poker is considered more addictive than other forms of gambling because of the convenience and accessibility associated with it. People no longer have to travel to a casino to gamble. In many states, like South Carolina, video poker machines are located in neighborhood convenience stores and gas stations.

"Players get immediate feedback, faster than the wheel spins in roulette or the cards turn in blackjack, and much faster than waiting for lottery results," says Robert Hunter, clinical director of Charter Hospital in Las Vegas. "The games let players increase the speed with which they bet and provide the illusion of skill factor."¹⁷ These factors contribute to the addictive behavior associated with problem or pathological gambling.

A Few Facts from South Carolina:

- In 1993, there were only eight Gambler's Anonymous chapters in South Carolina, but by 1997, there were 27 chapters.¹⁸
- One in five (20 percent) of all video gambling players in South Carolina are problem gamblers, with African-Americans significantly over-represented.¹⁹
- Of all players who have ever played video poker, 39 percent play two or more times a week, 13 percent report playing 4 or more times a week, and 6 percent play every day.²⁰

Women are extremely vulnerable to the temptations of video gambling, according to Dr. Henry Lesieur of the Criminal Justice Science Department at Illinois State University, because they are drawn more to single-player machines.²¹ A 15-year study by the University of Nevada-Las Vegas found that 6.6 percent of area residents are problem or pathological gamblers. Of those, 90 percent of women are addicted to video gambling.²²

This has proven true in South Carolina, where many women have become addicted to video poker. According to the *Charlotte Observer*, in Lancaster, South Carolina, one woman lost a total of \$29,239 between April 1990 and January 1993.²³ Just last summer, a woman was convicted of involuntary manslaughter for leaving her 10-day-old baby girl in a hot car to die while she played video poker at a casino located along the South Carolina state line. Her husband blamed his wife's gambling addiction for his child's death.²⁴

Minors are particularly susceptible to video gambling. In a statewide sting operation in Louisiana, officers found that 63 percent of the 1,080 video poker establishments in Louisiana were allowing minors to play the games and cash in their tickets.²⁵ According to a Harvard Medical School study, 75 percent of all high school students have gambled, more than 2.2 million are already addicted to gambling and another 5.7 million are at risk of becoming pathological gamblers.²⁶

One of the most obvious social costs of problem gambling has to do with its impact on a person's finances. A gambling addiction can lead to serious financial losses for the problem or pathological gambler. The problems that can arise range from not showing up for work after a big night of gambling to stealing from an employer to finance a gambling habit. Between one-fourth and one-third of gamblers in Gambler's Anonymous have lost their jobs because of gambling.²⁷ Mounting debts from an out-of-control gambling habit can lead to more serious financial problems, like bankruptcy. One study found that 28 percent of 60 pathological gamblers in Gambler's Anonymous had filed for bankruptcy or had debts of \$75,000 to \$150,000.²⁸ Another 1995 study reported that 20 percent of all bankruptcies are related to gambling.²⁹ According to a South Carolina study on video poker, 33 percent of players in the state have spent the last dollar in their pocket on these games, and 19 percent have thought about ways to get money to play video poker.³⁰

Once a problem gambler begins suffering serious financial losses and is no longer able to finance his addiction through legal means, he will often turn to crime. Studies have found that crime rates are double the rate of the national average in cities with casinos.³¹ According to the Compulsive Gambling Center of Baltimore, two-thirds of compulsive gamblers get involved in criminal activities to finance their addiction, including tax evasion, check forgery, prostitution, the sale of drugs and embezzlement.³²

Losing everything to a gambling habit can be emotionally devastating. Several studies have found higher rates of depression among pathological gamblers and shown that problem gambling actually causes depression.³³ According to a South Carolina study, 28 percent of video poker players report feeling guilty about playing, 14 percent report feeling depressed, and 5 percent have considered suicide at least once because of their participation in video poker.³⁴ In a Gambler's Anonymous survey of 162 participants, 47 percent had considered taking their own life and 13 percent had attempted suicide.³⁵ The emotional pain of gambling addiction can also lead to alcohol and drug abuse. According to some studies, 47 to 52 percent of pathological gamblers have problems with alcohol and drugs.³⁶

Not surprisingly, the impact of problem or pathological gambling is felt most significantly by the gambler's family.

A 1996 Australian study found that people who are involved in playing video poker or other gambling machines are more likely than those who play the lottery to have broken family relationships and arguments about money.³⁷ Families of problem gamblers have been found to suffer from serious emotional difficulties, like anger, depression and isolation.³⁸ Drinking, smoking and overeating is common.³⁹ In addition, children of problem gamblers are more likely to smoke, drink and use drugs.⁴⁰ They also are more likely to develop their own gambling habits.⁴¹ Families of compulsive gamblers often suffer from physical and emotional abuse as well. According to one study, 23 percent of spouses and 17 percent of children of problem gamblers are physically and emotionally abused.⁴²

Economic Costs of Video Poker

In a report done in 1999 entitled "An Economic Analysis of Machine Gambling in South Carolina," the authors reveal startling evidence about the high costs of video gambling in South Carolina. The study reports that:

The machines generate revenues of \$610 million...the state economy loses \$133.3 million due to out-of-state employees wages, the cost of the machines (almost all manufactured out-of-state), profits leaving the state (assumed to be 20% of owners' profits), and excess federal taxes. Extra direct negative costs are felt by most local communities in the state as machine fees take local moneys away and send them to the state capitol.

In addition to negative direct costs balance for the state, there are externalities which draw money away from positive uses in the state economy. First of all, effective regulation will add a cost burden of \$30 million to the taxpayers of the state.

Second, an analysis of compulsive gamblers was made by surveying 70 members of Gamblers Anonymous and others who have been self-identified as pathological or serious problem gamblers. The individual compulsive (pathological) gambler imposes an annual cost of \$6,299 on other people in the state--\$1,479 in services that are rendered by the government. Problem gamblers impose costs on other South Carolinians of \$3,338 per year, \$783 being costs of government services. We have used the very conservative (low) findings of the recent National Opinion Research Council national study which concluded that 0.8% of the adult population were compulsive gamblers, and 1.3% were problem gamblers. This means

that 19,200 South Carolinians are compulsive gamblers, and 31,200 are problem gamblers. Our survey indicated that 76% of the gambling by the respondents was at gambling machines. Simple multiplication tells us that these gamblers impose costs of \$225 million on their fellow citizens each year--\$53 million being government costs. Of this social cost figure, \$171 million results from the machines, over \$40 million of the amount being government costs.

The total negative cost of machine gambling is \$212 million. However, if this money would be available to positive uses in the state it would be enhanced by a multiplier of at least two. Hence, we conclude that the machines impose a cost of \$424 million upon citizens of the state each year.⁴³

The report goes on to encourage state policymakers to think about all the positive ways that this revenue could be spent if it was invested in more useful ventures such as education and public safety. The report concludes that the only remedy for this economic dilemma is to "stop the machine gambling."⁴⁴

Though North Carolina does not currently face the rampant video gambling present in our southern neighbor, this data brings reason for pause. If South Carolina, a state whose video gambling started at such a small level, could find itself facing such a huge economic problem, what could become of North Carolina if it allows the video gambling industry to get even a small foothold in the state? Some have estimated that North Carolinians already spend around \$720 million yearly playing video poker.⁴⁵ If video poker were to ever become legal, chances are, the state would face some economic dilemmas of its own.

Gambling Commission Weighs In

In June of 1999 the National Gambling Impact Study Commission (NGISC) concluded its two-year study into the social and economic impact of legalized gambling. In their final report, the commission studied "convenience gambling" which includes video poker. The comments of this federal commission are noteworthy. They point out that although most Americans envision casino-style activity when they think of gambling,

The reality is that most prevalent forms of gambling are the ones found in most neighborhoods: lotteries and other forms of "convenience" gambling. And in the past few years, Internet gambling sites enabled slot machine and video poker style gambling to come right into our homes. In many

ways, these forms of gambling are far more troublesome than any other, as the benefits are negligible, the level of regulation minimal and the likelihood of abuse much greater. Of greater concern to parents, convenience and Internet gambling are far more accessible to children and, unlike casino and pari-mutuel gambling, far more difficult to avoid. Further, the types of games typically offered in convenience gambling facilities or over the Internet tend to be the fastest-paced and, therefore, most addictive forms of gambling....The Commission urges policymakers at all levels of government to accept our challenge to evaluate and to critically test both the economic and social costs and benefits associate with the introduction of, or continuation of, or restriction of gambling activities within their communities.⁴⁶

In their report, the Commission offered recommendations to lawmakers about gambling practices. Among their recommendations was the following:

3.6 The Commission received testimony that convenience gambling, such as electronic devices in neighborhood outlets, provides fewer economic benefits and creates potentially greater social costs by making gambling more available and accessible. Therefore, the Commission recommends that states should not authorize any further convenience gambling operations and should cease and roll back existing operations.⁴⁷

Most striking of all the recommendations made by the NGISC was a call for a moratorium on the expansion of all forms of gambling. This certainly extends to video poker and any actions that may intentionally or unintentionally result in its expansion. The call for a moratorium was an effort to encourage leaders and lawmakers to step back and consider the choices they had made regarding legalized gambling. This moratorium indicates the Commission's concern about the status of gambling in America and the need to further analyze its expansion. A video poker ban is a wise response to the concerns raised in the NGISC's report.

Conclusion

North Carolina can learn a lesson from South Carolina's experiences with video poker—what may start out as a small industry could explode into something large and uncontrollable. Though attempts to regulate video poker through legislation are noble, such regulations would only complicate the issue. As South Carolina has discovered, any attempts to regulate video poker will be challenged legally by the video gambling industry. The end result could be the same as it was in South Carolina—legal legitimization of video gambling machines and their payouts.

If video poker were legitimized in this state, the consequences could be devastating. As this paper has pointed out, the economic and social costs of video gambling are very harmful. Furthermore, the enforcement and regulation of video poker activity can be difficult for authorities. Prudence requires that we heed the concerns of those, including the National Gambling Impact Study Commission, who are calling for lawmakers to halt all attempts to expand gambling activity. A total ban on video poker in North Carolina is wise, responsible, and the best bet for everyone in the state.

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