

Andrea Sybinsky

PIA 2100: Information Technology

Dr. Shulman

19 October 2006

Chapter 8: Regulation and Taxation Issues

I can still hear the Southern twang of my cubicle neighbor, Connie, “It is *evil*, it is *wrong*.” It was about four years ago, and the Tennessee Legislature was struggling to create a balanced fiscal budget. One plan up for a vote was the introduction of a state lottery whose proceeds were to go towards scholarships and other educational areas. The lottery, as defined by www.dictionary.com is, “a gambling game or method of raising money.” It was that word *gambling* that had Connie, and others, up in arms. To my associates born and bred in the Bible Belt, the lottery was nothing but a quick path to trouble. You could easily place them among those who, to quote Garson, view online gambling as, “an addictive threat to family life”¹. Having spent the majority of my life up to that point on the more secular, West Coast, I would probably fall more into the second school of thought. I accepted online gambling and the lottery as facts of life. To be fair though, I can see their point.

The Internet, in the past decade or so, has grown exponentially. It has blossomed into a tool that most of us use everyday. Its growth and spread are far beyond what we could have imagined when it was first introduced to the public. While it is a wonderful instrument for research, communication, and commerce, there are drawbacks. Internet activities lack the personal contact and interaction that strengthen our ties to society. On the computer screen we are anonymous and, to a degree, unaccountable. We are more likely to do something out-of-character if we think no one is watching. Placing a bet could be as easy as pointing and clicking

¹ Garson, David G. *Public Information and E-Governance*, Raleigh: Jones and Bartlett Publishers, 2006 p. 246

the mouse. The allure of quick money is hard to resist and if you're at home - it's there, it's easy, and no one needs to know. With the ability to do so many activities, like gambling, from the comfort of your chair, you risk losing your sense of caution and maybe even your sense of reality. Who hasn't gone online to read an article or check the weather and ended up staying longer than anticipated?

The US government has a history of looking at internet gambling with unfriendly eyes. Perhaps it's the Puritanical roots from which this nation sprang. Perhaps it's a reluctance to legalize another "sin". In any case, "both Presidents Clinton and Bush have taken the position that online gambling is illegal under the Federal Wire Act of 1961, which prohibited the use of interstate communications lines to transmit or receive bets"². If I hadn't read the Garson text, I would not have known that online gambling is considered illegal. Gambling, in its various forms, can be seen all around us – in scratch off tickets, casinos, horse racetracks, those little machines in restaurants and bars, and fantasy sports betting. I just assumed that internet gambling would be legal as well. This is a law that is not clearly advertised and, to be honest, I suspect people would prefer to ignore it. According to the Christiansen Capital Advisors, internet gambling revenue in 2005 was approximately \$11.9 billion dollars. Of the 23 million people gambling on the internet, 8 million of those were from the US³. Americans are certainly not shying away from Web casinos.

Perhaps it is the thrill of chance or the colorful display. Whatever it is, internet gambling is a thriving industry and is growing at a rate of twenty percent per year⁴ regardless of its (seemingly) illegal status in the US. Over the years, the government has proposed various bills to somehow standardize and police internet gambling but few have met with success. Government

² Garson, David G. *Public Information and E-Governance*, Raleigh: Jones and Bartlett Publishers, 2006 p. 247

³ American Gaming Association http://www.americangaming.org/Industry/factsheets/issues_detail.cfv?id=17

⁴ Davies, Jennifer, "The Line on Online Bets" *Copley News Service* August 18, 2006

regulation of internet gambling has not been consistent or effective. In his *Analysis of Internet Gambling and its Policy Implications*, David O. Stewart lists a number of the consequences of this discrepancy between policy and reality; 1) millions of people are gambling online on possibly insecure sites without age or identity authentication 2) no one (state or federal) is receiving the tax revenues 3) without enforcement, laws are disregarded and continue to be broken and 4) no American businesses gain from the process and no jobs are created⁵. This situation seems to have no local winners. The gambling companies benefit from these lapses while the US citizen is placing him or herself in a dicey position.

Well thought-out action is needed. Not only to protect people from possible fraud and to prevent underage adventurers from ruining their credit, but also to begin thinking about reaping some of the financial benefits internet gambling can bring. Garson presents five policy options in the chapter. The first is to make online gambling illegal with a possible jail sentence for involved parties. The second option is to make it illegal with the threat of losing your assets. The third is to minimize gambling opportunities by getting rid of the ways people can pay online gambling houses. Fourth is to make it legal but tax and regulate it. Lastly, Garson proposes making internet gambling legal and giving states the power to determine its revenue purposes. The first two policies provide a sufficient threat and would deter me from gambling. Of the five offered, option four would be the one most likely to be implemented. If you make the federal government the regulator instead of the individual states, it would be easier to monitor across state lines. Even though the individual states may need the revenue, having the umbrella government deal with it may, in the long run, prove more efficient.

⁵ Stewart, David O. "Analysis of Internet Gambling and its Policy Implications" [American Gaming Association Tenth Anniversary White Paper Series](http://www.americangaming.org/assets/files/studies/wpaper_internet_0531.pdf). Washington, DC 2006
http://www.americangaming.org/assets/files/studies/wpaper_internet_0531.pdf

While most other governments are approaching online gambling as something to regulate for possible revenue, the US government continues to work towards its elimination. “On October 13, 2006 President Bush signed into law bill H.R. 4411 the Unlawful Internet Gambling Enforcement Act”⁶. The Act prohibits online gamblers from using credit or debit cards, checks and electronic fund transfers to place and settle online bets⁷. On the surface, this would seem to effectively shut down the gambling scene in the US. Without a means of paying their creditors, would-be gamblers are left without a roulette wheel to spin or a machine to crank. Foreign gambling organizations may be unwilling to risk their customers not producing the financing. . Since there is no international law about online gambling, only time will tell if the administration’s actions are effective. Loopholes always seem to exist and if they are there and people are determined, they will find a way to squeeze through.

⁶ “Lassetters Corporation Ltd. Stops Accepting US-based players” 16 October 2006
<http://www.casinocitytimes.com/news/article.cfm?contentID=161825>

⁷ GovTrack.us “H.R. 4411: Internet Gambling Prohibition and Enforcement Act”
<http://www.govtrack.us/congress/bill.xpd?tab=summary&bill=h109-4411>