

UNLAWFUL INTERNET GAMBLING FUNDING PROHIBITION ACT AND THE COMBATING ILLEGAL GAMBLING REFORM AND MODERNIZATION ACT

HEARING
BEFORE THE
SUBCOMMITTEE ON CRIME
OF THE
COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES
ONE HUNDRED SEVENTH CONGRESS
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ON
H.R. 556 and H.R. 3215

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UNLAWFUL INTERNET GAMBLING FUNDING PROHIBITION ACT AND THE COMBATING IL- LEGAL GAMBLING REFORM AND MOD- ERNIZATION ACT

THURSDAY, NOVEMBER 29, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CRIME,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:04 p.m., in Room 2237, Rayburn House Office Building, Hon. Lamar Smith [Chairman of the Subcommittee] presiding.

Mr. SMITH. The Subcommittee on Crime will come to order. I will recognize Members who are here for their opening statements. We will proceed immediately to hear from our witnesses today. We very much appreciate their being here.

The Subcommittee on Crime today addresses a serious and growing problem for our country: The problem of Internet gambling. The federally appointed National Gambling Impact Study Commission has estimated that at least \$1.6 billion was wagered over the Internet last year. This is almost a fourfold increase in the last 4 years.

One troubling aspect of Internet gambling is the relative ease of accessibility for our Nation's children. The anonymous nature of the Internet makes it almost impossible to prevent underage gamblers from using their parents' credit cards or sometimes even their own to log on to a gambling Web site. Many Internet sites require nothing more than a name, address and credit card number. Those sites that do require a person to disclose his or her age make little or no effort to verify this information.

Another group of people particularly susceptible to Internet gambling are America's addicted gamblers, who now number almost 11 million people. To addicted gamblers the Internet is like a glass of water to a drowning man. High rates of financial debt, unemployment, bankruptcy, divorce, homelessness, and suicide are all associated with gambling problems.

Virtual casinos and their video game structure have been labeled the crack cocaine of gambling. These facilities are open 24 hours a day, 7 days a week, all within a person's own home. By making gambling more convenient, it can do nothing but make the problem worse.

These Internet sites also offer organized crime groups a very simple and easy opportunity to launder the proceeds of their criminal activities. Because of the lack of oversight and regulations and the

high degree of anonymity, money laundering through the Internet gambling sites is already a major concern to our Nation's law enforcement agencies.

Federal law is unclear as to whether or not all types of Internet gambling are illegal. The statute that most directly restricts the use of the Internet for placing bets is the Wire Act, under section 1084 of title 18 of the U.S. Code. However, this statute was written before the age of the Internet and the use of wireless communication, so there is uncertainty as to what type of betting is or is not covered.

We will examine two bills that address the problems of Internet gambling: H.R. 556, the "Unlawful Internet Gambling Funding Prohibition Act," introduced by Congressman Jim Leach of Iowa, and H.R. 3215, the "Combating Illegal Gambling Reform and Modernization Act," introduced by Congressman Bob Goodlatte of Virginia.

Mr. SMITH. Each Member is here to testify on behalf of his bill, and we welcome them both. I know Congressman Leach and Congressman Goodlatte have put a tremendous amount of time and effort into the issue of Internet gambling. We look forward to hearing from them, along with two other witnesses who are here today.

And before we begin today's testimony I would like to note that the Department of Justice has submitted testimony for the record and will respond in writing to questions Members submit. Their witness was unable to testify in person because of a schedule conflict. That concludes my opening statement.

Mr. SMITH. Now the gentleman from Virginia, the Ranking Member of the Subcommittee, will be recognized for his open statement.

Mr. SCOTT. Thank you, Mr. Chairman. I am pleased to join you in convening this hearing regarding Federal regulation of gambling over the Internet. Contrary to what we did last Congress, as I remember it, we did things a little bit different. We voted on the legislation first and then had a hearing. I am delighted to see that we are having the hearing first before we consider voting on it.

Mr. Chairman, I believe that gambling should be tightly regulated. It has traditionally been a State regulatory responsibility primarily and it should continue in my judgment to be so, although it is appropriate for the government to have a role in that total regulatory scheme. It undertook such a role in passing the 1961 Wire Communications Act as a way to assist Federal and State authorities in fighting gambling by organized crime syndicates.

The Department of Justice contends that it can prosecute Internet gambling businesses under that law, even has in fact successfully prosecuted an offshore entity recently. Clearly that law was not designed with prosecuting Internet gambling in mind, so I appreciate the desire of my colleagues, the gentleman from Virginia and the gentleman from Iowa, to update the ability of the Department to address the issues in today's context.

However, I am concerned that the bills before us, similar to the bills in the last Congress which attempted to regulate Internet gambling, may not be effective in doing so. It is clear that trying to regulate gambling businesses or anything else over the Internet is a daunting task.

Most law enforcement is jurisdiction or situs dependent. The Internet has no jurisdiction or situs and as a result I suspect that even if we are successful in closing down business sites in the United States or in countries that we can get to cooperate, because of the nature of the Internet this approach will ultimately be ineffective because a gambling Web site can evade blockage by merely changing its Internet address, a process that takes only seconds. Thus, after a gambling Web site is blocked it can immediately open up for business under a new name.

Further, we should not overestimate the cooperation we will get from other countries. Presently over 50 nations allow some form of gambling online, but that number is likely to grow. And even if we are successful in getting cooperation from most countries, we would simply be increasing the profit opportunities for uncooperative countries, especially those that the United States considers rogue countries.

To be effective in prosecuting illegal gambling over the Internet, I think it is important that you have to be able to prosecute individuals. Neither of the bills before us does so, and neither of the bills in the last Congress did so. If we took that approach, the same approach in enforcing drug laws, we would be prosecuting only the seller but not the buyer. The bills did prohibit individuals from illegally gambling over the Internet. I suspect that we would be even more effective than we have been with illegal drug use. Because here the technology of the Internet would be in government's favor because the activities of illegally gambling by individuals would leave a trail leading directly back to the gambler.

Aside from these practical issues, there appear to be many policy concerns with the bills. I have the impression that this hearing, for example, caught several of the entities affected by surprise. We have received calls, several calls in the last couple of days from people representing dog racing, charitable gaming interests, problem gambling advocates, Internet freedom advocates, lottery operations, credit card advocates and others indicating concern about one or both of the bills. I think it will take a while for the full gamut of concerns to come forth.

So, Mr. Chairman, given the limitations of the hearing format of only four witnesses per hearing that we must operate under, we may need to have another hearing so that all the issues may become public so that we can consider them. But I look forward to the testimony from our colleagues and the other witnesses today as we deal with this issue.

Mr. SMITH. Thank you, Mr. Scott. And all Members will have permission and we will keep the record open for all Members to submit their full opening statements. Also I want to appreciate and recognize the gentleman from North Carolina, Mr. Coble, for being here as well.

Let me introduce the witnesses. Then we will proceed. They are the Honorable Jim Leach, Member of Congress, First District of Iowa; the Honorable Robert Goodlatte, Member of Congress, Sixth District of Virginia; Timothy A. Kelly, Ph.D., former Executive Director, National Gambling Impact Study Commission, in Washington, D.C.; and Mr. Frank Catania, former Director of the New Jersey Division of Gaming Enforcement.

We welcome you all and appreciate again your attendance, and I do want to say that I don't want to keep the Members here unduly long. So after they testify they will have the option of staying or leaving, whatever they prefer. With that having been said, we look forward to your testimony and begin with Mr. Leach.

**STATEMENT OF THE HONORABLE JAMES LEACH, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA**

Mr. LEACH. Well, thank you, Mr. Chairman. I am honored to be with you, Mr. Scott, and Mr. Coble. Thank you for holding this hearing on legislation addressing the endemic problem of Internet gambling. Your leadership in this issue is deeply appreciated.

The problem posed by Internet gambling is one we ignore at our peril. Gambling on the Internet is fast becoming one of the most critical issues confronting thousands of American families. Even though Internet gambling is a relatively new industry, it is growing at a rapid rate. Over 1 million Americans gamble on the Internet daily. Revenue generated from Internet gambling amounted to 1.6 billion worldwide in the year 2000, and it is projected to triple in the next 3 years.

The social and economic implications of Internet gambling can no longer be ignored. Approximately 15 million Americans are at risk for problem gamblers. Problem gamblers are more likely to have drug addictions, alcohol dependency, serious family dysfunction and at the extreme, especially when gambling losses accumulate, a higher rate of suicide.

The financial and economic implications of Internet gambling may not be intuitive to those unfamiliar with the workings of the industry, but the consequences cannot be exaggerated. It is simply not good for the economy at large to have Americans send billions to overseas Internet casinos which often have shady or unknown owners.

The very characteristics that make the Internet such a valuable resource are also the reasons why it is such a huge potential to impinge on the ability of American financial institutions as well as the American family. The easy access, anonymity and speed of transactions which makes such positive contributions to the level of efficiency and cost of financial services also makes routine safeguards impractical and leaves the financial services industry open to abuse.

Internet gambling increases consumer debt, makes bankruptcy more likely, money laundering an easy endeavor and identity theft a likely burden. Even though the Financial Services Committee has three times passed out legislation on this subject, I have been appalled to date at the opposition of credit card companies and a few banks' efforts to thwart Internet gambling. In my time in Congress I have seldom seen a situation where those most involved have understood less well their own self-interest, let alone the national interest of the correlation between gambling and bankruptcy is particularly disturbing.

A problem gambler is almost twice as likely to file for bankruptcy than a nongambler. As bankruptcy and default rates driven by consumer debt increase, the effects on the economy will become more urgent. Bank loan fees and credit card interest rates will inevitably

increase in order to compensate for the added risk of default by customers. If gambling-related credit card default is prevalent, financial institutions can in some instances have the potential to develop or exacerbate broad safety and soundness concerns.

Casino gambling, while it competes for jobs with other sectors of the economy, such as restaurants in the retail trade, also partly balances job losses elsewhere with some job creation. Internet gambling, on the other hand, may be the only sector of the economy where the case for greater efficiency is not altogether compelling. It reduces jobs in competing parts of the American economy, but creates few in itself and all to date are abroad. In other words, this is a jobs as well as a moral, economic and regulatory issue.

Gambling in general and Internet gambling in particular provide one of the most accessible platforms for money laundering. Money launderers tend to seek out areas where there is a low risk of detection by law enforcement. Internet gambling specifically is a particularly attractive method to launder money because of the heightened level of anonymity and a virtual lack of governmental regulation.

Reports from the OECD's Financial Action Task Force point to Internet gambling as a major loophole in anti-money laundering regimes. The U.S. Treasury Financial Crimes Enforcement Network has a special anti-money laundering program designed for the traditional domestic gaming industry. No such strategy exists for illegal gambling sites located in unregulated offshore jurisdictions.

Given the hard work of this Committee and also that of the Financial Services Committee to quash money laundering efforts of terrorists and narco-traffickers, it would be irresponsible to leave such an enormous institutional loophole unplugged.

Another issue that to date has been widely overlooked is the potential threat for identity theft and fraud. Without regulation it is unclear who is doing what with an individual gambler's financial information. The fact that over 1 million individuals are daily giving their personal financial information to offshore criminal enterprises should be of serious concern to American citizens as well as the financial services industry that usually shoulders much of the burden of fraudulent activity.

Additionally, it is now clear that many offshore gambling sites are associated with the Russian mafia, and the criminal terrorist network within and outside the United States use identity theft for financial gain or to hide from authorities.

All of the privacy protections so carefully embedded in recent financial institution modernization legislation does not apply to Internet gambling. This in itself is reason to end Internet gambling.

Finally, I would like to commend Mr. Goodlatte on his hard work on his legislation. I am in full support of the sections of his bill that would clarify the breadth and intent of the Wire Act. Mr. Goodlatte's bill also includes some of what makes up H.R. 556, but with some significant differences that are a cause of some concern. Both bills include provisions that would make it illegal for gambling businesses to accept financial instruments such as credit cards and money transfers for illegal Internet gambling. Both bills enforce this crime partially through injunctive orders to any person

that can prevent or restrain the criminal activity, including financial institutions. But The approach taken in the bill passed out of the Financial Services Committee establishes a role for financial regulators who understand the industry and carefully places and limits where appropriate the responsibilities of financial institutions.

It is a tradition that where jurisdiction is shared the work with the Committee with jurisdiction over a particular area is given deference. I support the full goal of the Goodlatte bill, but would request the Banking Committee product replace the sections of that bill which deal with financial instruments. I also support the Banking Committee bill as a stand-alone product. The two together, however, would represent, I believe, the maximum result, with a caveat that bills of this nature have the unfortunate characteristic of becoming magnets for amendments that rather than closing down might have the effect of opening up gambling initiatives. At the risk of presumption, I would hope that weakening amendments can be averted.

In conclusion, let me stress that personally I am a skeptic about all forms of gambling, but each of us are obligated to the maximum extent possible to be respectful of legitimate choices made by others. Casino gambling as it exists in America is at least regulated by the State to protect the participants. Generally, casinos also add entertainment and involve elements of socialization. Gambling alone, on the other hand, whether using a laptop at home or a computer in the workplace, involves no entertainment or socialization element and lacks the fundamental protection of law and regulation.

Casino gambling, as it has been sanctioned in all Western democracies, has only been allowed to exist with comprehensive regulation. Internet gambling lacks such. It is a danger to the family and society at large. It should be ended.

Thank you.

PREPARED STATEMENT OF THE HONORABLE JAMES A. LEACH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. Chairman, thank you for holding this hearing on legislation addressing the endemic problem of Internet gambling. Your leadership on this issue is deeply appreciated. The problem posed by Internet gambling is one we ignore at our peril.

Gambling on the Internet is fast becoming one of the most critical issues confronting thousands of American families. Even though Internet gambling is a relatively new industry, it is growing at a rampant rate. Over one million Americans gamble on the Internet daily. Revenue generated from Internet gambling amounted to \$1.6 billion worldwide in 2000 and is projected to triple in the next three years.

The social and economic implications of Internet gambling can no longer be ignored. Approximately 15 million Americans are at-risk or problem gamblers. Problem gamblers are more likely to have drug addictions, alcohol dependency, serious family disfunction, and, at the extreme, especially when gambling losses accumulate, a higher rate of suicide.

The financial and economic implications of Internet gambling may not be intuitive to those unfamiliar with the workings of the industry, but the consequences cannot be exaggerated.

It simply is not good for the economy at large to have Americans send billions to overseas Internet casinos which often have shady or unknown owners.

The very characteristics that make the Internet such a valuable resource are also the reasons why it has such a huge potential to impinge on the stability of American financial institutions, as well as the American family. The easy access, anonymity, and speed of transactions which make such positive contributions to the level of efficiency and cost of financial services also make routine safeguards impractical and

leave the financial services industry open to abuse. Internet gambling increases consumer debt, makes bankruptcy more likely, money laundering an easy endeavor, and identity theft a likely burden.

Even though the Financial Services Committee has three times passed out legislation on this subject, I have been appalled to date at the opposition of credit card companies and a few banks to efforts to thwart Internet gambling. In my time in Congress I have seldom seen a situation where those most involved have understood less well their own self-interest, let alone the national interest.

The correlation between gambling and bankruptcy is particularly disturbing. A problem gambler is almost twice as likely to file for bankruptcy than a non-gambler. As bankruptcy and default rates, driven by consumer debt, increase, the effects on the economy will become more urgent. Bank loan fees and credit card interest rates will inevitably increase in order to compensate for the added risk of default by customers. And, if gambling related credit default becomes prevalent, financial institutions can in some instances potentially develop or exacerbate broad safety and soundness concerns.

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Another issue that to date has been widely overlooked is the potential threat for identity theft and fraud. Without regulation, it is unclear who is doing what with an individual gambler's financial information. The fact that over 1 million individuals are giving their personal financial information to offshore criminal enterprises should be of serious concern to American citizens as well as the financial services industry that usually shoulders much of the burden of the fraudulent activity. Additionally, it is now clear that many offshore gambling sites are associated with the Russian mafia, and that criminal and terrorist networks within and outside of the United States use identity theft for financial gain or to hide from authorities.

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than closing down, might have the effect of opening up gambling initiatives. At the risk of presumption, I would hope that weakening amendments can be averted.

In conclusion, let me stress that at a personal level I am a skeptic about all forms of gambling, but each of us are obligated to the maximum extent possible to be respectful of legitimate choices made by others. Casino gambling as it exists in America is, at least, regulated by the State to protect the participants. Generally, casinos also add entertainment and involve elements of socialization. Gambling alone, on the other hand, whether using a laptop at home or a computer in the workplace, involves no entertainment or socialization element and lacks the fundamental protections of law and regulation. Casino gambling as it has been sanctioned in all Western democracies has only been allowed to exist with comprehensive regulation. Internet gambling lacks such. It is a danger to the family and society at large. It should be ended.

Thank you.

Mr. SMITH. Thank you, Mr. Leach.

Mr. Goodlatte.

STATEMENT OF THE HONORABLE BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. GOODLATTE. Mr. Chairman, thank you very much for holding this hearing and for allowing me to testify. I also want to thank the other Members of the Subcommittee, including the Ranking Member, my colleague from Virginia. I think we are making progress in getting closer to where he wants to be. I will talk about that in a moment.

But I would also like to first thank Congressman Jim Leach for the major contribution that he has made in successfully passing legislation out of the Financial Services Committee on a number of occasions. It is a major aspect to stop the ability of people to transmit these funds out of the country, and his work is very, very important in that regard.

He is correct, however, in noting that my bill is different than his bill. My bill is a Judiciary Committee bill. It deals with the United States Criminal Code, which needs to be updated, and it takes its focus entirely in that regard. And it is my hope that at the end of the day we will find a way to accommodate both the concerns addressed in his bill as well as the approach that we take in our bill.

I think it is very important to note that there are significant changes in the legislation which I have offered in this Congress to what we took up in the last Congress. That was a very good bill. In fact, Senator John Kyl was successful in getting it passed through the Senate on two occasions, and we brought it up in the House of Representatives under a suspension in which it received 61 percent of the Members' votes. However, there were concerns raised by the then Clinton Justice Department and by others, including some of the States, about the effect that that legislation would have. And in taking that into account, we made major changes in the legislation prior to introducing it in this Congress.

The first of those is that in the last Congress, the legislation we offered offered a separate new section to the Wire Act, the 1961 law, that as Congressman Scott has noted is out of date. It does not contemplate the major changes in telecommunications that have taken place since that time.

The approach of the Justice Department, both the Clinton Justice Department and the new Administration Justice Department,

was to prefer that we amend the current Wire Act to add a new section. In reintroducing the bill this year, that is exactly what we have done. The effect of that is to make this legislation technology neutral. It is intended to apply to all forms of illegal gambling, and it is important to note, as Congressman Leach has noted, that gambling in the United States has historically been illegal unless regulated by the States. This legislation honors that tradition, and that is the second major change that it make.

You may recall that in the last Congress an amendment was offered in the Judiciary Committee to restrict State lotteries from engaging in certain activities. This legislation differs from that in that we very clearly draw the line at the State line and allow the States, as they have historically done, to regulate gambling within their State borders. This legislation says that in terms of the use of the Internet you can't go over those State lines, and that you can't offer these services to minors, both of which there is not technology today that is in any way sufficient to assure anybody that they would not be offering these services to somebody outside of a State or to somebody who is a minor. And therefore, I think what the States do with this is off into the future, but nonetheless we honor that distinction.

As a result of that, the North American Association of Lotteries, the State lotteries organization, which was opposed to this legislation in the last Congress, supports the legislation in this Congress. Those are two very. Very major distinctions.

The Internet has tremendous promise in our country. I am the co-chairman of the Congressional Internet Caucus. And for purposes of transacting business, education, for leisure, there are many, many great promises in it. But one of the problems is that many people fear the Internet of becoming the Wild, Wild West of today. And that is what this legislation is designed to do, to re-empower the States and to modernize the Federal Government's laws so that States can continue to make those decisions about whether they are going to allow particular types of gambling in their States.

Right now, with the proliferation of the Internet, that is not the case. Virtually all of the 1,400 plus sites on the Internet offering gambling are located outside of the United States, and the current law does not give law enforcement enough tools to deal with it.

There are those who suggest that instead of passing legislation that empowers the States to take this action, that we somehow at the Federal level regulate the Internet. That simply will not work because these entities are offshore. We cannot reach them with our regulatory authority or with our taxing authority. Instead what we need to do is what this legislation does, is to modernize our Wire Act and to give law enforcement new tools in which to combat this problem both within the United States and reach those who are outside the country. That is what this legislation does.

I thank you for the opportunity to explain it.

[The prepared statement of Mr. Goodlatte follows:]

PREPARED STATEMENT OF THE HONORABLE BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Thank you Mr. Chairman for holding this very important hearing. I am pleased to testify today regarding legislation that I have introduced that represents a bipar-

tisan effort to address the ever increasing problem of illegal Internet gambling in our Nation—H.R. 3215, the “Combating Illegal Gambling Reform and Modernization Act.” I would also like to commend my colleague, Congressman Jim Leach, on his tireless efforts to address the problem of Internet gambling.

The Internet is a revolutionary tool that dramatically affects the way we communicate, conduct business, and access information. As it knows no boundaries, the Internet is accessed by folks in rural and urban areas alike, in large countries as well as small. The Internet is currently expanding by leaps and bounds; however, it has not yet come close to reaching its true potential as a medium for commerce and communication.

One of the main reasons that the Internet has not reached this potential is that many folks view it as a wild frontier, with no safeguards to protect children and very few legal protections to prevent online criminal activity. The ability of the World Wide Web to penetrate every home and community across the globe has both positive and negative implications—while it can be an invaluable source of information and means of communication, it can also override community values and standards, subjecting them to whatever may or may not be found online. In short, the Internet is a challenge to the sovereignty of civilized communities, States, and nations to decide what is appropriate and decent behavior.

Gambling is an excellent example of this situation. It is currently illegal in the United States unless regulated by the States. As such, every state has gambling statutes to determine the type and amount of legal gambling permitted. With the development of the Internet, however, prohibitions and regulations governing gambling have been turned on their head. No longer do people have to leave the comfort of their homes and make the affirmative decision to travel to a casino—they can access the casino from their living rooms.

Since 1868, the federal government has enacted federal gambling statutes when a particular type of gambling activity has escaped the ability of states to regulate it. For over one hundred years, Congress has acted to assist states in enforcing their respective policies on gambling when developments in technology of an interstate nature, such as the Internet, have compromised the effectiveness of state gambling laws.

The negative consequences of online gambling can be as detrimental to the families and communities of addictive gamblers as if a bricks and mortar casino was built right next door. Online gambling can result in addiction, bankruptcy, divorce, crime, and moral decline just as with traditional forms of gambling, the costs of which must ultimately be borne by society.

Gambling on the Internet is especially enticing to youth, pathological gamblers, and criminals. There are currently no mechanisms in place to prevent youths—who make up the largest percentage of Internet users—from using their parents’ credit card numbers to register and set up accounts for use at Internet gambling sites. In addition, pathological gamblers may become easily addicted to online gambling because of the Internet’s easy access, anonymity and instant results. Dr. Howard J. Shaffer, director of addiction studies at Harvard, likens the Internet to new delivery forms of addictive drugs: “As smoking crack cocaine changed the cocaine experience, I think electronics is going to change the way gambling is experienced.” Finally, Internet gambling can provide a nearly undetectable harbor for criminal enterprises. The anonymity associated with the Internet makes online gambling more susceptible to crime.

I have long been a champion of the Internet and an advocate of limited government regulation of this new medium. However, that does not mean that the Internet should be a regulatory free zone or that our existing laws should not apply to the Internet. I think we can all agree that it would be very bad public policy to allow offline activity deemed criminal by states to be freely committed online and to go unpunished simply because we are reluctant to apply our laws to the Internet.

Gambling on the Internet has become an extremely lucrative business. Numerous studies have charted the explosive growth of this industry, both by the increases in gambling websites available, and via industry revenues. The Internet gambling industry’s revenues grew from \$300 million in 1997 to an estimated \$1.6 billion in 2001. It has been reported that there are currently more than 1,400 gambling sites, up from 700 just a year earlier. Other estimates indicate that Internet gambling could soon easily become a \$10 billion a year industry.

Most of the more than 1,400 Internet gambling sites are offshore. Virtual betting parlors accepting bets from individuals in the United States have attempted to avoid the application of United States law by locating themselves offshore and out of our jurisdictional reach. These offshore, fly-by-night Internet gambling operators are unlicensed, untaxed and unregulated and are sucking billions of dollars out of the United States.

In addition, the FBI and the Department of Justice recently testified that Internet gambling serves as a vehicle for money laundering activities and can be exploited by terrorists to launder money. The FBI currently has at least two pending cases involving Internet gambling as a conduit for money laundering, as well as a number of pending cases linking Internet gambling to organized crime.

Thirty years ago, Attorney General Robert Kennedy, in the midst of fighting a war on organized crime, sent legislation to Congress, targeted at organized crime, to crack down on gambling over telephone wires. That legislation was passed by the Congress, signed into law, and has become commonly known as the "Wire Act." However, because the Internet does not always travel over telephone wires, this law, which was written before the invention of the World Wide Web, has become outdated. Therefore, it is fitting that thirty years after enactment of the Wire Act, one week after the naming of the Robert F. Kennedy Department of Justice Building, and in the midst of a new war on terrorism, I have introduced legislation to update the Wire Act—to clarify the state of the law by bringing the current prohibition against wireline interstate gambling up to speed with the development of new technology.

In addition, the "Combating Illegal Gambling Reform and Modernization Act" will add a new provision to the law that would prohibit a gambling business from accepting certain forms of non-cash payment, including credit cards and electronic transfers, for the transmission of illegal bets and wagers. This provision provides an enforcement mechanism to address the situation where the gambling business is located offshore but the gambling business used bank accounts in the United States. The bill also provides an additional tool to fight illegal gambling by giving Federal, State, local and tribal law enforcement new injunctive authority to prevent and restrain violations of the law.

The "Combating Illegal Gambling Reform and Modernization Act" will return control to the states by protecting the right of citizens in each State to decide through their State legislatures if they want to allow gambling within their borders and not have that right taken away by offshore, fly-by-night operators. The regulation of intrastate gambling is within the jurisdiction of the states, so the bill leaves the regulation of wholly intrastate betting or wagering to the states with tight controls to be sure that such betting or wagering does not extend beyond their borders or to minors.

The 104th Congress created the National Gambling Impact Study Commission and charged it with conducting a comprehensive legal and factual study of gambling, including an assessment of the interstate and international effects of gambling by electronic means, including the use of interactive technologies and the Internet. The Commission recommended to Congress that federal legislation is needed to halt the expansion of Internet gambling and to prohibit wire transfers to known Internet gambling sites, or the banks who represent them.

As the National Gambling Impact Study Commission has documented, and Senate and House hearings have confirmed, Internet gambling is growing at an explosive rate. It evades existing anti-gambling laws, endangers children in the home, promotes compulsive gambling among adults, preys on the poor, and facilitates fraud. The "Combating Illegal Gambling Reform and Modernization Act" will put a stop to this harmful activity before it spreads further. I urge my colleagues to support this very important legislation.

Mr. SMITH. Mr. Kelly, Mr. Catania, I hope you won't mind if we address questions to the Members first and give them an option of whether to stay or leave. Actually I only have one question. I would like to address it to both of you all. Bob, you just touched on it a minute ago in your testimony. It is this: That as you learn from listening to Mr. Scott's opening statement and as you might have anticipated what Mr. Catania might say, the big question is whether or not we regulate it and legalize it in effect or whether we say there are certain actions that is going to be illegal? I would like it if you all would respond to that what I consider to be a major issue. And in effect, let us know why you think just regulating the problem is not going to solve the problem as we have defined it.

Jim, could we start with you? Mr. Leach.

Mr. LEACH. Well, I think it is a logical question that is very profound. And to the degree there is an analog to drugs, there is a

case for it. I don't find it compelling. Likewise, there is a case for regulating the Internet. I don't find it compelling for several reasons, Mr. Scott. One relates to the fact is do you want to encourage it? Is this good for the economy? I would defy anyone to explain to me how it could be good for the economy. Is it good for the American family? I would defy anyone to tell me how it is good for the American family. And so you should legalize things that are good for the economy, good for the family, not the reverse.

Then there is a final Catch-22 and that is that it is truly near impossible to regulate. And if that is the case, you know, that is worthy of some thought. Then the question is if you want to ban it, how do you ban it effectively? And I happen to be a believer in the approach of Mr. Goodlatte in saying that we ought to have an effective ban. But effectiveness implies that you have some sort of enforcement mechanism. It ends up by sheer chance that the banking industry provides a chance for enforcement with some hope of some effectiveness. And I would never say thorough effectiveness, but some effectiveness that relates to banning the use of financial instruments to be used for settling bets. And if you do that, you have an approach that will work I think largely, but not totally. But it is a little bit like all of law enforcement, you do not do a law because it isn't going to 100 percent work. You do the best you can, and that is what I think these approaches are and why I think the approach of the Banking Committee ought to be wedded with the approach of Mr. Goodlatte; as long as it isn't amended in such a way that it opens things up, that that is the best approach for the Congress.

Mr. SMITH. Thank you, Mr. Leach.

Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman. I think it is at the heart of those who operate these offshore sites' message that we should somehow regulate this. But I would argue that it is highly unlikely, if not totally impossible to accomplish that. I do not foresee a dramatic change in U.S. law where suddenly the United States Government would set up the Federal Gambling Commission and begin regulating Internet gambling sites. This is something we have historically left to the States. To the extent that any State wants to try to do that within the parameters of keeping it within their State this legislation certainly doesn't stop them from doing that. But in addressing the problem of an estimated now 2 to \$3 billion a year being sucked out of this country by these 1,400 sites that are illegally engaged in activity offering services in the United States, they are untaxed and they are unregulated. They propose to be regulated but how would you do that? That would require some international government that would entail getting the cooperation of operations on tiny islands in the Caribbean and places all over the world. It is in my opinion far better to leave this control in the United States and to say, as we always have, gambling is illegal in this country unless regulated by the States and to give to law enforcement the improved, more modernized tools that the legislation we have offered does allow them to more effectively enforce those laws.

It is clear from conflicting court decisions that the 1961 Wire Act may not cover all of the various types of gambling activities taking

place on the Internet today. We need to make it absolutely clear that it does. Then we need to through the injunctive powers provided in this legislation give law enforcement new tools to reach out and disconnect the connection between these offshore islands and offering these services in the United States, using tools similar to what Congressman Leach proposes but we offer it in a more broad manner that doesn't just relate to financial services but applies to any entity that may be providing aid and comfort or assisting in what is an illegal activity. We should be able to cut that off. That is what law enforcement wants, that is what they need.

Mr. SMITH. Thank you, Mr. Goodlatte. The gentleman from Virginia is recognized for his questions.

Mr. SCOTT. Thank you, Mr. Chairman. One of the problems we have got is whether this will make the situation better or worse. The gentleman from Iowa suggested that just because you can't cut off all drugs doesn't mean you want to make it legal. The problem with this case is that prohibiting drugs domestically really prohibits a lot of drugs because it is logistically difficult to get drugs from outside of the country. In this case people can have access to foreign gambling sites. There is nothing anybody can do about that.

The question is whether if you prohibit all of the domestic sites then the only ones they will access are the foreign sites, which are beyond regulation. That is why my kind of recurring question would be whether it is going to make the problem better or worse.

Mr. Leach.

Mr. LEACH. Well, first let me say there is a little more to the legislation than what was indicated because if you prohibit the use of financial instruments to be used, that applies to their prohibition going to foreign as well as domestic, and that is believed to be the only effective way of dealing with a foreign circumstance.

Mr. SCOTT. What is the crime? As I understand the crime, the crime would be for the foreign Afghanistan casino accepting the credit card? The Afghanistan casino has committed a crime.

Mr. LEACH. You have raised earlier the problem of individual accountability, and that does stand. I mean, that is a legitimate concern.

Mr. SCOTT. Is the crime using the credit card or accepting the credit card?

Mr. LEACH. It would be——

Mr. SCOTT. Has the individual gambler committed a crime?

Mr. LEACH. The crime comes from the recipient's perspective, but it will be a disallowance of use of a credit card. The minute you disallow that use——

Mr. SCOTT. You make it a crime to accept the card. The crime would be committed by the Afghanistan casino. Is the individual in Washington, D.C. using the credit card at risk?

Mr. LEACH. No, but there is injunctive capacity to stop the credit card company from following through as well as the financial institution from following through, and so that presumably will have a very large effect on the capacity of your operator in a foreign country to——

Mr. SCOTT. If you can get an injunction against Citibank from the use of their credit card with the Afghanistan casino?

Mr. LEACH. That is right.

Mr. SCOTT. And you can't imagine these guys setting up an intermediary kind of trustee in Canada, direct the credit card second the intermediary \$1,000; that would never happen?

Mr. LEACH. That dilemma will presumably be tried, and the daily changing of sites is something that is contemplated. But having said that, it provides law enforcement an easier way to track down these activities than otherwise.

Mr. GOODLATTE. If I could reply to both those points. First of all with regard to the individual user, Washington, D.C. and every other State in the country, including the State of Nevada, have laws that already prohibit the individual gambler from engaging in illegal gambling activities, activities that are not allowed by the State. So there isn't a need to have any additional enforcement power with regard to those individuals. If one is perceived to have one, I certainly would be interested in discussing that further with the gentleman. But that is something that clearly can be left to the States. But when you are dealing with an entity that is operating, whether it is in the United States or offshore, and operating a massive gaming operation, you then have to give law enforcement new tools to cut them off from the source of their customers.

That is what both Mr. Leach and my legislation is designed to do, although mine does it in a non-specific way, doesn't specifically address the banking industry. It gives law enforcement the authority to go to court and get an order enjoining any business from participating in what is an illegal activity, and so that is, in my opinion, the reason why this legislation will be effective.

Now, as to the second point, which is will somebody switch their identification, will they switch credit cards, will they get an intermediary involved, yes, I expect all those things will happen just as they happen in every other form of illegal activity. But the average person in the United States is not going to engage in all of those activities in order to accomplish that, and therefore, the vast majority of the damage being done here will be ended.

Will some people go to great lengths to find ways to send money to these operations out of the country by different means? Oh, absolutely they will, and we will have to look for other ways to combat that. But the largest portion of this problem in terms of the vast amount of money that is going out of the country and the vast amount of the problems that are caused by gambling, the family problems, the crime, the addiction, and so on, will be addressed by making it harder to place those bets.

Mr. SCOTT. If I could, just one additional question. Both bills have the term "engaged" in gambling business. Does that mean part of your business is gambling like a 7-Eleven selling lottery tickets; would that be a gambling business or does it really have to be a casino where that is the business?

Mr. GOODLATTE. If you are an intermediary; that is, an innocent intermediary, like the common carrier rules that apply in telecommunications, my bill makes it clear that those people cannot be held for criminal responsibility for something they are not engaged in. However, if you are participating and actually operating the casino or being compensated for feeding business to that casino, yes, you would.

Mr. SCOTT. Even though that is not your whole business, if Amazon.com set up a little roulette wheel?

Mr. GOODLATTE. Amazon.com would have a problem under our rules.

Mr. SCOTT. Even though that is not the whole business, if it is part of the business?

Mr. LEACH. Yes.

Mr. SMITH. Thank you, Mr. Scott. Mr. Leach, thank you. Mr. Goodlatte, thank you as well. Mr. Goodlatte is a Member of the Subcommittee, so will be joining us here. Mr. Leach, you are welcome to join us if you would like to.

Mr. Kelly, if you will proceed. Thank you for waiting.

Mr. SCOTT. Before he begins, as Mr. Leach is going to join us I would ask unanimous consent that he be allowed to participate and ask questions notwithstanding the fact that he is not a Member.

Mr. SMITH. I appreciate the gentleman from Virginia's request for unanimous consent. Let me mention to the gentleman a couple of things and ask him if he will consider withdrawing that.

Mr. SCOTT. I will withdraw it, Mr. Chairman.

Mr. SMITH. Thank you. I know that Mr. Leach won't mind but I hate to set a precedent that I have avoided in the past of having nonmembers of the Subcommittee ask questions. I think we would be inundated with questions in the future.

Mr. LEACH. I have no intention of asking questions.

Mr. SMITH. Let me also assure Mr. Leach if he will, if I could get Mr. Leach's attention for a second, if he has any questions I will be happy to ask them myself. So he can submit them to me. Does that satisfy the gentleman?

Mr. SCOTT. Yes.

Mr. SMITH. Mr. Kelly.

STATEMENT OF TIMOTHY A. KELLY, PH.D., FORMER EXECUTIVE DIRECTOR, NATIONAL GAMBLING IMPACT STUDY COMMISSION, WASHINGTON, DC

Mr. KELLY. Thank you, Mr. Chairman, Members of the Subcommittee on Crime. I am Tim Kelly, former Executive Director of the Commission. I do appreciate this opportunity to give testimony on Internet gambling and its effects as it relates to H.R. 556 and 3215.

As you know and as you have stated, concerns about gambling's rapid rise nationally through the eighties and nineties and its impact on individuals and communities drew congressional attention. In 1996, Congress created the National Gambling Impact Study Commission, charged with studying the economic and social impacts of legalized gambling in America.

In 1999, the Commission completed its unanimously adopted final report, which can be found on the Web. This report contains 77 far-reaching recommendations for State and Federal legislators, but perhaps most importantly for this Subcommittee, it calls for a moratorium on gambling expansion and for a prohibition of Internet gambling not already authorized. This is especially noteworthy in light of the fact that four of the nine commissioners represented or endorsed the gambling industry.

Now why was a moratorium called for? Why was prohibition of Internet gambling being recommended? I believe it came from the heartbreaking stories that we heard in 15 public hearings held across America over the course of 2 years. You see, gambling expansion has come with a high social cost. A Harvard study indicates that about 15.4 million Americans today already are suffering from problem or pathological gambling, also known as gambling addiction. This is devastating to the individual and the family. The National Academies of Science, which is not given to overstatements, said that, quote, pathological gamblers engage in destructive behaviors, they commit crimes, they run up large debts, they damage relationships with family and friends, and they kill themselves, end quote. In fact, we found that it is not unusual for a gambling addict to end up in bankruptcy with a broken family facing a criminal charge from his or her employer.

Now, the report devoted an entire chapter to this question of Internet gambling because if unchecked this may well become the most common form of gambling for Americans and their families in the years to come. At the click of a mouse virtual casinos and lotteries appear on the computer screens in dorms and homes across America. All that is required to play is a credit card number and time and money to burn.

I would like to walk you then through some key sections of this report's chapter on Internet gambling that highlight concerns raised on this topic. I will then conclude by discussing the Commission's four recommendations as they apply to this issue.

First of all, why was a prohibition of Internet gambling called for? There were primarily three reasons, first, concern about youth gambling, which the Chairman has already referenced. Because the Internet can be used anonymously the danger exists that access to Internet gambling will be abused by underage gamblers. As the Chairman mentioned, in most cases one has to only fill out a registration form to play. Most sites rely on the registrant to disclose his or her correct age and have no way to really verify that information. Or underage gamblers can use their parents' credit cards or even their own cards to register and set up accounts.

According to the American Internet User Survey, younger users communicate more often online and browse more Web sites than older Internet users do by far. Moreover, younger Internet users are most likely to download video clips and access bank account information. Given their knowledge of computers and familiarity with the Web, young people may find gambling on the Internet particularly appealing. So that was the first concern leading to the recommendation for prohibition.

Secondly, pathological gamblers. As we have stated, pathological gamblers are another group susceptible to problems with Internet gambling. In addition to their accessibility, high speed instant gratification of Internet games and the high level of privacy they offer may well exacerbate the problem of pathological gambling. Access to the Internet is easy and inexpensive and can be conducted in the privacy of your own home. Shielded from public scrutiny, pathological gamblers can transverse dozens of Web sites and gamble 24 hours a day.

Experts in the field of pathological gambling have expressed concern over the potential use of this technology by problem and pathological gamblers. The Director of Harvard Medical School's Division of Medical Studies, Dr. Shaffer, likened the Internet to new delivery forms for addictive narcotics. He stated, as has already been quoted here, quote, As smoking crack cocaine changed the cocaine experience, I think electronics is going to change the way gambling is experienced, end quote. So the impact on pathological gamblers was the second reason that a prohibition was called for.

Thirdly, criminal use. There are two potential forms of crime that can be envisioned with this form of gambling. One is fraud, one is money laundering. The problems associated with anonymity extend beyond these other two issues. Lack of accountability also raises the potential for criminal activities in several ways, first, the possibility of abuse by gambling operators. Most ISPs hosting Internet gambling operations are physically located offshore and as a result operators can alter, move or entirely remove sites within minutes, as has been mentioned. This mobility makes it possible for dishonest operators to take credit card numbers and money from deposited accounts and then close down. Stories of unpaid gambling winnings often surface in news reports and among industry insiders. In fact, there are some Web sites you can look onto now that analyze the level of payout from various Internet operations.

Computer hackers or gambling operators may tamper with gambling software to manipulate the games to their benefit. That is the first type of criminal use leading to fraud.

The other concern was money laundering. Gambling on the Internet may provide an easy means for money laundering, as has been mentioned already as well. Internet gambling provides anonymity, remote access and encrypted data. To launder money, a person need only deposit money into an offshore account, use those funds to gamble, lose a small percentage of the original funds, then cash out the remaining.

Through the dual protection of encryption and anonymity much of this activity can take place virtually undetected. In a study prepared for the Office of Science and Technology Policy and FINCEN, David Mussington and colleagues examined the potential use for money laundering on the Internet. The study raised several essential concerns regarding the use of the Internet for money laundering activities, including the lack of uniform international law and oversight or regulatory regime, the fluidity of funds crossing international borders and the high degree of anonymity. So that is the third reason I believe that prohibition of an Internet gambling was called for.

I will skip for the sake of time to another point to be made, and that is that as we interacted with the National Association of Attorneys General we found that they were calling for an expansion in the language of the Federal anti-wagering statute to prohibit Internet gambling and for Federal-State cooperation on this issue. The important point to note here is that NAAG usually in fact is on the other side of that coin. It is a rather rare stance by that association in support of increased Federal law enforcement. I think what the State Attorneys General were telling us is they need Fed-

eral help on this matter precisely because this is an issue that transmits across any known or virtual boundaries so readily.

Let me move then to the recommendations that we made. As a result of these findings, four recommendations were put forward by the National Gambling Commission. Number one, the Commission recommends to the President, Congress and the Department of Justice that the Federal Government should prohibit without allowing new exemptions or the expansion of existing Federal exemptions to other jurisdictions Internet gambling not already authorized within the United States or among parties in the United States and any foreign jurisdiction.

Further, the Commission recommends that the President and Congress direct DOJ to develop enforcement strategies that include, but are not limited to the ISPs, credit card providers, money transfer agencies, makers of wireless communications systems and others who would intentionally or unintentionally facilitate Internet gambling transactions, because across the State lines it is difficult for the States to adequately monitor and regulate such gambling. That was the first recommendation.

Recommendation number two regarding the Internet.

Gambling—

Mr. SMITH. If you can, summarize the rest of your testimony. You are about 5 minutes over already.

Mr. KELLY. I am sorry. I will leave you to read the other three recommendations there. Let me jump to the conclusion if I could.

In conclusion, the Commission found that Internet gambling indeed poses a very real threat to the Nation. It puts our youth at risk, feeds gambling addiction, and opens the door for fraud and money laundering. For these reasons the Commission recommended prohibiting Internet gambling not already authorized, prohibiting financial transfers to Internet gambling sites, limiting in-home gambling technologies, and encouraging other nations to eradicate Internet gambling operations that prey on the U.S. .

These four recommendations provide an excellent standard against which the current legislative proposals may be evaluated. They resulted from 2 years of hard work on the part of a bipartisan congressional commission and together represent the best public policy recommendations to date regarding Internet gambling. Their implementation would be of great benefit to the Nation.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Kelly follows:]

PREPARED STATEMENT OF TIMOTHY A. KELLY

Good afternoon Mr. Chairman and Members of the Subcommittee on Crime. I am Tim Kelly, former Executive Director of the National Gambling Impact Study Commission. I appreciate this opportunity to give testimony on Internet gambling and its effects as it relates to H.R.556, H.R.3215, and other Internet gambling legislative proposals.

Only thirty years ago, gambling was illegal in most states and was generally considered to be a vice contrary to the American work ethic. Serious gamblers had to travel to Nevada for casino play, and the states had not yet plunged into lottery mania.

Today, however, there are over 800 casinos operating in 28 states, the lottery is played in 37 states plus the District of Columbia, and all but three states have legalized some form of gambling. Gambling expansion has swept the nation, with revenues jumping from about \$1 billion in 1980 to well over \$60 billion today. That

means Americans lose on average over \$164 million dollars every day of the year from gambling.

Gambling expansion has come with a high social cost. 15.4 Million Americans already are suffering from problem and pathological gambling—also called gambling addiction, which is often devastating to the individual and their family. The National Academies of Science found that “pathological gamblers engage in destructive behaviors: they commit crimes, they run up large debts, they damage relationships with family and friends, and they kill themselves.” It is not unusual for a gambling addict to end up in bankruptcy, with a broken family, facing a criminal charge from his or her employer.

Concerns about gambling’s rapid rise nationally through the ’80s and early ’90s and its impact on individuals and communities drew Congressional attention. In 1996 Congress created the National Gambling Impact Study Commission, charged with studying the economic and social effects of legalized gambling in America. In 1999 the Commission completed its unanimously-adopted final report, which can be found on the web at www.ngisc.gov. The report contains 77 far-reaching recommendations for state and federal legislators, and perhaps most importantly for this Subcommittee, calls for prohibition of Internet gambling not already authorized. This is especially noteworthy in light of the fact that four of the nine commissioners represented or endorsed the gambling industry.

The Commission’s report devoted an entire chapter to Internet gambling because, if unchecked, this may well become the most common form of gambling for Americans and their families in the years to come. At the click of a mouse, virtual casinos and lotteries appear on computer screens in dorms and homes across America. All that is required to play is a credit card number, and time and money to burn.

I would like to walk you through four key sections of the report’s chapter on Internet gambling that highlight concerns raised by this form of gambling. I will then conclude by discussing the Commission’s recommendations as they apply to legislation under consideration by this Subcommittee.

FOUR KEY SECTIONS FROM THE NATIONAL GAMBLING IMPACT STUDY COMMISSION’S CHAPTER ON INTERNET GAMBLING

A key mandate of the National Gambling Impact Study Commission was to assess the impact of new technology on gambling in the United States. Technology in this area is evolving at a rapid rate, and its potential is only beginning to be glimpsed. This is especially true regarding Internet gambling. On-line wagering promises to revolutionize the way Americans gamble because it opens up the possibility of immediate, individual, 24-hour access to the full range of gambling in every home.

To better understand the impact of Internet gambling, the Commission and its Subcommittee on Regulation, Enforcement, and the Internet received testimony from technology experts, the interactive gambling community, and public officials. We also reviewed the research on Internet gambling, and efforts by regulators scrambling to keep up with the unprecedented pace of change in this area. This chapter presents a summary of those findings and recommendations for meeting the challenge posed by this technology.

I. Candidates for Prohibition

Youth Gambling

Because the Internet can be used anonymously, the danger exists that access to Internet gambling will be abused by underage gamblers. In most instances, a would-be gambler merely has to fill out a registration form in order to play. Most sites rely on the registrant to disclose his or her correct age and make little or no attempt to verify the accuracy of the information. Underage gamblers can use their parents’ credit cards or even their own credit and debit cards to register and set up accounts for use at Internet gambling sites.

Concerns regarding underage gambling derive in part from this age group’s familiarity with and frequent use of the Internet. American Demographics reports that 69 percent of 18- to 24-year-olds use computers for hobbies and entertainment, compared with 10 percent of people ages 65 and older. A 1997 study by the Survey of Public Participation in the Arts (SPPA) showed that 72 percent of people ages 18 to 24 use computers, averaging four hours of use daily. According to the American Internet User Survey, younger users communicate more often on-line and browse more Web sites than older Internet users do. Moreover, younger Internet users are most likely to download video clips and to access bank account information. Given their knowledge of computers and familiarity with the Web, young people may find gambling on the Internet particularly appealing.

Of particular concern is the special attraction of youth to on-line sports wagering, tournaments, and sweepstakes. The National Collegiate Athletic Association has voiced its concern over the problem of Internet sports gambling among college students. In testimony before the Senate Judiciary Committee's Subcommittee on Technology, Terrorism and Government Information, Director of Agent and Gambling Activities Bill Saum stated that sports gambling "remains a growing problem on college campuses. . . . If left unchecked, the growth of Internet gambling may be fueled by college students. After all, who else has greater access to the Internet?"

Pathological Gamblers

Pathological gamblers are another group susceptible to problems with Internet gambling. In addition to their accessibility, the high-speed instant gratification of Internet games and the high level of privacy they offer may exacerbate problem and pathological gambling. Access to the Internet is easy and inexpensive and can be conducted in the privacy of one's own home. Shielded from public scrutiny, pathological gamblers can traverse dozens of Web sites and gamble 24 hours a day. Experts in the field of pathological gambling have expressed concern over the potential abuse of this technology by problem and pathological gamblers. The director of the Harvard Medical School's Division on Addiction Studies, Dr. Howard J. Shaffer, likened the Internet to new delivery forms for addictive narcotics. He stated, "As smoking crack cocaine changed the cocaine experience, I think electronics is going to change the way gambling is experienced." Bernie Horn, the executive director of the National Coalition Against Legalized Gaming, testified before Congress that Internet gambling "magnifies the potential destructiveness of the addiction."

Criminal Use

The problems associated with anonymity extend beyond youth and pathological gambling. Lack of accountability also raises the potential for criminal activities, which can occur in several ways. First, there is the possibility of abuse by gambling operators. Most Internet service providers (ISPs) hosting Internet gambling operations are physically located offshore; as a result, operators can alter, move, or entirely remove sites within minutes. This mobility makes it possible for dishonest operators to take credit card numbers and money from deposited accounts and close down. Stories of unpaid gambling winnings often surface in news reports and among industry insiders. In fact, several Web sites now exist that provide analysis of the payout activity for Internet gambling operations.

Second, computer hackers or gambling operators may tamper with gambling software to manipulate games to their benefit. Unlike the physical world of highly regulated resort-destination casinos, assessing the integrity of Internet operators is quite difficult. Background checks for licensing in foreign jurisdictions are seldom as thorough as they are in the United States. Furthermore, the global dispersion of Internet gambling operations makes the vigilant regulation of the algorithms of Internet games nearly impossible.

Third, gambling on the Internet may provide an easy means for money laundering. Internet gambling provides anonymity, remote access, and encrypted data. To launder money, a person need only deposit money into an offshore account, use those funds to gamble, lose a small percent of the original funds, then cash out the remaining funds. Through the dual protection of encryption and anonymity, much of this activity can take place undetected. In a study prepared for the Office of Science and Technology Policy and the Financial Crimes Enforcement Network of the Critical Technologies Institute, David A. Mussington and colleagues examined the potential for money laundering on the Internet. The study raises several essential concerns regarding the use of the Internet for money-laundering activities, including the lack of uniform international law and oversight or regulatory regime, the fluidity of funds crossing international borders, and the high degree of anonymity.

II. State of the Law: The Applicability of 18 U.S.C. § 1084

Presently, the most widely applied federal statute addressing gambling on the Internet is 18 U.S.C. § 1084. According to this statute,

Whoever being engaged in the business of betting or wagering knowingly uses a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placing of bets or wagers on any sporting event or contest, or for the transmission of a wire communication which entitles the recipient to receive money or credit as a result of bets or wagers, or for information assisting in the placing of bets or wagers, shall be fined under this title or imprisoned not more than two years, or both.

This section makes illegal the use of wire communications to place or assist with placing bets or wagers. However, ambiguity does make its appearance. The section of the statute immediately following the quoted passage exempts the use of a wire communication facility to report on, provide information for, or assist with the placing of bets or wagers “from a State or foreign country where betting on that sporting event or contest is legal into a State or foreign country which such betting is legal.” The statute also outlines the obligation of communications carriers to discontinue providing services once notified of the illegal activity.

The applicability of 18 U.S.C. § 1084 to Internet gambling has given rise to a number of disputes over the past few years. For example, does the phrase “wire communications” include the Internet? Does the specific mention of “sports wagering” and “contests” include all types of gambling on the Internet? When placing a bet on the Internet, where does jurisdictional authority reside?

The debate over the applicability of the phrase “wire communications” to the Internet involves both the original intent of the law as well as the future of the technology. Some argue that because there was no technology known as the Internet at the time of the statute’s formulation, the intent of the law applies only to telephone communications. However, because Congress did not write the statute as “telephone communications,” it is argued that its intent was to include any and all wire communication devices. This debate, however, may be moot: Future technological advances may make it possible for individuals to bypass cables and telephone wires when establishing connections to the Internet. For example, cellular access to the Internet is presently available, and several companies are developing hand-held Internet devices that access satellite technology. Perhaps through existing cellular technology and direct satellite feeds, information on the Internet will pass through most computers without any hard wire connection at all to communication devices.

A second point of contention arises over the forms of gambling to which 18 U.S.C. § 1084 applies. It is clear through the specification of “sporting event” that the statute applies to sports wagering. Because it lacks a clear definition of “contest,” however, the statute’s applicability to other forms of gambling is vague. Do contests include bingo, lotteries, or casino-style games?

Definitions are further clouded regarding the unique jurisdictional concerns of the Internet. The mention of “transmission” of bets or wagers or “information assisting in the placing of bets or wagers,” raises concerns over the definition of those words when applied to the Internet. Is posting a Web site that provides citizens an opportunity to engage in Internet gambling a “transmission” of illegal services and information? The question of who is facilitating the transmission of bets or wagers raises concerns. Where are bets and wagers taking place on the Internet? Are they taking place at the site where the person downloads a Web page onto a personal computer? Is the bet taking place at the point of financial transactions—that is, where the bank account, credit card, or smart card companies are located? Or is the bet or wager occurring at the ISP that hosts the Internet gambling site?

III. An Enhanced Federal Role at State Request

Given this and other experiences, several states have concluded that only the federal government has the potential to regulate or prohibit Internet gambling. In the words of Florida Attorney General Butterworth:

State law prohibits an individual in Florida from placing a bet or wager by wire communication or by use of the Internet. However . . . the burgeoning growth of the Internet and the difficulty in adopting and implementing durable and effective enforcement mechanisms, makes any effort to regulate the Internet’s use better suited to federal legislation, rather than a patchwork attempt by individual states.

To this end, the National Association of Attorneys General (NAAG) has called for an expansion in the language of the federal antiwagering statute to prohibit Internet gambling and for federal-state cooperation on this issue. In the view of the state attorneys general, existing federal legislation and regulation falls short in several major areas, including the definition of what constitutes gambling, the need for the law to specifically cover more types of communications devices, and the ambiguity regarding the legality of receiving information on bets or wagers.

NAAG’s position on Internet gambling is a rare stance by the association in support of increased federal law enforcement and regulation and is a clear indication of the regulatory difficulties posed by Internet gambling. NAAG usually argues against federal intrusion into areas of traditional state responsibility, such as gambling. However, in a letter to William A. Bible, a member of this Commission and Chairman of the Subcommittee on Regulation, Enforcement and the Internet, James

E. Doyle, the attorney general of Wisconsin, wrote that “NAAG has taken the unusual position that this activity must be prohibited by federal law, and that State regulation would be ineffective.” In addressing the issue of enforceability of the federal prohibition, Doyle emphasized that “simply because an activity is difficult to control does not mean law enforcement should be forced to stick its head into the sand and act as though the issue does not exist.”

Federal Efforts

The federal government has been active in the area of Internet gambling. Thus far, DOJ has investigated and brought charges against 22 Internet gambling operators on charges of violating the Wire Communications Act. All the defendants operated their businesses offshore and maintained that they were licensed by foreign governments. However, the defendants are U.S. citizens, some of whom were living in the United States at the time of their arrests. In a public statement following the charges, Attorney General Janet Reno announced, “The Internet is not an electronic sanctuary for illegal betting. To Internet betting operators everywhere, we have a simple message: You can’t hide online and you can’t hide offshore.”

Ongoing efforts aim to strengthen Federal regulation and prohibition of Internet gambling. Members in both chambers of Congress have introduced legislation to address Internet gambling. The Internet Gambling Prohibition Act, first introduced by Senator Kyl during the 105th Congress, provides for the prohibition of Internet gambling through amending the Wire Communications Act. As reintroduced during the 106th Congress, the bill would expand and/or clarify definitions within the statute to include the technology of the Internet and all forms of gambling. The enforcement mechanisms in the legislation include fines and/or imprisonment for people conducting business or participating in illegal gambling as well as measures against ISPs that provide communications service to Internet gambling Web sites.

IV. Recommendations

- 5.1 The Commission recommends to the President, Congress, and the Department of Justice (DOJ) that the federal government should prohibit, without allowing new exemptions or the expansion of existing federal exemptions to other jurisdictions, Internet gambling not already authorized within the United States or among parties in the United States and any foreign jurisdiction. Further, the Commission recommends that the President and Congress direct DOJ to develop enforcement strategies that include, but are not limited to, Internet service providers, credit card providers, money transfer agencies, makers of wireless communications systems, and others who intentionally or unintentionally facilitate Internet gambling transactions. Because it crosses state lines, it is difficult for states to adequately monitor and regulate such gambling.
- 5.2 The Commission recommends to the President, Congress, and state governments the passage of legislation prohibiting wire transfers to known Internet gambling sites, or the banks who represent them. Furthermore, the Commission recommends the passage of legislation stating that any credit card debts incurred while gambling on the Internet are unrecoverable.
- 5.3 The Commission recognizes that current technology is available that makes it possible for gambling to take place in the home or the office, without the participant physically going to a place to gamble. Because of the lack of sound research on the effects of these forms of gambling on the population and the difficulty of policing and regulating to prevent such things as participation by minors, the commission recommends that states not permit the expansion of gambling into homes through technology and the expansion of account wagering.
- 5.4 The Commission recommends to the President and Congress that because Internet gambling is expanding most rapidly through offshore operators, the federal government should take steps to encourage or enable foreign governments not to harbor Internet gambling organizations that prey on U.S. citizens.

CONCLUSION: CURRENT LEGISLATIVE PROPOSALS

In conclusion, the Commission found that Internet gambling poses a very real threat to the nation. It puts our youth at risk, feeds gambling addiction, and opens the door for fraud and money laundering. For these reasons, the Commission recommended: 1) prohibiting Internet gambling not already authorized; 2) prohibiting financial transfers to Internet gambling sites; 3) limiting in-home gambling technologies; and 4) encouraging other nations to eradicate Internet gambling operations that prey on the U.S. These four recommendations provide an excellent standard against which current legislative proposals may be evaluated. They resulted from

two years of hard work on the part of a bipartisan Congressional Commission, and together they represent the best public policy recommendations to date regarding Internet gambling. Their implementation would be of great benefit to the nation.

Thank you Mr. Chairman for this opportunity to speak with you today. I ask that the attached article on gambling policy be entered into the record, and I would be glad to answer questions.



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GAMBLING BACKLASH: TIME FOR A MORATORIUM ON CASINO AND LOTTERY EXPANSION

by
Timothy A. Kelly, Ph.D.

Thirty years ago, gambling was illegal in most states and was generally considered to be a vice contrary to the American work ethic. Serious gamblers had to travel to Nevada for casino play; states had not yet plunged into lottery mania. Today, however, 29 casinos operate in Mississippi, 14 in New Jersey, and 429 in Nevada; another 260 casinos operate on Indian reservations; and nearly 100 riverboat casinos are chartered in six states.¹ All but three states have legalized some form of gambling. Pari-mutuel gambling, primarily horseracing, is legal in 42 states;² casinos are licensed in 28 states,³ and the lottery is played in 37 states plus the District of Columbia.⁴

Far from discouraging citizens from risking their hard-earned money on gambling, states spend more than \$400 million annually promoting their lotteries with often misleading and deceptive advertising.⁵ In fact, more dollars are spent encouraging citizens to gamble than are spent for any other single state message.

Gambling expansion has swept the nation, with 68 percent of the population reporting they have gambled in the past year. They lost an astonishing \$50 billion in 1998, and there is "no end in sight: every prediction that the gambling market was becoming saturated has proven to be premature."⁶ This explosion of gambling has produced enticing benefits for some. A new casino brings new jobs and can be very profitable, and most forms of gambling add significant revenue to the public treasury. The revenue can be used to meet community needs such as education or infrastructure development.

But the expansion of gambling carries a high cost. Today, an estimated 15.4 million Americans suffer from problem or pathological gambling, often referred to as gambling addiction.⁷ Gambling addiction can be particularly devastating to the individual, his family, and his employer. The National Academies of Science found that "pathological gamblers engage in destructive behaviors: they commit crimes, they run up large debts, they damage relationships with family and friends, and they kill themselves."⁸

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Furthermore, the National Gambling Impact Study Commission found that state lotteries function as a regressive tax that preys on the poor. Those who can afford it least tend to play the most, while benefits go to those who are better off.⁹ Gambling is capable of addicting and impoverishing those who play.

Perhaps most alarmingly, research shows that increasing numbers of children and adolescents are gambling; they are more likely than adults to become problem or pathological gamblers. For instance, a Louisiana survey of 12,000 adolescents found that 10 percent had bet on horseracing, 17 percent had gambled on slot machines, and 25 percent had played video poker.¹⁰ The Gambling Commission found that adolescent gambling is "associated with alcohol and drug use, truancy, low grades, problematic gambling in parents, and illegal activities to finance gambling."¹¹

That gambling expansion has exposed children and adolescents to many forms of gambling is particularly disturbing in light of a recent Harvard study that found that "compared to adults, youth have had more exposure to gambling during an age when vulnerability is high and risk-taking behavior is a norm; consequently, these young people have higher rates of disordered gambling than their more mature and less vulnerable counterparts."¹² The Gambling Commission learned that such vulnerability could lead to tragic outcomes; one 16-year-old boy attempted suicide after losing \$6,000 on lottery tickets.¹³

How did America become so addicted to gambling? Several factors are clear. First, the lottery states have given a powerfully motivating message to their citizens by declaring that gambling is not only acceptable, but actually the right thing to do because it increases state revenue for good causes. Second, the Indian Gaming Regulatory Act of 1988 opened the floodgate for Native American casinos, which are expanding more rapidly now than any other form of gambling. Third, legislators at the state and federal levels have acted without the benefit of objective information on the full costs and benefits of gambling operations, since nearly all of the previous impact studies have been sponsored by the gambling industry. The Gambling Commission report provides the most comprehensive and objective evaluation of gambling impacts to date. But more research is needed if policymakers are to understand fully the likely consequences *before* moving ahead with gambling expansion initiatives.

The Gambling Commission report, which was unanimously adopted, calls for a moratorium on gambling expansion.¹⁴ This is especially noteworthy because four of the nine commissioners represented or endorsed gambling industry interests. The purpose of the moratorium: to allow policymakers to review what has already been approved and to demand better cost/benefit analyses before moving ahead with any new initiatives.

More than a moratorium, however, will be needed if America is going to manage gambling for the public good as opposed to the public treasury. The Gambling Commission report included 77 far-reaching recommendations, all of which are worthy of consideration. Eight policy recommendations, based upon but not identical to the

Commission's recommendations, should constitute a priority for federal and state/tribal legislators. Legislative action based on these recommendations would jump-start America's recovery from its addiction to gambling. Before discussing these recommendations in detail, however, a review of the seven major types of legalized gambling reveals the gravity of the current problem.

LEGALIZED GAMBLING IN AMERICA¹⁵

Seven major forms of gambling are legal in America today, each presenting a different array of costs and benefits, and each raising a unique set of issues that must be addressed by policymakers.

COMMERCIAL CASINOS. Commercial casinos (land casinos not owned by Native Americans)—with their table games and slot machines—symbolize the gambling industry for most Americans. Until this decade, casinos were legal only in Nevada and Atlantic City, but during the past 10 years they have expanded into 28 states. In 1997, commercial casinos took in \$26.3 billion in revenue. Destination casinos (those with large hotels) provide an important source of jobs, tax revenue, and entertainment for their localities. Many customers enjoy the associated food, entertainment, and conference facilities.

At the same time, there are costs associated with commercial casinos. The 15.4 million pathological and problem gamblers account for a significant portion of gambling revenues. They often end up hurting not only themselves but also family, friends, and business partners. Direct costs from their bankruptcies, arrests, imprisonments, legal fees for divorce, and so on come to more than \$5 billion each year. Who should be responsible for these costs and liabilities?

A less visible but perhaps more insidious cost involves the political clout that commercial casino interests inevitably develop. Given the vast revenue generated by successful casinos, it becomes increasingly difficult for other voices to be heard in the political process. For instance, non-gambling retailers and restaurant owners may find that their customer base dwindles after the introduction of casinos and that local government turns a deaf ear to their complaints. In fact, once gambling enters a community, local government tends to become "a dependent partner in the business of gambling."¹⁶

NATIVE AMERICAN CASINOS. Large-scale Indian casino gambling began in the late 1980s. In 1988, Congress passed the Indian Gaming Regulatory Act (IGRA), which set the stage for a rapid expansion of Native American casinos—now numbering about 260. IGRA called for the states and tribes to enter into compacts allowing casinos on Indian reservations to offer whatever form of gambling is legal in the state. It also called for gambling revenue to be used to promote the economic development and welfare of the tribe. Thus, revenues are not subject to state or federal taxation, but are to be used as an economic engine to address tribal needs. In 1997, Indian casinos generated \$6.7 billion in revenue from gambling, much of which went to improve the health, education, and welfare of the casino tribes.

Problem and pathological gambling among tribal members and their customers is, of course, as much a concern here as it is for non-tribal casinos. Concerns also have been raised about the adequacy of Indian casino regulations and the distribution of funds among the tribes that own casinos versus the majority that do not. Furthermore, some states and tribes have not been able to agree on compacts that suit both sides. All of these issues need to be resolved, perhaps within the context of IGRA revisions and amendments.

RIVERBOAT CASINOS. Riverboat casinos are a new phenomenon, having begun in Iowa in 1991 as a means for tourism and economic development. Most of these casinos do not actually sail out on the rivers, but are simply built over water as part of zoning requirements. In 1997, riverboat casinos brought in \$6.1 billion in revenue from gambling.

Often built deliberately on the borders shared with other states, these casinos initially brought significant additional tax revenues from the citizens of neighboring states. Eventually, however, the adjoining states ended up building their own casinos to recapture the lost revenue. Once the saturation point has been reached by neighboring states, whether the economic benefits outweigh the social costs is not clear. However, for this reason Iowa recently legislated a five-year moratorium on casino expansion in order to better assess the full impacts of gambling. Such a moratorium is precisely what the Gambling Commission recommended for all gambling states.

STATE LOTTERIES. Colonial America used lotteries to help fund public works such as paving streets; since that time, there has been a cyclical aspect to their usage. In the 1870s, gambling scandals involving the bribery of state and federal officials led to lotteries being outlawed altogether, along with most forms of gambling. The current lottery revival began in 1964 with the New Hampshire lottery; today, 37 states and the District of Columbia have lotteries.

Modern lotteries offer an array of products, including instant scratch-off tickets, daily numbers drawings, weekly Lotto and Powerball drawings, and video keno, which involves multiple drawings per hour. In 1997, U.S. lotteries produced \$16.5 billion in revenue from tickets and other sales. This revenue is used to add to the public treasury to address education and/or other needs.

The Gambling Commission contracted with national lottery experts, Drs. Cook and Clotfelter from Duke University, to research the impacts of state-sponsored lottery gambling. They documented conclusively that lotteries function as a regressive tax, taking from the poor and giving to those better off. As Cook stated, "It's astonishingly regressive. The tax that is built into the lottery is the most regressive tax we know."¹⁷ Those making less than \$10,000 per year spend more than any other income group, averaging \$597 per year. Furthermore, the top 5 percent of lottery players account for over 50 percent of lottery sales, spending on average \$3,870 per year.

A review of marketing strategies revealed that states advertise in low-income neighborhoods, which tend to be saturated with lottery outlets. They use ads that are "misleading, even deceptive."¹⁸ Such ads are exempt from the Federal Trade Commission's truth-in-advertising standards since they come from state governments.

Another concern is the ease with which minors can participate in lottery gambling, despite legal restrictions. For instance, a Massachusetts survey found that minors as young as nine years of age were able to purchase lottery tickets on 80 percent of their attempts, and that 75 percent of the high school seniors reported playing the lottery.¹⁹ Such experiences can function as a gateway to more intensive gambling and to pathological gambling.

All of this raises the fundamental question of whether states should even be in the lottery business in the first place, spending hundreds of millions of dollars each year encouraging citizens—including those who can least afford it—to gamble their money away in order to feed the state treasury. A growing number of people, such as those citizens who recently rejected a lottery referendum in Alabama, answer "no." The role of the state is to provide for the public good, not to feed the public treasury at any cost.

PARI-MUTUEL WAGERING. Pari-mutuel gambling consists primarily of horseracing, but includes greyhound racing and jai alai. The term *pari-mutuel* connotes the fact that wagers are put into a common pool, with the odds dependent on the total amount bet on any given horse. Legal in 43 states, several of the major racetracks have been in operation since the 1800s. Total revenue in 1997 amounted to \$3.25 billion. Unique to this form of gambling, the horseracing industry supports a thriving agro-industrial economic sector of trainers, owners, breeders, and stable owners. Although more than 150 racetracks are licensed, most betting takes place through off-track sites or, more recently, through cable and Internet broadcasts directly into the home.

A major policy issue has been raised by those tracks that have attempted to add casino-like gambling devices such as slot machines to their facilities in order to increase revenue. This, in effect, creates a "mini-casino" in an area that was not necessarily zoned for casinos. Additionally, concerns have been raised about the advisability of beaming pari-mutuel gambling into homes via cable and Internet, where children may participate.

SPORTS WAGERING. Sports wagering is illegal in all but two states, Nevada and Oregon, but is nonetheless popular in homes and offices. Oregon only allows lottery players to include a wager on pro football games. Nevada, on the other hand, has 142 legal sports books for wagering on just about any prediction for professional or amateur sports events. These books took in \$77.4 million in 1997. However, Americans wager an estimated \$80 billion each year on illegal sports betting, usually without realizing its illegality.

One reason that sports wagering is so widespread is the easy availability of the Las Vegas "line," or point spread, published in newspapers across the country. Although some claim that the line increases sports interest, it more likely simply increases sports wagering.

Perhaps the worst effect of sports wagering is its impact on youth and college students. The National College Athletics Association points out that sports wagering seriously threatens the integrity of college sports and puts student-athletes at considerable risk. There are student bookies on most campuses, organized crime is often involved, and consequences can be tragic—including suicide over an unpaid gambling debt. A recent study found that more than 5 percent of male student-athletes had provided inside information for gambling purposes, bet on a game in which they participated, or accepted money for performing poorly in a game.²⁰ Furthermore, sports wagering can function as a gateway to other forms of gambling and to pathological gambling.

INTERNET GAMBLING. First appearing in 1995, Internet gambling is the newest form of gambling. Today hundreds of on-line casinos, lotteries, and sports books advertised on mainline Web sites. With a credit card number, customers can play a video version of blackjack, slot machines, poker, roulette, or other games. One study showed that Internet gambling revenues doubled in only one year, from \$445.4 million in 1997 to \$919.1 million in 1998.²¹ Some countries, such as Australia and Antigua, have licensed Internet gambling operators within their borders. Their products are, of course, accessible by anyone, anytime, anywhere, via the Internet.

Internet gambling, like Internet pornography, has been perceived as a threat to children and adolescents precisely because it is so easily available in the home and in college dorms. No one uses the Internet more than America's youth, and no one is more vulnerable to its temptations. Now, every parent has to reckon with the fact that commercial gambling is available in the dens and bedrooms of their homes via the Internet.

Internet gambling can be especially destructive for those who are vulnerable to addictions, since it provides high-speed instant gratification together with the anonymity of the home setting. A Harvard researcher stated, "As smoking crack cocaine changed the cocaine experience, I think electronics is going to change the way gambling is experienced."²² In other words, electronic gambling is all the more destructive and addictive.

For these and other reasons, including crime and fraud potential, many policymakers are calling for the outright prohibition of Internet gambling. Several states have passed legislation to that effect, and Congress is considering a bill, introduced by Sen. Jon Kyl (R-Ariz.), titled "The Internet Gambling Prohibition Act." Furthermore, the National Association of Attorneys General has called for the federal government to prohibit Internet gambling, recognizing that the issue cannot be resolved on the state level. The Gambling Commission, as well, recommended prohibiting Internet gambling outright. However, given the difficulty inherent in restricting commerce of any kind, whether Internet gambling will be stopped is not clear.

CONVENIENCE GAMBLING. Convenience gambling refers to gambling machines that have proliferated in communities and neighborhood areas such as convenience stores, truck stops, and bars. These stand-alone machines, which include video poker, video keno, and slot machines, are known as Electronic Gambling Devices, or EGDs. Some states, such as South Carolina, allow EGDs to operate just about anywhere on a 24-hour basis. In other states, EGDs are run by the state lottery. In Nevada, EGDs can be found in the airport, in supermarkets, in sandwich shops, and elsewhere. Many states also have quasi-legal EGDs known as "gray machines" that are not licensed to pay out winnings and are, supposedly, for amusement only. In reality, winnings are often paid out surreptitiously.

Convenience gambling in some ways represents gambling at its worst. Since EGDs can be almost anywhere, avoiding them is difficult. In some Las Vegas neighborhoods, for instance, a resident cannot even buy a gallon of milk without walking past rows of gambling machines. This makes it much more difficult for those who are vulnerable to addictions to avoid playing and significantly increases the incidence of problem and pathological gambling. For instance, South Carolina, with over 34,000 EGDs, is experiencing a surge of problem and pathological gambling.

Furthermore, this is one more form of gambling that is particularly detrimental to children and adolescents, as it presents them with numerous opportunities to become introduced to gambling experiences at an early age. Many of them will develop into problem and pathological gamblers, having been put at risk for the sake of America's appetite for gambling.

At the same time, economic benefits to the public treasury are minimized since it is usually the local owner—not the state—collects the lion's share of profits. For these reasons, the Gambling Commission recommended not only that states no longer approve convenience gambling, but also that they roll back existing operations. This is precisely what happened in South Carolina, where a recent court decision will likely lead to the removal of that state's 34,000 EGDs.

FEDERAL POLICY RECOMMENDATIONS

Since most gambling laws and regulations are established at the state or tribal level, it is primarily up to policymakers at these levels to take the lead in responding to the tough

issues raised by gambling expansion. However, a few areas require federal action. Policy recommendations for the 106th Congress that, if enacted, would greatly support state and tribal efforts to control gambling expansion, include the following:

1. **Ban betting on collegiate and amateur athletic events altogether, and prohibit media from advertising the line on those events.** Sports wagering, especially on collegiate and other amateur events, undermines the integrity of sports and puts students and athletes at risk. It should be prohibited where currently legal; where illegal, regulations should be more rigorously enforced. Newspapers should be prohibited from printing point spreads for athletic contests in areas where sports wagering is illegal.
2. **Amend truth-in-advertising laws to apply to Native American and state lottery gambling ads.** Many lottery ads have been found to be misleading or deceptive; truth-in-advertising laws currently do not apply to states or tribal entities.
3. **Prohibit Internet gambling not already authorized and develop enforcement strategies. Help foreign governments to prohibit Internet gambling that preys on U.S. citizens.** Because of the dangers posed by Internet gambling—especially to America's families and their children and adolescents who are put at risk—Internet gambling sites should be prohibited.

STATE/TRIBAL POLICY RECOMMENDATIONS

Because state and tribal policymakers set most of the nation's gambling laws and regulations, they carry the heaviest burden for assuring that those laws are crafted in the interest of the public good. Following are policy recommendations for state and tribal leaders that would not only go a long way towards reigning in uncontrolled gambling expansion, but also would begin to address costs associated with it:

1. **Restrict contributions to state and local campaigns from corporate, private, or tribal entities operating gambling facilities in that state.** Because campaign contributions by gambling interests may unduly influence the political process and because local government tends to become a dependent partner in the business of gambling, states should adopt tight restrictions on contributions to state and local campaigns by entities—corporate, private, or tribal—that have applied for, or have been granted, the privilege of operating gambling facilities.
2. **Prohibit convenience gambling (casino-like machines and games) in neighborhoods, pari-mutuel facilities, and lottery terminals.** Convenience gambling, such as EGDs in neighborhood outlets, has been shown to provide little to no social or economic benefit, and to contribute to significant negative costs.
3. **Detach state government from the operation and promotion of lotteries.** Lottery states cannot avoid a conflict of interest between the public good and the

public treasury. They are actively promoting an addictive product that functions like a regressive tax and that is essentially contrary to the work ethic on which viable democracy is based.

4. **Enact and enforce harsh penalties for any gambling outlet that allows underage gambling.** America's growing addiction to gambling puts children and adolescents at considerable risk for gambling addiction through early and repeated exposure. State and tribal leaders should enact and enforce harsh penalties for any abuses regarding allowing or encouraging underage gambling. Penalties and enforcement efforts should be greatly increased.
5. **Establish a 1 percent gambling addiction tax on all gambling operations dedicated to providing research, prevention, education, and treatment for problem and pathological gamblers.** The social costs inherent in legalized gambling, including problem and pathological gambling and its consequences, have not been adequately addressed.

CONCLUSION

The Gambling Commission report stated:

Gambling, like any other viable business, creates both profits and jobs. But the real question—the reason gambling is in need of substantially more study—is not simply how many people work in the industry, nor how much they earn, nor even what tax revenues flow from gambling. The central issue is whether the net increases in income and well-being are worth the acknowledged social costs of gambling.²³

Because the costs are high, especially for America's youth, a moratorium on gambling expansion is needed now.

Some might argue that trying to stop gambling expansion is like trying to stop a train barreling down the tracks—an exercise in futility. The recent defeat of anti-gambling governors by pro-gambling gubernatorial challengers in South Carolina and Alabama has often been cited as a case in point. Indeed it is, but not in the way expected. Consider the surprising outcome in those two states:

- In South Carolina, where 34,000 video poker machines have sprung up in convenience stores since they were surreptitiously legalized in 1991, Governor Hodges was elected promising to hold a statewide referendum to make video poker regulated, taxed, and permanent. Common wisdom expected Hodges's referendum to pass easily. Instead, concern over the soaring cases of gambling addiction and minimal economic benefits from convenience gambling carried the day. Even as Hodges's referendum was unexpectedly heading for defeat, the

South Carolina Supreme Court invalidated the referendum as unconstitutional. This will likely lead to the abolishment of video poker throughout the state.

- In Alabama, where Governor Siegelman was elected promising a new state "education lottery," the governor spent a great deal of time and money promoting the lottery referendum to ensure overwhelming approval. Instead, citizen concerns over the regressive taxation inherent in the lottery, as well as over having the government promote get-rich-quick schemes, turned the debate around. The referendum was unexpectedly but soundly defeated.

As the *Weekly Standard* stated in an article about these surprising outcomes, "It turns out voters needn't share the 'private moral views' of a religious conservative before they will reject the public morality of state-sanctioned gambling. It turns out they need only be asked to think about and directly act on the matter."²⁴ The gambling tide may be turning, simply by involving the voters in informed public deliberation—the core of the democratic process.

It is time for policymakers to recognize that the rapid expansion of gambling is putting children and adolescents increasingly at risk and has led to a host of other negative social consequences that have yet to be adequately addressed. Legislators should declare a moratorium on gambling expansion and enact policies to break America's growing addiction to gambling. They must reach out to the many broken lives that have resulted from gambling addiction on a personal level and take action to prevent America's youth from falling prey to gambling's destructive potential. The above policy recommendations will jump-start that process, but the Gambling Commission's Final Report should also be consulted for additional resource data and information.

The question is not so much what can be done—there are many ways to begin, as these recommendations illustrate. The real question is: Do policymakers have the courage to act on behalf of the public good, as opposed to the public treasury?

Dr. Kelly, a visiting research fellow at the George Mason Institute for Public Policy, served as executive director of the congressionally appointed National Gambling Impact Study Commission, which completed its full report in June 1999 (see www.ngisc.gov). A clinical psychologist by training, he formerly served as the commissioner for the Virginia Department of Mental Health.

ENDNOTES

¹ Final Report, National Gambling Impact Study Commission, 1999, p. 2-6.

² *Ibid.*, p. 2-11.

³ *Ibid.*, p. 2-6.

⁴ *Ibid.*, p. 2-1.

⁵ *Ibid.*, p. 3-15.

⁶ *Ibid.*, p. 1-1.

⁷ *Ibid.*, p. 4-1.

⁸ *Pathological Gambling: A Critical Review*, National Academy of Science/National Research Council, 1999, p. 3.

⁹ *Final Report*, p. 7-10.

¹⁰ *Ibid.*, p. 7-20.

¹¹ *Ibid.*, p. 7-23.

¹² Howard Shaffer, et al., "Estimating the Prevalence of Disordered Gambling Behavior in the United States and Canada: A Meta-Analysis," 1997, p. 5.

¹³ *Ibid.*, p. 7-25.

¹⁴ *Ibid.*, p. 1-8.

¹⁵ Much of this section is derived from chapter two of the Gambling Commission *Final Report*, titled "Gambling in the United States."

¹⁶ *Ibid.*, p. 7-18.

¹⁷ *Ibid.*, p. 7-10.

¹⁸ *Ibid.*, p. 3-15.

¹⁹ *Ibid.*, pp. 3-14, 3-15.

²⁰ *Ibid.*, p. 3-10.

²¹ *Ibid.*, p. 2-16.

²² *Ibid.*, p. 5-5.

²³ *Ibid.*, p. 7-29.

²⁴ David Tell, "A Gambling Backlash?" *The Weekly Standard*, November 15, 1999.

Mr. SMITH. Thank you, Mr. Kelly.
Mr. Catania.

STATEMENT OF FRANK CATANIA, FORMER DIRECTOR OF THE NEW JERSEY DIVISION OF GAMING ENFORCEMENT

Mr. CATANIA. Thank you, Mr. Chairman, Members of the Committee. I would like to thank you for the opportunity to testify today on H.R. 556 and H.R. 3215. I will attempt to keep my comments within the 5-minute time line allotted by the Committee.

I believe I bring some expertise on gaming policy to this debate, having served as Director of New Jersey Division of Gaming Enforcement from 1994 through 1999. Since leaving that position I have established a consulting business assisting States, foreign governments and companies to establish strict regulations for the oversight of gaming. Among my clients is the Interactive Gaming Council, and it is on their behalf that I appear today.

The Interactive Gaming Council is an international nonprofit trade association of over 100 companies around the world that are involved directly or indirectly with the interactive gaming industry. It is an advocate of regulating online gaming. Its members adhere to an industry code of conduct where players' rights are protected.

I would like to present for your consideration my arguments with regard to licensing and regulating rather than prohibiting Internet gambling. My support for Internet gambling regulation is concentrated on the exact issues raised by the proponents of prohibition. It is my contention that the solution lies in the strictly regulated alternative aimed at ensuring the presence of harm minimization measures, such as the protection of children and compulsive gamblers. Stringent computerized screening mechanisms monitored by gaming regulators and implemented by Internet gaming operators will be most effective—will be more effective than existing land-based measures in preventing most minors from gambling.

New technologies actually provide regulators with tools not previously available in most traditional forms of gambling, including the ability to provide a real time audit trail for all transactions, the ability to limit the amounts players may bet and to block participation by specified players or classes of players. It would appear that a computer-based system that allows a gambler to exclude several or to establish loss limits is more effective than systems in place in most casino jurisdictions today. In fact, computer technology provides an opportunity to identify patterns of behavior that may lead to problem gambling and offer intervention in a more timely and critical manner.

Mr. CATANIA. The Internet gaming already exists and will continue to exist regardless of any prohibitory actions taken by the United States. Governments around the world are realizing benefit of regulation and are enacting regulations similar to those used by the traditional brick and mortar casino regulators. These regulations are based on player protections, such as ensuring that the operators have the character, honesty and integrity as well as the financial ability to provide fair and honest games, to ensure winnings will be paid and to have safeguards so as to prohibit underaged players from gaining access to their sites.

Unlike prohibition, strict regulation will work. The question before you is not whether or not you will have online gaming. You most certainly will, but the question is whether you will have well-regulated, above-board online gaming or unregulated underground online gaming.

There is also the question, could there be an effective prohibition? An issue before you is the wisdom of deputizing financial institutions and others to prohibit online wagering. To limit Internet gaming through content controls would come to a great cost. Technical solutions at which none would be 100 percent effective could potentially degrade general Internet performance and most certainly would involve the significant intrusion into an individual's right of privacy. A complete prohibition by placing financial controls on this activity would deputize financial institutions as the Internet police. This in my view would establish a bad precedent for control of Internet content and possibly hinder the medium's growth.

Finally, there is an important issue of money laundering. The initial claims made in Congressional hearings and reports were that Internet gaming could be used to launder tainted funds such as narcotics proceeds. Money laundering inherently depends upon stealth. And online gaming can, if effectively regulated, be one of the most watched and monitored forms of e-commerce. Some proponents of this legislation will argue Internet gambling possesses a major threat for money laundering by terrorists. No one at any level in law enforcement has ever alleged, asserted or far as I know theorized that terrorist organizations have ever used online gaming to launder money.

Mr. Chairman, I would like to commend two authors of this legislation for their desire to minimize the social pathologies that attend problem and underage gambling. While those of us at the IJC have not supported their efforts, we continually respect their commitment and would be eager to work with them to address these issues by establishing a regulatory framework within which a well-regulated Internet gaming industry could exist in States wanting to do so.

Once again, I thank you for the opportunity to testify today.

[The prepared statement of Mr. Catania follows:]

PREPARED STATEMENT OF FRANK CATANIA

Mr. Chairman and Members of the Committee, I would like to thank you for the opportunity to testify today on H.R. 556 and H.R. 3215. I believe I bring some expertise on gambling policy to this debate, having served as Director of the New Jersey Division of Gaming Enforcement from 1994 through 1999. Since leaving that position, I have established a consulting business to assist states, foreign governments, and companies establish strict regulations for the oversight of gaming. Among my clients is the Interactive Gaming Council (IGC), and it is on their behalf that I appear today.

The Interactive Gaming Council is an international non-profit trade association of over 100 companies around the globe that are involved with the interactive gaming industry. Members are operators of Internet gaming sites, software suppliers, e-commerce providers, information-providers or other companies involved in the industry.

The IGC is an advocate for regulation of the on-line gaming industry and comprises the portion of the industry that does not subscribe to a "Wild West" approach to on-line gaming, but instead adheres to an industry code of conduct, where players' rights are protected, sites operate in a reasonably transparent fashion, and operators comply with the licensing and regulatory policies of the jurisdictions in which they operate.

I would like to present, for your consideration, my arguments with regard to licensing and regulating, rather than prohibiting, Internet gaming. My support for Internet gaming regulation is concentrated on the exact issues raised by opponents of Internet gaming and proponents of complete prohibition. It is my contention that the solution lies in a strictly regulated alternative aimed at ensuring the presence of harm minimization measures, not the least of which relate to the protection of children and compulsive gamblers. The key issues of such an approach are protection of minors, appropriate problem / compulsive gambling measures, protection of revenue and the integrity of products and probity of those involved.

In land-based gaming, jurisdictions devote significant resources to preventing minors from gambling. Obviously, the physical presence of minors helps to facilitate their identification. Yet, even with the opportunity presented by the physical presence of minors, no gaming jurisdiction is 100% effective in keeping minors from gambling. By contrast, many tools, including data cross checks and age verification software, are currently available to exclude minors from participating in gambling on-line. I contend that stringent computerized screening mechanisms implemented by Internet gambling operators, and monitored by regulators, will be more effective than existing land-based measures in preventing most minors from gambling. This is one of the areas of control that needs to be addressed by regulation and not prohibition. With new technologies there is the need for a stringent registration process

for players wishing to participate in interactive gambling. Coupled with this should be equally stringent verification procedures for each time a person wishes to participate in any form of gambling. New technologies actually provide regulators with tools not previously available in most traditional forms of gambling, including the ability to provide an audit trail for each transaction, to limit players to total or individual amounts bet, and to block participation by specified players or classes of players, such as college athletes.

Similar arguments have been made regarding problem gamblers. That is, if they must be present in a casino to gamble there is more of a chance that they can be identified and assisted. But is this assumption accurate? How many problem gamblers are actually identified and assisted by casino personnel? It would appear that a computer-based system that allows a gambler to self-exclude or to establish loss limits stands a far greater chance of being effective than the systems in place in most casino jurisdictions today. In fact, computer technology provides an opportunity to identify patterns of behavior that may lead to problem gambling, and offer intervention in a more timely and critical manner. Sure, a gambler who is determined to gamble can move from Web Site to Web Site, but a gambler who is determined to gamble could move from one form of land-based gaming to another, including government-run lotteries. While this does not justify on-line gaming it does highlight the inconsistency in some of the arguments put forward by prohibition proponents.

As I make my point for consideration of strong regulation of Internet gaming, there will be those who seek to prohibit Internet gambling based on a feeling that gambling is immoral, or has adverse consequences for the moral fiber of society. This is a fundamental question about the role of government, as to whether the state should protect the individual from himself by minimizing temptations. My only response to those who hold this position is that government-enforced morality has a consistent record of failure, and we need look no further than the March Madness pools in our own offices to understand why.

Another reason for prohibition debate is the one that drives the sponsors of these bills—the feeling that unregulated gambling creates societal ills for a minority of problem gamblers that outweigh its benefits to the majority who can enjoy it without adverse consequences.

Internet gaming already exists. The most recent statistics state there are as many as 1,400–1,650 gaming Web Sites currently operating, a significant increase from only one year ago. Billions of dollars are reportedly being bet over the Internet with little, if any, oversight or guarantee that the operators of these sites are fair and honest or that protections are in place to keep children and compulsive gamblers away. These revenue projections imply that a percentage of these monies are from our citizens and leave the United States with no subsequent benefit, directly or indirectly, to the U.S. or any state (including no dedicated funds for protecting children and problem gamblers through education or other programs).

The IGC believes regulation will do far more to restrict the social ills that attend problem gaming than will any attempt at prohibition. And unlike prohibition, strict regulation will work. I submit to this committee that the question before you is not whether or not you will have on-line gaming—you most certainly will, unless you ban the Internet itself, but the question is whether you will have well regulated, above-board on-line gaming or unregulated, underground on-line gaming. The bills before you opt for the latter.

There is also the question of means of prohibition: A fundamental question before you is the wisdom of deputizing financial institutions and others in seeking to prohibit on-line wagering. While technically it may be possible to limit Internet gaming through content controls, this solution would come at a great cost. Technical solutions, of which none would be 100% effective, could potentially degrade general Internet performance and most certainly would involve a significant intrusion into an individual's right of privacy. A complete prohibition by placing financial controls on this activity would "deputize" financial institutions as the "Internet police." This, in my view, would establish a bad precedent for control of Internet content and possibly hinder this medium's growth.

A clear distinction needs to be made between attempts to regulate the Internet and attempts to regulate gambling. If a type of gambling product is permitted within the jurisdiction then the nature of the medium should not affect the nature of what is being regulated. If gambling is lawful, the means of distribution should not affect the lawfulness. That being said, use of the Internet, as well as other forms of new technologies, in gaming, and in e-commerce generally, is undeniably a difficult and complex public policy issue. With the advent of new technologies, accompanied by an increasing acceptance by the public, there is greater incentive for jurisdictions, and industry, to work together cooperatively. Under this policy, I would not

be at all surprised to see financial institutions charged with the collection of state sales taxes for e-commerce transactions in this scenario. This approach to Internet regulation could leave financial institutions enforcing a patchwork of regulations sufficient to make e-commerce unmanageable.

Finally, there is the important issue of money laundering. The initial claims, made in Congressional hearings and reports of the U. S. State Department and the Financial Action Task Force, were that Internet gaming could be used to launder tainted funds. Money laundering, inherently, depends upon stealth and on-line gaming can potentially, if effectively regulated, be one of the most watched and monitored forms of commerce. Some proponents of this legislation will argue that Internet gambling poses a major threat for money laundering by terrorists. No one at any level in law enforcement has ever alleged, asserted, or, as far as I know, theorized, that terrorist organizations have ever used on-line gaming to launder money. No one, terrorist or otherwise, has ever been indicted for using on-line gaming to launder money. The FBI says it has two investigations open into possible money laundering by on-line gaming sites. I would emphasize that these are only investigations, but if they yield indictments, it will prove that on-line gaming is a lousy way to launder money.

Mr. Chairman, I would like to end my testimony by commending the two authors of this legislation for their desire to minimize the social pathologies that attend problem and underage gaming. While those of us at the IGC have not supported their efforts, we continually respect their commitment, and we are sure that it is rooted in their experience of the harm that problem gambling can impart.

The membership of the IGC is eager to work with them, as we've worked with other governments to address these issues, but we must insist that the only appropriate or effective policies be based in licensing and regulation. I hope at some point, this debate can move beyond the question of how we can get rid of gambling—we can't—and move on to the question of how we can get rid of the problems that can accompany it.

Once again, thank you for the opportunity to testify. I look forward to the question period.

Mr. SMITH. Mr. Catania, thank you for your testimony as well, and let me direct my first question to you. You have acknowledged, as others have and as we have up here who have made opening statements, what you just referred to as the social pathologies that are associated with problem gambling. I know that one of the suggested solutions by the Gaming Council was to limit or restrict the amount that any individual could lose in a given month. Is that one of the recommendations that the Council has made?

Mr. CATANIA. Well, it is something that should be considered and something that should be taken into account. The amount that a player is able to bet definitely would have some effect on it.

Mr. SMITH. How do you determine how much someone can bet?

Mr. CATANIA. It is a very difficult, Mr. Chairman, because as Mr. Kelly had suggested, Dr. Shaffer himself has said that it is difficult to identify a compulsive gambler. The number one question that you have to have to identify a compulsive gambler is for them to tell you what their income is, and most times they don't want to tell you that. So until you can get that, if you limit the amount that a person could lose within a specific period of time, and that has—that could be done by regulation.

Mr. SMITH. But that will depend on what an individual's income—if you limit it to X, \$5,000, that would mean nothing to me there, but it might bankrupt someone who is on minimum wage. So that is why I think it is unworkable. You are welcome to respond, though.

Mr. CATANIA. Well, again, it is going to depend upon what the person's income is.

Mr. SMITH. Okay. Thank you, Mr. Catania.

Mr. Kelly, you mentioned some of these social problems that I have just been alluding to and to sort of refresh—not your memory but my memory, you have mentioned youth gambling, pathological gamblers and criminal use. Why would regulating the Internet, or illegal gambling over the Internet be able to address these problems? As I have just indicated with that one question, I am not sure that regulating the Internet is going to address those problems, but why do you think it would not?

Mr. KELLY. Why regulation as opposed to prohibition would not address these things?

Mr. SMITH. Correct.

Mr. KELLY. I believe we came to the conclusion, somewhat similar to the conclusion you were reaching just now, that regulation is unworkable. It seems to me that in fact you have two points of view on this thing. Those who are pro regulation are suggesting that prohibition is unworkable. Those who are pro prohibition are suggesting the regulation is unworkable. I believe the conclusion to be reached is that frankly regulation would be unworkable and you would therefore continue to have gambling opportunities galore in the home, in the college, in the dorms, et cetera, and that you would continue to have lots of potential for criminal abuse, and you would continue to have this form of gambling quite readily available for pathological gamblers that—I respect Mr. Catania said that there would be some way to perhaps identify a problem or pathological gamblers and intervene in some form or fashion. I would be very curious to know how that would work. So I believe from the prohibition point of view, which is what the Gambling Commission ended up on, the idea of regulation seems unworkable.

Mr. SMITH. Okay. Thank you, Mr. Kelly. I don't have any other questions. The gentleman from Virginia is recognized for his.

Mr. SCOTT. Thank you, Mr. Chairman. Mr. Chairman, I would ask unanimous consent that the statement of Lisa Dean and Bradley Jansen, who represent Free Congress Foundation, be introduced.

Mr. SMITH. Without objection, both this opening statement to which the gentleman just referred as well as the Department of Justice's opening statement will be made a part of the record.

[The information referred to follows in the Appendix]

Mr. SCOTT. Thank you.

Mr. Chairman, I think one of the things we have heard on regulation, I think—I would agree that trying to regulate the gambler, talking about different sites, coming in and on, using different credit cards to different sites, you may not be able to regulate the gambler, but you may be able to regulate the site. Whether or not they actually pay off, whether or not their numbers are—whether or not the roulette wheel is a fair wheel and that sort of thing, I think they can be regulated. You may lose that.

But let me ask a couple of questions about the impact of the bill. What impact would passage of either of these bills have on access to a casino run out of Afghanistan?

Mr. CATANIA. I don't think it would have any impact. I think there will come a time when financial transaction will take place in a different manner on the Internet, and I think it will continue to operate that way.

Mr. SCOTT. What effect would the passage of the bills have on the ability to use the credit card to get money to the casino in Afghanistan?

Mr. CATANIA. To use the credit card, it would affect it—in the United States it would affect it but if the credit card company were outside the United States, there wouldn't be any effect. Again, there, other types of financial transaction could be instilled.

Mr. SCOTT. You mean like wiring the money?

Mr. CATANIA. Not only wiring the money. There are such things as e-cash, which is being developed right now on the Internet. You place your money in a—as you said before, in a specific fund and they then disburse that money for you.

Mr. SCOTT. Both bills have the same definition of gambling, which involves a game predominantly subject to chance. Is poker or backgammon a game of chance?

Mr. CATANIA. I would say poker and backgammon are more a game of skill.

Mr. SCOTT. Will they be covered by either bill, if you have a virtual game, a virtual backgammon game?

Mr. CATANIA. I think it would still be open for question.

Mr. SCOTT. Okay.

Mr. KELLY. Congressman Scott, could I offer a comment on that?

Mr. SCOTT. I am sorry. Sure.

Mr. KELLY. One of the things we spent some time on was the video poker machines that have spread, you know, quite rapidly through South Carolina, for instance, for a while there until recently, and I believe if you watch someone playing that you will come to the conclusion that there is not much skill involved in that. If you have, however, watched someone play video poker, it moves very rapidly. You simply do one poke for the delivery of the hand, poke-poke for which cards are going to be replaced. Then the game is over and then you poke a new hand. It is just three pokes at a time.

Mr. SCOTT. Video poker, but a virtual poker game where people sign online and play against each other would be an entirely different—

Mr. KELLY. I see what you are saying.

Mr. SCOTT. That video poker, you are right—

Mr. CATANIA. I wasn't considering video poker when answering your question. I was considering—

Mr. SCOTT. Or video poker when you sign on or play back, both of you put up ten bucks and the winner gets the winnings, take off a little cut for the casino.

Mr. KELLY. Understood.

Mr. SCOTT. If this Internet gambling is legal in a particular State and people sign on, how do you know where you are if you are on the Internet?

Mr. CATANIA. Well, there are different types of technology, technology that they use by using the database from the credit card, using the database of area code where the phone calls comes in. It is different types of technology that are available to the companies. Some companies who are out there right now have put out effective blocks on the U.S. so that they take no bets from the U.S., plus other jurisdictions where they feel it might be prohibited also.

Mr. SCOTT. And finally, what effect would the passage of either of these bills have on charities? If you don't have a comment on it, don't comment.

Mr. CATANIA. I have no comment.

Mr. KELLY. I have no comment.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Scott. I am going to recognize the gentleman from Virginia, Mr. Goodlatte, for two things, one to ask questions, and also I am going to ask him to sit in for me for a few moments while I have a conflict that I have to attend to.

Mr. GOODLATTE [presiding]. Thank you, Mr. Chairman. I promise that I will chair this meeting in a totally impartial manner.

Mr. Catania, I think Congressman Scott asks a very legitimate question, but I would like to follow up on it. How would you regulate a casino operating from Afghanistan if you were the State of Virginia or the United States Government?

Mr. SCOTT. Well, Mr. Chairman, could I comment on that, I mean because you are following up on a question I asked—

Mr. GOODLATTE. Well, go ahead.

Mr. SCOTT. The purpose of the regulation is you know you can't do anything with Afghanistan, but if you have a Virginia casino with a seal of approval, people would not gamble in an Afghanistan casino. They would do the Virginia program, which you know is regulated because it is in Virginia.

Mr. GOODLATTE. Oh, I think that is highly speculative, but my legislation doesn't prohibit the State of Virginia from doing that. If they can do what Mr. Catania says, technology would allow it to make sure they are only engaging in it in Virginia and they are only involving minors. I don't believe the technology is anywhere near as sophisticated to be able to do that, but be that as it may, that is not going to stop thousands of offshore sites from offering casino gambling operations in the United States as they do today.

We have offered a measure that increases law enforcement's ability. Certainly I agree with you it is not going to be 100 percent effective, but it will reduce greatly the number of people who will go to the trouble of creating third party accounts and all the other things necessary to participate in this.

My question for you, Mr. Catania, is how would you regulate a site in Afghanistan or in Antigua, for that matter, where a great many of the members of your organization—I note your organization is in fact headquartered outside the United States.

Mr. CATANIA. Let me just say this. I don't think there could be any regulation with regard to that site in Afghanistan or any other place. I don't think unless—you are going to be seeing countries such as the United Kingdom very shortly be revising their gaming regulations and have Internet gambling. I don't know whether or not they are going to be prohibiting bets being taken from the United States. Australia has—already has this type of legislation and they do not prohibit any bets being taken from the United States. So these companies are regulated. They are regulated by different States. For example, Victoria, New South Wales, these are gaming—

Mr. GOODLATTE. Well, I understand that, but if the State of Virginia, which does not allow casino gambling, doesn't want a com-

puter located in Afghanistan or Great Britain or Australia or any place else offering casino gaming services in Virginia, how would they regulate what that operation in Great Britain or Australia does? They would either have to, it seems to me, have a way to cut off people in Virginia from participating in these illegal sites outside the country or they would have to have a cooperative agreement with Great Britain that did not allow them to offer those services in Virginia.

Mr. CATANIA. But you also have to—the Internet has a matter of trust and if you have—if the State of Virginia, for example, were to allow Internet gambling, the people would gravitate to the site that is regulated by that particular gaming jurisdiction. For example, if the State of New Jersey and the Division of Gaming Enforcement, which has a very, very competent staff, and I know that they could regulate Internet gambling—I mean, I had a report when I was there that was made up from our staff, and at this point I had no indication of what was happening with regard to Internet gambling. It came back very simply stating that we could regulate Internet gambling—

Mr. GOODLATTE. The fact—looking in terms of the legislation that I have offered, which does two things. It upped—it modernizes the Wire Act to make it clear that decades-old principles that exist in this country with regard to gambling that it is illegal unless regulated by the States continues and, secondly, to give law enforcement new injunctive powers. If what you are telling me is we are simply going to rely, based upon what you propose, on people in Virginia only placing bets in Virginia on the Internet, I am not willing to accept that when there are 1,400 businesses out there right now offering these opportunities to Virginians and people in other States right now. Why would they suddenly say, well, all the other ones are, we are not going to do it? And even if your assumption is correct, what would be wrong with giving the State of Virginia and the United States Government, for that matter, that additional authority to, one, have the law that we have in this country modernized, and, two, give them new injunctive powers to make sure that people who are not licensed and regulated and paying taxes in Virginia are not engaged in business in Virginia?

Mr. CATANIA. Mr. Goodlatte, right now there is no money staying in the United States. There is no money—it is all going out to other places, and basically let us put aside any of the arguments about money laundering because I can—and my opinion is that the Internet gambling, if it is well regulated, is very difficult to do any money laundering.

Mr. GOODLATTE. No, I don't agree with that, and here is why. If you have a computer with software programming offering any type of gaming and you are engaged in criminal activities or you are engaged in accruing funds to engage in terrorist activities, which is what the Justice Department has testified they are conducting two such investigations right now, you can locate in some place in the world, like Iraq or Afghanistan, and operate that type of business. The person online doesn't know they are dealing with somebody in Iraq, and they can be sucking money out of the United States for the very purpose of using that money to later retaliate against the

United States and perpetrate the terrorist attacks here. I think it is a legitimate concern.

Mr. CATANIA. What happens is when you do suitability testing, suitability investigation of the people who operate it, the same as you do in any other type of casino operator, you do a full background investigation, knowing that they have the character, honesty and integrity necessary to operate a business such as this. Once you do that, you know that that person doesn't have the criminal mind that is—or the intent, the criminal intent, to do money laundering. It is very difficult to do it on the player's side. I mean, even some—even some legitimate sites, you cannot go in and place one bet on red, one bet on black, because what happens is it is automatically thrown out, because it is a bet against one's self. And the computers can do this. I mean, you have an audit trail that comes up, and it is real-time. You can find out every—if I was playing online, you can find out every card I had, every game I had, every single individual bet that I had over a specific amount of time. It is much different if you went into a land-based casino.

Mr. GOODLATTE. We are talking about the operators of these activities, not an individual better.

Mr. CATANIA. Well, I answered the question with regard to what I think is how it could be with regulation and that is the character, honesty and integrity. It has worked. It has worked in the gaming industry. The casino industry in this country, since the 1970's, has moved to a place where most of these companies are—all of them, in fact, are probably on either of the stock exchanges.

Mr. GOODLATTE. Mr. Catania, I wouldn't argue with that. It is a whole new world on the Internet.

My time has expired. I have got to recognize the gentlewoman from Texas, but I will give you a minute to finish your answer there.

Mr. CATANIA. I have forgot—I missed my train of—

Mr. GOODLATTE. Let me ask a question. Maybe it will prompt it before we—

Ms. JACKSON LEE. I will be happy to yield to the distinguished gentleman from Virginia for a question.

Mr. SCOTT. Thank you. I had one question. If you had a choice between a Caesar'sPalace.com regulated by the State of New Jersey or AfghanistanCasino.com, which one do you think people would bet on?

Mr. CATANIA. Without a doubt, they are going to Caesar's because of the fact they know they are going to get paid if they win.

Mr. SCOTT. Thank you.

Ms. JACKSON LEE. Thank you very much. Mr. Chairman, I would like to submit my statement into the record and ask unanimous consent to submit the statement into the record.

Mr. GOODLATTE. Without objection, so ordered.

Ms. JACKSON LEE. I thank the gentlemen for their testimony and because of the debate on the floor of the House, I was delayed in hearing your oral testimony, but I would appreciate very much your representation on the line of questioning that I have already heard. Mr. Catania, you have argued that you believe we would be secure enough with regulation as opposed to prohibition. We have

had previously laws that have prohibited certain forms of Internet gambling. My concern is that the technology is so widespread, so sophisticated, so interwoven, particularly as it relates to the ability to gamble not only across State lines, but also in foreign places. Now, how would your regulation provide enough safety to wagers, innocent victims? When I say that, people that should not be wagging bets—and children?

Mr. CATANIA. Well, with regard to children, it has—let us start with—

Ms. JACKSON LEE. Underage gamblers.

Mr. CATANIA. With underage gamblers, you have to have a specific way of getting online, and some companies, what they have done is basically have a registration form with numerous questions on it, specifically the age of the person, the credit card, all that information, some banking references, and specify the number of a driver's license or the number of a passport or some type of personal identification that has to go in that. What happens then is that person is limited on the amount of money that they could bet.

For example, if my son were to get online and start using my credit card, he would be limited on it to \$250 that he would be able to wager until it was approved. The company then sends out a code, and that code goes out in a generic-type envelope without coming in from any type of casino to that individual. So if he was using my credit card, it comes into me, and it has a code or a PIN number. That PIN number—what the company then does is within a matter of a week or two puts back up that same application and asks for the same information. If there is any variation between any of the information, he is automatically logged off. Also if he fails to give that new PIN code number, he or she is logged off. It is some way of trying to reduce the amount of underage gamblers from playing online.

You know, it is also—when I was director, it is difficult even when you have the physical presence of the underage player in a land-based casino to keep them out. You can't do this 100 percent of the time. It is difficult, and it would be—I can't sit here today and say we are going to keep all the kids off the Internet gambling. You can't do that, and no one could promise that, but there are different ways. There are sources now that have biometrics with regard to the thumbprint. There are different GPSs that they are putting on computers. These are things that are just in the process of being established, and I think that before regulation these are all items that have to be addressed in the regulations.

Ms. JACKSON LEE. I think you have made a best-case argument for regulation, except for the fact that you have noted that it is not a perfect system, and I guess I am trying to wonder if they are using your credit card how can you secure that the code comes back to you? I assume the underage but very bright juvenile would make sure that the code would come back to them so if they did \$250 at one shot, they would be doing it Thursday and then they will do it again on Sunday and so they get several bites of the apple.

Mr. CATANIA. There is also a special code on the back of all credit cards now so that you have to have that code. That is one item that you have to ask for, so that they would have to have the physical presence of your card in their possession. There are just different

ways that you have to be able to do this and continue to do it. I mean, you just have to continuously monitor. And if different procedures are able to come up that give you a better product, then you have to take them.

Ms. JACKSON LEE. Let me—and I pose this question to both of you, but I would like Mr. Kelly to address it first. As a Member of the Judiciary Committee, I am very sensitive to interfering with interstate commerce, which is arguably interstate gambling. You have—I believe your testimony suggests that you support prohibiting such—if I am correct, and correct me if I am wrong. Would you comment on why you believe it is important for the prohibition but, more importantly, also how that impacts land-based gambling if we—is that a prohibition on the part of their business, or does it enhance them, or how does that interact with land-based gambling?

Mr. KELLY. Thank you, Congresswoman. If I could, I would like to also skip back to the question of Afghanistan versus a Virginia casino.

Ms. JACKSON LEE. Feel free.

Mr. KELLY. There is perhaps another point of view on this, Congresswoman, in terms of which would be more attractive. We have States with State-sponsored lotteries, and yet people within those States still play the numbers game, illegal numbers racket. When we asked them why, they said because the odds are better on the street. If Afghanistan.com offered better odds, my belief is that you would have a good number of gamblers that would go there, even understanding that there is a risk to that.

Mr. GOODLATTE. I thank the gentleman.

Ms. JACKSON LEE. He didn't finish. He wanted to get Mr. Scott's question. So he is getting ready to—I appreciate it—

Mr. GOODLATTE. If he would be brief. I would like to get Mr. Chabot in before we have to go vote.

Mr. KELLY. Just briefly, Congresswoman. The Commission relied heavily on the testimony of the representative of the National Association of Attorneys General. They were the ones that pointed out to us that they felt that this matter of Internet gambling could not be addressed on the State level, precisely because it transmitted across State lines so readily, and basically they were pleading for Federal intervention, a rare thing for NAAG to do, as you know.

In terms of the effect on land-based casinos, I take note of the fact that the—I believe the American Gaming Association has come down on this on both positions, if you look at their statements over a span of time. I believe they have held off from entering the Internet gambling market but have stated that if the market becomes available, they are going to jump into it hook, line and sinker.

Mr. GOODLATTE. Thank you. The gentleman from Ohio, Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman, and in light of the fact that we have a vote on the floor here, I will be very brief and just ask one question, and if this question has already been asked, I apologize, but as oftentimes happens around here we have several Committees going on at the same time, meetings everywhere. So again, if somebody already asked this, I apologize.

Mr. Kelly, as you know, charitable organizations often raise funds through festivals, lotteries, bingos, you name it, which is legal in nearly every State. Many charities anticipate raising funds on the Internet through online gaming, since they maintain that it is becoming increasingly difficult to raise ample funds through traditional operation. However, both H.R. 556 and H.R. 3215 seem to prohibit charities from engaging in such fund-raising activities on the Internet. How would these bills impact charities, and charities that plan to use online gaming for charitable purposes, and has there been any discussion regarding adding a provision to either bill permitting charitable bingo or lotteries to operate online?

Mr. KELLY. Congressman, I of course can't speak for those who are drafting the actual language of the bills. I am afraid I haven't read them very carefully, but let me point you to the recommendation, number one, that is in my testimony. And it reads this way: To prohibit Internet gambling not already authorized within the United States.

If I remember correctly, I believe that language was in there to address the very concern you raised, that we wanted to make sure that those legitimate uses of the Internet for certain charitable organizations would be considered and would be allowed sort of a loophole, as it were. So I believe that was the intent of that particular recommendation.

Mr. CHABOT. Okay. Very good. Thank you very much.

I yield back the balance of my time, Mr. Chairman.

Mr. GOODLATTE. I thank the gentleman. I thank our panelists. They have both been very knowledgeable about this issue, and we will adjourn this hearing.

The gentleman from—did you have anything else you wanted to add?

I thank everybody for their participation today, and the hearing stands adjourned.

[Whereupon, at 3:25 p.m., the Subcommittee was adjourned.]

APPENDIX

STATEMENTS SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE SHEILA JACKSON LEE, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF TEXAS

I would like to thank Chairman Smith and Ranking Member Scott for convening this very important hearing today.

We are here this afternoon to discuss gambling operations on the Internet. Gambling on the Internet has become a very lucrative business. The Internet gambling industry's revenues grew from \$445 million in 1997 to an estimated \$1.6 billion this year.

H.R. 556 and H.R. 3215 are being heard together because they relate to the prohibition on Internet gambling. State attorneys general have been frustrated in their attempts to prevent Internet gambling from permeating their borders. Many Internet gambling sites require bare minimum information from gamblers to participate. Security on bets placed over the Internet has proven ineffective. And unlike traditional regulated casinos, Internet operators have no demonstrated ability or requirement to verify a participant's age or identification. Also, an Internet gambling site can easily take a person's money, shut down their sites, and move on.

H.R. 556 would prohibit Internet gambling businesses from accepting bettors' credit cards, electronic fund transfers, or checks in connection with bets or wagers. This bill also allows State and Federal Attorneys General to issue injunctions to any party to assist in the prevention or restraint of this crime. This bill would allow federal bank regulators to take appropriate enforcement actions against any institution that knowingly permits its facilities to be used in connection with illegal Internet gambling.

H.R. 3215 amends the Wire Act to clarify that its prohibitions include Internet gambling by bringing the current prohibition against wireline interstate gambling up to speed with the development of new technology and expanding the existing prohibition to include all bets or wagers, not only those on sporting events or contests. The bill also prohibits a gambling business from accepting certain forms of non-cash payment for the transmission of bets and wagers in violation of this Act. The bill also allows Federal, State, local, and tribal law enforcement to seek injunctions against any party to prevent and restrain violations.

I am an original co-sponsor of H.R. 3215 because of my grave concern that children and teenage gamblers, who have wide access to the Internet, will abuse the Internet for gambling.

A study released by the American Psychological Association finds that pathological gambling is more prevalent among youths than adults. Between five and eight percent of young Americans and Canadians have a serious gambling problem, compared with one to three percent of adults. The study went on to say that with gambling becoming more accessible in U.S. society, it will be important to be able to intervene in children's and adolescent's lives before the activity can develop into a problem behavior.

Gambling over the Internet only represents reprehensible activity that we simply cannot condone, but such gambling also perpetuates the addictive nature of gambling.

Given the fact that the majority of our citizens have access to computers and the Internet, we must ensure that the Internet is used for the right reasons such as education and communication. We cannot forget that people utilize the Internet in a global marketplace of ideas.

While I am concerned about the impact of gambling, I am also concerned with individual freedoms and personal choices.

I look forward to hearing the testimony and comments by our speakers today in order to reconcile these issues. We must find a way to address this very serious problem of Internet gambling.

PREPARED STATEMENT OF MICHAEL CHERTOFF

Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to provide a statement Internet Gambling. The issue before this Subcommittee is one of singular importance, and I commend the Subcommittee for holding a hearing on this issue. I would also like to commend Congressman Goodlatte for his efforts to provide law enforcement with the additional statutory tools it needs to address Internet gambling. His hard work is apparent in the thorough approach he has taken in crafting the bill he has introduced, H.R. 3215.

Over the past few years, the number of Internet gambling sites has grown dramatically. At the July 24, 2001, hearing before the Subcommittee on Financial Institutions and Credit of the Committee on Financial Services, Representative Kelly stated that Bear Stearns recently estimated the number of Internet gambling websites at 1,200 to 1,400. The types of gambling offered by these websites include sports betting, lotteries, casino style games, and person-to-person betting.

The Internet and other emerging technologies have made possible types of gambling that were not feasible a few years ago. For example, a United States citizen can now from his or her home participate in an interactive Internet poker game operated by a computer located in Antigua or some other country. Not only have the Internet and other emerging technologies permitted gambling in the home, they have made it anonymous and readily available.

The growth of Internet gambling can lead to adverse effects, such as fraud or gambling by minors. Additionally, Internet gambling businesses provide potential vehicles for money laundering. Because the Internet allows instantaneous and anonymous communications that are difficult to trace to a particular individual or organization, the medium is attractive to criminals. Individuals wanting to launder illegally-received gains can do so through the operation of or interaction with Internet gambling businesses, which offer their clients virtual anonymity, often exercise little control over money movement through their facilities, and make it difficult to determine which jurisdiction has authority over their activities.

Most of these gambling businesses are operating offshore in foreign jurisdictions. If these businesses are accepting bets or wagers from customers located in the United States, then these businesses are violating federal law. While the United States can bring indictments against these companies or the individuals operating these companies, the federal government may not be able to bring such individuals or companies to trial in the United States for a variety of reasons.

The Justice Department believes that it is important to update existing federal law to cover gambling over emerging technologies, such as the Internet and wireless communication media. In that regard, the Department strongly believes that federal law should be technology-neutral. Congressman Goodlatte's bill, H.R. 3215, would update current law in a technology-neutral manner. We support that approach.

In conclusion, unlawful Internet gambling continues to be a serious problem. Both Congressman Goodlatte's bill and H.R. 556 offer useful approaches to combating this problem. While we have some technical and other concerns about both of these bills—which we intend to communicate to you in the near future, following additional interagency consultations—we support their sponsors' efforts to address gambling on the Internet.

**Statement of Lisa S. Dean and J. Bradley Jansen
Before the Subcommittee on Crime
House Judiciary Committee
On the Internet Gambling Proposals
November 29, 2001**

Mr. Chairman, members of the Committee, thank you for allowing us the opportunity to present testimony on H.R. 556, the "Unlawful Internet Gambling Funding Prohibition Act"; and H.R. 3215, the "Combating Illegal Gambling Reform and Modernization Act." Lisa Dean is the Director, Center for Technology Policy, and Brad Jansen is the Deputy Director, Center for Technology Policy, at the Free Congress Foundation, a Washington, DC based think-tank focusing on the culture of American conservatism and our Constitutional liberties.

The Free Congress Foundation strongly opposes H.R. 556 and H.R. 3215 because we believe they fly in the face of conservative principles of federalism, individual responsibility, and limited government.

As Free Congress has testified previously, we are deeply concerned about the speed with which gambling has spread from Las Vegas across the country and into American living rooms. However, of much greater concern to us is the speed with which the long arm of the federal government has spread from Washington, DC, into American living rooms.

While there are some who would oppose gambling at any cost, we recommend a more sober analysis of the cost-benefit ratio. In this case, the costs clearly outweigh any alleged benefits. These bills represent a major step backward in the fight against the creeping assault on individual liberty.

These proposals put several critical components of American democracy at risk.

First, this legislation makes a mockery of States' rights and the Tenth Amendment to the United States Constitution. Throughout the history of this country, gambling has wisely been dealt with as a state issue. Community standards differ from state to state, and from region to region. Imposing a one-size-fits-all policy from on high in Washington, DC, is at best, misguided, and at worst, dangerous. We strongly believe that gambling in cyberspace, like gambling in the real world, should be dealt with at the state level, not at the federal level.

In addition, this legislation represents a blatant disregard for the principles of federalism on which this country was founded. Nowhere is that disregard more evident than in the way the bill deals with gambling on State lotteries. Taking the power away from states to regulate their own lotteries is an arrogant usurpation by the federal government of one of the most fundamental rights of states-the right to self-governance.

Second, these legislative proposals represent the worst kind of government-enforced industrial policy. They essentially say that all Internet gambling should be prohibited-except gambling on horse racing, dog racing, and similar activity. While some might suggest that the broad carve-outs contained in this legislation exist to preserve states' rights, why have a bill at the federal level?

We believe that allowing some gambling over the Internet while outlawing others is nothing more than the federal government picking winners and losers in the marketplace, and question where the federal government gets the moral or legal authority to say that a bet on the Kentucky Derby is acceptable, but a bet on the Superbowl should be outlawed. H.R. 3125, the Combating Illegal Gambling Reform and Modernization Act, carves out special exemptions for politically-favored special interests such as horse

racing and jai alai.

Third, and perhaps most important, is the issue of government regulation of the Internet. H.R. 556, the Internet Gambling Funding Prohibition Act, would effectively deputize credit card companies as Big Brother forcing them to monitor our online activities and report them to the government. Giving the controversial Financial Action Task Force more legitimacy adds credibility to their campaign against privacy and for higher taxes.

We believe that the issue of Internet gambling is very much like the issue of smoking. While many of us abhor smoking, would never do it, and teach our children to stay away from cigarettes at all costs, we do not want the government to step in and tell us whether or not we are allowed to smoke. Because if the federal government can tell us whether we can smoke, or whether we can gamble, eventually it is going to try to tell us what we can read and where we can worship.

We also concerned about the unintended consequences and likelihood of mission creep with these proposals. They represent the first major threat by the federal government to impose a wide-ranging regulatory scheme on the Internet. As such, we believe it is not inconceivable that passage of this legislation could be the first nail in the coffin of a tax-free Internet.

But taxation is only one potential problem. When we use the term "gambling", we are referring to casinos, horse racing, lotteries and other games of chance. The definition is a rather narrow one but for those who are seeking the opportunity to regulate the Internet, they would likely use this legislation to expand the definition of gambling to include online auctions or even day trading. From there, it is not much of a stretch to

include other industries as well which Washington doesn't like.

Proponents of these bills need to recognize past legislative realities. Congress has already passed specific laws supporting interstate gambling such as the Interstate Horseracing Act (1978) and the Indian Gaming Regulatory Act (1988).

Acknowledging that the United Kingdom has decided to make online gambling a legitimate industry, few people would agree with the characterization of "offshore gambling havens" as just small, tropical islands. The effect would be to encourage U.S. citizens to set up legal offshore bank accounts to gamble legally offshore which would not stop gambling but would hurt our banks and other financial institutions.

We realize that this is not the intent of the sponsors of H.R. 556 and H.R. 3215 but rather the intent of those who seek to control an industry that is young and inexperienced in the world of Washington politics, nevertheless, it is a stark reality and this legislation would give the green light to those who wish to regulate this new medium and marketplace.

These bills also separate those who are willing to have the federal government step in no matter what from those who truly believe in a limited federal government, and are leery of Washington stepping in to try to achieve goals that are best accomplished by the states or the private sector.

For these reasons, we strongly urge the Committee to reject the approach taken by H.R. 556 and H.R. 3215.

Thank you for allowing us to submit testimony, and we would be happy to answer any questions you may submit.

