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EVALUATING THE FINE LINE OF LEGALIZATION IN AMERICA SECOND

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ABSTRACT

This thesis investigates the fiscal correlation between the U.S.'s national deficit and the point when specific activities and products become legalized for consumption. The purpose of this research was to specifically investigate the effects of the deficit currently incurred by the state of California and its consequences on the economic state of the nation. This paper also investigates the historical data and fiscal points at which previously illicit acts became legal in America, particularly the repeal of Prohibition and modifications to laws governing gambling in our nation. The analysis weighs the pros and cons of such cases of legalization and seeks to demonstrate that our national government heavily considers the economic state of the country when modifying legislation, in addition to our ever-changing social culture.

Table of Contents

Introduction.....	1
Enactment and Repeal of Prohibition.....	2
The National Prohibition Act.....	2
Repeal of the Eighteenth Amendment.....	4
Alcohol Revenue and Taxation.....	8
Gambling in America.....	10
Historical Gambling Laws.....	10
Revisions to Federal Gambling Laws.....	13
Internet Gambling.....	15
Gambling Revenue.....	18
California.....	21
Current Economic State.....	21
Proposed Resolutions.....	23
Legalization as an Answer.....	24
Risks and Benefits of Legalization.....	26
Summary.....	27
References.....	29

List of Tables

Table 1.....	7
Table 2.....	9
Table 3.....	19
Table 4.....	20
Table 5.....	20

Introduction

With the United States' current fiscal deficits only worsening with time, it is a naturally drawn conclusion that a solution will need to be reached shortly in order to account for the shortage of funding. In the past, the government has established certain moral boundaries which they maintained would not be crossed. However, in the past the government has also eventually crossed some of these previously upheld thresholds. The question this thesis seeks to answer is: did the United States' administration abandon its previous moral grounds merely due to a society changing with the times, or to benefit fiscally?

This paper examines the effects of two major historical revisions to federal and state law: the repeal of the Eighteenth Amendment, or Prohibition, and the revisions to many states' laws allowing for the legality of gambling. Each of these modifications to the law set the ball rolling on creating new cultural and legislative precedent within society. A brief assessment of the impact of the social culture surrounding these new regulations will be given. This research will also discuss the financial impact these new policies had on the economic state of the nation and the various states in which they were enacted. The analysis will additionally consider the former economic state prior to the revisions to the law, as well as the conditions experienced by the territories following the enactment of the new policies. Following the historical analysis portion of the paper, the current economic conditions the U.S. is facing will be explored. More specifically, the deficit presently experienced by the state of California will be analyzed, as well as the implications this individual state's financial shortage has on the nation as a whole.

After comparing both the historical and current economic circumstances faced by the nation and the various states, the research will be concluding with the proposition of possible legalization point for the state of California and explaining the tradeoffs between the fiscally beneficial aspects of legalization and the legal precedent-setting implications of such a revision.

ENACTMENT AND REPEAL OF PROHIBITION

The National Prohibition Act

In order to understand exactly why the repeal of the Eighteenth Amendment was a societal necessity during its time, the reasoning behind enacting Prohibition must first be examined. Deemed the “noble experiment” (Schrad 1), academics have often chalked up this period of intolerance to alcohol as being based on individual conspiracies, cultural changes, social movements, or self-interested bureaucracies, which were partially responsible for the movement (Schrad 1). More accurately contributing to America’s adoption of the Volstead Act, (U.S.C.9 § Title 3) which completely outlawed the production, distribution, and sale of intoxicating liquors though not its actual consumption, was perhaps the worldwide disapproval for alcohol consumption, beginning as early as 1907 in some provinces of Canada (Autumn 1). With Prohibition policies adopted through federal law in ten nations worldwide, and endorsed by various temperance groups in nearly every nation, the United States was under mounting pressure in the late 1910s to reform its laws regarding alcohol. This pressure might be best exhibited by the speed with which the Eighteenth Amendment

was ratified; a mere 395 days. And, while the bill proposing the Eighteenth Amendment was originally vetoed by President Wilson, the House of Representatives immediate vote to override the veto, and The Senate's rapid approval, exhibited just how powerful the public sentiment regarding the barring of alcohol was.

In addition to the overwhelming insistence on Prohibition from national temperance movements and the setting of international prohibitive precedents, the economic state of U.S. in the late 1910s to the early 1920s should also be taken into account; though, many academics have discounted this factor from their studies of the Eighteenth Amendment (Schrad 1). In the U.S., the 1910s was a period of great economic growth and expansion, based mainly around the industrial sector. With the rapid development of such industrial sectors of the economy, including mining, manufacturing, and transportation, the workforce experienced an increase in the number of employed workers by over 27% (Smiley 1). In addition to the surge in employment in ordinary wage-earning positions, the nation also experienced a massive rise in the number of supervisory positions by more than 66% (Smiley 1). The expansion of the industrial division in America was not the only booming aspect of the economy. Overall, the nation's entire workforce experienced a trend of prosperity. Labor turnover rates, measuring the patterns of employment movement of workers in and out of a specific firm, reached a record low during the latter part of the decade, with layoffs accounting for the least of the factors leading to the separations between employer and employees (DePaul 1). While the unemployment rate in 1910 was approximately 6%, (1910 Census) the unemployment rate dropped drastically to a mere 3% during the decade

(1910 Census 1), alluding to the considerable increase in the amount of workers and low labor turnover rates.

With a bustling industrial sector and overall strong employment statistics across the nation, the economic outlook of the late 1910s was certainly promising. This confident and assuring state of the American economy, certainly contributed to the passing of the Volstead Act by Congress in 1919 (Schrad 1). The economy of the U.S. was clearly not suffering, and the government saw no need for the maintenance of a profitable alcoholic beverage industry; the situation was actually quite the contrary. This shared feeling of confidence in and the stability of the economy at that time indirectly allowed for the exclusion of an industry that the U.S. felt was superfluous to a financially prosperous nation.

Repeal of the Eighteenth Amendment

The period of ratification of the Twenty-First Amendment, which repealed the Eighteenth Amendment, experienced many factors comparable to the ratification of the Eighteenth Amendment. In the company of a select few other nations, including Finland and the oceanic provinces of Canada (Schrad 1), the United States found itself as one of the only remaining nations to enforce policies of Prohibition. All other nations which had previously implemented federal Prohibition policies had vacated these regulations by 1927 (Blocker 692). Once again facing the pressure of new international policies, the tide of public opinion began to shift heavily in favor of a society without Prohibition. In 1930, a Literary Digest poll revealed that a meager 30.5% of survey recipients were in

favor of maintaining Prohibition (Schrad 1). This nationwide sentiment led to an increasing number of states repealing their statutory bans on the consumption of alcohol (Schrad 1). With the landslide election of 1932 in favor of democratic candidate Franklin D. Roosevelt, an overwhelming Democratic Party majority was also established in both houses. The outcome of the election was interpreted by many Americans as a means to the end of Prohibition, with the winning party decisively against Prohibition (Schrad 1).

It was not merely just the shift in public opinion and the seizing of the majority by the Democratic Party and President Roosevelt which was the underlying factor in the call to reform of Prohibition. In 1929, the American economy experienced what is still one of the most severe crashes in our nation's history. With the plummeting of the stock market and the onset of the Great Depression, the U.S. found itself facing its highest unemployment rates to date at that time (Smiley 1). In the wake of this catastrophic collapse, the government and public began to recognize the value in a profitable industrial resource which was completely untapped: the liquor and alcoholic beverage market. Just as the dilemma of the First World War allowed for extensive changes in policy across the nation, the Great Depression opened the door for subsequent policy modifications throughout the country, specifically the revocation of national Prohibition in the U.S.(Schrad 1).

In addition to the consequences of the 1929 crash, the economy of the U.S. also suffered two smaller-scale recessions in both 1924 and 1927 (Steindl 1), which led to

both a noticeable increase in unemployment rates and a decrease in gross national product. In opposition to the seemingly smooth growth periods and economic prosperity in the late 1910s, the workforce also endured a sharp upturn in unemployment rates in 1921 when they reached approximately 9% (Smiley 1). Economic growth in the U.S. also exhibited some of its lowest numbers of the period from 1926 to 1929, hovering at around 1%, compared to the over 2% demonstrated in 1919 (Steindl 1). While these numbers are certainly marginal compared to the drastic statistics produced by the crash of 1929, they are undoubtedly in direct conflict with the numbers shaped by the period of economic stability of the latter part of the 1910s (Smiley 1).

Though the downfalls in the economy did not directly lead to the ratification of the Twenty-First Amendment, these pitfalls set the stage for a period of unsettling economic distress following the stock market crash of 1929. Unemployment rates skyrocketed from approximately 3% (Steindl 1) in 1929, prior to the crash, to a staggering 25% in 1933, with nearly 12 million citizens unemployed (Steindl 1).

“The national economic collapse which began late in 1929 and gradually enveloped every aspect of American life affected the prohibition situation as profoundly as it did all else. The growing malaise of the Great Depression introduced new political and social as well as economic circumstances, greatly accelerating the revolt against prohibition and causing the prospect of repeal to be taken seriously for the first time” (Kyvig 116).

In the midst of such an economic catastrophe, the rational argument of a freshly-revived, legal alcoholic beverage commerce in the nation would unquestionably restore much-needed jobs, as well as generate large cash flows in tax revenue for the government (Schrad 1). Additionally, the enormous savings the government would

experience from the new allocation of funds previously placed in the enforcement of Prohibition could not be discounted. Though many Americans during the period felt that enforcement tactics utilized by the government were entirely unsuccessful (Schrad 1), massive amounts of funding were placed into the various facets of the Prohibition implementation, as is demonstrated in Table 1 (Thornton 100).

Table 1. Federal Expenditures upon the Enforcement of Prohibition
(In Thousands of Dollars)

Year ending June 30	Bureau of Prohibition	Coast Guard	Indirect Cost	Total Cost	Fines and Penalties	Total Net Expenditures
1920	2200	0	1390	3590	1149	2441
1921	6350	0	5658	12008	4571	7437
1922	6750	0	7153	13903	4356	9547
1923	8500	0	10298	18798	5095	13703
1924	8250	0	10381	18631	6538	12093
1925	10012	13407	11075	34494	5873	28621
1926	9671	12479	10441	32591	5647	26944
1927	11993	13959	11482	37434	5162	32272
1928	11991	13667	16930	42588	6184	36404
1929	12402	14123	16839	43364	5474	37890
1930	13374	13558	17100	44032	5357	38675
Total	101493	81193	118747	301433	55406	246027

Source: Thornton 100.

Perhaps the most interesting statistic provided by the Bureau of Prohibition is the total net expenditure for the year of 1930, in which the American government incurred its highest expense in the battle against alcohol, nearly 16 times the total expenditures originally spent by the government in 1920 (Thornton 100). This large sum is seemingly counterintuitive, after suffering such a staggering crash to the market in 1929.

With the overwhelming majority of the public openly against the continuation of Prohibition (Schrad 1), an increasing number of states began to repeal their statutes concerning the banning of alcohol (Schrad 1). In 1932, the proposed amendment to repeal the policies of the Eighteenth Amendment was sanctioned by Congress. Following the lead of the states, the newly inaugurated president proposed the first modification to the Volstead Act (U.S.C. 9 § Title 3), which quickly passed, allowing for the first relaxation to America's prohibition policies. And, while the speed with which the Eighteenth Amendment was ratified was certainly ground breaking, ratification of the Twenty-First Amendment occurred in a record breaking 288 days (Schrad 1), compared to the 395 days required to approve the National Prohibition Act (Schrad 1).

Alcohol Revenue and Taxation

Those critics of Prohibition and those who had foreseen the immense potential for proceeds provided by the legalization of the production and distribution of alcohol were vindicated with the repeal of the Eighteenth Amendment. According to Warburton in his 1932 study *The Economic Results of Prohibition*, the U.S.'s potential market for alcohol had foregone an estimated aggregate consumption of \$34,098,000 (Warburton 170) between the years of 1921 to 1930, as is exhibited in Table 2 seen below.

Table 2. Potential Profits from Alcohol Expenditures
(In Millions of Dollars)

Year	Probable Maximum Expenditure Without Prohibition			Estimated Actual Expenditure	
	Spirits	Beer		Spirits	Beer
1921	2212	2307		528	136
1922	2245	2069		2704	188
1923	2279	2100		3504	250
1924	2313	2131		3168	321
1925	2347	2162		3312	398
1926	2381	2193		3568	490
1927	2415	2225		2896	595
1928	2449	2256		3360	726
1929	2483	2287		3616	864
1930	2516	2318		2624	850
Total	23640	22048		29280	4818

Source: Warburton 170.

It was not merely the expected cash flows from the legalized sale of alcohol that was to bolster the state of the U.S. economy in the face of the Great Depression. The repeal of the Eighteenth Amendment allowed for great increases in government revenue through local, state, and federal taxation, along with the proceeds received through licensing fees (Weise 5). Prior to the passing of the income tax amendment, the taxation of alcohol accounted for a substantial portion of federal revenue. With income taxes accounting for the bulk of federal revenue following the passing of the amendment in 1913, the onset of the Great Depression forced the government to suffer a devastating loss in its revenues, suffering a 60% (Weise 5) cut on the income tax revenues received between 1930 and 1933. With the ratification of the Twenty-First Amendment and the renewal of government taxation on the sale of alcohol, the administration was able to

reduce the amount of property taxes paid by homeowners, and therefore substantially unburden the American public (Weise 6).

The decisions to enact Prohibition and subsequently repeal the act through the Twenty-First Amendment, clearly reflect the social culture's opinion at the time. It is also apparent through this assessment that both the Eighteenth and Twenty-First Amendments were heavily correlated with the economic outlooks of the periods, both directly and indirectly. During the period of great economic prosperity and growth in the early 1910s, the federal government was quick to discount the necessity of a flourishing market for alcohol. However, upon facing great economic unrest with the onset of the Great Depression in the late twenties, the administrative of the U.S. easily disregarded their previous moral stances in order to bolster the state of the economy.

GAMBLING IN AMERICA

Historical Gambling Laws

In contrast to the decidedly more clear-cut laws of Prohibition, the laws governing gambling practices in the U.S. are much more complex and vary greatly from state to state, regions within the states, and by the type of gaming practiced by the area. Historically, the federal government did little by way of intervening in gaming practices, and regulation was left to the discretion of the individual states. While the federal government does not necessarily directly control the gambling industry, it does not

outwardly condone the practice, and has placed various nationwide controls on the gaming and betting industries.

The first actual national act passed by Congress which standardized gambling to some extent across the country was enacted through the Federal Communications Act of 1934 (Humphrey 1). Though its name alone is not indicative of the specific constraints placed on gambling through the act, this specific law's intent is to inhibit gaming practices throughout the nation through its limitations on advertisements. Originally enacted to ban particular forms of advertising, various additions have been made to the law, which now encompasses a wide array of methods including broadcasting and print advertisements. Title 18 of the U.S.C. 47 § 151 reads as follows:

Whoever broadcasts by means of any radio or television station for which a license is required by any law of the United States, or whoever, operating any such station, knowingly permits the broadcast of, any advertisement of or information concerning any lottery, gift enterprise, or similar scheme, offering prizes dependent in whole or in part upon lot or chance, or any list of the prizes drawn or awarded by means of any such lottery, gift enterprise, or scheme, whether said list contains any part or all of such prize, shall be fined under this title or imprisoned not more than one year, or both.

In addition to the prohibitions enforced regarding the broadcasting of gambling advertisements, the code also closely restricted promotion via the U.S. Postal Service, though eventually these checks were modified to include numerous exceptions, which will be discussed more thoroughly in the following chapter.

The Wire Act of 1961 (Humphrey 1) was also utilized by the federal government to expand its control over gambling within the nation. The legislation specifically outlaws wire communication methods, including those by telephones and telegrams, by the gaming industry to place bets and/or wagers in both interstate and international transactions (National Gambling Impact Study Commission 3). This act greatly impacted the state of the gambling industry, as it essentially banned the ability to place wagers through wire communication means on an interstate level.

Both the Federal Communications Act of 1934 and Wire Act of 1961 were effective in indirectly limiting the potentially socially disastrous effects of gambling and gaming. But, in 1978, the federal government took the initiative to directly enforce its restrictions on gaming through the Interstate Horseracing Act, the first law concerning the practice of horseracing in America (National Gambling Impact 6). Prior to the passing of this legislation, the legality of horseracing, both on and off-track was left to the judgment of the states, with off-track practices only considered legal in Nevada. In 1970, the state of New York authorized off-track betting owned by a privatize corporation (Gambling in American History 1). Observing the influx of income from the New York approach, many other states sought the use of a similar system (Gambling in American History 1). Due to this unregulated method of betting, states experienced major problems regarding the distribution of revenue between horse owners, racetracks, and the state. Seeing the need for regulation, the Interstate Horseracing Act of 1978 was enacted by Congress. Title 15, U.S.C. § 3001, Congressional findings and policy states:

(a) The Congress finds that—

(1) the States should have the primary responsibility for

determining what forms of gambling may legally take place within their borders;

(2) the Federal Government should prevent interference by one State with the gambling policies of another, and should act to protect identifiable national interests; and

(3) in the limited area of interstate off-track wagering on horseraces, there is a need for Federal action to ensure States will continue to cooperate with one another in the acceptance of legal interstate wagers.

(b) It is the policy of the Congress in this chapter to regulate interstate commerce with respect to wagering on horseracing, in order to further the horseracing and legal off-track betting industries in the United States.

Though the decision to legalize horseracing, or any other form of gambling or gaming for that matter, is left entirely to the state, the intermingling of horseracing procedures across state borders is clearly monitored through this act, allowing for some form of government intervention at the federal level.

Revisions to Federal Gambling Laws

The few federal laws governing gambling and betting which are intact have been modified and amended various times in order to allow for more generous concessions to facilitate the gambling industry in the U.S.; which can attributed to the vast amounts of revenue brought in by the business annually.

The formerly strict regulations placed on gaming advertisements by the Federal Communications Act of 1934, for example, have been significantly lessened through

numerous revisions to the law. According to the National Gambling Impact Study Commission:

A number of exceptions undercut the original sweeping scope of the Act. The exceptions include state lotteries, fishing contests, gambling conducted by an Indian Tribe pursuant to the Indian Gaming Regulatory Act, a lottery, gift enterprise or similar scheme by a not-for-profit organization or a governmental organization or conducted as a promotional activity by a commercial organization. Additional exceptions include horse racing and off-track betting (National Gambling Impact Study 13).

In addition to the amendment of the Federal Communications Act, the Interstate Horseracing Act of 1978 was also adjusted in order to better accommodate the needs of the industry. In 2000, the addition of explicit language allowed for the wagering of interstate bets placed via other methods formerly not allowed by the original act, and furthermore to include pari-mutuel wagers. The amendment reads as follows:

(3) "Interstate off-track wager" means a legal wager placed or accepted in one State with respect to the outcome of a horserace taking place in another State and includes pari-mutuel wagers, where lawful in each State involved, placed or transmitted by an individual in one State via telephone or other electronic media and accepted by an off-track betting system in the same or another State, as well as the combination of any pari-mutuel wagering pools (Title 15 USC § 3003- Interstate Horseracing).

Prior to this particular amendment, the Interstate Horseracing Act did not recognize the allowance of interstate pari-mutuel wagers, which includes greyhound racing and jai alai, (most simply described as a Hispano-American and Spanish form of racquetball), as well as horseracing. Through this amendment, the industry was allowing not only the interstate betting on horseracing, but also wagering on other formerly illegal forms of racing, including that of greyhounds, though it is only legal in twelve states (National

Gambling Impact Study Commission 7). This amendment also altered the extent to which the Wire Act of 1961 restricted the placing of bets via electronic communications, as the language was specifically added in order to allow for the placing of bets “via telephone or other electronic media” (Title 15 U.S.C. § 3002- Interstate Horseracing).

Overall, it is clear that federal laws governing gaming and gambling across the nation do not expressly sanction such practices. Yet, those federal laws which have been enacted have been modified in order to more easily facilitate the profitability of the industry, and also to allow for the continuously evolving technological facet of gambling, which is also easily exhibited through the regulation of internet gambling policies.

Internet Gambling

The issue of internet gaming in the U.S. is a difficult issue due to its seemingly borderless nature and susceptibility to high rates of default on payments. The constraints placed on internet gaming can be confusing and are often times blurred by the conflicting regulations across state borders, as well as the legality or illegality of the practice around the globe.

As was previously discussed, the federal government empowers individual states to decide whether certain forms of gambling are legal within their own borders. This standard is also applicable in reference to online gambling. Though only five states (Illinois, Louisiana, Nevada, Oregon, and South Dakota) (Internet Gambling 3) have explicitly outlawed certain facets of internet gaming in their territories, a number of other

states have more general gaming laws intact which govern over online betting, as well as actual physical gambling (Internet Gambling 3). In many instances, states have had to resort to their court systems in order to uphold those gaming laws already intact. The interpretations by the courts of these general laws in relation to online gaming are certainly not clear cut, and often times cause confusion over what is acceptable and unacceptable in the realm of internet gambling (Internet Gambling 2). In addition to the variations of restrictions on internet gaming across states' borders, great disparities also exist over national borders around the globe. Prohibition of online gambling does exist on an international level, but at a much lesser proportion to those nations which actually allow internet gaming, numbering at approximately 50 countries to date (Internet Gambling 4). With the internet truly being a global tool, the discrepancies between policies internationally makes regulating online gambling that much more difficult for the U.S. as well as the other nations in which the practice is prohibited.

With the vast differences in regulation of internet gaming across the country and the globe, it is to be expected that the enforcement of such gambling practices via the internet are impractical at best to monitor. Many critics of the current attempts to control internet gambling maintain that entirely new laws will need to be enacted in order to conform to the borderless nature of this form of gambling.

State regulation makes logical sense when dealing with a lottery or a casino, since the establishment and regulation of those can be confined within a particular state's borders. The Internet, however, is not confined to a specific locality....The Internet is global and any regulation of the Internet's contents must account for this very basic fact. Consequently, legislators addressing Internet gambling cannot rely on existing gambling laws. Rather, lawmakers must create a new regulatory scheme capable of dealing with the specific hazards of Internet gambling(Lessani 1).

Though the regulatory policies regarding internet gambling continue to be blurred, the federal government did in fact take steps to make a more normalized legislation in 2006 (Chan 1) to apply across the country. The new regulation, signed into effect in September of 2006, modified the SAFE Port Act and made illegal the transfer of funds from banks, or other institutions of that nature, to online gaming websites (Chan 1). While this newly imposed control was backed vigorously during its enactment period, the law has been under scrutiny recently as our national government is faced with the current national debt. With such low revenue sources on a national level, the administration is searching for new resources in order to lessen the blow suffered by the economy. Though the 2008-2009 recession did affect the gaming industry to an extent, gambling still continues to have billions in profits each year (Industry Information 1). States desperate for income hoped to extract some sort of profit from gambling, and from this hope, two bills have been proposed in order to fill in some of the gaps caused by our current economic state (Chan 1).

The [first] bill would direct the Treasury Department to license and regulate Internet gambling operations, while a companion measure, pending before another committee, would allow the Internal Revenue Service to tax such businesses. Winnings by individuals would also be taxed, as regular gambling winnings are now. The taxes could yield as much as \$42 billion for the government over 10 years, supporters said (Chan 1).

While these proposals may seem extremely logical to some, the mere fact that these bills are being put forward greatly contradicts the stance formerly taken against internet gambling. Those who oppose the bill, generally from a moral perspective, believe that

the legalization will produce more detriments than benefits and are appalled that the option is even being considered based on the banning of online gambling in 2006. Supporters of the legalization acknowledge that these newly proposed laws will provide an innovative source of revenue at both the state and federal levels, and openly admit that the national deficit is the definitive factor in their decisions (Chang 1). This example of the potential legalization of online gambling provides a demonstrative instance of the government abandoning its former moral grounds in favor of a lucrative source of revenue.

Gambling Revenue

Though gambling has been legal in many states for twenty plus years, the revenues produced by the industry have proved to be invaluable during this time of economic distress across the country. Wages and benefits paid to the casinos' and racetracks' numerous employees certainly help to alleviate the financial stress placed on the citizens of the territories in which gambling is admissible by law. The taxes retained by the state governments have also been crucial to the maintenance, and even development, of many state-funded expenditures (Industry Statistics 1). As seen in Table 3, the taxes paid to the state government on the revenue received by casinos and racetracks are put toward a variety of necessary institutions.

Table 3: How Casino/Racetrack Taxes are Spent in States

State	Institutions Provided Funding from Gambling Taxes
CO	Local communities , historic preservation, community colleges, general fund
DE	General fund
FL	Statewide education
IL	Education assistance, local government
IN	Economic development, local government, property tax fund
IA	Infrastructure, education, environment, tourism, cultural initiatives, general fund
KS	State debt reduction, infrastructure, improvements, property tax relief
LA	General fund, city of New Orleans, public retirement, state capital improvements
	rainy day fund, local parishes
ME	Education, health care, agriculture, gambling control board, city of Bangor
MI	Public safety, capital improvements, youth programs, tax relief, neighborhood
	development and improvement, infrastructure repair and improvement
MS	Housing, education, transportation, health care, youth counseling programs, local
	public safety programs
MO	Education, local public safety programs, disordered gambling treatment, veterans'
	programs, early childhood programs
NV	Education, local governments, general fund, problem gambling programs
NJ	Senior citizens, programs for the disabled, economic revitalization programs,
	general fund, problem gambling treatment
NY	Education
OK	Education
PA	Property tax relief, economic development, tourism, host local governments
RI	General fund
SD	Department of tourism, Lawrence county, commission fund
WV	Education, senior citizens, tourism

Source: Industry Information 1.

With these state and local government projects having a large portion of their subsidizing derived from the taxing of casinos and racetracks, the revenues generated from these businesses can be vital to the states' various institutions, ranging from education to property tax relief. And, these casinos and racetracks have amassed a

rather large amount of profits during their years of operation, leading to a substantial amount of taxes gained by the states, as is shown by Tables 4 and 5 below.

Table 4: Economic Impact of Commercial Casinos by State

State	# Operating Casinos	Employees	Employee Wages (In Millions \$)	Gross Revenue (In Billions \$)	Gaming Tax Revenue	Legalized
CO	40	8821	244.05	0.735	101.53	Nov-90
IL	9	7083	326.92	1.429	495.61	Feb-90
IN	13	15857	560.17	2.799	878	Nov-93
IA	17	9421	344.70	1.381	306.17	Jul-89
KS	1	278	n/a	0.00199	0.537	2007
LA	18	17610	602.51	2.456	598.14	Jul-91
MI	3	8122	452.83	1.339	320.01	Dec-96
MS	30	25739	855.25	2.465	296.34	Jun-90
MO	12	10961	347.00	1.730	469.09	Aug-93
NV	260	177397	7.989 billion	10.393	831.75 billion	1931
NJ	11	36377	1.060 billion	3.943	347.62	1976
PA	9	9126	233.23	1.965	929.04	Jul-04
SD	35	1765	43.1	0.1019	15.98	Nov-89

Source: Industry Statistics 1.

Table 5: Economic Impact of Racetrack Casinos by State

State	# Operating Casinos	Employees	Gross Revenue (In Millions \$)	Amount to Government (In Millions \$)	Retained by Operator (In %)	Legalized
DE	3	2363	564.24	227.55	43.1	1994
FL	4	2156	216.74	108.37	50.0	2006
IN	2	1847	420.10	115.27	54.7	2007
IA	3	2586	435.62	101.13	76.8	1994
LA	4	2260	402.65	74.29	74.3	1994
ME	1	303	59.20	29.08	50.9	2004
NM	5	1446	243.94	63.42	54.0	1997
NY	8	3180	1.019 billion	455.48	35.0	2001
OK	2	1097	94.13	13.78	58.2	2004
PA	6	5799	1.579 billion	742.69	45.0	2004
RI	2	1300	461.17	292.09	27.3	1992
WV	4	4688	905.59	408.37	43.3	1994

Source: Industry Statistics 1.

These considerable amounts of revenue, and subsequent taxes gained by the states, are clear indicators of one of the beneficial aspects of legalizing gambling and horseracing in state territories. With such sizeable budget deficits experienced by many states across the nation (Chantrill 1), and the significant increases in retained funding for the state programs in which gambling is legal, it is easily understandable why many states which had resisted legalizing gaming in the past are now turning to gambling as a means of plugging gaps in their budgets. In the state of Texas, for example, lobbyists have been proposing the legalization of instate gambling in order to account for its upwards of \$20 billion in budget gaps (Montes 1). Rather than undergoing massive budget cuts within nearly every institution in the state, advocates of the legalization claim that this proposition is simply the most effective means of resolving their current deficit (Luhby 1). Though weighing the fiscal benefits of legalization with its societal risks will be required for such legislation to actually be passed, the abandoning of a number of states' moral grounds in order for a more stable source of revenue is indicative of the great lengths governments will take in times of financial distress.

CALIFORNIA

Current Economic State

Though the state of California is certainly not alone in experiencing large budget gaps and accumulating a substantial amount of debt, the state is, however, experiencing the largest discrepancy between spending and debt (Lubin 1). With its current budget gap of approximately \$28.1 billion over the next eighteen months (Lubin 1), government and

citizens alike are considering a number of potential plans in order to resolve the situation. Additionally, with the new estate taxation plan established by the current administration (utilizing the lowest estate tax since 1931), the state will suffer an added devastating blow of nearly three billion dollars due to the newly enacted reform (Lubin 1).

Supplementing the mounting stress of the deficit experienced by California, is the rising rate of unemployment throughout the state. Facing a current unemployment rate of just over 12% (Unemployment 1), the rate has skyrocketed since the early 2000 into 2008, when the rate hovered at around 5% (Unemployment 1). With this year's unemployment rates peaking at the highest they have been since the second half of the twentieth century, the debt accumulated by the state can almost be explained away. As taxes account for the largest part of revenue for the state of California, and with personal income tax comprising over 53 % (Comparative Statement 1) of the tax revenue, it is clear that the government would experience a hit with unemployment rates at their highest. Additionally, retail sales tax accounts for nearly 32 % (Comparative Statement 1) of major taxing revenue for the government. With such high unemployment rates, comes the decrease in spending power by the public of California. In 2009 to 2010 (Comparative Statement 1), with sales tax accounting for almost a third of major government revenue, the decrease in overall spending contributes to a significant loss in revenue for the state. Also tied to the drastically increased unemployment rates are the significant expenditures in human services spent by the state. Such human services expenses include food stamps, CalWorks (which provides

temporary financial assistance to families with children who meet certain income qualifications), and general assistance programs throughout the state. Clearly with high unemployment rates, arises a greater need for government assistance by the public. The health and human services portion of government expenditures in the state of California accounted for nearly 28% (Comparative Statement 11) of all expenditures in 2009 to 2010, and over 29% in 2010 to 2011 (Comparative Statement 11). Encompassing practically a third of the total state expenditures for California, the health and human services fraction of the state's debt will likely only continue to rise with unemployment rates, forcing the government to take on even more total debt.

Proposed Resolutions

The fiscal emergency in California has not been without its share of proposals for alleviating a portion of the deficit incurred by the state. With the most straightforward of plans suggesting budget cuts across the board or simply increasing taxes, the number and variations of strategies for reducing California's debt are certainly expansive. The California state government has attempted numerous times to amend the currently flawed budget system, however, with each attempt has come the failure of the plan to be enacted. Under the present administration, Governor Jerry Brown proposes devastating cuts to some of the most sacred state-funded institutions, including the likes of state worker wages and social services (Christie 1). Specifically, the administration proposed a budget cut of nearly 2 billion dollars to the state's health care programs, and a \$1.5 billion cut to its welfare programs (Christie 1). This projected cutback in human services is directly related to the increase in unemployment rates, driving the

government to make extreme reductions in the amount of aid currently given to the needy of California. In addition to the crippling budget cuts the various statewide funds will endure, an anticipated five year extended tax increase has been proposed to also reduce the deficit incurred by the state (Christie 1). Furthermore, the state's school system, considered by many to be an untouchable establishment, is set to suffer funding decreases at each level (Christie 1). As is to be expected with such far-reaching budget cuts across the board, the people of California are widely opposed to such reforms.

Legalization as an Answer

With budget cuts and heavier taxation proposals extensively resisted by the public of California, and many government members, an alternate method of securing a stable source of revenue is to be proposed. As is the case with a number of other states, California currently has only a select few forms of gaming legal within its borders. The California State Code, Section 19 reads as follows:

(a) The Legislature has no power to authorize lotteries, and shall prohibit the sale of lottery tickets in the State.

(b) The Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results.

(c) Notwithstanding subdivision (a), the Legislature by statute may authorize cities and counties to provide for bingo games, but only for charitable purposes.

(d) Notwithstanding subdivision (a), there is authorized the establishment of a California State Lottery.

(e) The Legislature has no power to authorize, and shall prohibit, casinos of the type currently operating in Nevada and New Jersey.

(f) Notwithstanding subdivisions (a) and (e), and any other provision of state law, the Governor is authorized to negotiate and conclude compacts, subject to ratification by the Legislature, for the operation of slot machines and for the conduct of lottery games and banking and percentage card games by federally recognized Indian tribes on Indian lands in California in accordance with federal law.

Accordingly, slot machines, lottery games, and banking and percentage card games are hereby permitted to be conducted and operated on tribal lands subject to those compacts.

(f) Notwithstanding subdivision (a), the Legislature may authorize private, nonprofit, eligible organizations, as defined by the Legislature, to conduct raffles as a funding mechanism to provide support for their own or another private, nonprofit, eligible organization's beneficial and charitable works, provided that (1) at least 90 percent of the gross receipts from the raffle go directly to beneficial or charitable purposes in California, and (2) any person who receives compensation in connection with the operation of a raffle is an employee of the private nonprofit organization that is conducting the raffle. The Legislature, two-thirds of the membership of each house concurring, may amend the percentage of gross receipts required by this subdivision to be dedicated to beneficial or charitable purposes by means of a statute that is signed by the Governor.

Source: Humphrey 1.

If the same profits and taxations are to be expected in the state of California as in other states in which gambling is legal, commercial casinos and horseracing casinos may provide a steady source of income to the state. As was observed previously, legal forms of gaming provide a stable number of jobs to the population of the states, as well as vast amounts retained by the government in taxes and the further funding of state-sponsored programs. Perhaps the best-suited comparison with the state of California is Indiana, the state with the most recent gambling legalization (Industry Statistics 1). With its legalization of horse track casinos in 2007, the state has retained over \$115 million (Industry Statistics 1) dollars in government taxation. This income is also reinforced by the billions generated from its casino industry from the time of its legalization, though casinos have been legal for a longer period of time. Revenues produced by the legalization of commercial casinos and horseracing casinos throughout the state of California can only be expected to be substantial, considering the relatively successful

gaming industry already in place within the state (Dunstan 1). In the late 1990s, California was the sixth largest gambling state in terms of total funds bet, attributing over 14 billion to the practice of gaming (Dunstan 1). Considering that this statistic only takes into account forms of gambling such as the state lottery, cardclubs, horseracing, and Indian casinos (Dunstan 1), the likelihood of commercial casino and racetrack casino profitability is undeniable.

Risks and Benefits of Legalization

With significant amounts of expected revenue from the legalization of casinos in California, also come noteworthy benefits to the state. As was demonstrated by the allocation of retained funds from gambling in states where the practice is legal (seen above in Tables 3, 4, and 5), over time the accumulation of revenue for the state government is rather considerable. The income generated from casinos and racetracks provides states with the funds to subsidize a number of government entities, relieving some of the stress placed on taxpayers within the state. Additionally, jobs are generated within the state, adding to the overall economic climate of that region. Even the impact of the creation of a casino industry on tourism to the area may be taken into account when analyzing the economic benefits of legalizing gambling.

Critics of such legalization cite the social implications which come with gambling. Higher crime rates, corruption, even suicide rates, have all been referenced when arguing against legalized gambling (Sullivan 1). Compulsive gambling habits and addictions are also said to increase with the commercialization of gambling

(Researchers 1). With more than 80% (Researchers 1) of the U.S. population gambling at least once in their lifetimes, pathological gambling can certainly arise. According to Dr. Robert Cloninger, "The introduction of legalized gambling has greatly increased the number of people who have problems. In every city that has legalized gambling, there has been a corresponding increase in the number of problem gamblers" (Researchers 1). This correlation with legalized gambling and rises in compulsive gambling rates is the chief cause for concern among the critics of legalization.

Though these critics of legalizing gambling reference the intangible social risks involved with the practice, the numerable outlets with which to get around legal gambling must be taken into account. Gambling and gaming are still permissible in certain circumstances within the state of California; namely through horseracing (Dunstan 1). If a compulsive gambling seeks to gamble in the state of California, he can do it through a number of other mean; why not benefit from the revenues made through legal casinos? Many states, as shown in Table 3, even utilize some retained gambling earnings to fund problem gambling programs (Industry Statistics 1). With this being true, the social implications from the legal forms of gambling already in place, along with those potentially detrimental effects on the public would not outweigh the benefit of a steady source of revenue through legal gambling for the state.

SUMMARY

Throughout the history of the U.S., the federal and state governments have enacted laws which they believe best serve the purpose and interest of citizens. Over time the

government has also felt the need to amend and modify such legislation to meet the needs of citizens. Through a detailed historical analysis of the economic climate in which these laws were passed, and subsequently amended, it is clear that legalization can be attributed equally to the need for monetary gains as to a more forward-thinking society. With ratification of both the Eighteenth and Twenty First Amendments, fiscal gains outweighed the societal risks involved. When the government decided to ban the consumption of alcohol, the nation still found ways to imbibe, and eventually saw the great fiscal benefits of the alcohol industry. When applying this same standard to the case of California, the fiscal benefits significantly overshadow the cons of abandoning the current policy prohibiting corporate casinos and casino racetracks within the state. The legalization of such gambling in the state will only serve to benefit both the citizens and the government of California.

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