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Author(s): Stevie Watson, Pearson Liddell Jr., Robert S. Moore and William D. Eshee Jr.

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The complexities of Internet gambling limit congressional efforts to regulate its growth. Therefore, legislative attempts to prohibit Internet gaming may undermine the protection mechanisms that were designed to help people who are susceptible to the social and economic problems linked to gambling. The authors suggest that congressional efforts to prohibit Internet gambling should be reassessed, and they recommend the legalization and regulation of Internet gambling through existing land-based casinos. Finally, the authors present the regulatory guidelines and cooperative policy initiatives that are necessary for such a proposition.

On June 18, 1999, the National Gambling Impact Study Commission (NGISC; 1999) released its final report on the state of gambling in the United States, including a section on Internet gambling. This report revealed the magnitude of Internet gambling; its growth potential; and the resultant negative behaviors, including youth gambling, pathological gambling, and gambling for criminal use. Because of the global nature of online gambling, the NGISC recommended that the federal government prohibit its expansion beyond current authorized boundaries. The commission explained that this recommendation was based, in part, on the unknown, harmful consequences of Internet gambling on some consumer subpopulations.

Although Congress introduced several bills to prohibit Internet gambling before the report's release, several members renewed their efforts on the basis of NGISC's recommendations. However, the complexities of Internet gambling, may limit the effectiveness of their efforts. In the next section, we discuss the dimensions of Internet gambling and the concerns about consumer vulnerability. Next, we review the history of legislative attempts to prohibit Internet gambling and emphasize how the complexities of Internet gambling limit the effectiveness of prohibition attempts. We conclude with recommendations for regulating Internet gambling and the cooperative policy initiatives that are necessary for such a proposition to succeed.

Stevie Watson is a doctoral student, Department of Marketing, Quantitative Analysis and Business Law, Mississippi State University. He currently serves as Marketing Lecturer, Department of Business and Economics, University of Wisconsin-Superior (e-mail: swatson@uwsuper.edu). *Pearson Liddell* is Assistant Professor of Business Law (e-mail: pliddell@cobilan.msstate.edu), *Robert S. Moore* is Assistant Professor of Marketing (e-mail: rmoore@cobilan.msstate.edu), and *William D. Eshee* is Professor of Business Law (e-mail: weshee@cobilan.msstate.edu), Department of Marketing, Quantitative Analysis and Business Law, Mississippi State University. The authors thank Ronald Paul Hill for his helpful comments on this article. The authors are not in any way affiliated with the gambling industry; the views expressed are their own.

The Rise of Internet Gambling

From its humble beginnings a decade ago, Internet gambling has grown rapidly and has gained global acceptance. The number of gambling sites has increased from approximately 24 in 1995 to nearly 2000 seven years later (Shapiro 2003). There are 54 jurisdictions that authorize Internet gambling (Alig 2003), including Germany, South Africa, Australia, several Caribbean island nations, and the United Kingdom (Addison 2001; American Bar Association 2000; Borland 1998; Epstein 1998; Holloway 2001; Kailus 1999; Kelly 2001). Although Internet gaming represents only a fraction of total gambling revenues, it is predicted to reach $100 billion by 2006 (Hiller and Cohen 2002).

At least three factors are attributed to the expansion and popularity of Internet gambling. First, Internet gambling involves consumers' placement of monetary bets using a personal computer connected to the Internet (Jepson 2000), and it facilitates anonymous consumer gaming without necessitating physical travel (Keller 1999; Kish 1999). Thus, Internet gambling has the potential to reach anyone with a computer or wireless device that connects to the Internet. Second, the costs to establish Internet gambling businesses are considerably less than those of land-based gambling operations (Hoffman 1999; Marsh 2000). For example, a land-based casino may require an investment of $300 million and thousands of employees for operation, whereas an Internet gambling business can be operated for less than 1% of this investment (Clarke and Dempsey 2001). Third, the U.S. public generally accepts gambling. According to the NGISC (1999) report, 86% of people in the United States have gambled at least once in their lives, and only two states, Hawaii and Utah, ban all forms of gambling.

These factors have exacerbated the issues expressed by lawmakers and have led some people to lobby against the expansion of Internet gambling activities. Congressional representatives are primarily concerned that, left unchecked, Internet gambling will increase social and economic problems, such as bankruptcy filings, credit card theft, gambling addiction, and crime (Gore 2000; Miller and Claussen 2001; NGISC 1999). Two consumer groups that have been identified as particularly susceptible to the problems associated with Internet gambling are youths and pathological gamblers (NGISC 1999). For example, federal legislators place a high priority on protecting children from online gambling (Goodman 2000; Lundin 2000) because it is considered more addictive than conventional forms of gambling (Janower 1996). Internet gambling may be especially enticing to young people because of their familiarity with and access to computer-based technologies. In addition, virtually all Internet gambling businesses operate outside the United States, and most do not conduct strict age verification checks (Girwood 2002).

The ability to gamble anonymously in the privacy of one's home provides pathological gamblers with a safe haven without scrutiny or surveillance (Scharf and Corrin 2002). Pathological gambling closely parallels addiction models (Quinn 2001) and is a severe disorder characterized by obsessive thoughts of gambling, loss of control, lying and stealing, attempts to recover gambling losses, and other negative consequences (Netemeyer et al. 1998). Pathological gamblers often misjudge their ability to control the outcomes of random events and evaluate their losses (Eggert 2004), which places them at risk to accumulate enormous debts using several credit cards to frequent online gambling Web sites.

Concerns about consumer protection have influenced legislators to introduce prohibition laws, which have subjected online gambling providers to charges of fraud and deceptive practices (Lang 2002). Illegal Internet gambling operations often use computer graphics and software to create the appearance of a valid operation (McMillen 2000), thus taking advantage of consumer naivety. Unscrupulous operators may use software to cheat gamblers of winnings or to improve the odds of winnings for the gambling business (Arnovitz 1992; *Computimes Malaysia* 2000; Mills 2001). They also may quickly abandon their gambling Web sites after accumulating sufficient assets from their customers, because the start-up cost of an operation is relatively small (Eggert 2004). In the next section, we review legislative attempts to prohibit Internet gambling and how the complexities of Internet gambling limit the effectiveness of such attempts.

Legislative History of Internet Gambling

Legislators have used the Interstate Wire Act (1961) and the Foreign Travel or Transportation and Aid of Racketeering Enterprise Act (18 U.S.C. § 1952) to prosecute Internet gambling cases; the Interstate Wire Act has been applied to Internet gambling cases. In *United States v. Cohen* (2001), an online gambling provider with operations in Antigua was convicted of violation of the Interstate Wire Act because telephone lines were used to transmit bets. However, the Interstate Wire Act is limited to sports-related betting (Rodefer 2001), and there is legal debate about whether the Interstate Wire Act applies to communication devices such as cellular telephones (Thompson 2001). The Foreign Travel Act has similar problems with respect to wireless communications coverage (Thompson 2001), which has prompted Congress to introduce legislation specific to Internet gambling.

The first attempt to legislate Internet gambling was the Internet Gambling Prohibition Act (1997), which sought to extend the Interstate Wire Act's application to all forms of Internet gambling. Concerns about the bill's encroachment on other forms of gaming, such as horse racing, and the way that it criminalized individual betting behavior caused the bill to fail. In March 1999, an amended version of the Internet Gambling Prohibition Act that exempted pari-mutuel betting (Lundin 2000) and criminalized only the actions of Internet gambling operators was advanced. Known as the Internet Gambling Prohibition Act of 1999, the bill passed in the Senate but failed in the House of Representatives. The NGISC (1999) also recommended the passage of legislation to prohibit wire transfers to Internet gambling sites or the banks that represented such businesses. Following the NGISC recommendations, in 2001 Congress introduced the Unlawful Internet Gambling Funding Prohibition Act (2002), which recognized that offshore Internet gambling operators could do business with impunity as long as they had no significant assets located in the United States (Geist 2001). The act made it illegal for credit card companies and other financial institutions to accept electronic fund transfers, checks, credit cards, and other forms of payment from a person engaged in online gambling (Wilson et al. 2001). The act failed to gain Senate support, but it was passed again as H.R. 21 (Unlawful Internet Gambling Funding Prohibition Act 2003). The legislation was defeated again in the Senate, but it might be reintroduced in 2004.

Despite several congressional attempts to prohibit Internet gambling, proposed bills have failed to garner the support required to become federal law. Nonetheless, the borderless, global nature of the Internet makes enforcement problematic, especially with providers in countries in which Internet gambling is legal (Borland 1998). For example, it must be determined whether the country in which the Web site operator is located will enforce any judgment obtained in a U.S. court (Geist 2001). Enforcement of laws against Internet gambling operators in foreign countries depends on the international doctrine of comity, which posits that one country will enforce the laws of another as long as the laws do not contradict the public policies of that country (Eshee, Liddell, and Liddell 2003; Schwarz 1999). Countries that authorize Internet gambling and draw financial resources from it have little motivation to enforce U.S. antigambling laws (Bak-Boychuk 1999). Because of this jurisdictional quagmire, proponents argue that online gambling laws are fraught with difficulties (August 2002; Geist 2001; Lantzer 2002).

Companies that do business with offshore-based gambling Web sites have been subject to pressure and prosecution from the U.S. government. For example, VISA, MasterCard, and PayPal now refuse to process gambling transactions for their customers (Mark 2003), and PayPal (and its corporate parent eBay) has agreed to pay $10 million to settle the Justice Department's claim that it was in violation of the Interstate Wire Act through the illegal transfer of funds derived from criminal offenses (U.S. Department of Justice 2003). In addition, media, such as Infinity Broadcasting Corporation and Discovery Networks, and popular Internet search engines, such as Yahoo, Goggle, and Lycos, have discontinued advertisements for online casinos in the United States (Richtel 2004). Although these actions may slow the growth of online gambling among people in the United States, they are unlikely to stop gambling from occurring.

Regulating Internet Gambling Through Land-Based Casinos

In the past, regulation of U.S. gambling has been left to state governments. Permissible state activities range from land-based casinos and regulated Internet gambling in Nevada, to horse and dog racing, to lotteries in Massachusetts. An option is to use these current legal operations as the umbrella under which online gambling can be controlled and regulated. For example, Strumpf (qtd. in Batt 2004) suggests that land-based casinos, if allowed to operate online, would quickly capture 50% market share as a result of their brand reputations. Such brand effects are influential in situations in which consumers are uncertain (McCarthy, Heath, and Milberg 2001), including online gambling, for which customers may have limited experience with providers. Many U.S. casino operations already have established brand names, which may help them quickly become dominant players in the online gambling market. Their reputations may allow for the transference of existing beliefs about a physical entity to a virtual entity (Coltman et al. 2001). For example, MGM Mirage, which recently operated an online casino from the Isle of Man, found that 60% of its registration attempts were from people in the United States, even though such betting was prohibited (Hornbuckle 2003). The remainder of this section discusses proposed regulatory guidelines and the cooperative policy initiatives required for such guidelines to succeed.

Regulatory Guidelines

The development of uniform across-state criteria for land-based casinos with Internet operations is essential. Within any minimum regulations, the following issues must be addressed.

Overall Requirements to Operate an Online Casino

When Nevada established a licensing framework in 2001 for Internet gambling, it determined several conditions for any operation to ensure that a sufficient nexus was established before licenses were awarded (Fahrenkopf 2003; Nevada Statute 2001). Similar requirements should be established as minimums within all states, such as firms operating a lawful casino for at least five years, maintaining a physical location of a certain size, and paying a license fee that covers the cost of regulatory oversight.

Age and Identity Verification

One of the most important concerns of Internet gambling is that minors might gain access to a credit card and gamble with other people's money. Software using real-time verification tools offer a possible solution. In addition, companies such as virtgame.com and MGM Mirage have developed technology that can determine the physical location of a player and assess whether it is in an appropriate jurisdiction (Binkley 2000; Hornbuckle 2003). Alternatively, local merchants could be certified to provide initial time-sensitive, single-use passwords to legal gamblers; though cumbersome, this alternative offers a solution.

Game Integrity

The integrity of online games must be addressed with respect to players as well. There is a definite risk of collusion, especially in games in which several people are involved, such as poker and baccarat (Kaplan 2004). Software could be used to identify both patterns of play and betting among players that suggest collusive behavior. In addition, frequent random testing of games by independent observers is necessary to ensure online casinos' credibility.

Pathological Gambling

Regulated Internet casinos should allow players or their surrogates to register with a single source that sets predetermined spending limits that cannot be changed after play begins (Smeaton and Griffiths 2004). Other provisions, such as a confirmation of bets when a wager is significantly larger than previous amounts, should be offered, in addition to links to gambling help sites and a prominently displayed statement of the risks associated with gambling.

Marketing and Advertising

Incentives such as free trials or credits should be tightly controlled so that they do not reach unintended or inappropriate audiences. Similarly, advertising of casino sites should be restricted to appropriate Web addresses, and direct e-mail communications should not contain offers of free credits. Any game downloaded on a user's personal computer should have an automatic expiration and deletion feature.

Conclusion

Legislation can best protect consumers by eliminating prohibition laws and allowing land-based casinos to compete in the online gambling market. Land-based casinos are heavily regulated by state governments and have the technological resources to combat underage gambling, gambling addiction, and unscrupulous online gambling operations. Furthermore, the tax dollars collected from people in states that allow Internet gambling could be redistributed on a prorated basis back to those states (see Feddman 2003). Finally, the recent World Trade Organization decision that the United States is in violation of international law by restricting online gambling threatens to open the door to more offshore Web sites (Miller and Binkley 2004). By moving forward now and awarding Internet casino licenses to firms that meet established minimum criteria, the government will proactively create a limited, competitive environment that could become the model for global cooperation.

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