

The Issue of Legalized Gambling in Canada

Ayesha Kapadia

Controversy has surrounded the activity of gambling ever since its legalization under the authority of the provincial governments in Canada. Due to the nature of the activity, there are several delicate and complicated issues that arise. On both sides of the debate, there are numerous arguments in favour of and against legalized gambling. The government argues that legalized gambling is a way of creating new jobs and earning revenue without raising taxes. On the other hand, there are those who argue that the political integrity of the governments comes into question. In addition, there are several hidden social costs that result from legalized gambling. Issues such as problem gambling, crime, and unemployment seem almost inevitable. When analyzing the question of legalized gambling it is important to calculate the costs and benefits that come with it. Research so far has shown that there seems to be more of a cost rather than a benefit with legalized gambling. The social toll that gambling creates is far greater than the monetary benefits that are generated. In fact, in the long run, the monetary benefits may just be negated because of the actions that need to be taken to deal with the social costs. Therefore, this paper shall argue that legalized gambling is a detriment to society.

Before we can go any further into the debate of legalized gambling, it is important to take a brief look at the history of gambling in Canada. The Criminal Code, which was passed in 1892, stated that all gaming activity was prohibited. Because all matters that dealt with criminal law were under the federal jurisdiction, gambling issues also fell under federal authority. Almost 80-years later in 1969, the Criminal Code was amended to allow both provincial and federal governments to run lotteries. This was a major shift in jurisdiction for both levels of government. In the years after 1969, further amendments were made which allowed provincial governments to hand out licenses to charity and religious organization which permitted them to hold lotteries, so long as the proceeds were for charitable or religious purposes. By 1985, the federal government had handed over all jurisdictions for gaming activities to the provinces, and in return the provinces agreed to pay the federal government \$100 million. This was a major shift for gaming policies in Canada, as now gaming activity had a commercial aspect in the provinces. Ever since 1985, provincial governments have now been able to run lotteries, and can also hand out licenses

to religious and charity groups to conduct lottery schemes of their own. This brief history of gambling in Canada gives us an understanding of the liberalization that gaming activity has gone through within Canadian society.¹

What were the objectives behind the legalization of gambling in Canada? The major reason was for an economic advantage. The 1985 agreement between the federal and provincial governments was administered by federal and provincial ministers who were responsible for amateur sports, fitness and culture. In simpler terms, the contract was negotiated by officials who in other cases would have no direct participation with criminal law or justice procedures.² This did not seem to be an issue, as the amendments were carried out with minimal public debate. It is also interesting to note that the last valid public debate surrounding gambling was carried out in the 1950s. Ever since the amendments, provincial cabinets have carried out the formation and implementation of gambling policies based on recommendations by senior policy advisors to executive bureaucrats without any input from legislative bodies. American gambling expert and economist William Eadington noted that the Canadian provincial governments legalized gambling to generate government revenue, stimulate economic growth through tourism, to create urban revitalization, job creation, to prevent illegal gambling, prevent organized crime and to modernize outdated or unworkable laws.³

The reasons stated above are often the arguments used by proponents of legalized gambling. However, the question remains, have these worked? To truly understand if there have been any benefits from legalized gambling, we can examine the two most common arguments in favour of legalized gambling—large revenues and job creations. In both instances research has shown that the benefits in these two categories have been grossly exaggerated.

When it comes to examining revenue generation with regards to legalized gambling, it is important to understand that when locals participate in gambling, it is not considered a means of generating revenue, as the money spent by the gamblers is simply money that is not being spent

¹ Michael Y. Seelig and Julie H. Seelig, “‘Place Your Bets!’ On Gambling, Government and Society,” *Canadian Public Policy* 24, no. 1 (1998), 92–93.

² Colin S. Campbell, “Canadian Gambling Policies,” in *Casino State: Legalized Gambling in Canada*, ed. James F. Cosgrave and Thomas R. Klassen. (Toronto: University of Toronto Press Incorporated, 2009), 79–80.

³ *Ibid.*

elsewhere.⁴ As well, often times, the incremental revenue estimates are heavily inflated, when in reality, only half of every dollar spent by a gambler is incremental revenue, after operating and managing expenses have been deducted.⁵ It is also often argued that the opening of casinos has the potential to attract a large number of tourists, especially Americans because of the lack of any taxes on winnings. However, studies have shown that only Ottawa and cities which are close to the U. S. border such as Niagara Falls and Windsor have the potential to draw a large number of tourists.⁶ In fact, studies have shown that in towns where casinos are opened, local business tend to suffer the most. For example, in the town of Orillia, when Casino Rama opened, shopkeepers near the casino reported experiencing a forty percent decrease in business.⁷ Often times, the money spent at casinos and on other forms of gambling, is money that is being diverted away from other activities such as eating in restaurants, going to bars, etc., and this obviously has a negative effect on the local economy.⁸

Another common argument put forth by advocates of legalized gambling is that it is a great way to create jobs in a community. However, scholars argue that the jobs created by gambling only substitute for jobs that were destroyed when expenditure switched from one activity to another. Reports by Statistics Canada have shown that the jobs that are created are often of lesser value than the ones that were destroyed. For example, one third of employees in the gambling sector are part time workers, compared to 19% of employees in other industries. In addition, on average, workers in the gambling industry are paid less than workers in other industries. The median income for full-time employees in the gambling sector was \$4,300 less than full-time employees in other sectors. Lastly, part-time gambling workers earned \$1,300 less than part-time workers in other industries.⁹ Moreover, as mentioned above, casinos can often have a negative impact on local businesses, and in the most extreme cases, businesses that cannot compete are forced to close down, which creates further job loss in the community. So in either

⁴ Seelig and Seelig, "Place Your Bets!" 100.

⁵ Lennart E. Henriksson, "Gambling in Canada: Some Insights for Cost-Benefit Analysis," *Managerial and Decision Economics* 22, no. 1-3 (2001), 116.

⁶ Lennart E. Henriksson, "Hardly a Quick Fix: Casino Gambling in Canada," *Canadian Public Policy* 22, no. 2 (1996), 117.

⁷ Seelig and Seelig, "Place Your Bets!" 100.

⁸ Lennart E. Henriksson and Richard G. Lipsey, "Should Provinces Expand Gambling?" *Canadian Public Policy* 25, no. 2 (1999), 264.

⁹ *Ibid.*, 263.

case, jobs are either only being replaced one for one, or, further unemployment is being created.¹⁰ Furthermore, slot machines generate nearly 65% of the revenue at a casino. Slot machines are touted as the perfect employee: they do not require salaries, benefits, and best of all, they function twenty-four hours a day, seven days a week. As automated gambling becomes more popular within the industry, employment opportunities are slowly diminishing.¹¹ In any case, the idea that gambling is a source of new jobs is at best highly questionable.

Now that we have seen that the arguments for legalized gambling are dubious, we can examine what the costs of this activity are. Some of the negative effects of legalized gambling are as follows, problem gamblers (not only adults, but also adolescents), crime, unemployment, family costs, health effects and lastly, the question of political integrity.

The issue of problem gambling is not something created as a result of legalized gambling, but one that is certainly enhanced as a result of it. Gambling addictions do not only affect the individual and his family, but also society as a whole. In Canada, estimates show that each problem gambler costs taxpayers \$19,272. These costs include addiction treatment, higher policing, social service costs, bankruptcies, substance abuse treatments and higher insurance costs.¹² Indirect costs are also sustained as a result of problem gamblers in the form of prosecuting and incarcerating those who may commit crimes in order to maintain their gambling habits, as well as health care costs to treat mental health issues of problem gamblers and their families.¹³ Furthermore, research has shown that problem gamblers are more likely to wager significantly higher amounts weekly or monthly than casual gamblers.¹⁴ Studies have shown that a substantial amount of casino revenues come from problem gamblers.¹⁵ At one point, the Casino Windsor in Ontario was earning 25% of its revenue from only 5% of players.¹⁶ American studies

¹⁰ Henriksson, "Hardly a Quick Fix," 118.

¹¹ Seelig and Seelig, "Place Your Bets!" 97.

¹² Veronique Perrier Mandal and Chris Vander Doelen, *Chasing Lightning: Gambling in Canada*, (Toronto: United Church Publishing House, 1999), 77.

¹³ Henriksson, "Hardly a Quick Fix," 120.

¹⁴ Colin S. Campbell and Garry J. Smith, "Canadian Gambling: Trends and Public Policy Issues," *Annals of the American Academy of Political and Social Science* 556, no. 1 (1998), 30.

¹⁵ Henriksson and Lipsey, "Should Provinces Expand Gambling?" 265.

¹⁶ Mandal and Doelen, *Chasing Lightning*, 81.

have also found that the availability of gambling increased the occurrence of problem gambling.¹⁷

With problem gambling also comes several social issues, mainly problems for the families of the gamblers. A Canadian study found that problem gambling led to increased spousal and child abuse.¹⁸ As well, children of problem gamblers were more likely to have a difficult childhood compared to their peers. These children experienced twice the incidences of broken homes due to divorce and separation or the death of a parent before the age of 15.¹⁹

While problem gambling is a known issue among adults, what is truly surprising is the rate of problem gambling among adolescents. It is estimated that anywhere from 24–60 percent of children and adolescents engage in some form of gambling every week. Unlike adults who might embezzle and commit forgery and fraud, young people are prone to stealing money from family, friends and strangers in order to get money for gambling. Many also use their lunch or bus money for gambling. The most common gaming activities among young people are betting on cards and sports, VLTs, gambling in casinos and buying lottery tickets.²⁰ The reason why gambling among adolescents is a bigger issue today than it has ever been is because this is the first generation to grow up in a society where gambling is not frowned upon or considered socially unacceptable, but rather is legal and is something that is sponsored by the government.²¹ It is because of this societal change, that gambling researchers today are more concerned for the future of the youth than adults.

The increase in crime is also another major concern surrounding legalized gambling. The problem lies in the fact that promotional documents created as proposals for new casinos never discuss the potential criminal activity that comes with the opening of casinos.²² Crimes associated with gambling can be broken down into different categories. One category is non-violent crime, mainly affecting the gaming-house itself. Such crimes can include cheating, theft

¹⁷ Seelig and Seelig, “Place Your Bets!” 96.

¹⁸ Henriksson, “Gambling in Canada,” 118.

¹⁹ Henriksson, “Hardly a Quick Fix,” 120.

²⁰ Mandal and Doelen, *Chasing Lightning*, 109.

²¹ *Ibid.*, 114.

²² Henriksson and Lipsey, “Should Provinces Expand Gambling?” 265.

etc. A second and more serious category is that of organized crime. These often take place at large scale casinos and take place in the form of money laundering, profit skimming, and loan sharking. As well, individuals involved in prostitution, drug dealing, and crime groups tend to be attracted to casinos. It is not unheard of for organized crime to be active through back door activities such as laundry, food supply, and vending machine supplies. The last category of crime is known as ambient crime, often carried out by problem gamblers and includes crimes such as break-ins, burglaries and muggings.²³ Several scholars do however argue that it is hard to assess the relationship between expanded gambling and crime, and they also note, that in Windsor, the overall crime rate has fallen since the opening of the casino. However it is interesting to note that rates of spousal abuse, fraud, embezzlement, counterfeiting and prostitution have been on the rise.²⁴ It is generally agreed that gambling expansion leads to an increase in enterprise crime and money laundering activity.²⁵

Another issue that comes into question with legalized gambling is that of political integrity. Governments are increasing their dependency on revenue from gambling and as a result they will encourage citizens to continue to spend on gaming activities. With the government playing the double role of regulator and promoter of gambling, the question of a conflict of interest arises. One of the major structural issues is the fact that the provincial Department of Finance has control over the decision making of gaming revenue generation and treatment services and regulatory responsibilities are given to other departments. The obvious issue created is the emphasis on revenue generation over health protection. Scholars argue that at the movement, revenue generation is pursued without any consideration for the social costs. Several Canadian organizations such as the Canada Safety Council and the Law Commission of Canada have highlighted the obvious conflict of interest. To this, the provincial governments reply that there is the separation of responsibilities, however, critics argue that there needs to be greater separation of regulation and operation.²⁶ Critics also argue that the Canadian gambling

²³ Seelig and Seelig, “Place Your Bets!” 97.

²⁴ Henriksson, “Hardly a Quick Fix,” 118.

²⁵ Garry J. Smith, Timothy F. Hartnagel, and Harold Wynne, “Gambling-Related Crime in a Major Canadian City,” in *Casino State: Legalized Gambling in Canada*, ed. James F. Cosgrave and Thomas R. Klassen. (Toronto: University of Toronto Press Incorporated, 2009), 161.

²⁶ Ray MacNeil, “Government as Gambling Regulator and Operator: The Case of Electronic Gaming Machines,” in *Casino State: Legalized Gambling in Canada*, ed. James F. Cosgrave and Thomas R. Klassen. (Toronto: University of Toronto Press Incorporated, 2009), 147–148.

regulatory framework was created without any significant knowledge, research or evidence regarding problem gambling. With ample evidence and research available now, there is no excuse for the government to still be using its original framework. It should instead reassess and amend the framework so that it is in the best interest of gaming consumers.²⁷

Another concern for many critics is the argument that legalized gambling is a form of regressive taxation. In many provinces, the government has stopped the funding body for cultural and sporting activities, and has instead left the fundraising in the hands of independent lottery commissions. Several questions are raised from these situations. Firstly, where is the money coming from? By funding these activities, and in some cases health care, the government is using the money of the poor. It is important to remember that the richer a gambler, the more likely he/she is to view it as a form of entertainment rather than a lower income person who is more likely to see gaming as an investment and a feasible way to a better life. In essence, the government is relying on the detrimental gambling habits of the poor to fund society's needs. Secondly, are the funds which are raised being used towards causes which are socially desirable? For example, a number of charity organizations which are funded through gambling seem to be "middle class" such as sailing and karate clubs. Once again the issue arises that incomes from the poor are being used to fund "middle class" activities.²⁸

Lastly, no discussion of legalized gambling in Canada can be complete without consideration of the First Nation community and the effects on them. For the most part, the First Nation community in Canada have encouraged legalized gambling as a path to economic development. The case of Casino Rama and several Native American casinos in America have been used as evidence in instances where large profits have allowed the native communities to fund their needs such as health care and infrastructure building. However, critics argue that there are several reasons why casinos would not be useful in aboriginal communities. Firstly, most native communities within Canada live in areas that would not generate large crowds, and therefore not enough revenue. Secondly, the issue of problem gambling seems to be more

²⁷ *Ibid.*, 150.

²⁸ Seelig and Seelig, "Place Your Bets!" 101–102.

pronounced in the First Nation community, and is higher compared to the general population.²⁹ As a result, casinos in First Nations communities would help to facilitate the problem. However, despite these hurdles, First Nation communities within Canada have gained some access to gambling revenues through agreements with provincial governments. Current practices for First Nations gambling ventures are regulated in one of three ways: a native community can apply for a license similar to other charitable organizations; it can enter into an agreement with the province to operate a casino; or a licence can be acquired through a provincially approved First Nations licensing body. As well, the amount of gambling allowed on a First Nation reserve differs from province to province. For example, Alberta and Manitoba have a First Nations Gaming Policy which permits on-reserve casinos. Nova Scotia, Quebec, New Brunswick and Manitoba also have agreements which allow First Nation communities to operate bingo, sell lottery tickets, and have VLT's on the reserves. On the other extreme, provinces like British Columbia, Newfoundland and Labrador and Prince Edward Island have absolutely no agreements between the native communities.³⁰

Now that we have seen all the issues that arise from legalized gambling within Canada, we can critically analyze Canadian gambling policy and in the process find solutions to improve the nature of gambling within Canada. For most critics, the issue is the attitude taken by the Canadian governments. It seems as though provincial governments do not take into consideration the issue of problem gambling. Furthermore, proper economic strategies are not put in place before gambling opportunities are expanded. As a result, gambling proves to be economically and socially devastating for many communities. This is especially evident when one considers the fact that most job creation and tourism development projections are grossly exaggerated. Lastly, much of the criticism the governments receive stems from the fact that provincial governments in Canada hold a monopoly over the gambling industry. As a result, the question of a conflict of interest is always present. It is hard for many to understand how a government can balance revenue generation with the public's interest at the same time.³¹

²⁹ Henriksson and Lipsey, "Should Provinces Expand Gambling?" 268.

³⁰ Campbell, "Canadian Gambling Policies," 78.

³¹ Campbell and Smith, "Canadian Gambling," 34.

As more research is conducted surrounding the social costs that come with gambling, solutions are also being proposed in both academic and political circles. Firstly, policy-makers at all levels of government should periodically review the current structure in place. This would be an effective method of ensuring that there indeed is a balance in the government's role as regulator and operator. This would serve to balance the public's interest. Secondly, there should be more regulations and scrutiny around the advertising of gambling. Public service announcements and messages should be made mandatory surrounding the mental and health risks associated with excessive gambling.³² At the moment, the provincial governments do not show any willingness to regulate gambling advertising in the same manner that is done for tobacco and alcohol. What is truly a matter of concern is the fact that currently, foreign casinos are allowed to use Canadian advertisers to promote forms of gambling that may even be illegal in Canada.³³ Thirdly, policy makers must create reports and analyses about what impact expanded gambling has on society and the quality of life for individuals and families. All aspects such as social, health, economic and environmental conditions must be thoroughly researched before gambling is expanded in any community.³⁴ An example would be a report on the economic effects a casino would have on surrounding businesses with no access to gambling revenues.³⁵ As well, the issues of problem gambling should be tackled from a health perspective, where research should include the neurobiological and behavioural aspects of problem gambling. With further knowledge in these areas, the government would be able to take better precautionary and preventative steps. Programs could be created which would tackle the issue of problem gambling before it occurs.³⁶

On a more immediate level, there should be more public involvement in gaming policy in the provinces. For example, residents in every province should have a say in deciding how much of the province's revenues should come from gambling. Citizens should be presented with all the facts surrounding revenue generation from gambling. It should be made clear that while gambling revenue would not result in an increase in taxes, it does create other social expenses.

³² David A. Korn, "Expansion of Gambling in Canada: Implications for Health and Social Policy," *Canadian Medical Association Journal* 163, no. 1 (2000), 63.

³³ Henriksson, "Hardly a Quick Fix," 122.

³⁴ Korn, "Expansion of Gambling in Canada," 63.

³⁵ Henriksson, "Hardly a Quick Fix," 122.

³⁶ Korn, "Expansion of Gambling in Canada," 63–64.

Once these facts are presented, the decision should be in the hands of the people, and whether they are willing to bear the social costs in return for steady taxes.³⁷ As of now, all decisions around gambling are conducted by policy makers and the governments, and often only presented to the people once they have been implemented, this must change.³⁸ Furthermore, before any new form of gambling is introduced, a thorough analysis of the costs and benefits must be researched by an independent body. As well, there needs to be more independent research conducted on the economic redistribution from legalized gambling. The fact that gambling is a form of regressive taxation cannot be denied, and this requires further research and analysis. Finally, as gambling continues to grow in provinces, so should the law enforcement measures.³⁹

The issue of legalized gambling in Canada is a delicate matter, which requires much analysis and debate. So far, however, research conducted seems to indicate that there are more costs associated with the expansion of gambling rather than benefits. It seems that the issue lies in the way gambling policy is structured in Canadian society. The dual role of the government as regulator and promoter of gambling is especially troubling. While legalized gambling is promoted as having benefits such as revenue generation and job creation, the costs are far greater and include issues such as problem gambling, crime, unemployment, and several social and family issues. What is greatly needed in the current Canadian system is more public participation and a complete overhaul of the current gambling policy structure in the governments. If things continue to remain the way they are, we will begin to notice that legalized gambling in Canada is actually damaging to society and could end up costing the government and society even more in the long run.

³⁷ Seelig and Seelig, “Place Your Bets!” 104.

³⁸ Henriksson, “Hardly a Quick Fix,” 123.

³⁹ Seelig and Seelig, “Place Your Bets!” 105.

Bibliography

- Campbell, Colin S. "Canadian Gambling Policies." In *Casino State: Legalized Gambling in Canada*, edited by James F. Cosgrave, and Thomas R. Klassen, 69–90. Toronto: University of Toronto Press, 2009.
- Campbell, Colin S., and Garry J. Smith. "Canadian Gambling: Trends and Public Policy Issues." *Annals of the American Academy of Political and Social Science* 556, no. 1 (1998): 22–35.
- Henriksson, Lennart E. "Gambling in Canada: Some Insights for Cost-Benefit Analysis." *Managerial and Decision Economics* 22, no. 1–3 (2001): 113–123.
- . "Hardly a Quick Fix: Casino Gambling in Canada." *Canadian Public Policy* 12, no. 2 (1996): 116–128.
- Henriksson, Lennart E., and Richard G. Lipsey. "Should Provinces Expand Gambling?" *Canadian Public Policy* 25, no. 2 (1999): 259–275.
- Korn, David A. "Expansion of Gambling in Canada: Implications for Health and Social Policy." *Canadian Medical Association Journal* 163, no. 1 (2000): 61–64.
- MacNeil, Ray. "Government as Gambling Regulator and Operator: The Case of Electronic Gaming Machines." In *Casino State: Legalized Gambling in Canada*, edited by James F. Cosgrave, and Thomas R. Klassen, 148–158. Toronto: University of Toronto Press, 2009.
- Mandal, Veronique Perrier, and Chris Vander Doelen. *Chasing Lightning: Gambling in Canada*. Toronto: United Church Publishing House, 1999.
- Seelig, Michael Y., and Julie H. Seelig. "'Place Your Bets!' On Gambling, Government and Society." *Canadian Public Policy* 24, no. 1 (1998): 91–106.
- Smith, Garry J., Timothy F. Hartnagel, and Harold Wynne. "Gambling-Related Crime in a Major Canadian City." In *Casino State: Legalized Gambling in Canada*, edited by James F. Cosgrave, and Thomas R. Klassen, 161–191. Toronto: University of Toronto Press, 2009.

Fourth Year Essay
Citation Style: MLA