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INTERNET GAMING: REGULATING
IN AN ONLINE WORLD
FRIDAY, NOVEMBER 18, 2011
House of Representatives,
Subcommittee on Commerce,
Manufacturing and Trade,
Committee on Energy and Commerce,
Washington, D.C.

The subcommittee met, pursuant to call, at 9:03 a.m., in Room 2123, Rayburn House Office Building, Hon. Mary Bono Mack [chairwoman of the subcommittee] presiding.

Present: Representatives Bono Mack, Bass, Harper, Lance, Cassidy, Guthrie, Olson, McKinley, Barton, Butterfield, and Towns.

Staff Present: Paige Anderson, Policy Coordinator, CMT; Charlotte Baker, Press Secretary; Brian McCullough, Senior Professional Staff Member, CMT; Gib Mullan, Chief Counsel, CMT; Katie

Novaria, Legislative Clerk; Shannon Weinberg, Counsel, CMT; Felipe Mendoza, Democratic Counsel; and Will Wallace, Democratic Policy Analyst.

Mrs. Bono Mack. The subcommittee will now come to order. Good morning, this is our second cover the waterfront hearing on whether Congress should allow Internet gaming to take sail. Today we will hear from three of our colleagues as well as from a respected panel of experts. Let me be clear about one thing from the beginning. I am taking a very careful approach when it comes to this issue, and I want to examine all of the relevant facts before deciding whether or not to proceed.

I now recognize myself for an opening statement.

When it comes to the debate over legalizing Internet gambling is it time for Congress to let the genie out of the bottle, or is the genie already out, online, with a pile of chips playing Texas Hold 'Em? As chairman of the subcommittee, this is an important issue which I have been following very closely in hopes of making certain that everyone involved is dealt a fair hand.

Today we know this, the vast majority of Americans have gambled at some point in their lives, and the number of people who tried gambling is going up every year. Currently the only two States without legalized gambling are Hawaii and Utah. Forty-eight other States allow charitable gaming, 43 States and the District of Columbia have lotteries, 40 States permit parimutuel betting, 29 States have Indian casinos, while another 28 States have standalone casinos or racetrack casinos.

Today as we continue to look at whether Congress should legalize Internet gambling, there are a number of questions we will be raising.

For example, how effective is the current enforcement of online gaming in jurisdictions that have legalized it? How are States preparing to deal with the issue? What, if any, forms of interstate online gaming should Congress consider allowing? What consumer protections exist for online gaming, and what new protections are needed? How would any easing of legal restrictions on Internet gaming affect American consumers and other stakeholders, especially federally recognized Native American tribes.

Gaming policy and regulation is generally handled by the States, although the Federal Government has been involved in shaping the boundaries of what is permissible under current law.

In 1988, gambling across the United States began to proliferate after Congress passed the Indian Gaming Regulatory Act addressing the jurisdiction and authority of tribes to establish gaming on their lands. Since its passage, tribal gaming operations have seen tremendous growth with revenues last year exceeding \$26 billion. Of the 565 federally recognized tribes across the U.S., nearly half of them operate casinos which provide a critically important source of funding for tribal operations and governance.

In my own congressional district tribal gaming has been a huge plus with seven casinos supporting thousands of jobs during these very difficult economic times. The tribes have been great neighbors, too, contributing regularly to charities and civic events.

So as this debate continues to unfold, it is very important to remember how tribal gaming has improved the lives of thousands of Native

Americans and I want to make certain that they are not adversely impacted by online gambling, legal or otherwise.

Congress has had to step in before. In 2006 to combat proliferation of illegal Internet gaming, the Unlawful Internet Gambling Enforcement Act was adopted. This effectively outlawed interstate online gaming in the U.S. by prohibiting gambling related businesses from accepting payments in the form of checks, credit card payments or electronic funds transfers relating to unlawful Internet gambling. The law also establishes fines and penalties for banks and financial companies that process such payments.

In April of this year three of the top poker websites were shut down and 11 people indicted for bank fraud and for money laundering, raising new questions about the law.

Proponents argue that the statute has not reduced Internet gambling, it has simply driven it underground and offshore where shady operators play by their own rules.

Legalizing Internet gaming, they argue, would actually allow the government to provide greater protection for consumers. But those who want to keep the ban on Internet gambling in place argue that repealing the current law will expose more Americans to serious problems such as compulsive gambling. They are also worried about an increase in fraud, money laundering and organized crime. Still others have expressed concern that State budgets could be harmed by the loss of lottery and gaming revenue, and they point to huge potential impact on existing legitimate gaming operations.

While most States have taken no action regarding online gaming, seven States, Illinois, Indiana, Washington, Louisiana, Oregon, Montana, and South Dakota, have now enacted express prohibitions on Internet gambling. Other States have interpreted Federal laws permitting intrastate online gaming, and they are beginning to authorize different forms of remote gaming. Nevada, for example, has already provided remote intrastate sports wagering through BlackBerry enabled mobile phone devices, and the State is also forging ahead with plans to begin licensing online poker sites.

So in many respects the genie is already out of the bottle. And now it is up to Congress to decide whether Internet gambling across State lines should be legal or illegal.

And I look forward to hearing all of today's testimony.

With that, I am happy to recognize the gentleman from North Carolina, Mr. Butterfield, the ranking member of the Subcommittee on Commerce, Manufacturing and Trade, for his opening statement for 5 minutes.

Mr. Butterfield. Thank you. I thank the chairman for holding this hearing and what I hope will be a series of hearings on this very important subject of Internet gambling. This is a very important issue. I think we can all agree on that, and it deserves careful consideration, as you referenced in your opening statement.

Let me thank the three witnesses, my colleagues, for coming today and we will try to make this as painless as possible.

According to one estimate, any action we take regarding the legal

status of Internet gambling could impact an estimated 10 to 15 million people who already participate in Internet gambling on a regular basis.

Serious revenues estimated to be as high at \$49 billion over 10 years could be realized at both the State and Federal levels. But we must remember the policy decisions we make here and in the full committee could also impact people who have never been exposed to Internet gambling, potentially opening the door for dependence and addiction. That is why it is so important, so important to address potential consumer consequences in any legislation that we consider.

With estimated revenues in the billions we must set aside a portion of that to reduce the social cost of problem gambling.

In our previous hearing on this topic I was particularly struck by Mr. Keith White's testimony. Mr. White indicated that 6 to 8 million adults and 1/2 million teens meet the criteria for gambling addiction, with ethnic minorities more likely to become addicted. He also estimated that the annual social cost of gambling related addiction at \$7 billion, resulting from increases in crime, divorce and bankruptcy and other things. An ounce of prevention is worth a pound of cure, and any legislation must include, must include sufficient funds to carry out education, treatment and research services related to problem gambling.

We must also include common sense safeguards for consumers like a self exclusion list, gambling time limits, monetary deposit limits and privacy, and data security requirements, just to name a few.

Two of our colleagues, Mr. Campbell and Mr. Frank, are here today

to testify about their bill. The Internet Gambling Regulation Consumer Protection Enforcement Act, H.R. 1174. That bill would give the Department of the Treasury the responsibility of implementing a national licensing regime for Internet gambling sites. This bill provides for fair and balanced entry into the Internet gambling marketplace and does not restrict permitted gaming to just poker. It would also would encourage State lotteries, Indian tribes and others to innovate their current businesses so they can take part in the new industry and further raise revenue.

H.R. 1174 is just one of the bills currently on the table, but regardless of which proposal we are looking at, any legislation that moves through this subcommittee and that could ultimately become law will involve tasking one or more Federal entities with implementation and oversight. It is critically important that in addition to the experts we have here today we also hear from those Federal entities. These could include Treasury and Commerce, the Federal Trade Commission and the Consumer Financial Protection Bureau. We need to learn about any concerns that these agencies might have and potential consequences for them if they are tasked with implementing the new framework.

With an estimated 1,700 international websites allowing play and accepting wages from individuals in the U.S., it is critical that we act to protect American consumers by legalizing Internet gambling here. The tremendous revenue that would be realized through legalized Internet gambling at the local, State and Federal levels would be a tremendous boost to our budgets. And most importantly, American

workers are poised to take advantage of this new industry through well paying jobs that could be created, software engineers and financial experts and consumer service representatives, web developers, scientists and electrical engineers who all would need to be supported by the industry.

Considering the fragile and struggling state of our economy, I strongly believe that all potential revenues should be considered to spur more robust economic growth. But if we are going to do this, Madam Chairman, if we are going to recognize gambling as legal, we must do our very best to get it right.

Thank you for listening. I yield back the balance of my time.

Mrs. Bono Mack. I thank the gentleman, and the chair now recognizes the chairman emeritus of the full committee, Mr. Barton, for 3 minutes.

Mr. Barton. Thank you, Madam Chairwoman. I am delighted to welcome our three colleagues here, Mr. Frank, Mr. Wolf, and Mr. Campbell. The bill that I have introduced builds on the work that Mr. Campbell and Mr. Frank have already done. And with regards to Mr. Wolf, I have worked with him on many issues over the years and am glad that I am not in the White House Office of Science, Space and Technology right now or he would be cutting my budget, too, and I am glad he is not.

Congressman Kenny Hulshof, former Congressman, is in audience and I think former Congressman John Porter is in the audience. We welcome those two former colleagues.

I want to make one comment on Mr. Butterfield's opening statement. I support everything he said. I want to point out that the bill that we are hoping to mark up in this subcommittee deals only with Internet poker, it does not deal with generic gaming or gambling, it is just Internet poker. And as everyone knows, poker is a game of skill. Over time the best poker player will win the most money. I am living proof of that, having been much poorer by trying to play against players better than myself and having them laugh as they take my money.

We have an interesting situation here in this country in that it is legal to play poker online, it is impossible though to handle the financial transactions winning or losing that result from it because of a law called UIGEA. UIGEA in my opinion is unenforceable, needs to be reformed. The bill that I have introduced will do that, H.R. 2366. I have had a number of meetings with all the stakeholders and thanks to the skill of our chairwoman and ranking member we are going have a good cross-section of those on the second panel today.

I think there is general agreement there are still some things to be ironed out. I would point out the bill I have introduced is a states' right bill and it allows the States to make the decision whether citizens in their State can play poker online. If the State doesn't want to do that or an Indian tribe doesn't want to do that, they simply inform the Department of Commerce they don't want to participate. We are not trying to telling the States how to run their businesses, but for those States that do we are trying to have a comprehensive plan to make it fair and ethical for everyone.

So I look forward to the hearing, Madam Chairwoman. I want to thank the three Congressmen for taking their time to testify. I know how many things they could be doing and to have them give time, especially 9 o'clock on a Friday morning, is important.

I also want to welcome Mr. Frank Fahrenkopf, who will testify on the second panel. I have dealt with him on some political issues for many, many years. When I was a young Congressman he helped me quite a bit in some of my political travails earlier in my career, so I appreciate that.

With that, Madam Chairwoman, I yield back.

Mrs. Bono Mack. I thank the gentleman, and the chair pleased to recognized Mr. Bass for 2 minutes.

Mr. Bass. I thank the distinguished chairwoman for holding this hearing, important hearing. I also want to welcome my three colleagues to the main hearing room of the most powerful and finest committee in the Congress, welcome here. This is an important hearing.

On our second panel, we will be hearing from Charlie McIntyre, who is sitting in the front row here, Executive Director of the New Hampshire Lottery. As highlighted in my comments in a previous hearing, the New Hampshire lottery just delivered funding, almost a billion and a half dollars, for our State's education. It is the primary form of funding from the State level for education since its inception in 1964. So as our committee continues to examine online gambling, I believe that we should consider fully the experiences of existing forms of legal gaming. I am pleased to have Mr. McIntyre and

our other witnesses available to us today to speak to the competencies of our gambling regulators, as well as the potential benefits and challenges posed by an online gambling world.

So I am looking forward to both panels and with that, Madam Chairman, I yield back.

Mrs. Bono Mack. I thank the gentleman. And we turn our attention to our panels. We have two panels today joining us. Each of our witnesses prepared an opening statement and it will be placed into the record. Each of you will have 5 minutes to summarize that statement in your remarks.

On our first panel we are very pleased and we welcome the Honorable Barney Frank of Massachusetts, the Honorable Frank Wolf of Virginia, and the Honorable John Campbell of California. We welcome you all to the Subcommittee on Commerce, Manufacturing and Trade. We are very pleased you are here.

At this point we are happy to recognize Congressman Frank for 5 minutes for his opening statement.

**STATEMENT OF THE HON. BARNEY FRANK, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF MASSACHUSETTS**

Mr. Frank. Thank you. Thank you for having this hearing.

Mrs. Bono Mack. Can you make sure the mic is on?

Mr. Frank. Sorry, it was not.

I thank you for this hearing and I appreciate the work of my colleague from Texas, Mr. Barton, in this. And yes, I will say to my neighbor from New Hampshire it is nice to be in the Energy and Commerce room and to be seated in front of a portrait of John Dingell, which I think is probably older than the average Member of Congress -- the portrait, not Mr. Dingell.

I want to begin with the basic principle arguments. Obviously once we decide to do this, there are specific legislative details, and I think in a bipartisan way we can work them out. I will say Mr. Barton, Mr. Campbell and I have already had some meetings, and we think it is possible to come to an agreement on a lot of these specifics. But I say once we decide to do this, let's define what this is. This is allowing adult Americans to spend their own money as they wish in a form of recreation that they enjoy. I cannot understand how anyone would think that it is the role of the Federal Government to prohibit them from doing that. Regulating the way in which it is done, dealing with abuses, those are inevitable aspects of the economy we live in. But let's get to the threshold question, is it the business of the

government to tell adults no, we don't think you should gamble with your own money? That is a principle which frankly I would think there should be bipartisan support on.

And I hear people talk about the nanny state. I hear people saying we should not be telling 8-year-olds what to eat for lunch. Leaving that aside, if we don't want to tell an 8-year-old what to eat for lunch, why are we telling the 8-year-old's parent, a 28-year-old no, you can't gamble, we don't think that is appropriate.

Some of it I must say is moral disapproval, I know that creeps in sometimes. Apparently there are people who are better biblical scholars than I who have found somewhere in the Bible a prohibition on gambling. I haven't found it myself nor have I found a footnote to it which exempts bingo. But the fundamental principle remains the same.

The second problem we have here is that it violates a principle, I thought held very strongly, frankly even more so by my friends on the Republican side; namely, hands off the Internet. As somebody said, we are putting special restrictions on things done on the Internet. I thought that was the reverse of what people were talking about, because the legislation that unfortunately passed the Congress came out of the Committee on Financial Services enforces the prohibition on gambling, telling adults how dare you gamble with your own money, by restricting the use of the Internet. And again I am shocked by that.

Finally, the current regime is one of the most intrusive regulations on the banking industry that you can find. If you talk

to the bankers, they very angry at this because the way in which we now make it illegal is to impose on financial institutions an impossible obligation; namely, to figure out what the payment was for. So again from the principles of my Republican friends, don't have a nanny state, don't interfere with the Internet, don't unduly burden private sector, I am very surprised that this is maintained.

Now, one of the arguments against making it illegal, some adults will abuse it and some children will do it. Let me start with the latter one. As I understand it, we have alcohol made available on the Internet, we have cigarettes made available on the Internet. The notion there are sex oriented materials that are for adults only, the notion we should ban in a society for everybody things that are okay for adults because children might get to them is the end of freedom. If we aren't able to maintain some distinction between adult permitted activity and things we want to prohibit to children, then a lot of us will have a lot of time on our hands because we will have banned a lot of things that adults ought to be able to do and it is in fact inconsistent. That is why I go back to say that inevitably it seems to me that an element of this notion that we should make gambling illegal altogether is a moral disapproval, which I think is inappropriate.

I have had people say, well, are you for the government being pro-gambling? No, let's be clear what the role of the government is in a free society. There are some things that are damaging to others and the government should prohibit. There are some things which are especially beneficial and the government should want to encourage.

But the great mass of human activity is none of the government's business. We should neither encourage it nor discourage it. And not making something illegal is not an encouragement of it or an endorsement of it.

And I note the gentleman from New Hampshire mentioned a lot of reasons. I appreciate that, and we want to make sure that we draw on their experience. But some suggested that we should not allow this because it would detract from the revenues that lotteries get. The gentleman did not suggest that, I don't even put that word in his mouth, but again from the standpoint of my Republican colleagues any suggestion that we should ban private sector entities from engaging in activity because it might detract from the revenue that public sector entities get; in other words, we should give a monopoly to the public sector, would seem to be quite far from what I would hope would be the prevailing philosophy here.

I think we can deal with the addiction issue here. I will say that the addiction issue here does not seem to me different from the addiction issue with alcohol and other things.

And finally, I would say with regard to college students, there was an argument when we did it in our committee that somebody cited a study how terrible this was for college students and leading to suicides. The author of that study said, no, that is not what I said. And if we were going to ban things because students might get addicted to them, my guess is we would probably not start with Internet gambling, we would start with video games. There is a great problem of addiction

of video games and the way a rational, free society deals with addiction is to allow the great majority of people to do it and to try to treat and help the people who are addicted.

So I hope this committee will go ahead with the basic principle, and I look forward to our working out the specifics.

[The prepared statement of Mr. Frank follows:]

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Mrs. Bono Mack. Thank you, Congressman Frank. And at this point, Mr. Wolf, thank you very much for coming today and you are recognized for 5 minutes.

**STATEMENT OF THE HON. FRANK R. WOLF, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF VIRGINIA**

Mr. Wolf. Thank you, Madam Chair. I know that some members of the committee are aware of my strong concerns about the spread of gambling in our society. I can spend all day cataloguing story after story of ruined families, bankruptcies, suicides and official corruption. Gambling is harmful activity, and study after study has shown that many in our society there is no question it is strongly addictive. Following the enactment of the hard fought ban on Internet gambling in 2006, I never thought I would see a day that a Republican House would even consider weakening this law. For a party that champions families and traditional values, I assure you that Internet gambling is contrary to those values.

The legalization of Internet poker will enable the spread of gambling to every computer, every iPad, every iPhone, every BlackBerry, every Android and Windows phone in the country. It will send a signal to Americans that gambling is to be encouraged. It will be a windfall to the most powerful gambling interests in the country at the expense of American families and taxpayers.

There is no question that social and economic effects fall

disproportionately on three groups, the poor, the elderly and the young. Notably these are the same groups of Americans that have been hardest hit by the recession.

Although some have championed this legislation as a potential budget windfall, I assure you that what tax revenues it will generate will overwhelmingly come out of the pockets of the vulnerable population. Gambling is no budget panacea. What little tax revenue it will generate taxpayers will pay out far more in the criminal justice systems, gambling treatment program and social services.

The New York Times July 2010 article said the social cost of gambling outweighs the revenue by 3 to 1. Reports done in both the 1990s and 2000s have shown the increase in legalized gambling have led to a significant increase in suicide rates. A 2008 report by a sociologist at Temple University found that, "The odds of suicide among Las Vegas residents was at least 50 percent greater than among residents elsewhere in each of the 3 decades we observed."

Gambling, according to the July 20, 2011, Daily Finance article: When it comes to severity, Americans' gambling addiction is not too far behind the Nation's drug problem. And it is growing. It says in 2007 Americans lost more than \$92 billion gambling, about 9 times what they lost in 1982, and almost 10 times more than what movie goers in the U.S. spent on tickets that year.

Bell University Professor Earl Grinols estimated that "addicted gambling cost the U.S. between \$32 billion and \$58 billion a year.

I have long been concerned about the predatory nature of it and

I strongly support the recommendations of the National Gambling Commission, including the 2006 Internet gambling ban.

This law was important because it dramatically limited convenience, I use the word "convenience", gambling in the U.S. The important distinction between destination gambling and convenience gambling is that by its very nature destination gambling is entertainment and is generally limited to vacations for most Americans. This limits the opportunity for addiction to develop and reduces the risk of regular gambling. However, online gambling is the ultimate, it is the ultimate in convenience gambling. Internet gambling is the crack cocaine of gambling, according to the CEO of Promises Treatment Center, the crack cocaine of gambling. It is like having a casino at your fingertips 24 hours a day, 365 days a year. People can gamble in their bathrobes, in their family rooms, at work or in college dorms.

And with the explosive growth of smart phones, tablets, mobile broadband, the potential availability of Internet poker has grown exponentially in the last 5 years since it was outlawed. People will be able to gamble whenever and wherever they want. In addition, pathological gamblers will become easily addicted to online gambling because of the Internet's easy access and instant results. It will result, it will result in an epidemic. We will read stories about this if this bill passes. It will be a constant theme.

According to CitizenLink, should the current law be overturned, "The estimated cost of Internet problem and pathological gambling addictions among adults each year in the U.S. will be 18 billion. It

would be a total cost \$7 billion for those under age 16.

Gambling leads to increases also in public corruption. Has this Congress forgotten the Abramoff scandal? Gambling was involved in the Abramoff scandal. Has the Congress learned anything from it or is it just like the Simon & Garfunkel song, man hears what he wants to hear and disregards the rest?

I have more, Madam Chairman, but in respect to the committee I see my stop sign has come in. I think the passage of this will increase addiction gambling and I think it will increase suicide and I think the Congress will rue the day if it ever passes.

I yield back.

[The prepared statement of Mr. Wolf follows:]

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Mrs. Bono Mack. Thank the gentleman. The chair is pleased to recognized my colleague from California, Mr. Campbell, for 5 minutes. Welcome.

**STATEMENT OF THE HON. JOHN B.T. CAMPBELL, III, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. Campbell. Thank you, Madam Chairwoman, Mr. Butterfield, members. I appreciate the invitation to be here. It is kind of funny that I am here because I actually don't gamble. Not because I think there is any evil about it, I just don't find any fascination with it. I don't even know the rules of poker, what is better than what, which means Mr. Barton wants to play with me all the time and thus far I have resisted those invitations.

But you know, we are not here to talk about what we personally want to do, we are always here to do what Americans want to do. The fact is that millions and millions, hundreds of millions of Americans enjoy gambling and they want to do it and they are doing it. And in 2006, as was mentioned, we passed UIGEA and basically banned or tried to ban Internet gambling. Since that bill was passed, and Mr. Wolf mentioned this in his comments, he said the availability of Internet poker and other things have exploded. More than the availability has exploded, the actual amount of Internet gambling has exploded. I think Mr. Butterfield mentioned 15 million people. There are millions and millions, tens of millions of Americans gambling online now after we

passed a bill supposedly banning it. And what they are doing is they are using illegal offshore sites. When they do that, there is a lot of talk about revenue, not only do we obviously not get any revenue, but these people are unprotected. There is no regulation, there is no oversight. They don't know if they are going to get the money they are betting, they don't know if the game is fair, they don't know all kinds of things. But they are doing it and they will continue to do it because they want -- it is an activity they want to do and they can access it online regardless of what we do or don't do here. And so we actually by banning it have expanded what is going on.

Now Mr. Wolf talks about problem gambling and I get that. In fact I am a cosponsor of his bill relative to problem gambling. There is problem gambling and there will be problem gambling whether we make Internet gambling legal or illegal. But we can deal with it much better if it is legal, if it is regulated, if it is understood, and if we know whose doing it, then in the current situation where people are going off on these totally unregulated sites -- I mean there is been a lot of talk about this Full Tilt Poker and the recent Department of Justice invasion there. To me that is the reason we ought to be legalizing this, because millions of Americans were on that site and they were not being treated fairly. And we can make sure that they are going to be treated fairly.

Now when Mr. Wolf comments that we shouldn't allow this because there is problem gambling, you can look at drinking and many Americans don't drink, most drink responsibly, some have a problem. We tried

making that illegal. We tried prohibiting it. It didn't work. We forced a lot of honest Americans, because they were going to do it anyway, into a dishonest and illegal practice. And so prohibition was ended. We essentially have that kind of prohibition now. And we will have a better handle on the situation if we legalize it and regulate it than if we leave the current situation as it is.

And I understand the protections we can have online. You can have better protections than you do with brick and mortar gambling. If someone is a problem gambler you can put them on a list and you can have the website, the name, the credit card, various things on a list so that your regulated gambling sites have to not allow those people on their sites. We can verify age. There is technology now where we can verify the location, so those States, as the chairwoman mentioned, who wish to not have gambling in their States can not have gambling from their residents because the regulated sites can stop that from happening.

And they can be audited. In the bill that Mr. Frank and I have proposed the servers are required to be in the United States specifically so they can be audited, so that we know that the games are fair, that the amounts that gamblers are promised are being paid out, et cetera.

In conclusion, I want to give you four reasons I think whether it is the bill Mr. Frank and I have, the bill Mr. Barton has or something we have in between, that this committee should pass. First of all freedom. This is really about allowing adult Americans to do a

practice that they have done for eons and want to do and will do.

The second is protection. They are going to do it, they ought to be able to do it in a protected and fair manner where they know what they are getting into and they understand the risks and rewards.

The other thing is jobs. We are talking about jobs around here. Right now all these things are off site. If we do this where the servers and everything has to be in the United States, which we can do in our bill and under WTO regulations, then we are actually going to create jobs in the United States.

And then the final reason is the one everyone mentions is revenue. I don't think it is the top reason, but it is one. There is no question that if you do this you can't tax it. Gambling in every jurisdiction it is, is taxed and that will bring in revenue to the Federal Government.

And with that, I appreciate being here and thank you, Madam Chairwoman.

[The prepared statement of Mr. Campbell follows:]

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Mrs. Bono Mack. I thank all of our colleagues for your testimony this morning, and I will turn to the panel if any members have any questions for our panel. Mr. Barton, you are recognized for 5 minutes.

Mr. Barton. Thank you. I will try to be brief.

Mr. Wolf, in your comments you repeatedly said gambling, you never once said poker. I mean you do recognize that poker is a game of skill I presume.

Mr. Wolf. If the gentleman would, I also want to say that in the testimony which I didn't finish, it said according to the Annenberg Public Policy Center within 1 year of the Internet gaming ban enactment card playing for money among college age youth 18 to 22 has declined; weekly use of the Internet for gambling also has declined among this age group. Both declines are statistically significant.

And it will not stop with this. If this bill passes, in 5 to 10 years you will now have come in fourth as many States --

Mr. Barton. My question is do you understand --

Mr. Wolf. I think it will lead to other broader aspects and I think there will be problems with regard to corruption. And I think there will be a lot of problems.

Mr. Barton. But that is not the answer to my question. You and I play poker. I don't know how good a poker player you are, but over time whichever one of us is the best --

Mr. Wolf. Actually I don't, but I don't think -- let me just take the question. I am not here to tell you that poker is wrong. That is not my ability. What I am here to say is if you put this on Internet

gambling in college dorms and people will literally in a few short minutes will be bankrupt and broken. And I believe, and I remember the case of the young kid from Lehigh University up in Allentown that committed suicide. It is not my role to say poker is not right or wrong. And God bless you, Joe, I think you are a fine Congressman. And so I am not in the position to be the judge. I think that Internet gambling will bring about suicide and problems, and so I hope you win the next time you play poker and I hope you can bring this guy in to play with you.

Mr. Barton. Mr. Frank.

Mr. Frank. Let me tell you first, I am not going to praise you because I agree with you. Around here you only praise people when you disagree with them. So there are no negative inferences. I just don't have to say how wonderful you are before I say you are wrong. But I would just make the point --

Mr. Barton. You and I agree that each of us disagree about 98 percent of the time.

Mr. Frank. On this issue though, and obviously poker is different than other forms of gambling and it is much more skill and much less luck. But I would say I just want to emphasize what Mr. Wolf is saying. I had thought there was a consensus in this Congress, particularly strongly held by my Republican colleagues, hands off the Internet, don't interfere with the Internet. The premise of this, as Mr. Wolf makes clear, is that there are activities that may be okay elsewhere in this society, but we should particularly ban them from

the Internet, and he talks about convenience gambling. Well, I am not around here to make life inconvenient for the people I represent, but that I want to make clear is the nub of this. Do we single out the Internet for specific prohibitions and restrictions? As I said, I thought that went contrary. By the way if you are going to do that for gambling, my guess is there are other things that people would say, well, it may be okay in general but don't we don't want them to be too convenient. And that is the major precedent that is set here. You set the precedent of putting specific and harsh restrictions on the Internet more than anywhere else in the society.

Mr. Barton. Well, I am going to yield back, Madam Chairwoman, because I know we want to get to the second panel. But to the extent we have studies on problem gamblers and addictive gambling, it is somewhere between 1/2 of a percent and maybe as high as 2 percent. So it is an issue. Congressman Wolf is totally right to make it an issue, but it is not an overwhelming issue that cannot be dealt with in my opinion. And this at least my bill is simply on Internet poker, it is not slot machines and roulette and scratch lotteries and all that. It is just Internet poker.

I yield back.

Mrs. Bono Mack. I thank the gentleman. The chair now recognizes Mr. Butterfield for 5 minutes.

Mr. Butterfield. Thank you very much, Madam Chairman. And again let me thank the three witnesses for their testimonies. I am going to start on my left. Mr. Frank is always on my left and so I

am going to start with you and maybe end with you. But Mr. Frank. The bill that is proposed by our friend from Texas, Mr. Barton, would legalize only one form of Internet gambling and that is poker, and he painfully explains that every time that he speaks. His bill speaks to one, one form and that is poker.

The bill introduced by you and Congressman Campbell allows Internet sites that are licensed to accept bets and wagers without limiting it to poker. Only bets or wagers on sports events would be prohibited under your bill. The scope of gambling activities authorized under your bill is obviously much broader. Can you please discuss with us the broader scope of your bill and why you think allowing bets and wagers on activities other than poker is the preferred approach?

Mr. Frank. Thank you. That is a very important question. First, let me say I agree with Mr. Barton and others. And I don't gamble myself and I don't play poker myself, but I am for letting other people do a lot of things I don't do. The fact is that I don't think we should ban either poker or anything else that is voluntary, doesn't hurt anybody else, including gambling.

Now, it does have a prohibition on sports betting. Frankly that was a practical fact. I was pushing this bill in the committee I chaired. We couldn't get it through over the objections of mostly the National Football League. I will report to you that the National Football League believes that if we were to allow Internet gambling people might start betting on football games. You might find that a

shocking possibility, but I will tell you that that is the position of NFL. Let us not get into the position where people might start betting on football games. At any rate, I accepted that reality.

But beyond that, yes, our bill, Mr. Campbell's and mine, does say, as Mr. Campbell said, adults should be allowed to do on the Internet what they prefer to do and I don't see any reason for banning gambling. There is a narrower issue on poker. I will say I am for as much freedom as I can get for people as long as they are not hurting others. If all we could get is poker, I would be for it. I am for the broader issue. I don't think we should be restricting people's freedom to do other things.

Mr. Butterfield. Thank you. Also, Mr. Frank, let's talk about oversight. The bill proposed by you and Mr. Campbell puts the responsibility for regulation on the Department of the Treasury. Under Mr. Barton's proposal it is the Department of Commerce that is tasked with this responsibility. Will you speak to that, please? Which is the preferred agency for oversight?

Mr. Frank. Let me be very honest. The chairman of the Committee on Financial Services, which has jurisdiction over the Treasury Department, hates this bill and won't let it come up. The Department of Commerce is under the jurisdiction of this committee. And frankly I don't think it makes a great deal of moral or practical difference which agency does it. The reason, by the way, we originally talked about Treasury, is the concern here was that Internet gambling, like other Internet activities, could be a front for money laundering, for

terrorism. I should note, by the way, as to that fear that it could be a front for international illegal activities, terrorism, et cetera. The chairman of the Homeland Security Committee, the gentleman from New York, Mr. King, is a strong supporter of our bill. So he believes that we have in fact solved that.

But the reason for doing Commerce rather than Treasury frankly is committee jurisdiction. I think it can be done as well in one place as another. I did it with Treasury because we did have this situation where there was a concern about money laundering, and that is under Treasury. Later on when it goes to the floor, committee jurisdiction is not binding, an amendment could be made in order if people thought it made more sense with Treasury. But it is in Commerce to get it before this very distinguished panel. Mr. Paul says this is the best committee that ever existed and I just was glad to have a chance to come here.

Mr. Butterfield. Thank you, Mr. Frank. This is my third question. A key concern for many online gamblers is that they be treated fairly and that operators minimize the risk that they will be defrauded by other players. After reviewing the testimony of another gentleman, it appears that the American Gaming Association is confident that the technology exists to prevent automated programs or poker bots from being used against unsuspected human players. It also seems judging from last month's testimony that site operators are similarly confident that their software can determine when collusion or fraud is taking place.

The Campbell-Frank bill indicates several requirements to ensure the integrity and fairness of the Internet gambling.

You have 20 seconds to respond.

Mr. Frank. Well, first, I would say that we were so careful to put this kind of regulatory oversight in that I lost Mr. Paul's vote in committee because he as a libertarian thought we were getting too pushy with regulation, or he voted present. But secondly, yes, we do think, as Mr. Campbell said, a lot of this is going to go on, we do know when you try to prohibit adults from doing what they want to do you to some extent just push it into illegal channels, et cetera. Prohibition of an entirely voluntarily activity rarely works in a free society, certainly with something as expansive and accessible as the Internet. We believe you will get much better consumer protection, you never get perfect, if it is lawful and therefore regulated than if it is totally unlawful.

I will say a lot fewer people die from bad booze today than died from bad booze in the twenties when we had prohibition. That doesn't mean there was never a problem, it does mean that legalization is the prerequisite for effective consumer protection regulation.

Mr. Butterfield. Thank you.

Mrs. Bono Mack. Are there members seeking time? With that, we thank our panel very much for being here today, and the subcommittee will take a very brief recess while we seat the second panel, and thank you to our colleagues for their testimony.

So with that, we will resume the hearing. It was very, very

brief. We welcome our second panel. Each of our witnesses has prepared their opening statement and it will be placed into the record. Each will have 5 minutes to summarize that statement in your remarks and we do try to stay as close to the 5-minute mark as humanly possible.

Joining us on our second panel are Mark Lipparelli, Chairman of Nevada Gaming Control Board; Charles McIntyre, Executive Director, New Hampshire Lottery Commission; Frank Fahrenkopf, Jr., President and CEO of the American Gaming Association; and Dr. Rachel Volberg, Senior Research Scientist at the University of Chicago.

Good morning to each of you, and thank you again for coming. You will be recognized for the 5 minutes. I think you can see the timers there and when it hits yellow that means to start getting close to wrapping it up. And please remember to turn your microphone on and bring it close to your mouth so that the TV audience, and C-SPAN or whoever might be viewing it eventually can actually hear you at home.

So with that, Mr. Lipparelli, we are pleased to recognize you for 5 minutes.

STATEMENTS OF MARK LIPPARELLI, CHAIRMAN, NEVADA GAMING BOARD; CHARLES MCINTYRE, EXECUTIVE DIRECTOR, NEW HAMPSHIRE LOTTERY COMMISSION; FRANK J. FAHRENKOPF, JR, PRESIDENT AND CEO, AMERICAN GAMING ASSOCIATION; AND DR. RACHEL A. VOLBERG, SENIOR RESEARCH SCIENTIST, NORC AT THE UNIVERSITY OF CHICAGO

STATEMENT OF MARK LIPARELLI

Mr. Lipparelli. Thank you, Madam Chair, members of the committee. My name is Mark Lipparelli. I am Chairman of the State Gaming Control Board in Nevada, and I appreciate the opportunity to come and comment on what has become a very important topic in our State as well as the gaming industry in general.

My perspective is one from a regulator. I have been on the Gaming Control Board for 3 years now, appointed 3 years ago by our governor, and no sooner did I get appointed that the topic of Internet gaming became of high importance, given the interest in our industry and the potential for partnerships of our licensees in foreign markets.

It has been my experience in the last 3 years, traveling to many of the relevant jurisdictions that are known for Internet gaming, that there is a substantial amount of gaming going on in the United States today. As much as we would like to think that the laws that are passed today prevent such activity from occurring, the U.S. is seen as a robust marketplace for these Internet operators. And ironically from our

experience as regulators, when we put our licensees through rigorous standards, rigorous audits, many of the operators in these foreign markets don't have the same kinds of obligations, nor do they have the same kinds of voluntary compliance that is at the bedrock of our activities as regulators.

In the State of Nevada in my comments I pointed out that almost \$140 billion a year is put at risk in Nevada casinos that results in \$10 billion in revenue. And over a span of time, over 30, 40, 50 years, we have enjoyed great success and increasing sophistication in the way we approach gaming regulation. I have found in my travels overseas that many of the fundamental kinds of regulations that we have in place don't exist in these foreign markets. Robust audits, suitability investigations of primary owners, and the protection of people from problem gaming, compulsive gaming, don't exist in the robust forms we have them today.

The challenge for our operators as they try to consider how to enter these markets is to compare how they will approach these marketplaces with that as part of their corporate culture, that as part of what they have developed with their patronage and bring those kinds of talents to the marketplace.

I just returned from a meeting with the International Olympic Committee just 2 days ago where the subject of Internet gaming was part of our conversations. The concern of the International Olympic Committee and many other sports leagues around the country, or around the world relates to how can they get a better handle on these Internet

sites that are illegal. They are impressed by the controls that we have in place in regulated markets. And they were asking us as regulators how to impose those same kinds of standards on the sports leagues. So it is ironic that that meeting just occurred 2 days ago.

I think there was a comment made about Nevada's efforts to legalize Internet gaming within the State of Nevada, and it is true we have begun that process. We began through legislation 10 years ago legalizing Intranet gaming but there had never been an impetus to drive regulatory efforts to actually bring that about. Approximately a year ago, 2 years ago, our legislature actually passed a mandate that we adopt regulations. I am confident that the work we have put in to establishing regulatory reform, internal controls and technical standards that we have as part of our regular businesses in Nevada will be the basis for sound regulatory control of Internet gaming in the future.

A lot of questions have been raised about whether the areas of concern around Internet gaming can be effectively controlled. In my travels one of the things become noticeably interesting to me is that Internet gaming provides detailed information about gambling activity at the transaction level. When you get down to that level the ability for regulators to impose standards and requirements on operators is very robust. You can identify customers, you can identify play patterns, you can identify the people who are accessing the Internet from what device they are accessing the Internet. In the brick and mortar businesses that is very difficult. Gaming is a voluntary

activity, it is often an anonymous activity, and we have substantial controls in place to look in large measure at what goes on in a casino environment.

In an Internet world it is down at the transaction level. Accounts are established, internal controls have been developed among Internet operators today to identify where someone is playing, from what machine or device they are playing. They can establish the play patterns of an individual from time of day to amount wagered. There is an ability to set up individually self-regulated controls over how much money can be wagered in a week, how much money can be lost in a day, how much money can be lost over a period of time. Those kinds of tools do not exist generally in the brick and mortar businesses.

My observations are with the combination of regulatory control, compliance programs, and sound regulation that these kinds of things can be done very successfully.

[The prepared statement of Mr. Lipparelli follows:]

***** INSERT 1-4 *****

Mrs. Bono Mack. Thank you very much. Mr. McIntyre you are recognized for 5 minutes.

STATEMENT OF CHARLES MCINTYRE

Mr. McIntyre. Good morning, Madam Chair. Good morning, Ranking Member Butterfield. If it please the subcommittee, I am Charlie McIntyre and I have the honor and privilege of being the Executive Director of the New Hampshire Lottery.

Let me boast for a second about the State I call home. New Hampshire is a state of firsts, the first presidential primary, and they hold that first in the Nation status religiously, fervently. To suggest that they are proud of it is an understatement.

In my area it is the first modern lottery in the U.S. the State representative from Keene, New Hampshire, after 5 tries and 10 years of efforts, passed a law in 1963 signed by Governor King to have the first lottery in the U.S., first modern lottery in the U.S.

Governor John King bought the first ticket which I brought with me, show and tell. This is the first lottery ticket in the U.S. that was purchased. Governor King bought it. Unfortunately he did not win. The director that sold it to him was named Ed Powers, a retired FBI agent. And he started what is a long tradition in the lottery world to have law enforcement, current or retired, serve as lottery directors, which I myself am a proud member of law enforcement. I served as senior state prosecutor of the State of Massachusetts with

organized crime as my focus under District Attorneys William Delahunt and Willaim Keating, both having been one a former Member of this body and the second being a current Member of this august body.

Since 1964, when the lottery became enacted, New Hampshire has realized \$1.5 billion in education funding, as Congressman Bass correctly out. And 100 percent of our profits go to education, 100 percent of our profits go to education.

When we needed to add liquidity to games, we joined with Maine and Vermont and created the first multi-state game in 1985, 26 years ago, and that game still exists today and we still run it today. New Hampshire now finds itself engaged in a casino debate in the right place, and it is now the twelfth year of the sixth legislative session in which that debate is being engaged. And whether it passes or it fails, it is being waged in the correct place, in the statehouse of New Hampshire; similarly, the question whether to expand gambling offerings on the Internet and via mobile devices should be decided by each individual State.

This belief and ideal has long roots within the confines of codified law regarding gambling. But its roots are even more basic than that. A State should maintain its right to determine its level of tolerance for the expansion of gambling within its own borders, being the moving party for that expansion.

As the history of New Hampshire points out, it took 10 years to become a lottery. Maybe the answer is no for a while until it is yes. But it should be posed to those whose lives it most directly affects,

citizens of that State and those elected directly, which New Hampshire is quite large, being 40 members in the House of Representatives in New Hampshire.

Internet access is global. New Hampshire has the second highest penetration in the U.S. So each State, given that, should decide its own time and pace, its tolerance for that expansion. And as for the question of whether it is yes or no for the State of New Hampshire, then the operational questions can be asked related to payment, PCI compliance, age verification, compulsive gambling and geolocation.

The New Hampshire lottery for almost 50 years has been in control of lottery gambling within its own boards and all manner of operation and consistent with wishes of the State without significant controversy or issues. The lottery has adopted and integrated changes in technology over that time, and if the State of New Hampshire elected officials allows we will consider the Internet the next step on that path.

An important point not to be overlooked. Please. As director of the State lottery in New Hampshire, I am required to transfer \$70 million of net profit by this fiscal year, \$72 million next fiscal year. Any impact, any encroachment upon that gambling space in New Hampshire without execution and planning materially places those revenues at risk.

RPTS CASWELL

DCMN NORMAN

[10:03 a.m.]

Mr. McIntyre. Finally, this committee is an excellent example of the tolerance, the spectrum upon which gambling exists -- Utah, having no lawful gambling within her borders, and New Jersey having robust gambling presence. But both exist within each State's determination as to what is best for the citizens.

I certainly thank the committee for its time here today and certainly welcome any questions or comments you may have. Thank you, Madam Chair and Ranking Member.

Mrs. Bono Mack. Thank you, Mr. McIntyre.

[The prepared statement of Mr. McIntyre follows:]

***** INSERT 2-1 *****

Mrs. Bono Mack. Welcome, Mr. Fahrenkopf, you are recognized for your 5 minutes.

STATEMENT OF FRANK J. FAHRENKOPF, JR.

Mr. Fahrenkopf. Thank you, Chairman Bono Mack and Ranking Member Butterfield for the opportunity to provide testimony today on behalf of the American Gaming Association which represents the commercial casino entertainment industry here in Washington.

Our industry operates in 22 States, directly and indirectly is responsible for the employment of 875,000 men and women, and accounts for about \$114 billion in spending last year, which equaled nearly 1 percent of the entire 14.5 trillion U.S. GDP. We support Federal legislation that will allow States and other appropriate authorities to license and regulate online poker, while also ensuring that each State, such as New Hampshire, has the right to determine whether such activity should be permissible by residents of their State.

We believe the best approach to making that happen is to modernize and strengthen the Wire Act of 1961 with conforming amendments to the Unlawful Internet Gaming Enforcement Act to unambiguously outlaw and hopefully eliminate illegal Internet gambling. The AGA asks that any gambling legislative proposal establish Federal guidelines so there are consistent regulations for online poker in all jurisdictions that choose to have them.

In addition, the AGA asks that the legislation pass three tests.

Number one -- and I think this is very important -- it must not create competitive advantages or disadvantages between and among legal commercial casinos, Native American casinos, State lotteries, and parimutuel wagering; no form of gaming that is currently legal should be made illegal; and the legislation must respect fundamental States rights in an appropriate manner.

Now, we for many years were opposed to all forms of Internet gambling because we did not believe the technology existed to properly regulate it with appropriate law enforcement oversight. That has changed in the last few years. There are now new technologies and processes that have proven effective for regulating and overseeing Internet gambling in First World Nations such as Great Britain, France, Italy; within the next month, Spain and Denmark, and in provinces of Canada today.

The registration processes and advanced technologies used are very similar to those used by Major League Baseball and CBS, for example, to determine game blackout areas as well as Apple, Amazon, and the online banking industry to facilitate secure eCommerce. These new registration processes and advanced technologies allow the online poker company to determine where the player is located via advanced geolocation technology and determine whether the person playing is who they say they are, using advanced biometrics or other tools to prevent underage gaming.

There is urgency to this issue, as you have heard from a number of the witnesses already, because 10 to 15 million U.S. consumers

annually bet online and are at risk and have been exploited, as we know from the full-tilt activity against them by the Justice Department. By these unregulated offshore companies, licensing and regulation would ensure U.S. residents are protected.

Now our member companies who are interested in providing these services have agreed to abide by a code of conduct which incorporates the key elements of the successful regulations which are followed now by U.S. land-based casinos. That code requires companies to do the following: submit to extensive background investigations of the company and key personnel; ensure proper identification of every U.S. online poker player; submit to regular testing and auditing of online poker software; implement effective player exclusion processes; incorporate the effective, responsible gaming protections; and implement effective anti-money-laundering procedures.

I would like, before I conclude my testimony, to take the opportunity to address this question of problem gambling that came up with the earlier panel and which was before you in the last hearing.

It is settled science -- and I say that again, it is settled science -- that at any given time about 1 percent of the U.S. adult population are pathological gamblers, and that is a figure that has not changed despite the dramatic expansion of gaming opportunities during the last 35 years. Researchers also have found no evidence that online gamblers are more likely to be pathological gamblers when appropriate allowances are made for participation in other gambling activities.

In fact, a major British study found no increase in the rate of pathological gambling between 1999 and 2007, even though Internet gambling became widely available during that period. Similar studies emerged in a study of Swedish gamblers, but the most definitive and recent research on this topic has been conducted by the Division of Addictions at the Cambridge Health Alliance, an affiliate of Harvard Medical School.

Their study of the actual transactions and behaviors of 40,000 online gamblers directly contradicts the belief that Internet gambling breeds excessive and problematic gaming behavior. This comprehensive research, the largest study of its kind, found that the vast majority of online gamblers play responsibly and can moderate their behaviors.

Researchers have also found that online gaming participation decreases over time, saying that they did not find evidence to support claims that Internet gambling will cause escalated or even sustained rates. I have got more, but my time is up and perhaps during the questions and answers we can get to them.

Mrs. Bono Mack. Thank you, Mr. Fahrenkopf.

[The prepared statement of Mr. Fahrenkopf follows:]

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Mrs. Bono Mack. And Dr. Volberg, it is your 5 minutes.

STATEMENT OF RACHEL A. VOLBERG

Ms. Volberg. Good morning, Madam Chairman, Ranking Member Butterfield, and members of the subcommittee.

Mrs. Bono Mack. Can you please pull your microphone a little closer?

Ms. Volberg. Okay, is that better?

Mrs. Bono Mack. Yes, thank you.

Ms. Volberg. My name is Rachel Volberg. I am a sociologist at NORC at the University of Chicago, and I have been doing research on gambling and problem gambling for 26 years.

The Internet gambling market is large and growing rapidly. Poker is the most popular form of online gambling, and accounts for 60 percent of online gambling activity but for only 23 percent of online gambling revenues. The majority of Internet poker players are young men with relatively high levels of education, and perhaps a few older men as well.

With regard to problem and pathological gambling, there is substantial research showing that prevalence rates are three to four times higher among Internet gamblers compared to non-Internet gamblers. Now, critics argue that Internet gambling does not cause problem gambling, but that instead problem gamblers are attracted to Internet gambling and add it to a repertoire of other gambling

activities.

Results from a new longitudinal study in Canada show that while both of these things happen, the most common pathway is actually for Internet gamblers to develop problems subsequent to beginning to gamble on the Internet.

Now, most things that go up usually come down, and this is true in epidemiology as well. Research shows that problem gambling prevalence does eventually level out and decline, even if accessibility does continue to increase. Among the likely contributors to such declines are greater public awareness, decreased participation once the novelty has worn off of a new form of gambling, increased government and industry efforts to provide gambling more safely, expanding services for problem gamblers, the increased age of the population, and, unfortunately an outflow of problem gambling cases due to severe personal or financial crisis, criminal charges or, in extreme cases, suicide.

H.R. 2366 provides for Federal oversight of State and tribal agencies that will issue licenses for online poker, but leaves responsibility for setting consumer protection standards to the States and tribes. This arrangement virtually guarantees that programs to prevent and mitigate problem gambling will vary significantly across jurisdictions. And while the competition among online gambling providers will ensure a cost-efficient and appealing consumer product, a free market is likely to come at the cost of less player protection.

Beyond requiring licensees to establish self-exclusion programs,

I believe some additional minimum requirements are needed. These include a requirement for players to set limits with regard to time and money, a 24-hour cooling off period before changes to limits can be made, monthly financial statements, and self-assessment tests.

It would be best if these measures, as well as the self-exclusion program, were operated by a third-party independent organization. Such an approach offers many advantages. One significant one is that it would allow players who wish to self-exclude to visit a single site and exclude themselves from all of the domestic sites at one time, rather than having to go to each gambling site individually.

Finally, even these measures will be insufficient without a mechanism to adequately fund prevention, treatment, and research on problem gambling in the United States. I agree with the National Council on Problem Gambling that a minimum of \$50 million in new Internet gambling revenue must be dedicated to these programs.

Unfortunately, the United States lags far behind other countries in this regard. State funding for problem gambling services per capita is approximately one-twentieth the level it is in countries such as Australia and Canada, and there has never been a Federal agency with primary responsibilities to address problem gambling. I therefore also urge you to support H.R. 2334, which designates SAMHSA as the lead Federal agency on problem gambling.

Online gambling is here to stay and will continue to evolve. The question is what governments can and will do to create a safety net for their citizens, to minimize the likely increase in the number of

problem gamblers, to provide treatment for those afflicted, and to ensure that research is undertaken to understand the impacts of Internet gambling on society.

Thank you for the opportunity to testify, and I look forward to answering your questions.

Mrs. Bono Mack. Thank you, Dr. Volberg.

[The prepared statement of Ms. Volberg follows:]

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Mrs. Bono Mack. And I thank the entire panel, and we will now turn to questioning, and I will recognize myself for 5 minutes.

And I would like to ask Mr. Fahrenkopf this question first. If Congress were to enable Internet gaming, do you support the right for States to opt-out of such a system and to limit any online gaming participation by their residents to entrust State online operations under that State's own control?

Mr. Fahrenkopf. Absolutely. We are supporters, and always have been, that the Tenth Amendment States rights must be recognized. States should always have the right to determine what type of gaming they are going to allow in their State, how they are going to regulate it, how they are going to tax it. So we have no problem with States opting out if they don't want to participate.

Mrs. Bono Mack. And then once they're opted out again, just to be clear, that you can opt out and offer intrastate solely?

Mr. Fahrenkopf. Well, some of the discussion, Mr. Campbell was saying that UIGEA was the purchase -- the purpose of that was to outlaw Internet gambling. It really wasn't. The purpose of UIGEA, or UIGEA, as we call it, was to interfere with the financial transactions that went on. The bill clearly did not say what was legal or illegal.

But there is within UIGEA an intrastate exemption from UIGEA. There would still be a determination, as you know. The Justice Department to this day says that Internet wagering of any sort is illegal under the 1961 Wire Act. I don't necessarily agree with them. It is hard for me to believe that anyone in this august body who was

serving here in 1961 ever thought that there would be a worldwide Web, that there would be the intent. So clearly there is is an intrastate exemption from UIGEA for States to do intrastate activity, which would not violate that law. I am not going to pass judgment on what the Justice Department is going to say. I happen to disagree with their interpretation that that would be illegal.

Mrs. Bono Mack. Thank you. And much of what you are talking about, you are speaking to the ability to regulate, to have particular Web sites and those Web sites only. Yet in Congress we are often dealing with rogue Web sites that are selling, you know, bad prescriptions, bad pharmaceuticals. There are rogue Web sites that are selling pirated intellectual property.

How do you propose that you make sure that the consumer can truly know that this is a real Web site and a safe Web site, because we are are dealing with this in so many other areas right now?

Mr. Fahrenkopf. Well, as I said in my remarks, I think that the way to go about this, in the wisdom of Congress, Internet poker should be legalized. We have got to back, reiterate the 1961 Wire Act, as well as adjust UIGEA to make sure that it can be used as the vehicle to keep track of what, you know, other Web sites there are. Now, I happen to believe that the free market will make a determination.

Mrs. Bono Mack. But the free market right now is suffering from rogue Web sites and from all of the bad prescription drugs again, and from rogue Web sites that are coming from offshore where the consumer has no concept whether it is a legitimate Web site or not.

So let me move on to Dr. Volberg, though, because time is so limited. All of you have expressed a desire to keep children and problem gamblers from gambling online. If Congress chooses to legalize any particular or all online gaming, how would you prevent problem gamblers or minors from continuing to go wherever they can place the wager, including the unregulated offshore operations I was just talking about? Wouldn't the dangers for these vulnerable segments still persist?

Ms. Volberg. Well, the dangers would persist, but there are ways to mitigate the dangers by placing sort of roadblocks in the way. Certainly I am not an expert on how to do age verification. You heard a speaker, or someone testified last time on that front.

The issue that I am most familiar with is the question of exclusion programs and pre-commitment programs. And the thing to do, or the step that we believe is most effective, is to get people before they begin to gamble, to set up the constraints in terms of how much money per day or per week or per month that they want to spend, how much time they want to spend on those particular Web sites, and to set that up ahead of time so that in the middle of sort of the excitement of the action, they are not sort of going to lose control and keep going longer than they wanted.

Mrs. Bono Mack. Mr. Lipparelli, I would like to change the subject a little tiny bit toward travel gaming. I believe you have some travel operations in Nevada.

Mr. Lipparelli. We do, in fact.

Mrs. Bono Mack. Okay. Can you explain briefly how they are regulated?

Mr. Lipparelli. Each of the tribes, I believe there are two, have entered into State compacts where they have agreed to abide by the State regulatory structure, so they follow our State regulatory regime.

Mrs. Bono Mack. Thank you.

Mr. Fahrenkopf, back to you. Should online gaming sites be required to help pay for the services needed to treat problem gambling, or should the State use the revenue it receives to pay for the services, or both?

Mr. Fahrenkopf. Well, most of the experience that we have had with land-based casinos as well as lotteries and the parimutuel industry, it varied State by State. In some States there is a -- for example, in the States that have river boat gaming, you have to pay a fee to go on the boat, and a portion of that fee is set aside for responsible gaming work.

So it varies from State to State, but either way it could, you know, be effective if it was clearly drawn as a means to develop the revenue. I might say that there is some real question, however, of what adequate treatment is, and Rachel has been involved in this business, as others, for 20 or 30 years as to what the proper treatment must be.

For example, you have a State like Iowa that has had casino gaming since 1989, they have raised a tremendous amount of money, but in some cases they don't know how to effectively spend it. And that is why

research is really the key where most of the money should go, at least in the immediate future, along with some of the programs that Rachel has talked about.

Mrs. Bono Mack. Thank you. And my time has actually expired a while ago, so I am happy to recognize Mr. Butterfield for his 5 minutes.

Mr. Butterfield. I thank the chairman. Both bills that we are talking about here today seek to prevent children from accessing gambling sites, and that is certainly a good thing and we can all agree on that. However, these two bills take different approaches toward achieving the goal.

Mr. Franks' bill and Mr. Campbell, 1174, gives the Treasury Secretary broad regulatory and enforcement authority to implement a licensing program for Internet gambling sites. This authority includes a requirement that the Secretary make sure that those licensees have various processes in place to prevent underage gambling.

Mr. Barton's bill, 2366, allows States to license gambling sites. The bill requires the relevant State agencies to, quote, ensure to a reasonable degree of certainty that the individual placing a bet or wager is not less than 21 years of age, end of quote.

Let me this time go to my right. Dr. Volberg, would you have any concerns with a State by State or even a tribe-by-tribe approach to preventing children from accessing gambling Web sites?

Ms. Volberg. Well, I think actually the issue of preventing children from gaining access to Internet gambling Web sites is an important one, because while the technology may exist on a

State-to-State level to implement those steps -- and this applies to problem gambling as well -- there is not equal political will in every State to implement those measures.

And so what you will get, as I mentioned in my testimony, you will get variability across the States in terms of what they are willing to do, what they are able to do. And as a result, I think that some States will do a very good job, but other States are going to do a much less good job of protecting both underage gamblers and problem gamblers or people who are at risk.

I think another issue that I have great concern about because I have done a number of adolescent surveys, is the number of youth that access the Internet to gamble is extraordinarily high. In the survey that we did in Oregon, 30 percent of our adolescents had actually gambled on the Internet. But most of those had gambled for entertainment and not for money. And so when you are talking about sort of educating young people about gambling, part of it is occurring on the Internet, and I would like to see some prevention measures and some education that goes along with, you know, preventing them from actually gambling for money.

Mr. Butterfield. Do you think that this issue could be addressed through consistent across-the-board requirements at the Federal level? And if it should be at this level, would you have concerns if more than one agency provided oversight?

Ms. Volberg. I think when it comes to prevention and treatment, or certainly prevention and research, that we have not seen the States

step up to the level that they have or that governments have in other countries around the world. So I would say that those two areas in particular do require a stronger Federal voice.

Mr. Butterfield. We are going to have to have oversight if this goes into law, I am just trying to find out what agencies should be involved and could it be multiple agencies?

Ms. Volberg. I absolutely think it should be multiple agencies. I think that -- I have seen models internationally where that does happen very effectively, but it does require the legislation to actually say that you have to coordinate these -- you know, these departments have to coordinate.

Mr. Butterfield. Should any proposal in this area include some additional minimum requirements to ensure that licensees don't target children? For example, should any legislation include standards for general advertising and marketing practices and online sites, the specific targeting of minors, the system used by the site to verify that the user is of legal age before they are allowed to sign up? Would you quickly speak to that in 30 seconds?

Ms. Volberg. Yes, I believe there is a need for that.

Mr. Butterfield. All right, thank you.

Mrs. Bono Mack. I thank the gentleman and recognize Mr. Barton for 5 minutes.

Mr. Barton. Thank you, Chairwoman. I have a letter from Alfonse D'Amato that was written to you on November 7, 2011, and it is copied to all members of the subcommittee. I would like unanimous consent

to put that in the record. It has been shared with the minority.

Mrs. Bono Mack. Without objection.

Mr. Barton. I want to ask my first question to Professor Volberg. You kind of just alluded in passing that your study of people that play poker on the Internet, they often tend to be young men with high educational levels; and then you looked directly at me and said, "and a few older men."

And I want the record to show that I am 62.

Mrs. Bono Mack. With objection.

Mr. Barton. That classifies as old, I guess, but I have never played online for money. I play online for play money, but not for money. But I respect those that do play for money, and a number of young men in my district play professionally and make a living.

Could you comment a little bit more on the demographics of the average online poker player?

Ms. Volberg. Well, I will be happy to do that. I would just would like to say that I said older, rather than -- I did not mean any disrespect.

In terms of the characteristics of online gamblers, this is not actually a study that I have done, it is a study that -- a number of studies that have looked at online gamblers and online poker players as a subclass of online gamblers. And the E. Koeger study is the specific one that I was referring to here, where they found that -- they looked at the demographic differences between online poker players and online casino gamblers. And what they found, that while the online

poker players tended to mostly be, or the majority of them were young men between the ages of 18 and 24 with relatively high levels of education and income, in contrast the online casino gamblers were primarily or a majority were older women with relatively lower levels of income and education.

Mr. Barton. But on the poker player demographic online, my experience is that they tend to be very sharp. They all know the probabilities, they all know the permutations. Most of them excel in math.

If you watch the World Series of Poker, which is not online, but if you watch the World Series of Poker on ESPN, they all appear to be MIT engineering people. I mean, they are not people, though, that you would tend to say could be taken advantage of, that don't know what they are doing, that need to be protected. I mean, they are folks that are fully aware and feel that they have the ability to have a competitive edge. Wouldn't you agree with that?

Ms. Volberg. I think that that is certainly characteristic of the individuals that you described as professional poker players, people who make a living.

I think there are lots and lots of young men out there and some young women who also are very smart and also are very well educated.

The issue is not so much the folks who, you know, know the odds and know what they are doing, it is people who are coming into an activity where they sort of think that they have gotten pretty good because they have been playing on a free play site, and then they decide

to do it for money and they go in and their expectations are a little unrealistic because the free play sites are set up differently.

Mr. Barton. I have only got about a minute left. I want to ask the chairman of the Nevada Gaming Commission, in your opinion would online poker, would it hurt or help mainline brick-and-mortar casinos?

Mr. Lipparelli. I think it is been our experience that if there is an impact, it is already reflected in operations. Clearly there is a lot of online gaming happening now. It has exploded in the last 7 years, so if there has been a direct impact, it is probably already being felt.

I think the industry participants that we talk to frequently see an opportunity there, but they see it as a compliment rather than something that would impact their businesses directly.

Mr. Barton. Okay. And my last question to Mr. Fahrenkopf. There obviously are some very delicate issues in terms of sovereignty of the Indian tribes and their casino operations and their regulatory approach versus for-profit casinos.

Do you feel that those issues can be handled in a fair fashion so that the Indian tribes concerns, because of their status, can be addressed in a fair way?

Mr. Fahrenkopf. We totally respect the sovereignty of the tribes, and that is why, as I indicated in my initial remarks, I have been doing this for 17 years, and for 17 years I have been saying that no law should treat any type of legal gaming different than the others. So no one should get a leg up or be hurt between whether you are talking

about our industry, whether you are talking about Native American gaming, whether you are talking about the parimutuel industry, or whether you are talking about the lottery business.

Mr. Barton. Okay. Thank you, Madam Chairwoman.

Mrs. Bono Mack. Thank you Mr. Barton. The chair recognizes Mr. Towns for 5 minutes.

Mr. Towns. Thank you very much, Madam Chair. And of course I want to thank you and Mr. Butterfield for having this hearing in terms of bringing the very stakeholders together to have a discussion to determine whether, you know, whether we move forward or not, and if we do move forward to make certain that we are doing it in a very effective manner.

Let me begin with you, Mr. McIntyre. I want to make certain I understood your testimony. You appear to be concerned about the loss of State revenue, you know, being diverted from the lottery play to online casino play. Wouldn't ensuring that the share of tax revenue from online poker make up the difference?

Mr. McIntyre. One of the difficulties is, Mr. Congressman, is there is no State tax in New Hampshire, so there is that issue. There is no State income tax and there is no gaming tax in New Hampshire.

But one of the difficulties we have is our research suggests that 32 percent of our players -- strike that -- 30 percent of the New Hampshire citizens visit a casino once a year, 45 percent of our players have visited within the last year, and 53 percent of our regular players have visited one or more times a year. So I firmly believe they draw

from the same wealth.

I don't think it would have an impact directly, immediately. I think it would be over the long term, given the statistics suggested, in terms of the demographic that it is a younger player. Lottery lives and breathes in the demographic of 35 to 60 years old, and that is not where even a poker player is now. It is where the folks who are in Internet poker will be in 20 years.

So it is not for me that I make this case. It is for my successor or my successive successors in terms of the impact on lottery revenues, Congressman.

Mr. Towns. Thank you very much. Let me go to you, Mr. Lipparelli.

Given the longstanding role of States authorizing and regulating gaming within their own borders and the fact that New York State, which I come from, has a very sophisticated regulatory structure for gaming, are the States best positioned to handle this new formal wagering?

Mr. Lipparelli. I think it has been our consistent position since this topic came up that we actually support a national model that gives the States some degree of framework to regulation. Given that this is an activity that crosses State borders, it is important to have some amount harmonization among those States. I think there can be particular levels of additional scrutiny that any State might want to impose, that there ought to be some ability to try to harmonize what would be a national business. Today, as you might know, there are 48-some different regulatory structures. And from a private industry

perspective, many of which operate in our State, it is become increasingly problematic and increasingly expensive to be responsible, to be answerable to 48 different regulatory regimes. So our position from the State of Nevada is that we clearly support some kind of national solution.

Mr. Towns. To you, Mr. Fahrenkopf. Again, a little over a minute left. Has the ban on online gambling prevented Americans from gambling online? Has there been any --

Mr. Fahrenkopf. No. I think, Congressman, as the testimony from actually all three of them, your fellow Members of the House who were here on the earlier panel, Internet wagering has just exploded. It actually started back early around 2003 and -4. The passage of UIGEA, which was with all good purpose trying to put a dent in that, we have seen has really not been as effective as it should be. And that is why we believe that has to be amended to make very clear what is legal and not legal. And regulation, taxation, is the best way to protect those people who might be vulnerable to the things that Dr. Volberg is talking about and what Congressman Wolf is concerned about.

Mr. Towns. Let me announce I am not a poker player, but how would I know, if I am playing, that I am not playing against a machine?

Mr. Fahrenkopf. We submitted some additional testimony to the panel after the last hearing that got into that question, because there was some discussions of the use of bots and other types of mechanical, if you will, players, rather than regular players.

And the technology that we have seen from those jurisdictions

primarily in Europe, they have developed software which can -- and Mr. Lipparelli probably knows more about this than I do -- software that can monitor the way bets are being placed -- actually, believe it or not, where the mouse is and where it is being pushed on a certain period of time to determine whether or not there is a problem.

But interestingly enough, most of the bots that have been discovered have been discovered because other players, human players, have realized that something is not right with the way the game is going and report it.

But maybe Mr. Lipparelli can tell you a little more about how the bots can be handled.

Mr. Lipparelli. Mr. Towns, I spent a better part of 2-1/2 years looking at the various technologies that exist, and one thing that is becoming abundantly clear to me is that you can probably get away with trying to cheat a system or trying to play as an underage gambler or trying to utilize the services of the bot, but you will be uncovered fairly quickly. The analytical tools that are now being deployed as part of these systems have become very robust, so you might be able to get away with it once, but you are going to leave big fingerprints behind.

Mr. Towns. Thank you, Madam Chair.

Mrs. Bono Mack. Thank you, Mr. Towns, I appreciate it. And recognize Mr. Bass for 5 minutes.

Mr. Bass. Thank you, Madam Chairman, this is a quick follow-up to Mr. Towns' question. Are bots illegal?

Mr. Lipparelli. Well, I think the only way I could answer that is depending on what that it is. You would have to define it. There are many people that will use the player's aid on another computer to give them basic strategy play. That would probably not be illegal in most people's mind. The use of some kind of an electronic device to gain an advantage, which is how we define cheating a game in Nevada, would probably be illegal.

Mr. Bass. But the bill wouldn't address that, would it? Or does it?

Mr. Lipparelli. I am not sure whether it does or doesn't.

Mr. Bass. I have a general question for all the witnesses. I believe that Mr. Barton's bill limits licensees to gaming facilities, I don't know what the definition is, casinos and so forth.

Mr. McIntyre is here today from the New Hampshire Lottery. Lotteries, as he testified, have been around a long time. They have their own infrastructures and so forth that guard against cheating and fraud and corruption and so forth. Why shouldn't they be able to run online poker if they chose to do so? I am directing that to any member of the panel.

Mr. Fahrenkopf. As I said, any piece of legislation must treat all the legal gaming entities the same, lotteries as well as land-based casinos, Native American tribes and the parimutuel industry. So if the State wants to have their lottery offer online poker, I have no objection with that. I don't think that that would violate the rule.

Mr. Bass. Others?

Mr. McIntyre. Congressman Bass, certainly I thank you for your comments and I certainly believe that we would be able to handle that function similar to our neighbors to the north, the two Canadian lotteries that run this now, the Atlantic Lottery Corporation, representing our neighbor directly to the north, as well as the British Columbia Lottery, which runs that function very well.

Mr. Bass. Mr. Lipparelli.

Mr. Lipparelli. Yes, I share the views of the panelists, that I as a regulator -- we abide by what our State law says. So in our case we would obviously follow that.

The only comment that I would add to the question posed by Mr. Towns and McIntyre, there are several foreign markets that are experiencing the impact of a failure to regulate on existing money-raising kinds of organizations. There are several lotteries and other kinds of organizations that in large measure rely on the proceeds of gaming activity and have highlighted the fact that illegal gaming activities are starting to have a real negative impact on their revenue flows. So given, you know, the kinds of organizations that are out there that benefit from gaming, it is a huge question to them as to why not regulate.

Mr. Bass. So, in conclusion, none of you have any objection to amending the bill to expand the scope to allow or to give the opportunity for State lotteries to participate on an equal level and not have the 2-year hold-harmless period before they could be involved in the same online poker activities as the casinos would be allowed to do upon

enactment of the bill?

Mr. Fahrenkopf. Well, I am not here representing anyone supporting either of the pieces of legislation. We have not made a determination -- I would say, however, that one of the -- anyone who knows anything about online poker knows that for it to be successful there must be liquidity, which means you have to have a lot of players.

And whether or not a State as small as Nevada or New Hampshire or other States could generate the liquidity with an intra-State online poker operation to really make it worth their while is a real question that is out there. Now maybe States as California, Florida, some of the bigger States, you would have that liquidity. But again, as I say, I have no opinion on either of the pieces of legislation that are now being considered.

Mr. Bass. Well, any other comments?

Mr. McIntyre. Certainly if the legislature of New Hampshire authorizes us to do so, we would welcome it. And liquidity is a matter to be determined based on the players of New Hampshire. But about 5 percent of our players and 5 percent of the State play now online currently, so it is about 60,000 people. So I imagine, based off of our brand recognition, which is 72 percent favorable amongst the citizens of New Hampshire and 85 percent favorable rating amongst our players, I would imagine that would increase.

Mr. Bass. Thank you, Madam Chairman.

Mrs. Bono Mack. Thank you, Mr. Bass. Mr. Harper, you are recognized now for 5 minutes.

Mr. Harper. Thank you, Madam Chairman. And I appreciate the witnesses being here and taking their time to enlighten us.

And if I may start with you, Mr. McIntyre, I believe you said earlier that the State of New Hampshire received, I believe, \$1.5 billion towards education since the lottery began; is that correct?

Mr. Fahrenkopf. That is correct, sir.

Mr. Harper. Okay. And how much money has been sold or received for the sale of the lottery tickets, the total amount spent?

Mr. McIntyre. Within State?

Mr. Harper. Out of the 1.5 billion that went to education, what was the total amount bought or spent on lottery tickets during that time?

Mr. McIntyre. It is difficult to characterize because the amount of prizes going back to the players has varied over 50 years. But currently, of a dollar spent, 67 cents goes back to the players in terms of prizes. We keep about 25 cents on the dollar in terms of profit.

Mr. Harper. Just a curiosity. Do you have to physically go to a vendor to purchase the lottery ticket, or is that done online?

Mr. McIntyre. It is done through a computer system that communicates through multiple methods, and you purchase it at a convenience store, supermarket, and the rest.

Mr. Bass. Will the gentleman yield?

Mr. Harper. Certainly, I will yield to the gentleman from New Hampshire.

Mr. Bass. Mr. McIntyre defines online as being on a telephone

line. You are talking about the Internet. Internet sales are not --

Mr. Harper. I will certainly clarify my question. Are there Internet sales, or does an individual buying a lottery ticket in New Hampshire have to go to a store vendor to buy it?

Mr. McIntyre. 99.6 percent of our sales are through a store. A very, very, small portion of our sales, what we call subscription sales, which are done through the Internet, and it represents less than half of 1 percent of our overall sales.

Mr. Harper. Thank you. You know, one of the concerns, as we look at this, is, for instance, in my district we have the Mississippi Band Choctaw Indians, who have land-based casino gambling. And it is hard for me to envision how opening this up, which would require more players, would require folks to do that for it to be a profitable venture, how that will not have a negative impact upon destination gambling. And I would like to hear a response on that from whoever would care to answer?

Mr. Fahrenkopf. Congressman, some years ago we at the American Gaming Association, which is most of the land-based casinos in the country in the commercial area, looked very closely at this. The question is cannibalization. If, in fact, Internet poker was allowed, would it cannibalize the business of the brick-and-mortar companies?

We looked at, for a very, very long time, we came to the conclusion that it would not; or if it did, it would be very marginal because we are only talking about poker. Our position is it should only be poker.

We are more in line with the Barton bill's approach than we are

with the Frank-Campbell bill's approach.

Mr. Harper. Okay. Well, let me stop you for just a moment. If we are looking over all at a broader bill, more than just poker, would that not expand or increase the probability that it is going to hurt destination gambling?

Mr. Fahrenkopf. It could, although the demographics of the people who play online, as Dr. Volberg has talked about, particularly young men who are between the ages of 18 and 24, higher education, they tend to not be the same people who go to land-based casinos.

Mr. Harper. Okay.

Mr. Fahrenkopf. So our position was that the end result would be it would be a new profit center rather be very much of a deterioration in the business of land based.

Mr. Harper. All right. One of the arguments that has been used to support Internet gambling in the U.S., legal, is that we have these offshore sites that can't be controlled.

Well, if we do this, how -- are we still in the situation of not controlling what is that problem? How are we controlling that? Why shouldn't we first look towards coming out with a way to perhaps block all payments to them before we look at expanding it here, because I don't see how we are going to do that. And Dr. Volberg, I believe, has had some, maybe in your written testimony, is you are going to have a higher cost for the regulated version versus the offshore unregulated version, and what is to keep players from still going offshore?

Mr. Fahrenkopf. I would answer that in two ways. As I attempted

to answer earlier to the chairperson's question, the market will take care of some of that, not all that. In other words, people who are going to gamble online, whether or not they would rather gamble with the brands they know, U.S. companies that they know, rather than going offshore to some outfit that is located in the Caribbean island or somewhere. So the marketplace will take care of some of that.

The other step will be going back and strengthening UIGEA. The original purpose of UIGEA was exactly what you pointed out: how to block these transfers offshore. We have to go back and strengthen that act by making clear what is legal and what is illegal to give guidance to American banks and financial institutions so they can effectively block those.

Mr. Harper. Shouldn't we do that first before we proceed with anything else?

Mr. Fahrenkopf. Well, I am not sure which should be first. I think you can both do it at the same time.

Mr. Harper. Thank you, I yield back.

Mrs. Bono Mack. Thank you Mr. Harper. Mr. Lance, you are recognized for 5 minutes.

Mr. Lance. Thank you very much and good morning to you all. This is very interesting to me, and I want to thank the director from New Hampshire regarding his remarks concerning New Jersey. And New Jersey certainly has learned a great deal from New Hampshire.

And to Director McIntyre, it is my understanding that regulatory bodies here in this country and also abroad often rely on the

independent testing laboratories for confirming that equipment used in gaming is fair for consumers. I am also told that some foreign jurisdictions that currently allow Internet gaming have similar testing requirements, not only for fairness issues but also for verification and location matters.

My question to you, and perhaps to others on the panel as well, is to what extent, if at all, do you think that statutory change here should include such requirements?

Mr. McIntyre. I mean, certainly -- Congressman, thank you for your comments and you have a wonderful lottery. One of the concerns we have is integrity, and we test and retest and retest, and we use outside testing firms. We use outside testing firms to test the testing firms for that very reason, sir.

So I think in terms of an outside firm like Gaming Laboratories or the rest that offer the services and the protocols to test systems, I think that is actually an excellent idea.

Mr. Lance. Yes, thank you. And would others on the panel have a opinion, the director in Nevada?

Mr. Lipparelli. Certainly, Mr. Lance. I spent 20 years in the industry, 18 of which was submitting products to testing labs around the country. And I have some colleagues that operate in other jurisdictions that don't see as much value in pretesting. I see incredibly high value in that, and I don't think there would be any regime that we would consider that would allow someone to deploy gaming technology that is not subjected to high assurance and pretesting.

Mr. Lance. Thank you. That was my view as well, and I would hope it might be included in the legislation or at least in some provision that would permit that based upon rule and regulation.

On another area, on cannibalization, I am concerned to some extent whether this would be competition, not only for various aspects of the regime but also, for example, for State lotteries.

And to the two gentlemen who are certainly involved in this, do you think that there might be only a certain gaming amount, a pie, and would this lead to cannibalization of lotteries, obviously an issue of importance to those of us in New Jersey who rely on our State lottery?

Mr. Lipparelli. Well, I guess it is more my personal views than my role as a State regulator, but as a State regulator we do have the economic health of our industry to consider. I think what is ironic about the circumstances that exist today, the legitimate licensed operator who cares for their patrons and establishes policies, is that this distinct disadvantage to those who are really under no penalty of prosecution for playing in this field today.

So we have got this incredible imbalance, people we enjoy great relationships with, people who take lots of time and energy and money to keep their operations aboveboard, competing against those that have no view of that. And so I think to the extent that there is, again, an erosion of market share, that is occurring today without abatement.

Mr. Lance. Thank you. Mr. McIntyre, Director McIntyre.

Mr. McIntyre. Yes, Congressman. I certainly use the example frequently related to the gambling pie and suggest that Nevada, in its

own decisions, has no State lottery. And they have avowed repeatedly that it is because they don't want to compete. So I certainly believe that in terms of there being a finite number of dollars, I believe that to be true.

Mr. Lance. Thank you. And Chairman Fahrenkopf?

Mr. Fahrenkopf. Congressman, if a State is concerned about cannibalization of the lottery, its State legislature and Governor can make a determination to opt out and therefore their lottery will not be in danger.

Mr. Lance. Yes, thank you. That would be my view as well. And regarding pies, to all of you, a happy Thanksgiving.

Thank you very much, Madam Chair. I yield back the balance of my time.

Mrs. Bono Mack. I thank my sentimental colleague and recognize Mr. Guthrie for 5 minutes.

Mr. Guthrie. Thank you, Madam Chairman. I was kind of interested, and I have looked through the testimony written, and Mr. Fahrenkopf and Dr. Volberg, both of you cite credible studies, looks like the people who did the studies have good curriculum vitae, but you come to different conclusions about expanded online gambling and expanded access for problematic gamblers or people who are addicted to gambling.

Could you gentleman explain, you both had studies that showed completely two different results. Do you want to explain your study, and then your study, Dr. Volberg --

Mr. Fahrenkopf. Well, I think the important words that I said with regard to online gamblers, they are not more likely to be pathological gamblers.

If you take into consideration what I call the allowances that are made for participation in other gambling activities, and that is one of the problems with some of the studies that have been done and have been cited by Dr. Volberg.

I also realize that her studies, one of her studies had 139 people or 135 gamblers, another had 179, and that is why I used the Harvard studies, 40,000 gamblers online in Europe who have been examined. And I just think the weight of the evidence goes that way.

But Dr. Volberg herself admits that you have got to be careful with your sample to make sure that you don't oversample with young men who are more likely to be those individuals included. And I am not sure whether in those surveys that she cited in her written documents --

Mr. Guthrie. The 40,000 Harvard study had the same percentage of psychological gamblers; is what you are saying they had the same percentage? So there was not an evidence of an appreciable different percentage of problem gamblers online as it is in a casino.

Mr. Fahrenkopf. I think the numbers were very different with regard to the conclusion as to whether or not just Internet gaming itself is going to create more problem gamblers or whether or not, as Dr. Volberg has quoted in a number of her studies, it is just another element that a problem gambler is going to play; in other words, they are going to --

Mr. Guthrie. Dr. Volberg, do you want respond?

Ms. Volberg. With all due respect to Mr. Fahrenkopf, the very small sample that he cited there, it looks like those results are from the Nevada survey that we did in 2002.

Mr. Fahrenkopf. No, it was a California study, 135 Internet gamblers.

Ms. Volberg. One hundred thirty-five Internet gamblers out of a total sample of 7,121.

The part that, you know -- it is very difficult in a forum like this to get down into the nitty-gritty of research studies, and I would invite all of you to come to the National Council's annual conference and listen to these things be debated.

I think that in my mind, there is very clear evidence that problem gambling rates amongst Internet gamblers are extremely high. They are three to four times higher than they are amongst people who do not gamble on the Internet but do other forms of gambling.

The issue is that most people who gamble on the Internet also do other types of gambling. They are casino players, they play the lottery, many of them are horse betters, and so on and so forth. And so when you do an analysis it is very important to control for those things.

In the California survey that Mr. Fahrenkopf has just referenced, we found that only that very small number or very small proportion of about 2 percent of our sample had gambled on the Internet, but 11 percent of them scored as pathological gamblers and an additional 20 percent

of them or 19 percent of them scored as subclinical problem gamblers.

And when you did a statistical analysis that controlled for the demographics for co-morbid disorders, for other types of gambling, the Internet gamblers were actually 10 times more likely to have a gambling problem than the people who were not gambling on the Internet.

Mr. Guthrie. Wouldn't you say that because you can do that anonymously, because some people do things on the Internet they don't do in public -- I mean, that is what we -- is it because they can do it anonymously? Is that why you see it at higher rates or access, because nobody sees you walking into the casino and gambling, see you are on the Internet, and other forms of behavior people have done on the Internet you can't believe they have done. We have had a problem in Kentucky State Government where people are doing stuff on the computer that is just unbelievable. And is it because of the anonymity of it all that you don't think somebody can find you?

Ms. Volberg. I think it is the anonymity. It is also the ease of access. It is the fact that, you know, there are no external controls in terms of, you know, being socially visible to other people. I think that there is a number of different features of the Internet gambling that are of great concern to people who are concerned about the issue of problem gambling.

Mr. Guthrie. Thank you. I see my time has expired. I yield back.

Mrs. Bono Mack. Thank you. Dr. Cassidy, you are recognized for 5 minutes.

Dr. Cassidy. Again, this has been a very informative panel. I think at least a couple of you must have read some of the questions I had last time. If not, you are incredibly intuitive, in which case I want to gamble with you on your side, not against you.

On the other hand, Dr. Volberg, you and Mr. Fahrenkopf actually pose some different conclusions. I think I read in your testimony that worldwide there is about 4 billion played on Internet gambling, and Mr. Fahrenkopf estimates that there would be 2 billion in tax revenue generated. Now, those numbers seem incompatible unless you are imagining, Mr. Fahrenkopf, that there would be a dramatic escalation in the amount of online gambling, or if you disagree with Dr. Volberg's statement that there is 4 billion only.

Mr. Fahrenkopf. One of the problems with anyone guesstimating what the tax revenue that is going to be generated is, is we are dealing with an unregulated industry. So what we are doing, any of us who are trying to estimate it, would be we are dealing with offshore companies that are trying to give us estimates.

For example, there was a PriceWaterhouseCoopers report that was actually filed in the Financial Services Committee in the last cycle that said there would be \$49 billion in revenues. Well, there were a lot of assumptions you had to make. It was that every State would opt in. I mean that it would include sports wagering. I mean, you have got to look at it carefully.

I tend to go on the low side because I just don't feel there has been sufficient evidence out there of exactly what the bottom line would

be, plus we don't know what the tax structure would be if legislation would be passed.

Dr. Cassidy. But if it were taxed too much, it would drive people to the illegal offshore sites. So, that is --

Mr. Fahrenkopf. That is the problem they are have right now right now, Congressman, for example, in Great Britain. In Great Britain, they put in place such a high level of taxation on Internet gaming companies that most of the companies have left and have gone to the Isle of Man, have gone to Gibraltar, have gone to other places to locate because --

Dr. Cassidy. Now, that is a nice segue, just because I am out of time, and I am going to be out of time.

Dr. Volberg, your testimony also points out that in places like France and in Britain, 25 to 33 percent of the people still are offshore, if you will, at illegal sites.

Ms. Volberg. It is actually the opposite way around. It is only about 25 to 40 percent of domestic players in those markets who play exclusively with the domestically provided and regulated sites, and it is the remainder of the market, as I understand it, or the remainder of the players who actually continue to play either on out-of-jurisdiction sites or use a mix of domestic and nondomestic.

Dr. Cassidy. So we really shouldn't view this as a cash cow for State treasuries because if we tax it too much we will just drive people offshore. That is a fair statement?

Mr. Fahrenkopf. Well, I think -- that is why I say we have to

tighten up UIGEA and give the banking facilities in this country the guidance that they will need to stop financial transactions with those offshore operations. That will stop it.

Dr. Cassidy. Although going back to what Mr. Frank said, if people wish to do so in this age, it is hard to imagine you can somehow keep them -- although I enjoyed some of your testimony about the online protections you could create, and thank you for adding those.

There is also a little discrepancy. Dr. Volberg, you mentioned, one of the things -- I don't have my glasses on, I am sorry, I can't see. Fahrenkopf?

Mr. Fahrenkopf. Yes, it is.

Dr. Cassidy. I apologize. Mr. Fahrenkopf, you mentioned that in one of your references that only 2.5 percent of college students play online Internet. But Dr. Volberg, I thought maybe you or someone else I saw referenced said 30 percent of high school -- of college males are online. Do I have my numbers totally confused?

Ms. Volberg. I think there might be some confusion about the numbers because --

Dr. Cassidy. What is the prevalence of Internet gambling amongst college males?

Ms. Volberg. I wish I could answer that because we do not have any recent surveys that tell us what Internet gambling participation rates are in the U.S. population.

I would estimate, based on what we have seen in some of the recent State-level studies, like the California study that came up earlier,

is that probably while about 2 percent of the general population gambles on the Internet, amongst college-age males it is probably going to be closer to 8 to 10, possibly up to 15 percent.

Dr. Cassidy. Okay. It is different from the 2.5 percent of all students, even if it is 50 percent female/male.

Mr. Fahrenkopf. There has been a recent study of 10,000 college students.

Dr. Cassidy. That is the one I am quoting.

Mr. Fahrenkopf. Yes, they found that almost 2.5 percent had gambled on the Internet and only six-tenths of a percent did so monthly or more frequently. That is from LaBrie.

Dr. Cassidy. Now that prevalence is far lower. That is why it seemed odd.

Ms. Volberg. No, that is 2003 that it was published.

Mr. Fahrenkopf. 2003. That is right.

Dr. Cassidy. I see. That is dated data, if you will.

Mr. Fahrenkopf. Yes.

Dr. Cassidy. Well, I have other questions, but I am out of time. I yield back.

Mrs. Bono Mack. Thank you, Dr. Cassidy. And the chair recognizes Mr. Olson for 5 minutes.

Mr. Olson. I thank the chairwoman for hold this hearing and also thank the witnesses for your testimony, your time, and your expertise. It is almost over.

I would like to limit my comments this morning as to what is going

on in my home State of Texas in regards to legalizing gambling, issues with UIGEA, and one question, as my colleagues have touched on most of my questions previously.

In March of this year the Texas House Committee on Licensing and Administrative Procedures held a hearing on nine bills which propose a variety of options for legalizing gaming in Texas.

Currently, gambling in Texas is limited to State lottery, three federally recognized Native American tribes, and gambling at horse and Greyhound racetracks. Supporters of gambling in Texas point to legalizing poker, casinos, and slots as a way to help with State's budget issues in the form of nontax revenue, as you allude to up there, the success you have had in New Hampshire.

Many folks in Texas also talk about the potential for thousands of new jobs that could be created. Others argue that gambling preys upon the poorest Texans and creates bigger social problems. This is an important debate that my State is having, and I also appreciate our committee is exploring this issue of interstate online gaming and the current issues with UIGEA.

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DCMN BURRELL

[11:03 a.m.]

Mr. Olson. [Continuing.] I have heard from a very, very vocal and savvy group of Twitter and Facebook constituents in the 22nd District who are very much in favor of legalizing online poker. I would like to read one email from one of these constituents. This is from Valerie in Houston, Texas. And she said, Dear Representative Olson, the UIGEA slaps the Internet with unnecessary government regulation and oversight that limits innovation and growth. The act may have been intended to stop unlawful Internet gambling, but because it never actually spelled out what that meant, UIGEA ushered in unintended consequences that put the government in the role of Big Brother. In particular, the act has the effect of turning online payment transaction companies into informants and enforcers for the Federal Government, raising privacy concerns as well as cost to consumers. Sincerely, Valerie, from Houston, Texas.

Many people believe that if you are going to play Internet poker you should not follow the Federal Government's model of managing your budget. You should do it with money you have earned and not money that you expect to earn or hope to earn. As you know, legislation has been introduced in the House which would prohibit the use of credit cards from making deposits in Internet gaming accounts.

My question is for you, Mr. Fahrenkopf and any of the witnesses

who wants to get involved, do you think most companies would be willing to limit themselves to debit cards and electronic checks?

Mr. Fahrenkopf. I mean we haven't taken a position on the whole question of credit cards. It was a major issue in the Frank bill in previous legislative sessions. The original bill did provide for the use of credit cards. However, when the bill was being voted out of committee, that was removed. At this point in time, we don't have a position one way or the other on that from the standpoint of the American Gaming Association.

Mr. Olson. Anyone else want to comment? Mr. Lipparelli.

Mr. Lipparelli. In the State of Nevada the use of credit cards is illegal for gaming.

Mr. Olson. Mr. Fahrenkopf, any comments?

Mr. Fahrenkopf. I already did.

Mr. Olson. I apologize. Mr. McIntyre.

Mr. McIntyre. Certainly I am under the direction of the New Hampshire legislature and the governor's office, so whatever they would say to do I would do heartily.

Mr. Olson. Sounds like my marriage, yes, sir. And Dr. Volberg.

Ms. Volberg. I think that there would be a lot of arguments in favor of prohibiting the use of credit cards for Internet gaming. So I would be in favor of that.

Mr. Olson. Thank you very much. That is all my questions. I yield back.

Mrs. Bono Mack. I thank the gentlemen, and the chair now

recognizes Mr. Butterfield for the purposes of a unanimous consent request.

Mr. Butterfield. Thank you very much. I am going to ask unanimous consent to have this letter dated November 18th, 2011, included in the record. The letter simply reiterates the necessity to hear from Federal agencies who will be impacted by any bill we pass relating to the legalization of Internet gaming.

Thank you.

[The information follows:]

***** COMMITTEE INSERT *****

Mrs. Bono Mack. Without objection, and I, too, have received written testimony from Mr. Robert Martin, Chairman of the Morongo Band of Mission Indians, that has been shared with minority counsel. I understand they have no objection to including it in the record of today's hearing. Therefore, I ask unanimous consent that it be included in the record of this hearing.

[The information follows:]

***** COMMITTEE INSERT *****

Mrs. Bono Mack. With that, I am happy to thank my colleagues for their participation today. I thank the panel very much for your help in shedding light on what is clearly a very complicated issue. I look forward to our work together if this moves forward.

As we conclude our hearing today and prepare to depart to the four corners of our great Nation to celebrate Thanksgiving, please permit me to say what a blessing and an honor it has been to work with all of you this year on so many issues which are so important to so many people. Travel safely and I hope everyone enjoys our unique American holiday.

I remind members that they have 10 business days to submit questions for the record, and I ask the witnesses to please respond promptly to any questions you might receive. And with that, the meeting is now adjourned. Thank you.

[Whereupon, at 11:09 a.m., the subcommittee was adjourned.]