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A Safe Bet: Online Gambling's Good for U.S.

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Federal prosecutors just dealt consumer freedom a terrible hand, shutting down the gambling website Bodog.com and indicting four company executives, including founder Calvin Ayre, for alleged illegal gambling that actually generated \$100 million in customer winnings. Ironically the anti-Bodog crackdown comes as the push for sensible regulation of the online gambling industry is gathering serious political momentum.

In recent years, it's become clear to a growing number of policymakers, including Senate Majority Leader Harry Reid, that the ban on online gambling is a failure. Many federal and state-level politicians want to legalize online gambling, which Congress made illegal in 2006.

The current prohibitionist law is really a protectionist measure designed to support specific domestic operators, such as the websites run by the horse betting industry. Stopping American online gambling is truly mission impossible, with a vast number of insurmountable challenges facing governments that endeavor to criminalize online gambling.

A great degree of surveillance is required to detect online illegality, and there are significant difficulties in locating, investigating, and prosecuting online offenders. In addition, the technological and human capital required to locate offenders is substantial, as are the costs of prosecution and incarceration. Along with the inefficient use of resources caused by prohibition, there's the danger of unintentionally increasing the criminal element.

Two additional factors contribute to the inevitable failure of prohibition. First, online technology renders prohibition futile. As an international network, the Internet provides an instant detour around domestic prohibition.

Second, consumer demand for online gambling and the government's demand for tax revenues will create enormous pressure for legalization in any jurisdiction, such as the U.S., that currently operates a domestic ban.

In 2008, the global online gambling market was valued at \$20 billion annually, with 50 percent of that demand coming from the U.S.. If the domestic marketplace demands online gambling, which it clearly does, it will be supplied with or without government consent. This is especially true given service providers' unrestrained access to overseas Internet sites in jurisdictions without online gambling restrictions.

Prohibitionists appear to ignore the fact that most gambling sites, like any reputable business, rely on customer loyalty to remain profitable. The necessity of maintaining a strong customer base would motivate legal American service providers to offer legitimate, reputable gambling sites.

Online gambling can be regulated effectively and without excessive cost, to standards that will provide strong protections for consumers and vulnerable players. The principal benefit of regulation to online players is the personal and legal security of funds, whereas currently players in unregulated environments have no legal recourse over matters such as suspected cheating and frozen assets.

Another major benefit of allowing online gambling is that competition will be introduced into a highly regulated marketplace dominated by licensed providers who monopolize the gaming market. Increased competition results in a more efficient allocation of resources, as gambling providers attempt to maintain and attract new customers.

The Internet has revealed the potential of technology not only to dramatically increase existing gambling opportunities but also to introduce new ones. As such, the Internet offers potential consumers convenient and inexpensive access to their favorite gambling sites, introducing competition into an industry once dominated by highly restrictive licensing practices.

This form of gambling also encourages private sector businesses to develop network capacity and commerce. Not only will this increased competition result in a wider range of gambling activities, it will reduce cost to consumers. With legal online gambling, competition among operators would increase to such an extent that they will be forced by the marketplace, rather than by governments, to offer a reduced house advantage.

Banning online gambling in the domestic American market simply results in the establishment of Internet gaming sites overseas. As other jurisdictions identify the demand for online gambling, they have supplied this service to consumers.

For example, in 2009 there were 2,381 sites run by 493 companies licensed in 50 jurisdictions worldwide. Including unlicensed sites, the total rose to 6,000. Many of these sites were established in small nations with little or no regulatory oversight.

Gambling is one of the great successes of online commerce. The ill-advised indictments handed down against Calvin Ayre and his Bodog colleagues cannot alter that fact. The online gambling industry is merely another form of commerce where prohibition is the wrong option.

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