

Online gambling gains momentum in US

November 17 2013, by Rob Lever

Internet gambling is on a roll in the US market after years lurking in the shadows.

New Jersey kicks off its online wagering November 26, becoming the most populous state to do so after Nevada and Delaware.

Other states have become active since 2011, when the federal government signaled it would not block most forms of Internet wagering. California, Illinois and Pennsylvania are considering such moves.

Using geolocation technology, the systems require that gamblers be located within the state. But reciprocal agreements could allow gamblers to cross state lines as more states authorize online bets.

"Once these states are successful within their borders, they will figure out how to pool players across state lines to take bets from each other, and a lot of other states will jump in," said Whittier Law School professor I. Nelson Rose.

"Within 10 years, I think we will see a very large portion of states will have Internet gambling."

Morgan Stanley estimated legal US online gambling revenues would reach \$670 million in 2014, increasing to \$9.3 billion in 2020.

The launch in a handful of states "will release a floodgate of investor interest in the online space, and spur new states to open to reap tax

dollars," analyst Vaughan Lewis said in a note to clients.

The United States has a patchwork of gambling regulations. While casino gambling was only allowed in Nevada a few decades ago, New Jersey allowed casinos in Atlantic City in the 1970s and many states have either commercial or Indian tribe casinos.

Until recently, the federal government claimed that online gambling was unlawful. But a 2011 Justice Department legal opinion said only sports betting would be considered illegal.

Nevada authorized online poker in 2012, and Delaware and New Jersey passed laws allowing a full range of casino games.

But Rose said the Internet opens up new categories of gambling, ranging from "social" games to virtual slot machines.

"People who play games online are not interested in picking numbers and waiting a week," he said.

The gaming industry relies on federal guidelines for online betting, but Congress has been deadlocked on the matter amid disputes over whether any law would cover poker alone or a full range of games.

Despite existing bans, Americans spent \$2.6 billion on online gambling in 2012 in a global industry worth \$33 billion, according to a study for the American Gaming Association, which represents commercial casino operators.

Chris Thom, chairman of the online payment and identification firm SecureTrading, said the patchwork state-by-state system hampers efforts to develop a competitive online gaming industry in the United States.

"To get into that global system you are going to have to have critical mass," he told AFP.

Thom said federal legislation would enable greater consumer protection and help outlaw unlicensed operators.

A national system could also generate revenues for the federal government.

But "the longer it goes on, the more difficult it is to produce a federal bill that is clean and straightforward," Thom said, noting that states will want to maintain existing rules and not join a federal system.

The American Gaming Association has also called for federal rules.

"While we have long supported federal regulation versus state regulation, the most important point is that online gaming must be regulated to protect consumers and ensure the integrity of the games," said association president Geoff Freeman.

Representative Jim McDermott has introduced a bill to ensure taxes and fees are collected within a regulated regime.

"You'd hope this opportunity to generate billions in economic activity and new government revenues will get serious consideration," said Michael Waxman of the Safe and Secure Internet Gambling Initiative.

"It's shocking that Congress has decided to leave in place hypocritical laws that allow some forms of [online gambling](#) activity, such as betting on horse racing, but prohibits others, like poker and bingo."

Online gambling critics warn of the dangers of unhindered expansion online—that geographic and age restrictions could be easily bypassed,

and unsavory elements could use the systems to launder money.

"This is not just fun and games, it's a question of national economic security," said University of Illinois business professor John Kindt.

Kindt said the expansion of Internet [gambling](#) would simply be "a transfer of wealth, with no productivity gains," and that those profiting would likely be offshore firms or organized crime.

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