

**Gambling in South Africa, with specific reference to the Western
Cape gambling policy**

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Declaration

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Abstract

For the purposes of this study the term “gambling” refers only to casino style gambling and does not necessarily include horse racing and the national lottery.

The study is partly based on the theoretical model for policy analysis as described by Dunn in his book “Public Policy Analysis” (1994). The thesis is divided into two sections. The first section deals mainly with the stage of monitoring and is a retrospective analysis of the development of the gambling industry in seventeenth and eighteenth century Venice and more recently in the United States, Australia, Namibia and South Africa prior to 1994.

The last section deals mainly with the stage of policy evaluation and questions the possible discrepancies between the expected and actual gambling policy performance in the Western Cape after 1994 when large scale gambling was legalised throughout the country. It uses the recommendations of the Main Report on Gambling in the Republic of South Africa (Wiehahn Report) as a basis for the evaluation of the Western Cape gambling policy from both a social and economic perspective. More specifically the study attempts to shed light on the issues of the problems related to the scientific research of gambling, the economic profile of gamblers, the location of casinos, the displacement of capital and the correlation between crime and gambling.

Opsomming

Vir die doeleindes van hierdie studie word die term “gambling” slegs gebruik met verwysing na dobbel in casinos en sluit nie noodwendig perdewedrenne en die nasionale lotery in nie.

Die studie word gedeeltelik gebaseer op die teoretiese model vir beleids-analise soos weergegee deur Dunn in sy boek “Public Policy Analysis” (1994). Die studie word verdeel in twee afdelings. Die eerste gedeelte behandel die stadium van monitering en is hoofsaaklik a retrospektiewe analise oor die ontwikkeling van die dobbelbedryf in sewentiende eeuse Venesië en meer onlangs in die Verenigde State van Amerika, Australië, Namibië, asook Suid-Afrika voor 1994.

Die laaste gedeelte behandel hoofsaaklik die stadium van beleids-evaluering. Dit bevraagteken die moontlike verskil tussen die verwagte en werklike vertoning en uitkoms van die dobbelbeleid in die Wes Kaap na 1994. Hoofstuk 3 gebruik die aanbevelings van die Hoofverslag oor Dobbels in die Republiek van Suid-Afrika (Wiehahn verslag) as ‘n basis vir die evaluering van die dobbelbeleid van die Wes Kaap van beide ‘n sosiale asook ‘n ekonomiese perspektief. Meer spesifiek beoog die studie om lig te werp op die probleme wat verband hou met die wetenskaplike navorsing van dobbelary, die ekonomiese profiel van dobbelaars, die geografiese plasing van casinos, die verplasing van kapitaal en die korrelasie tussen misdaad en dobbel.

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Chapter 1: Theoretical contextualisation

1.1 Introduction

Even though legalised gambling has been a flourishing industry in the South African homelands for almost two decades, it is an industry that is also notoriously under-researched by academics, journalists and governments alike. It is an industry that is well known to South Africans and has become, to some extent, institutionalised in society. Sun City has become one of the top tourist destinations in South Africa alongside the Kruger National Park, Table Mountain, Robben Island and the Garden Route. The massive growth of the unregulated industry brought gambling to the doorstep of most South Africans. Gambling is thus not a new phenomenon in society.

The major difference is that large scale gambling is currently being sanctioned by the South African government as a legal enterprise that is heavily regulated not only in the former homelands, but also in the urban centres of the rest of the country. The industry has changed its focus after 1994 from destination resorts in the former homelands to the establishment of legalised and regulated urban casinos throughout South Africa.

This change in focus of the legalised industry has brought about the adoption and implementation of a gambling policy that is significantly different to the previous policy that only allowed casino-style gambling in the former homelands. However, this thesis should be placed in the historical context of the process in the Western Cape. In the Western Cape this process has been characterised by severe logistical and legal problems. This thesis attempts to establish the need for an additional policy (or re-formulation of the current policy) in order to deal with the problems that can be expected with the socio-economic impact of the original policy. The author feels that the original gambling policy does not address the possible negative socio-economic impact of the industry and that additional measures should be put in place in order to maximise the potential socio-economic benefits of the industry for the Western Cape.

The policy analytical model as described by William N. Dunn in his book “Public Policy Analysis” (1994) is used and therefore the thesis does not have the normal format used for thesis purposes. Dunn (1994:18) describes four different stages in the process of policy evaluation:

- 1̄ Forecasting- this stage provides policy relevant knowledge about the future states of affairs which are likely to occur as a consequence of adopting alternatives that are under consideration at the phase of *policy formulation*.
- 2̄ Recommendation- This stage yields policy relevant knowledge about the benefits and costs of the alternatives of the future consequences of which have been estimated through forecasting and it also aids policy makers in the phase of *policy adoption*.
- 3̄ Monitoring- This stage provides policy relevant knowledge about the consequences of previously adopted policies and assists policy makers in the phase of *policy implementation*.
- 4̄ Evaluation- this stage yields policy relevant knowledge about the discrepancies between expected and actual *policy performance*.

This thesis deals mainly with the stages of monitoring and evaluation as the gambling policy for the Western Cape has already been formulated and adopted in the form of gambling legislation. The thesis also investigates gambling policies in other jurisdictions around the world as well as the gambling policies that were implemented in the former homelands of South Africa. It is not an evaluation of the proposals as set out by the successful applicants for the Western Cape gambling licences.

Dunn (1994:19) states that the monitoring stage helps to assess degrees of compliance discover unintended consequences of policies and programs, identify implementational obstacles and constraints, and locate sources of responsibility for departures from policies. In terms of the monitoring stage, this thesis puts a lot of emphasis on the unintended consequences of the gambling policy of the Western Cape, specifically in terms of the social and economic impact that is inherent to the

policy. It identifies several problem areas in the policy and draws, where possible, an analogy between problems in other gambling jurisdictions and that of the Western Cape without attempting to be anti-gambling *per se*.

Dunn (1994:19) further states that the stage of evaluation not only results in conclusions about the extent to which problems have been alleviated, but it also contributes to the clarification and critique of values driving a policy, aid in the adjustment or reformulation of policies and to establish a basis for restructuring of problems. This thesis further attempts to give a critique of the values driving the gambling policy in the Western Cape. It also attempts to aid in the adjustment or reformulation (or formulation of a separate policy that deals specifically with the socio-economic problems associated with legalised gambling) of the current gambling policy. The author feels that the current policy does not maximise the potential socio-economic benefits of the industry and that these problems should be addressed as a matter of urgency before the policy is fully implemented. This thesis evaluates the proposed policy in terms of the expected social and economic impact of gambling and the need for scientific research in this field as per the Wiehahn Report, the economic profile of gamblers, the geographic location of casinos, the displacement of capital and the possible effect on crime in the Western Cape.

Mouton (1996:102) is of the opinion that the state of existing knowledge on the phenomenon to be researched is an important factor in deciding on the specific goals of a project. He identifies two different aims of scientific studies. Firstly there is *validation* or *confirmatory* studies. This normally applies to topics where there is a well-established and long tradition of research in a given sphere. In cases where very little previous research has been conducted, the researcher will collect new data and develop new hypothesis in order to explain it. He refers to this as *exploratory* studies. This thesis uses a combination of the two approaches by using data collected from studies in the USA and Australia for a validation or confirmatory approach. By combining this with data collected from the small amount of study that have been done in the South African context, the author tries to get a South African perspective in order to identify possible topics for future *exploratory* studies.

Mouton (1996:102) is also of the opinion that 'existing knowledge' should be broken down to *descriptive* (or factual) knowledge and *explanatory* (or theoretical) knowledge. Descriptive knowledge includes data, facts, empirical generalisations, narratives and stories and provides truthful descriptions of phenomena in the world. He also states that descriptive statements make claims about *how* things are and *what* the actual state of affairs or fact of the matter is. This study focuses mainly on descriptive knowledge. This is particularly evident in the first section of this thesis that gives a historical overview of gambling in various parts of the world. Explanatory knowledge includes theories, interpretations and models and makes causal claims about the world. Explanatory statements suggest plausible explanations of *why* things are as they are and what the causes of events or the causal mechanisms behind change are. The second part of this thesis focuses mainly on this type of knowledge by giving plausible explanations of why the current gambling policy in the Western Cape does not maximise the socio-economic benefits of the industry.

The Australian Institute for Gambling Research (AIGR) has become a leader in the field of gambling impact research under the directorship of Jan McMillan. The research by this Institute focuses mainly on the impact of urban casinos in Australia. In a comparative study of the socio-economic impacts of the Brisbane and Cairns casinos from 1996 to 1998, Diane Cavanough, Jan McMillan and Neal Ryan give a short summary of what we know about the impact of casinos and the problems experienced with research material on the subject.

With reference to casino impacts, Cavanough *et al* (1996:7) state that despite the importance of establishing the boundaries for this research and in precisely identifying the impacts that do occur, there is still a lack of clarity in defining the boundaries of potential socio-economic impacts. They also emphasise the importance of the disentanglement of casino impacts from other events that may also affect social and economic patterns in especially urban casinos. It is also important to realise that some impacts will be direct and localised and others may be indirect or displaced throughout the region, province or country.

McMillan states (in Eadington *et al*, 1991:118) that casinos have indeed had a significant impact on Australian cities to the extent that some of the impacts have undoubtedly been negative. However, some of them have had a positive impact or at least a tolerable impact on urban host communities. Governments have also concentrated on promoting the aggregate economic benefits of casino development. The general tendency by stakeholders like the operators and governments has been to argue that the net spillovers from casinos have been positive. She again states that, in the absence of thorough and rigorous impact evaluation, it may be that the negative spillovers have just not been identified. It is also rarely acknowledged that the costs and benefits of casinos have not been spread evenly throughout communities. The result is that for some groups the benefits exceed the costs while for others the costs have exceeded the benefits.

McMillan (in Eadington *et al*, 1991:119) makes the following statement:

“...the imbalance of political-economic influence in the communities, coupled with the high social profile of those supportive of casinos, may have ensured that positive perspectives override the views of those who are concerned about the negative aspects.”

The author feels that this is especially evident in the Western Cape and that it is almost ironic that the communities, especially those in the urban areas with a history of socio-political criticism, have shown a high level of ignorance to the process of the legalisation of gambling in the Western Cape. This ignorance, combined with the author's experience as an employee in both the regulated and unregulated gaming industries in South Africa, is the main motivation for this study.

The South African society has been plagued by the socio-economic impact of the apartheid regime and the resulting socio-economic consequences. The advantage is that gambling was legalised outside the homelands after the end of the apartheid era and that future impacts of legalised gambling can be researched in terms of the perception that the apartheid legacy should not continue to worsen the socio-economic situation in South Africa. However, this does not mean that the

legalisation of gambling should be seen as the only possible contributor to the changing socio-economic climate in the country.

The importance of research on the socio-economic impact of casinos has also been stressed by the “Main report on Gambling in the Republic of South Africa” published in March 1995 by the National Lotteries and Gambling Board:

“The Board recommends that... research be conducted by the National Gaming and Wagering board... into the social and economic impact of gambling including the keeping of statistics and other data in this regard...” (Wiehahn *et al*, 1995:62)

Cavanough *et al* (1996:8) state that recent literature dealing with the impact of casinos has tended to focus on remote destination casinos, specific economic or social impacts or offers very little empirical evidence, while other studies rely heavily on media reports and unreliable research. Many of these studies are also coloured by a pronounced pro- or anti- gambling philosophy. Claims about the supposed costs or benefits of casino development are often based on inadequate or selective information, media accounts and anecdotes. They state that these arguments tend to fall into two opposing camps: those who stress the economic benefits (often from the commercial sector or government) which casinos can bring in terms of valuable government revenues, increased tourism, employment, regional investment and economic growth; and those who are concerned about the social costs (increased crime, problem gambling and family and social and family disruption) which they claim are associated with the promotion of legalised gambling and casinos in particular¹. These groups often support their claims with data from overseas studies, mainly from the United States, which are compatible with their own particular values and objectives. It is also interesting to note that the pro-gambling lobby focuses mainly on the economic benefits of the industry while the anti-gambling lobby tends to focus on the social cost aspect of legalised gambling.

¹ See also Dickerson *et al* (1996) for an estimation of the extent and degree of gambling related problems in the Australian population.

Cavanough *et al* (1996:9) are of the opinion that there are several reasons why it is appropriate to extrapolate from one situation to another in this way. The relevance to the South African scenario is especially evident in points 2 and 3 in the following quotation:

- 1̃ “The pattern of casino developments in the United States is quite different from that in Australia: Nevada and Atlantic City have established multiple casino ‘strip’ developments while other states have restricted casinos to Indian reservations or riverboat operations. In contrast, many casinos in Australia are situated in major cities and have been granted a regional monopoly. Yet even in Australia, there are significant differences between casino developments in various states.
- 2̃ Interaction between any casino and the local community is profoundly affected by the size, location and type of casino that is established. The impacts of casino development thus can vary from one city to another. European casinos, for example, which frequently place restrictions on the participation of local residents, have markedly different impacts from the mass market American casinos in destination resorts; and the community impacts of casinos in Nevada and Atlantic City differ from those of the Indian reservation casinos.
- 3̃ Equally important is the particular character of the host community - the nature of the economy, social demography, power relationships, and the cultural practices and expectations of residents. Some casinos that stimulate tourism have generated jobs and economic growth on the one hand, but have created new social tensions between the local community and privileged visitors. Other casinos have been more compatible with the social character of the host city.
- 4̃ Much of the data in casino impact studies are derived from aggregate sources that do not reveal the important and complex localised patterns which occur. As a major and controversial development, a casino can be mistakenly identified as the casual factor when new social trends emerge. Each impact study should be specifically designed to distinguish casino impacts from other environmental influences at regional level.”

Due to the lack of extensive scientific research on gambling in South Africa, it is considered a starting point to look at research done in other countries in order to establish which aspects of the socio-economic impact of legalised gambling should be considered for future studies on the local industry. One of the main goals of this study is not necessarily to provide new data on the local industry, but to stimulate interest for further studies by looking at what has been done in other gambling jurisdictions.

From the above it is clear that in order to study the social and economic impact of the legalised gambling industry in South Africa, it will be very difficult or virtually impossible to extrapolate data from studies done in other countries and apply it directly to the South African scenario. The question is asked whether South Africa will develop an indigenous casino culture that is unlike the gambling models of Europe, the United States or Australia (*Die Burger*, 6 June 1998:9). This question is based on the following reasons:

- 1 South Africa has a unique and very controversial socio-political history that affected and continues to affect the lives of all citizens, their way of thinking and their general outlook on life.
- 2 Under the previous political dispensation class and race generally overlapped with the majority of the white and substantial segments of the coloured and Indian population groups represented in the middle to upper class and the majority of the black population represented in the lower class.
- 3 Under the new democratic dispensation, a rapidly growing black middle class necessitates a change in consumer-oriented markets, traditional values and lifestyle in general.
- 4 South Africa is a cultural melting pot with eleven official languages. Each culture is well represented democratically and has different cultural values.

The above factors differentiate South Africa from most other jurisdictions in the world where gambling has been legalised. The fact that all South Africans are still grappling to come to terms with the major socio-political paradigm shift that took place in the mid-nineties makes it a society with ever changing values and changing

social, political and economic dynamics. This makes the legalisation of the gambling industry in South Africa a unique phenomenon that has to be researched independently and not necessarily in terms of criteria used in research elsewhere. This does not mean that nothing can be learnt from data available on other jurisdictions that legalised gambling. These studies are often a good starting point for scientific studies on the subject and can point to possible issues that are at stake. The broader issues will remain in many cases the same, but it has to be emphasised that future studies have to customise in order to provide reliable data based on local criteria. However, this particular study aims to look at current data available in Australia, Namibia, the United States and South Africa in order to develop a solid background against which future studies on the legalisation of gambling in South Africa, and the Western Cape in particular, can be attempted.

1.2 Problem statement and research proposition

This is a policy issue paper on the expected socio-economic impact of legalised gambling in the Western Cape, the expected extent of these problems, the difference between the expectations of the Western Cape government and the reality in other parts of the world where gambling is legal. The purpose of the study is to identify possible discrepancies between the expected policy outcome and the actual policy outcome in order to identify areas for future research.

The methodology used consisted mainly of the gathering of information through observation (the author spent six years working in the casino industry), literature studies and interviews with key role players in the industry.

Much can be learnt from research that has been done in the USA and Australia on the socio-economic impact of legalised gambling. The reason why the American and Australian research is cited, as opposed to e.g. South African research on the topic, is that legalised gambling in the USA and Australia has been far more institutionalised in society over a far longer period of time. Therefore, there are more scientific research results available in order to identify areas for possible future research on the

socio-economic impact of gambling in the South African context and the Western Cape context in particular.

The public in general are not aware of the potential dangers of the legalisation of gambling and is generally under the impression that the dangers of gambling is only related to addictive gambling. In an interview with Lubbe (12 December 1999), it was stated that the Board has distributed only 100 000 information pamphlets in a public awareness campaign.¹ In addition to this very little has appeared in the press regarding the potential dangers of legalised gambling. This became evident after a SA Media search was done by the author for the period 1980 to 2000 using the keywords “gambling” and “Western Cape”.

The potential increase in general and specialised crime, prostitution, drug trade, displacement of capital, the effects on families, general degradation of inter-personal relations and community values etc. are not generally linked by the uninformed public to the legalisation of gambling. This ignorance is generally caused by the fact that many of the above mentioned phenomena are indirectly related to the gambling industry and that the only current ‘angle’ of the media has its origins in the private sector with gambling interests². The contributions of independent academics, especially in the social sciences, have also been negligible. The public ignorance can possibly be ascribed to the fact that large scale legalised gambling, as is envisioned for the future South Africa, is a foreign concept to the majority of the population and is something totally new. This is especially evident in the Western Cape.

Goodman (1998:1) states that private developers usually exaggerate public benefits in order to make their proposals more attractive. He also notes that a recent Columbia journalism review article states that reporters often use information from gambling industry-related sources without the critical analysis and without describing the industry ties of the researchers. Reporters will often limit opposition arguments to those of religious leaders, leaving the impression that the negative aspects of

¹ Rossouw Lubbe is the Chief Executive Officer of the Western Cape Gambling Board.

² See also McMillan (1996b: 4-5) for an account of the change of public perception on gambling due to concentration on negative aspects of gambling by the media.

legalised gambling are restricted to moral differences of opinion or to zealous do-gooders.

Once gambling ventures are legalised and governments become dependent on their revenues, the future form and the spread of gambling within a state become extremely difficult to control. It must be mentioned that the provincial government obviously also has a huge financial interest, estimated at R100 million per annum, in the legalisation of the gambling industry (*The Cape Times*, 27 November 1996). The research used by public officials to evaluate projects is often done by the gambling industry itself. In the process of gambling legalisation, states have shifted from the role of gambling regulator to that of gambling promoter. In doing this, they are liberalising regulations designed to protect the public and spending more on gambling advertisements and promotions (Goodman, 1998:2). Although the Western Cape legislators cannot yet be seen as promoters of gambling, it is essential to note that the borders between regulating and promoting gambling are always in danger of becoming blurred.

The above summary from Goodman clearly demonstrates the role of the private sector, the press and the local government in the dissemination of information about the effects of the legalisation of gambling¹. Although these references are applicable to the American system, they can easily be applied to the current situation in the Western Cape. Judging from the lack of public debate in letters to newspapers (as revealed by the SA Media search for the period 1980 to 2000), it can be concluded that there has been very little public opposition to the legalisation of the gambling industry, not just in the Western Cape but on a national level. According to Lubbe (interview, 12 December 1998) this indicates that the information that is made available by the press, the industry and the provincial and national governments, is insufficient.

Whether the 'censorship' of information on the negative effects of gambling is intentional, unintentional or just biased reporting by the press is debatable. One

¹ See also McMillan (1996b:10) for criticism of Goodman.

would at least have expected some form of opposition from organisations like People Against Gangsterism and Drugs (Pagad) and some business organisations at some stage. These organisations has been clearly ignorant and absent in critically evaluating not only the moral implications but also the socio-economic benefits of a legal gambling industry in the Western Cape. As will be shown in this thesis the above mentioned organisations can possibly experience negative implications both morally and economically due to the legalisation of gambling. It is thus quite clear that critical information on the socio-economic benefits for the Western Cape province is not available to the public. Up to now this type of information has been focused on the creation of jobs and infrastructure, economic growth, tourism development, tax revenue generation, investment stimulation and the social enlistment of previously disadvantaged communities, but very little has been said about the possible negative implications of the legalisation of the gambling industry.¹ The above also became clear in terms of the data recovered during the above-mentioned SA Media search.

South Africa has had very little experience with legalised gambling and the Western Cape has been very isolated from this experience in the past due to the geographic placement of the casinos in the former homelands. It will certainly be very difficult to estimate the socio-economic impact of legalised gambling in the region. One can only look at the research and experiences in other countries in order to obtain an estimation of the possible impact of legalised gambling in our society or alternatively conduct research that is sensitive to the local conditions.

Against the above background this thesis will attempt to find the flaws in the Western Cape gambling policy pertaining the social and economic impact of legalised gambling, with specific reference to the problems related to the scientific research of gambling, economic profile of potential gamblers, the geographic placement of casinos, the displacement of capital and the effect of legalised gambling on crime.

¹ See also *Finansies & Tegniek*, 7 April 1995:27; *Financial Mail*, 17 March 1995:114; *The Cape Times*, 27 November 1996:7 1995:114; *The Cape Times*, 27 November 1996:7

The research proposition guiding this thesis is thus the following:

The gambling policy of the Western Cape does not maximise the potential socio-economic benefits of the legal gambling industry.

1.3 Aims and objectives of the thesis

This thesis hopes to lead to the formulation of a pro-active policy that will deal with the problems and socio-economic effects related to a legalised gambling industry and to stimulate public debate through the media. It will also attempt to give an indication of the areas of concern that needs to be addressed in the formulation of the above-mentioned policy. Furthermore, it will attempt to highlight the need for the creation of knowledge through independent scientific research on the topic. The next section gives a retrospective (historical) analysis of impacts and consequences related to previously adopted gambling policies in the South Africa and abroad. This is the monitoring stage of the policy analytical model as described by Dunn (1994:18). The section that follows the monitoring stage is the stage of evaluation of the Western Cape gambling policy. This section (Chapter 3) will attempt to give an overview of the discrepancies between the expected and actual policy performance by highlighting certain areas of concern that could prove to be problematic once the Western Cape gambling policy has been fully implemented.

Chapter 2: Policy monitoring

As mentioned before, this chapter focuses on the monitoring stage of the policy analytical model as described by Dunn (1994:18). It will attempt to give a historical perspective of the development of the gambling industry, and policies that accompanied it, in various jurisdictions at different times in history. It will focus on seventeenth and eighteenth century Venice (as described by Barnhart in Eadington *et al*, 1997:451) and modern day Namibia, the Indian reservations in the USA and the former South African homelands. In the case of Venice it will attempt to draw parallels between the social and economic impacts of gambling in the seventeenth and eighteenth century and the twentieth century. It will also attempt to give a background to what can be expected of gambling impacts in the Western Cape by looking at the American reservations in the USA, Namibia and the former South African homelands.

2.1 Historical background of legalised gambling

We will probably never know when humans played the first game of chance. It could have been in a cave with something of value for the first prize. It could have been food or women. We will never know how the game was played and who the lucky winner was. What we can assume is that this was right in the beginning of the history of mankind. To just simply take a chance without knowing what the outcome might be is a natural human phenomenon. It goes to the core of human nature. Originally taking a chance was probably born out of necessity. Going out hunting without knowing if there is any game around to hunt was a necessary chance that the hunters of a few thousand years ago had to take. This created excitement. This was definitely not a game, but the excitement was there.

We can assume that games of chance were created to recreate this excitement at a very early stage in history.

2.1.1 Venice in the seventeenth and eighteenth century

One of the earliest records of legalised gambling was found in Venice in the seventeenth and eighteenth century. The legalisation of gambling was authorised by the government of the Republic of Venice in order to stem the tide of illegal gambling that took place in the city. The first legal casino, The Ridotto, was opened in the palace of San Moise and operated continuously from 1638 to 1774. The government of Venice tried for years to curtail illegal gambling that took place in the city. This took place mainly on the streets by the lower classes, at parties by the aristocracy and at ridotti (private clubs and gambling dens) by the upper classes (Eadington *et al*, 1997: 452).

In order to control this last form of illegal gambling The Great Council of Venice created the original plan to legalise the first urban, public gambling house in Europe in 1638. The Ridotto in the Palace of San Moise was open for 136 years, to date a world record. No legal gambling house would operate in Italy until the second authorisation in the 1920s at San Remo on the Italian Riviera (Eadington *et al*, 1997: 453).

The government collected taxes from the operation and granted the privilege of banking and dealing to a certain clan of aristocrats, the Barnabots, who sat in long black robes and wigs while dealing the card games *basset*, *biribi* and *panfil* at as many as 70 tables (Eadington *et al*, 1997:451). The Barnabots were members of an impoverished aristocratic clan and only they were authorised to deal at the Ridotto. This was an attempt by the authorities to give the Barnabots an opportunity to financially support themselves. The most popular game that was played was *basset* and it was replaced by *faro* towards the middle of the 18th century. In 1757 the Venetian mathematician, Giannara Ortes, calculated the banker's advantage of both *basset* and *faro* at between one and three percent.

There is also evidence that the facility to play on credit was available. This was controlled and supervised by the gambling house manager, called the Master of the Ridotto. Honour was a highly rated value at the time and it seems as if there were no

real problems with the collection of debt incurred by gamblers at the Ridotto (Eadington *et al*, 1997:455).

Two gamblers of the time, the adventurer and autobiographer Giacomo Girolamo Casanova (1725-1803) and Lorenzo Da Ponte (1749-1838) the poet and librettist of three of Mozart's operas, gave us an insight in the psychology of addictive gambling, the social climate and the values that prevailed at the time.

Casanova wrote in his *Memoirs* that after winning a considerable amount of money at the Ridotto:

“I thought that I should have felt happy; but I was not. I loved gambling; and as I could not deal I went and bet at the Ridotto and lost day and night. My vexation over my losses made me miserable. But why did I gamble? I did not need to, for I had all the money I wanted to satisfy my wishes. Why did I gamble when I felt my losses so keenly? What made me gamble was avarice. I loved to spend, and my heart bled when I could not do it with money won at cards” (Quoted in Eadington *et al*, 1997:458).

Da Ponte, obviously a man of lesser financial means than Casanova, wrote in his *Memoirs* about his descent into gambling:

“In that way I too gradually became a gambler. No one of us three were rich, and soon we lost all our money. Then we began to borrow, now selling, now pawning, till we had stripped our wardrobes bare” (Quoted in Eadington *et al*, 1997:459).

After a priest ¹ stole a cloak from him in order to pawn it for gambling money, Da Ponte questioned the destructive power of gambling in terms of values and wrote the following:

¹ See also *Die Burger*, 21 January 1999:8 for a modern account of a priest's descent into gambling.

“How can it be?” I said to myself, “that principles of religion, education, and honour are not enough to restrain a man possessed of passions and to keep him, if not from licentiousness, at least from the acts that are branded with social infamy? A man enters my house under the guise of hospitality and friendship. Yet he can be blinded to the point of stealing a cloak from his comrade, benefactor and friend! And what drives him to that? Cards and women! As those two words drifted across my mind, I shook with fear from head to foot, and then and there I made the praiseworthy resolve to abandon cards, mistress, and- above all- that very dangerous metropolis. Losing not a second, I seized my pen and wrote my brother, Girolamo, these few lines: “No more gambling, no more women, no more Venice!” (Quoted in Eadington *et al*, 1997:463).

2.1.2. The relevance of the Ridotto for the modern era

2.1.2.1. Social relevance

The writings of Casanova and Da Ponte give a very good insight into the social impact of gambling at the time. It delivers a clear account of the social and psychological problems caused by excessive gambling. Casanova clearly questioned his love for gambling. He even comes to a conclusion as to what caused him to gamble. He was obviously a rich man that did not need the money, but it was the way in which he acquired money that triggered his love for gambling.

The writings of specifically Da Ponte give a very interesting insight in the extent and effect of compulsive gambling at the time. He writes of a man so consumed by the need to gamble that he resorts to theft and loses all sense of self worth, morals and values. What makes it worse is that this man, a priest, is supposed to be a person that not only sets an example, but also is supposed to warn society of the evils that eventually consumed him.

Casanova and Da Ponte can be considered intellectuals of the time. Their writings were not an attempt to analyse the intricacies of compulsive gambling disorder. It is a

mere personal account that gives us and insight of the problems caused by compulsive and excessive gambling. Whether the term “gambling addiction” or “compulsive gambling” existed at the time or not, we have clear proof in the writings of Da Ponte and Casanova that perceived addiction to gambling existed. Their personal account of their gambling experiences could have been written recently without losing any of its relevance. It is an almost exact account of the problems experienced today by problem gamblers all over the world. In almost three hundred years, the problem has not changed much at all.¹

2.1.2.2 Economic relevance

The main motivation for the legalisation of gambling and the eventual opening of the Ridotto was financial. The government of the Republic of Venice realised that by the legalisation of gambling, they will have an extra source of tax income. Illegal gambling was the order of the day and they did not see why they should not collect taxes from an industry that proliferated in Venice. The regulation of the industry was essential in order to collect taxes and the opportunity was seized.

The government of the Republic of Venice also saw an opportunity to improve the economic status of a specific sector of the community. The legalisation of gambling was seen as a strategy to empower the Barnabots, an impoverished aristocratic clan. They were given the exclusive right to deal cards at the Ridotto (Eadington *et al*, 1997:451).

Today these motivations for the legalisation of gambling are the same. The collection of tax revenue from the legalised gambling industry and the empowerment of the previously disadvantaged population were the main objectives in the legalisation of the gambling industry. Unregulated gambling, as in the case of Venice, were openly

¹ See Cavanaugh *et al*, 1996:60-62; Dickerson, 1995:1-10, Eadington, 1997:377-382; Eadington 1991:445-461,657-679, McMillan, 1997:1-5; McMillan, 1996:11-12 for a modern account of addictive gambling.

conducted throughout South Africa and the government realised that they can obtain the same objectives as those of the government of the Republic of Venice ¹.

The initial effect of the closure of the Ridotto in 1774 proved economically disastrous.

Sarah Goudar, wife of a French gambler said the following:

“All Venice has succumbed to a morbid depression: usurers look as sour as lemons, shopkeepers can’t sell a thing, artisans of masks are starving, and the Barnabot noblemen, accustomed to dealing cards ten hours a day, find their hands withering away. *Clearly- no state can keep going without the aid of vice* (Italics by author) (Quoted in Eadington *et al*, 1997:464).

In the case of Venice, legalised gambling seemed to have stimulated the local economy to a large extent, but the social impact was negative.

2.2. The development of the gaming industry in the USA, South Africa and Namibia.

Gaming has come a long way since the opening of the Ridotto in Venice. In terms of legalised gambling, very little in terms of legalised casino-style gambling has happened for a long period after the closure of the Ridotto in 1774. However, people never stopped gambling. In the late twentieth century the gambling industry has shown tremendous growth. Cabot (1996:1) describes gaming as the growth industry of the 1990s. Casinos are opening in many countries, all countries in Europe except Norway and Sweden, in all the states in Australia and many Central and South American countries. In Asia there are casinos in Korea, Macao, Malaysia and the Philippines.

¹ See *The Cape Argus*, 17 October 1996:14 for a summary of the motivations of government.

It is clear that gambling is an international phenomenon that crosses international borders and many cultural divides. It is the indeed the Coca-Cola and McDonalds of leisure time activity.

The development of gaming establishments on Indian reservations in the USA is included in this study as it shows remarkable similarities to the development of such establishments in the former South African homelands. The inclusion of the experiences of Namibia gives an African perspective on the legalisation of gambling.

2.2.1. Casino growth in various American States

The explosive growth of casino gaming in the USA began in the late 1980s. Being a state affair as opposed to a national affair, it started with South Dakota and Iowa in 1989 when both of these states joined Nevada (1931) and New Jersey (1978) in the legalisation of gambling. This was followed by Illinois and Mississippi in 1990, Louisiana, Missouri and Colorado in 1992 (Cabot, 1996:2-3) However, the flood of legalisation that were expected in the 1980s after the legalisation of gambling in New Jersey in 1978 did not occur. Cabot (1996:3-4) states that a built-up community bias existed against the notion of having casinos in their midst. He explains that the Veto Model best explains the outcome of casino campaigns. Under this model, a campaign for the legalisation of casinos will only be successful if all major campaign factors are favourable. If there were one negative factor, the entire campaign would fail¹. He names the major campaign factors as support by the political elite (especially governors and attorneys general), support by the economic elite, dominance of economic issues in the campaign (the need for jobs and tax revenues), non emergence of the crime issue in the campaign, lack of opposition from rival gambling enterprise (particularly horse racing), and financial advantages for proponents vis-à-vis opponents.

Another factor that contributed to the spread of legalised gambling in the United States is the proliferation of gambling over the borders of different states. As

¹ See also Thompson & Gazel in Eadington *et al*, 1997:184-205

increasingly more states legalised gambling there were pressure on adjacent states to block the flow of gambling money out of their citizen's pockets and into the other states. This resulted in the non-casino states, especially those bordering on states that have already legalised gambling, having to address ways to retain the discretionary income of their citizens, including the legalisation of casinos in their own state (Cabot, 1996:4).

Cabot (1996:5) identifies three factors that contributed to the rapid spread of legalised casinos in USA. Firstly, he is of the opinion that the American states and cities face severe budget problems and large capital costs resulting from deteriorating infrastructures such as buildings, utilities, highways and schools. Secondly, he states that the public attitude in the USA has changed from restrictive to permissive. Thirdly, he states that the Federal Government has opened the door to full scale gambling on Native American reservations.

2.2.2. Native American gaming and South African Homelands

There is a strong correlation between the development of the gaming industry on American Indian reservations and the development of the industry in the former South African homelands. Hughey and Mobilia (in Eadington *et al*, 1997:267) did a very good comparative study.

Hughey and Mobilia (in Eadington *et al*, 1997:268) state that it is important to look at the historical context in which the homelands and the reservations developed. They attempt to demonstrate that economic issues played a significant role in the development in both the United States of America and in South Africa. They argue that because of the lack of other economic opportunities, gaming was seen as an appealing industry for both the reservations and the homelands.

In order to determine whether the lack of economic opportunity in the homelands and reservations was a deliberate creation of the national governments, they investigate the purposes and the means by which they were formed. They argue that

if the lack of economic resources were deliberate manifestations of government policy, then it would be no surprise to discover national governments permitting the development of an industry known to generate income in otherwise impoverished areas (Eadington *et al*, 1997:267).

In order to understand that both the Indian reservations and the South African homelands were at an economical disadvantage right from the outset, the historical context that led to their respective development has to be analysed.

2.2.2.1. Formation of reservations in the USA

The native Indian land in the United States was originally acquired through force or purchase. The United States government attempted to remove Indians from desirable areas by trying to induce Indians to trade land in the Eastern United States for land west of the Mississippi. Initially the policy was enforced by the voluntary migration of the Indians, but later the use of force was proposed by the Jackson administration. This policy was not unlike the forced removals that were an essential part of the apartheid ideology in South Africa. As the desire for farmland and natural resources grew in the 1850s when the settlers moved west, the Indians were placed on “reserved” land that were usually in their former territories. These areas generally lacked economic and strategic importance in such a way that the economic viability of these Indian reservations was questionable from the outset (Eadington *et al*, 1997:269).

In the 1870s, the United States government policy changed to assimilation of the Indians. This was done by way of allotting land to individual Indians rather than tribes and granting citizenship to those individuals (Eadington *et al*, 1997:269).

Although the United States policy toward Indians fluctuated in the twentieth century between assimilation and tribal self-government legislation passed in 1953 allowed states legal jurisdiction over Indian reservations. This was repealed by the 1968 Civil

Rights Act. The pursuit of land claims by Indians started in the 1970s. This resulted in a number of recent successful land claims that have been related to the profit potential of placing casinos near large population centres. Currently the United States government determines policy concerning Indian reservations or other lands held in trust (Eadington *et al*, 1997:269).

From the above it can be concluded that the very essence of the establishment of the Indian reservations was economical right from the outset. It originated in the displacement of indigenous people from economically viable land to less desirable areas. The motive for this was the economic empowerment of settlers and a government controlled by the people that benefited from this policy sanctioned this. Again, the similarity to the South African scenario is evident.

2.2.2.2. The South African homelands

The development of the gaming industry in South Africa is closely linked to the political history in the country because the first legal casinos were situated in the former homelands. The homelands, being one of the most significant and elaborate creations of the apartheid ideology, played a very important role in the establishment of the casino industry in Southern Africa¹. The development of the industry cannot be fully understood without placing it in the political perspective it deserves. It is ironic that in many ways it is due to the apartheid ideology that a very large casino industry developed in South Africa at the same time when the industry entered a growth phase in the United States.

Hughey and Mobilia (in Eadington *et al*, 1997:270) draw a comparison between the early development of the Indian reservations and the development of the South African homelands. Initially the interest of the European settlers in South Africa stretched only as far as trading routes port between Europe and the Far East. This

¹ For a good overview of the creation of the homelands and the rationale behind it, see Davenport (1997:281-283, 295).

resulted in the South African settlers having a far smaller impact on the native community than the American settlers had in America. The native African population retained relatively more power compared to their Indian counterparts because of population size, greater resistance to imported diseases and greater economic viability (Eadington *et al*, 1997:270).

Hughey and Mobilia (in Eadington *et al*, 1997:270) state that this changed drastically with the discovery of diamonds in 1876 and gold in 1886. Although the policy started changing from peaceful coexistence to white political and economic dominance of the Southern African region at this time, it is important to note that the Great Trek by white Afrikaners a few decades earlier was an indication that the white settlers saw Africa as more than just a trading route port between Europe and the Far East. The clashes between the Boers and the native communities in various parts of Southern Africa are in many ways similar to the clashes between native Indians and white settlers in America. The discovery of gold and diamonds probably catapulted the ideology of white dominance, but there are indications that the earliest battles between white and black in Southern Africa were fought over land issues.

With the growth of the mining industry, black South Africans became an important source of labour and a large-scale migrant labour system evolved. This migrant labour system was to form the basis for the homeland system as it resulted in a system of "Native Reserves" being established in the early 1900s (Eadington *et al*, 1997:270).

The white South Africans wished to continue a position of dominance although they could not enrich themselves without the assistance of the black labour force. This is in contrast with the situation in America where American Indian labour was never really in big demand as the economy grew. This resulted in the impact of expansion and development of the economy on the Indians as being negligible (Eadington *et al*, 1997:270).

A series of events followed after the National Party won the election in 1948 that proved instrumental in the formation of the homelands. It is important to note that

the National Government merely placed the so-called policy of “separate development” on the statute books although, in practice, this policy was already implemented for decades. The very essence of the homeland policy was twofold. Firstly, it was an attempt to create a veneer of political rights in economically non-viable areas. Secondly it was a divide-and-conquer approach to the black population themselves and also between the black population and other racial groups. It had twin motivations of extreme racism and a desire to perpetuate white economic and political power. The result was that, through the creation of the independent homelands, the industrial sector, which was controlled by whites, could retain access to the labour supply and at the same time restrict the flow of labour and residents as they saw fit (Eadington *et al*, 1997:270).

This resulted in large-scale relocation of the black population from urban centres to rural areas. This is reminiscent of the relocation of native Indians in America. However, the difference was that the South African Government moved from an assimilative policy to one of separation and the United States policy move from separation the assimilation (Eadington *et al*, 1997:271).

The Transkei became “independent” in 1976 and it was followed by Bophuthatswana in 1977, Venda in 1979 and Ciskei in 1981.

Hughey and Mobilia (in Eadington *et al*, 1997:271) argues that the distinct labour force needs of the settlers in South Africa and the United States was a major determinant of the differences in the manner of creation and the ultimate purpose of the homelands and reservations. They argue that in both countries the white population wished to maximise their control over valuable natural resources like minerals and agricultural land. However, the difference was that in South Africa the homelands were designed not to be self-sustaining in order to enhance white political and economic power and to preserve white control over a readily available and needy labour force. In the United States it was not necessary to enforce a policy of divide-and-conquer because there were so few Native American Indians compared to the number of settlers. Proportionally the settlers in South Africa were outnumbered.

2.2.3. An economic comparison between South African homelands and Indian reservations.

Hughey and Mobilia (in Eadington *et al*, 1997:272) draws a comparison between the South African homelands and the Indian reservations based on economic data. They conclude that reservations and homelands were areas with few economic opportunities and little promise for improvement through education or the development of new, conventional industries. They also conclude that the inhabitants of these areas are generally less educated, poorer, more likely to be unemployed, and less likely to be employed in thriving industries than the residents of the two countries as a whole.

Although the above are general similarities between the homelands and the reservations, there are distinct differences in the general economic make-up of the two. The factors that distinguished the homelands and the reservations are mainly twofold. Firstly, there is the difference in the demographic breakdown of the two host countries. Secondly, there is the difference in the political ideology that led to the formation of the reservations and the homelands in the two countries. It can also be argued that it is because of the difference in the demographic breakdown that the political ideology differed so much.

Hughey and Mobilia (in Eadington *et al*, 1997:273-280) also draw a comparison based on de facto population, education, employment, income and industrial composition. As shown in Table 1, it is clear that the total de facto population of the four independent homelands in South Africa comprised 17.3% of the South African population in 1991. According to the 1990 census in the United States, the 314 reservations and the 17 Tribal Jurisdiction Statistical Areas (TJSA's) in Oklahoma accounted for only 0.3% of the total population of the United States. This becomes more significant if it is considered that in South Africa the total land area of the homelands comprised only 8.2% of the total land area of South Africa and 17.3% of the population lived there. This necessitated the population to work outside the homelands. In the United States the total land area of the reservations and the TJSA's

encompassed 2.3% of the total land area and only 0.3% of the population resided there (Eadington *et al*, 1997:274).

According to Hughey and Mobilia, educational attainment and economic opportunity are known to be highly correlated. Low educational attainment is significant in both the populations in the reservations, TJSA's and in the homelands. This was caused mainly due to few or non-existent educational options and government policy and it led to reduced opportunity in the work force. The result is a reduction in earning potential. In Table 2 the disparities between white and black educational opportunities are demonstrated by the difference in money spent by the South African State on education for white and black pupils. In 1977-1978 the expenditure was R551 per white pupil and only R54 (9.8%) per black pupil in the homelands. It is also stated that there is an educational disparity between the proportion of the population over 13 years of age that completed at least 5 years of education. In 1985 98.5% of the white population and only 53.1% of the black population completed more than 5 years of education. In the United States the situation was not very different, although the disparities are not as big. Table 2 indicates that 97.3% of all Americans achieved 5 years or more of education while only 90.5% of the Native Americans achieved the same (Eadington *et al*, 1997:274).

One of the strongest indicators of the economic problems that faced both the reservations and the homelands are the levels of employment and unemployment. Table 3 supports the argument that the residents of the homelands and the reservations lagged behind the rest of their surrounding nations. The rate of unemployment in the United States was 6.3% and on the reservations it was 25.6%. Although Hughey and Mobilia dispute the accuracy of the data on South African employment, they conclude that unemployment was more severe in the black community than in the white community. When they compared the populations of the rest of South Africa and the homelands, they conclude that there was a significantly higher rate of labour force withdrawal in the homelands. They describe this as mainly due to the higher level of subsistence farming, a form of underemployment, and the diminished economic opportunities in the four homelands (Eadington *et al*, 1997:276).

They also conclude that the labour force participation rates on the reservations relative to the homelands differed significantly. This is evident by looking at the data in Table 3. They state that this was due to definition and measurement differences as well as problems with the South African data. They re-calculated the data of the homelands as a percentage of the total population between fifteen and sixty-four years of age. They calculated labour force participation as 49.4% in Transkei, 58.1% in Bophuthatswana, 41.1% in Venda and 40.1% in Ciskei. These statistics compared more favourably with the labour force participation rate of 62.1% on the American reservations. They conclude that, as the homelands were specifically designed to offer little economic opportunity, this data proved that this goal was achieved to a great extent (Eadington *et al*, 1997:277).

Table 4 also shows a big disparity between the income of homelands and reservations compared to the rest of South Africa and the United States respectively. It shows that the GDP in South Africa in 1989 was R7, 545 and that of the homelands varied between R879 in the Transkei to R2, 292 in Bophuthatswana. It is interesting to note that, although it cannot be attributed solely to the casino industry, Bophuthatswana had the biggest casino industry of all the homelands and it showed the highest GDP.

Table 4 also shows that the situation was similar in the reservations in the United States. The median household income for Native Americans on the reservation was only 41.5% of that of all Americans.

The above implies that in both the USA and South Africa the formation of the homelands and reservations were based on economic, geographic and ideological (especially in the case of South Africa) principles. This made the homelands and the reservations ideal for the establishment of the gambling industry because it would draw capital from the host countries and stimulate the local economies. The legal autonomy (to some extent) of the above also contributed to the establishment of the respective gambling industries.

TABLE 1**South African Homelands and American Reservations Population Distribution**

P O P U L A T I O N		
SOUTH AFRICA ^a		
1991	Population	Percentage
South Africa including TBVC ^b	38,915,018	100.0%
De facto populations:		
Total TBVC	6,747,392	17.3%
Transkei	3,220,353	8.3%
Bophuthatswana	2,022,177	5.2%
Venda	559,548	1.4%
Ciskei	945,314	2.4%
UNITED STATES ^c		
1990	Population	Percentage
United States	248,709,873	100.0%
De facto populations:		
Total reservations and *TJSAs	638,061	0.3%
Identified reservations and *TJSAs	437,771	0.2%
	200,290	0.1%
Source: Eadington <i>et al</i> , 1997:273		
* Tribal Jurisdiction statistical areas		

TABLE 2**Education Expenditure of South African Homelands and American Reservations**

E D U C A T I O N			
SOUTH AFRICA ^a			
1977/1978	<u>Per capita expenditure on education</u> (rand per pupil)		
Transkei	72		
Bophuthatswana	49		
Venda	56		
Ciskei	64		
South Africa			
White	551		
Black	54		
UNITED STATES ^b			
1990	Reservations	TJSAs	United States
Persons 16-19 not High School Graduates, Not Enrolled	18.1%	13.2%	11.2%
Person 25+ Completed at least 5 Years School	90.5%	96.7%	97.3%
Persons 25+ High School Graduates or higher	53.8%	66.5%	75.2%
Persons 25+ with Bachelor's Degree or higher	3.9%	9.9%	20.3%
Persons 25+ with Graduate or Professional Degree	1.1%	3.3%	7.2%
Persons 18-24 Enrolled in College	14.0%	23.2%	34.4
Source: Eadington <i>et al</i> , 1997:275			

TABLE 3A**Employment Ratio's of South African Homelands and American Reservations**

EMPLOYMENT – SOUTH AFRICA						
HOMELANDS ^a						
1980	Economically Active	Percentage of Population	Not Economically Active	Percentage of Population	Unemployed	Percentage of Economically Active Population
Transkei	553,789	23.8%	1,769,861	76.2%	23,486	4.2%
Bophuthatswana	333,320	25.2%	989,995	74.8%	16,582	5.0%
Venda	59,550	18.9%	255,995	81.1%	1,215	2.0%
Ciskei	136,220	20.4%	533,120	79.6%	38,340	28.1%
SOUTH AFRICA ^b						
1980	Economically Active	Percentage of Population	Not Economically Active	Percentage of Population	Unemployed	Percentage of Economically Active Population
Total Population	9,527,000	40.1%	14,245,000	59.9%	531,146	5.6%
Black	6,502,000	40.7%	9,468,000	59.3%	475,000	7.3%
White	1,915,000	43.0%	2,538,000	57.0%	7,805	0.4%

^a Benso, 1983, Tables 6 and 8; Supplement, 1982, pp. 96-97. Economically Active is synonymous with being in the labour force; Not Economically Active is defined to include (some of) those who are subsistence farmers.

^b South Africa 1982, pp. 911, 913. Transkei, Bophuthatswana and Venda are excluded from this data; Ciskei is included. White unemployment data are based on the number of people registered. Black data are based on samples.

Source: Eadington *et al*, 1997:277

TABLE 3B

EMPLOYMENT – UNITED STATES						
RESERVATIONS ^a						
1990	Labour Force Participants	Percentage of Population	Out of Labour Force	Percentage of Population	Unemployed	Percentage of Labour Force
Reservations	136,417	51.1%	130,427	48.9%	34,898	25.6%
TJSAs	79,250	59.6%	53,787	40.4%	9,783	12.4%
UNITED STATES ^b						
1990	Labour Force Participants	Percentage of Population	Out of Labour Force	Percentage of Population	Unemployed	Percentage of Labour Force
Total Population	191,829,271	65.3%	66,646,893	43.7%	7,792,248	6.3%

Source: Eadington *et al*, 1997:277

TABLE 4**Income Ratio's for South African Homelands and American Reservations**

I N C O M E			
SOUTH AFRICA ^a			
1989	GDP per capita (Rand)		
Transkei	879		
Bophuthatswana	2,292		
Venda	1,303		
Ciskei	1,545		
South Africa excluding TBVC	7,545		
UNITED STATES ^b			
1990	Reservations	TJSAs	United States
Per Capita Income (dollars)	4,478	6,922	14,420
Median Income for Persons 15+:			
Male	6,974	11,514	20,409
Female	5,308	6,607	10,371
Median Household Income	12,459	17,265	30,056
Median Family income	13,489	19,979	35,225
Percentage of persons for whom poverty status is determined	50.7%	29.8%	9.8%
Source: Eadington <i>et al</i> , 1997:278			

2.2.4. The establishment of the gaming industry in the South African homelands and Indian reservations

It is important to look at the development of the gaming industry in both the homelands and the reservations in relation to the economic background as explained above. The homelands and the reservations both had few possibilities of improving their economic circumstances, they had a lack of natural resources, they had poor education opportunities and were in many cases geographically isolated. Their economies were also dominated respectively by that of the United States and South Africa. There was capital available just outside their borders, it was just a matter of attracting it into their own territory. Against this background, it is not surprising that the development of a gaming industry was almost instantly seen as an opportunity to improve their economic stature. The fact that gaming was illegal in South Africa and in many States in the United States made this opportunity even more attractive¹.

The added incentive for both the United States and South African governments was that gaming would also lead to reduced requirements for aid by the homelands and the reservations from the respective national governments (Eadington *et al*, 1997:281). This reduction in aid requirements would also be attained with minimum impact on industries in the United States and South Africa because, as stated previously, gambling was illegal in most states in the United States and in South Africa. It was a fair deal for all parties involved.

2.2.4.1. South African homelands

There were two laws that proved instrumental in the formation and establishment of the gambling industry in South Africa. The first one was Act 51 of 1965 that made most forms of gambling illegal in South Africa¹. Although it permitted gambling in

¹ For reports on illegal gambling in South Africa see also: *The Cape Times*, 6 March 1997:9; *The Cape Argus*, 19 May 1995:18; *The Cape Argus*, 19 May 1995:5; *The Cape Argus*, 8 December 1996:5; *The Cape Argus*, 1 March 1997:7; *The Cape Argus*, 24 May 1997:10; *The Cape Argus*, 28 August 1997:1; *Business Day*, 21 November 1996:6; *Die Burger*, 25 February 1997:2; *Die Burger*, 5 March 1997:12; *Die Burger*, 17 July 1997:12; *Die Burger*, 27 August 1997:11; *Die Burger*, 13 March 1998:13; *The Cape Argus*, 23 August 2000:1.

private clubs not used primarily for that purpose, the rigid prohibitions that imposed a rigid moral standard on the rest of the nation, prevailed (Eadington *et al*, 1997:282).

Secondly there was Act 21 of 1971 (the Self-Governing Territories Constitution Act) that enumerated the matters on which the homelands could pass laws after independence. One of the items was gaming (Schedule 1, Section 3 of the Act). The homelands moved quickly by passing their own gambling laws. The homeland of Bophuthatswana took the lead in passing the Casino Act 19 in 1977 (the same year as their independence). The first casino also opened in the same year. The financial impact was noticeable and Transkei legalised gambling in 1979, Venda in 1980 and Ciskei in 1982. The acts in the various homelands were quite similar and specified on issues like licence fees, taxation and permissible games. There were also requirements for the building of an appropriate number of hotel rooms linked to casino developments (Eadington *et al*, 1997:282).

Debates on the legalisation of gambling in the homelands addressed concerns and benefits of the industry. Mundaau expressed his concern on religious grounds in the debates on the Venda Casino Bill:

“... but as a poor man I shall accept it because I want their [casino’s] money. I want you to know that, as you accept them, you are accepting heavy corruption in Venda... The intention will be to corrupt Venda culture. You will never find a casino in the Republic of South Africa. But it will spread out to these germinating new states and they say it is wonderful because we are poor” (Quoted in Eadington *et al*, 1997:282).

Mundaau’s statement describes the irony in developing casinos in the midst of a country where the official policy was against it. What he is really asking was that if it is not good enough for them (South Africa) why would they allow the homelands to do it. In the debate on the Transkei Gambling Amendment Bill of 1981, Madikizela said the following:

“...there are going to be many visitors...{who} will also spend money on the purchases of commodities in this country...that will be of help to our government. Nevertheless, there are difficulties to be expected because many people want to get rich quickly instead of working hard at agriculture and trading generally and they will gravitate to those gambling machines” (Quoted in Eadington *et al*, 1997:283).

Rabuma in Venda expressed support for the legalisation of gambling:

“Their [wealthy outsiders’] money will remain in our country. Thus the economy of Venda will be growing. In this way old-age pensions and employees’ salaries will increase through the money that will be pouring in from outside in that manner. We in Venda are not like places such as Cape Town and East London where there are firms that attract enormous sums of money. Our firms will be places like casinos” (Quoted in Eadington *et al*, 1997:283).

From the above three statements it is clear that the debates on the legalisation varied from opposition to support, but most politicians seem to see it as a vice that the government should tolerate in order to reap the benefits that it has to offer.

2.2.4.2. Indian reservations

The legalisation of gambling on Indian reservations was characterised by conflict between Indian and state governments. In contrast to the South African scenario, American States attempted to gain jurisdiction over the Indian gaming operations, but encountered strong opposition from tribal governments. The Indian Gaming regulatory Act of 1988 proved a landmark in the legalisation of gambling on Indian reservations. With this Act the American Congress recognised that numerous Indian tribes were trying to initiate gambling as a means of generating tribal government revenue. It stated the following:

“Indian tribes have the exclusive right to regulate gaming activity on Indian lands if the gaming activity is not specifically prohibited by Federal Law and is conducted in

a State which does not, as a matter of criminal law and public policy, prohibit such gaming activity” (25 USC 2702) (Quoted in Eadington *et al*, 1997:284).

The Seminole Indians in Florida were the first tribe to offer organised Bingo operations in the early 1970s. The Florida state tried to challenge the Indians in court, but the Fifth Circuit Court of Appeals ruled that, although a state could ban reservation gambling activity by banning the activity State wide, it could not regulate legal activities on Indian reservations. The conflict between states and reservations led to the Congress enacting legislation to create a system maintaining federal regulation for gaming on Indian reservations. This legislation attempted to preserve the rights of tribes to self-government while protecting all participants in gambling operations. The goals of the act were the following:

- 1̄ “... to provide the statutory basis for the operation of gaming by Indian tribes as a means of promoting tribal economic development, self-sufficiency, and strong tribal governments
- 2̄ to provide a statutory basis for the regulation of gaming by an Indian tribe adequate to shield it from organised crime and other corrupting influences, to ensure that the Indian tribe is the primary beneficiary of the gaming operation, and to assure that gaming is conducted fairly and honestly both by operators and players; and
- 3̄ to declare that the establishment of independent federal regulatory authority for gaming on Indian lands, the establishment of federal standards for gaming on Indian lands, and the establishment of a national Indian Gaming Commission are necessary to meet congressional concerns regarding gaming and to protect such gaming as a means of generating tribal revenue” (25 USC 2702) (Quoted in Eadington *et al*, 1997:284).

The debates on the Act in Congress centred mainly on the issues of tribal sovereignty, economic self-sufficiency of the tribes, possible proliferation of organised crime, the impact on the welfare of the Indians and the citizens of the reservations and states or congressional gaming concerns. However, one of the main

goals of the Act was to ensure that everyone was protected from the presence of criminal elements or unscrupulous persons in the Indian reservation gambling industry. There were also concerns expressed in the Congressional debates about the possible infiltration of organised crime in the Indian gaming activities. However, there was little evidence to support these concerns and they were merely seen as an exercise in paternalism. In 1990 the repose to these paternalistic arguments was expressed forcefully by Anthony Chamblin:

“...many Indians are weary of hearing that gaming activities on their land present a threat to the public welfare and the welfare of Indian tribes, and individuals who may represent criminal elements are preying upon such activities. ...The stereotyped claims are made by white men that if Indians are allowed unlimited hunting and fishing privileges, they will destroy the resources... If Indians are allowed to run gambling, organised crime will control their operations” (Quoted in Eadington *et al*, 1997:285).

The poor economic situation of the Indian tribes was also on the agenda in congressional debates. Gaming activity was considered one form of economic development, especially for those reservations situated in locations to which substantial numbers of punters could be attracted. There was also concern over the possibility of an unfair advantage that the reservations might receive relative to private gaming interests and states. This argument, based on the fact that Indians would be able to institute a variety of large scale games even if those games were not permitted in the State on that scale, was countered in the Congress with arguments that “the white and multibillion-dollar casino syndicates... the track owners and even the states...do not like the little competition that they get from the reservations” (Quoted in Eadington *et al*, 1997:286).

There were several differences in the legalisation of gambling in the homelands and the Indian reservations. One of the factors that are not mentioned by Hughey and Mobilia is that in the United States the legalisation of gambling was a calculated and much disputed issue. In contrast, the legalisation of gambling in the South African homelands was perceived as a bonus that came because of gambling just being one of a number of issues over which the homelands had jurisdiction. Gambling almost

sneaked in the back door. There were no disputes between the South African government and the homeland governments like those between the American States and the Indian authorities¹. There was never any resistance from the South African government to the legalisation of gambling in the homelands and the disputes were restricted to the homelands themselves.

However, Hughey and Mobilia (in Eadington *et al*, 1997:286) do state that there were several issues of concern on which the legislators differed in the two countries. Although legislators in both countries were concerned about economic issues and the possibilities of crime, the United States legislators were focusing on issues of Indian reservation sovereignty. In South Africa almost nobody but the government accepted the sovereignty of the homelands, although only on certain matters. In South Africa, greater concern was expressed on the possible impact of gambling on society, especially on the young. Mobilia and Hughey explain this difference by the fact that in the United States, the Indian Gaming Regulatory Act was developed because of issues of state sovereignty, which were finding their way to courts. They state that the social and moral issues, as far as the federal government was concerned, had been decided when states decided to legalise gambling in the first place. In the South African homelands, gambling was legalised by the South African government almost by omission rather than legislation.

2.2.5. Market Structure

Mobilia and Hughey (in Eadington *et al*, 1997:287) state that there is clearly an excess demand for gambling in both the United States and in South Africa. Whether this is still the case in South Africa in 2000 is debatable. There are already indications that the legalisation of gambling in post-apartheid South Africa is leading to an over supply of gambling establishments, especially in Gauteng where six licences were issued (interview, Vosloo, 15 June 2000; *The Cape Argus*, 17 October 1996:14)). However, at the time of the homeland casinos there was a proliferation of

¹ Act 21 of 1971 (the Self-Governing Territories Constitution Act) enumerated the matters on which homelands could pass laws after their independence and one of the items were gaming. There was also no recorded discussion of this portion of the Act as per Hansard, 2/8/71 – 3/1/71 (Eadington, 1997:282).

unregulated casino clubs in South Africa that operated at the edge of the law. In the United States, there was also an unprecedented growth in the industry during the nineties on both Indian and non-Indian land. Due to the nature of games and gambling in general, basic economic theory suggests that since price is relatively inflexible, adjustment to excess demand requires increases in the capacity of the industry.

The structures of the casino industries in South Africa and the United States also differed significantly. Sun International controlled every homeland casino through legal barriers as well as exploitation of competitive advantages. In the United States, the industry is characterised by two geographically disparate casino centres and emerging casino jurisdictions namely Atlantic City and Nevada. While Atlantic City and Nevada have a regional monopoly over large geographic areas with significant levels of internal rivalry, the Indian reservations tend to be much localised monopolies (Eadington *et al*, 1997:287).

The monopoly power of the industry in South Africa was strengthened by an assortment of South Africa laws. One of these were the rigid exchange controls that made it easier for South Africans to spend large amounts of money at the homeland casinos compared to other casinos in neighbouring countries like Botswana. Although there were competition from the unregulated gaming industry and horse racing in South Africa, Mobilia and Hughey claimed that the industry still had a largely captive market (Eadington *et al*, 1997:288). However, this is debatable since estimates of the gambling spend at unregulated casinos in South Africa are very unreliable and in most cases non-existent due to the opening and closing of casinos within short periods. There are indications that the industry was far bigger than estimated. During the late 1980s and early 1990s the effect of the unregulated industry started to become evident to Sun International, the monopoly holder in the homelands. The reluctance and incapability of the South African government to stem the unprecedented growth of the unregulated industry (interview, Lubbe, 12 December 1999) exacerbated this.

Mobilia and Hughey (in Eadington *et al*, 1997:289), described the breaking down of barriers of entry into the industry through government intervention as an important

determinant of the future of the industry. This prediction proved to be spot-on, especially in the case of South Africa, where gambling was legalised on a big scale throughout the country. The promising future of the industry was sealed.

According to Mobilia and Hughey, (in Eadington *et al*, 1997:289) the performance of casinos on reservations and in homelands should be judged on issues of allocative efficiency, the distribution of profits including issues of fairness, and the impact of casinos on the development of other opportunities in the homelands and reservations. They conclude that the evidence suggests that the reservations have been far more successful at deriving benefits from casinos than have the homelands. This is the result of the restrictions in the Indian Gaming Regulatory Act that ensured that a substantial portion of the casino earnings remain on the reservations.

The Indian Tribal gaming ordinances (25 USC Sec.2710(01/16/96) state the following:

“... net revenues from any tribal gaming are not to be used for purposes other than-

- to fund tribal government operations or programs;
- to provide for the general welfare of the Indian tribe and its members;
- to promote tribal economic development;
- to donate to charitable organisations; or
- to help fund operations of local government agencies.”

Mobilia and Hughey (in Eadington *et al*, 1997:289) state further that if at least some of these revenues are invested in industries not related to the casino industry on reservations, the future of the reservations will look even better. They argue that the lack of specifications in the homeland gaming regulations on how gambling revenues should be spent, is one of the main reasons why the homelands did not benefit from legalising gambling to the same extent as the Indian reservations. Currently there also seem to be the same lack of specifications in the South African gaming legislation.

Hughey and Mobilia (in Eadington *et al*, 1997:289) stated the following:

“Because we have presented 1990 census data for all reservations, the full economic impact of casinos is not yet obvious. But there is much anecdotal evidence to suggest

a great deal of benefit. In South Africa, although the presence of casinos eased the employment situation slightly, *there is little evidence* (as suggested by the per capita GDP figures) *of any other benefits.*" (italics by author)

Hughey and Mobilia conclude that the new gaming jurisdictions must be wary of the economic characteristics of monopolistic competition and zero economic benefits. However, they do state that a monopolistic structure has more potential to maximise gaming earnings as was seen in the case of the homelands in South Africa. It is important though that the gaming revenues accrued by the authorities be spent on local development and not to outside operators. This can be assured by legislation that ensures legal barriers of entry to the industry and the creation of economic barriers of entry. When a jurisdiction is in the process of legalising the gambling industry, they have an excellent opportunity to formulate legislation to this effect. In fact, it is much easier to formulate and enforce such legislation from the outset than to change it after casinos are operating. It is stated that the South African situation, with tremendous growth leading to potential oversupply (and there are already indications that this might be happening in Gauteng), may again serve as a harbinger of the future of the industry in the United States (Eadington *et al*, 1997:290).

Namibia is an example of an African jurisdiction that legalised gambling on a national scale before South Africa did so. Being a country that borders on South Africa it is culturally and socio-economically more similar to South Africa than the USA. It is also an example of a jurisdiction that did not reap the benefits of a legal gambling industry as will be explained in the next section. When formulating and implementing gambling policy, it is important to look not only at jurisdictions that implemented such policy successfully, but also to look at jurisdictions that were less successful in order to learn from their mistakes.

2.2.6. Namibia

In one of the most substantive scientific papers to date, a team of South African and foreign academics led by Peter Collins of the University of Cape Town produced a comprehensive report (Collins *et al*, 1997) on the legalisation of gambling in South

Africa. This study was funded by Sun International and is thus not completely independent. However, it is a strong testament against the oversupply of legalised gambling in South Africa.

In an analysis of the level of success in which various jurisdictions have implemented the legalisation of gambling, they use Namibia as an example of a jurisdiction that was less successful in implementing legalised gambling. Collins *et al* (1997, section 8:12) state that there is a consensus amongst academics that the legalisation of gambling in Namibia has gone horribly wrong for various reasons. They state that, as is currently the case in South Africa, the legalisation of gambling in Namibia was approached in a condition of high expectation and profound ignorance. Developers and operators anticipating huge profits, politicians that foresaw windfall tax revenues, large-scale job-creation and a major boost for the tourism industry, enforced this. There was also an expectation from the public that they might now get delivery on what the government has promised them in terms of meeting basic needs.

Collins *et al* (1997, section 8:12) state that the particular causes and consequences of what went disastrously wrong in Namibia are worth itemising in order to avoid something similar happening in South Africa¹. They are of the opinion that the legislation enabling the award of licences was passed precipitately, without proper understanding of the potentially dangerous social and economic consequences of an inadequately regulated industry, and in response to pressure on politicians from would-be developers and operators. The most effective of these developers now have an oversized and unprofitable operation on their hands due to getting the legislation passed with undue haste, without adequate research and despite pleas from both the civil service and parliamentarians for caution and further deliberation.

Collins *et al* (1997, section 8:12) also state that because transparent procedures have not been followed either in the legislative process or in the licence-awarding process, there is a widespread perception of high-level corruption, which cannot now be rebutted by pointing to demonstrably fair and publicly beneficial criteria which were used to determine both public policy and the award of licences. No such

criteria were adopted. The acceptance of the claim that “every Namibian citizen should have the democratic right to open a gambling house”, has now led to the establishment of over 200 licensed gambling houses (“Limited Gaming Outlets” or “LGO’s” in South African terminology) with applications for a further 700 licences pending. A moratorium has been instituted on the award of further licences and a government commission of enquiry appointed. The consensus is, however, that it is now too late.

Further problems identified by Collins *et al* (1997, section 8:12) relates to the ignorance and neglect of what economists call “displacement”. The fact that all money spent on gambling is money which cannot be spent on other things, has resulted in job losses rather than job creation, and the diversion of disposable income from saving and family necessities to gambling¹. They are also of the opinion that gambling has had very serious economic consequences with respect to a huge increase in indebtedness, the full and horrible consequences of which have not yet struck home, though apparently there has, for example, already been a tripling of the sales of execution of sub-economic and subsidised housing for the poor. There has also been no benefit to tourism since foreign tourists do not travel to Namibia in order to gamble. The whole area of social pathologies associated with gambling were also neglected and the most tragic of these appear to be children, left unattended (and unfed) for long periods, while their parents are inside gambling. Adequate policing is impossible and it seems probable that given proliferating administrative costs and other costs to tax payers, the net effect on the public purse will be negative, i.e. the state will make an overall loss as a result of having a badly regulated gambling industry.

The above prompted a Namibian official to state the following: “Whatever you do in South Africa, don’t do what we have done.” (Quoted in Collins *et al*, 1997, section 8:13)

¹ See also *The Cape Times*, 4 November 1998:3

2.3 Concluding remarks

Chapter 2 has been an overview of the monitoring stage as per the policy analytical model as described by Dunn (1994:18). This chapter provides policy relevant knowledge about the consequences of previously adopted policies (as in the case of seventeenth and eighteenth century Venice, the Indian reservations in the USA, Australia, the South African homelands and Namibia) and provides policy relevant knowledge about the consequences of previously adopted policies that can assist policy makers in the phase of policy implementation.

This chapter focuses on the socio-economic problems related to the introduction of legal gaming in various jurisdictions and indicates that the industry was prone to impact severely on host communities. In seventeenth and eighteenth century Venice the impact was mainly social. In twentieth century American Indian reservations, South African homelands and Namibia the impact was also economical. This chapter also attempts to provide a background against which the introduction of legalised gambling in South Africa, and especially the Western Cape, can be evaluated in terms of gambling policy impacts.

¹ See also: Collins *et al*, 1997, section 6:1-4; *Finansies & Tegniek*, 7 April 1995:27; *The Cape Argus*, 17 October 1996:14; *Die Burger*, 18 November 1997:14

Chapter 3: Policy evaluation

3.1 The scope and severity of problems related to the legalisation of gambling in South Africa.

This chapter deals mainly with the evaluation stage of Dunn's policy analytical model (Dunn,1994:15-19). The stage yields policy relevant knowledge about the discrepancies between expected and actual policy performance. Although it is too early to determine the discrepancies between *actual* and *expected* policy outcomes in the Western Cape, the next chapter attempts to give an indication of expected policy outcomes. This could form the basis for recommended further studies at a later stage, when gambling has been fully institutionalised for some time, in order to determine discrepancies between the actual and expected gambling policy outcome.

To put the problems related to the legalisation of the gambling industry in perspective it is important to understand the role of public policy in the process. Section 3.3 also investigates the problems experienced with scientific research in the gambling field and give an indication of the expected social and economic impacts of legalised gambling as per the Wiehahn Report (1995).

3.1.1 The role of public policy in the legalisation of gambling.

Cabot (1996:11) explains the role of public policy in the legalisation of gambling in his book "Casino Gaming: Policy, Economic and Regulation"¹. He states that successful government intervention into the private lives of citizens occurs when government sets public policy, dictates specific goals that it wishes to achieve, and successfully implements controls that achieve these goals. The creation of law is a three-step process beginning with the establishment of public policy. Public policy underlies all well-reasoned law. He further states that there are reasons why government is attempting to achieve certain goals by adopting law. The public policy

¹ See also Eadington *et al*, 1991:3, "Public Policy Considerations and Challenges and the Spread of Commercial Gambling"

underlying law can be based on many considerations, including political, moral, safety, health, social and economic reasons. By adopting public policy, government must set policy goals to achieve that policy. The general approach to adopting and enforcing controls are involved. After the setting of policy goals by the government, the next step is the implementation of these goals by adopting specific controls. The key to successful implementation of policy goals is the enforcement of specific controls. The severity of the punishment and the concentration of the enforcement often reflect society's commitment to achieving the goal as expressed in the legislation.

In relation to gambling laws specifically Cabot (1996:12) states that to achieve policy goals, government must adopt, interpret and carry out laws governing how, or if, persons may offer or participate in a gambling transaction. He defines gaming laws as the rules governing the conduct of gaming in society. The adoption of laws is the primary responsibility of the legislature, but this responsibility can be delegated to an administrative agency (like a provincial Gambling Board). In the case where legislature directs an administrative agency to carry out policy goals, it is not giving away the power, but exercising power by issuing directives.

Although the enforcement of laws is very important, the government can use different methods to motivate its citizens to obey the law. If the police do not enforce the laws, it often results in widespread and socially accepted violations. This is particularly evident in the South African society where many violations have become socially accepted and is leading to degradation in social values. In many cases it is due to non-enforcement by police and in some cases it is the laws itself that is questionable.

A good example is the spread of unregulated gambling in South Africa¹. Currently authorities in the gambling industry are quick to pronounce the unregulated industry of a few years ago as illegal. However, while some of the questionable casinos did in

¹ See also: *The Cape Times*, 6 March 1997:9; *The Cape Argus*, 19 May 1995:18; *The Cape Argus*, 19 May 1995:5; *The Cape Argus*, 8 December 1996:5; *The Cape Argus*, 1 March 1997:7; *The Cape Argus*, 24 May 1997:10; *The Cape Argus*, 28 August 1997:1; *Business Day*, 21 November 1996:6; *Die Burger*, 25 February 1997:2; *Die Burger*, 5 March 1997:12; *Die Burger*, 17 July 1997:12; *Die Burger*, 27 August 1997:11; *Die Burger*, 13 March 1998:13; *The Cape Argus*, 23 August 2000:1

fact break the law, many of them operated within loopholes in the law, which made them technically legal but unregulated. The poor record of successful prosecutions under the gambling laws of a few years ago is a good indication of the gravity of this misconception. Not only were the police reluctant to enforce these laws, but the courts were in most cases helpless because of the formulation of the gambling laws¹. The fact that there has only been one successful prosecution for operating an illegal gambling operation in the Western Cape (*Die Burger*, 13 March 1998:13) is indicative of the poor record in enforcement of the gambling laws. The above was also substantiated by Lubbe (interview, 8 December 1999).

The result was a very large unregulated gambling industry that became socially acceptable in most spheres of society and operated openly on street level. The result of this misconception is carried over into the new dispensation where gambling is legalised but many of the highly skilled employees that worked in these technically legal casinos is rendered unemployable by the refusal of some provincial Gambling Boards to issue employee's licences to people who were employed by these unregulated casinos. When the new gambling industry is evaluated in terms of job creation, it must be taken into consideration that the new gambling policy of the Western Cape Province also rendered many former casino employees unemployable in future. However, according to Lubbe (interview, 8 December 1999), this policy is under review².

It is stated that when government fails to achieve policy goals, the cause is either a substantive failure in designing a program that can meet policy goals or a procedural failure in successfully implementing a regulatory process. If a government creates a regulatory system but does not provide any penalty for violation, a resulting failure of the program to meet policy goals is a substantive failure (Cabot, 1996:13).

¹ See also: *The Cape Times*, 6 March 1997:9; *The Cape Argus*, 19 May 1995:18; *The Cape Argus*, 19 May 1995:5; *The Cape Argus*, 8 December 1996:5; *The Cape Argus*, 1 March 1997:7; *The Cape Argus*, 24 May 1997:10; *The Cape Argus*, 28 August 1997:1; *Business Day*, 21 November 1996:6; *Die Burger*, 25 February 1997:2; *Die Burger*, 5 March 1997:12; *Die Burger*, 17 July 1997:12; *Die Burger*, 27 August 1997:11; *Die Burger*, 13 March 1998:13; *The Cape Argus*, 23 August 2000:1

² Although there has been no official statement from the Western Cape Gambling Board by September 2000 that the above mentioned employees will not be allowed to work in regulated casinos, they have also stated nothing to the contrary.

According to Lubbe (interview, 8 December 1999) the objectives of the Board are to ensure that all gambling operations are conducted with complete honesty and fairness to customers. The Board also wants to ensure that a large share of the profits from gambling

is used in ways to benefit the public, for example by promoting the creation of wealth and jobs and assisting in the funding of vitally needed services. The premises in which gambling takes place must also be safe, hygienic and free of crime. People must not be encouraged to gamble more than they and their families can realistically afford and there must be help available in the form of counselling to people who become addicted to gambling and their families. Furthermore they want to ensure that projects to build casinos and other gambling facilities are environment-friendly and, in particular, sensitive to the needs and wishes of the communities in which they are located. The Board also wants to ensure that the development of the gambling industry will contribute substantially to the development of the tourism infrastructure in the province and that projects to provide gaming facilities will furnish opportunities to small enterprises and emerging entrepreneurs. Lastly they want to ensure that the process of awarding licences is demonstrably fair, objective, transparent and in the public interest.

Dunn (1994:12) states that the methodology of policy analysis provides information that is useful in answering five kinds of questions: What is the nature of the problem? What present and past policies have been established to address the problem and what are the outcomes? How valuable are these outcomes in solving the problem? What policy alternatives are available to address the problem, and what are their likely future outcomes? What alternatives should be acted on to solve these problems? He states that answers to these questions yield information about policy problems, policy futures, policy actions, policy outcomes and policy performance. In order to answer the questions it is imperative that information must be assembled and made available through independent scientific research.¹ It is also important to understand the problems that are related to the undertaking of the above-mentioned research in order to get an impression of information that might not be represented.

¹ McMillan (1996b:11) states that industry has rarely co-operated with independent research.

3.1.2 Problems related to scientific research

As mentioned before, gambling is not a new phenomenon in South African society. The regulated gambling industry in the homelands has been flourishing alongside the unregulated industry that spread through the urban centres of South Africa. Scientific research on the socio-economic impact of the industry in the South African context has also been lacking¹. There has also been no successful attempt in identifying the boundaries for this research in this field. This is especially important in the South African society that is plagued by the socio-economic impact of the apartheid ideology and the resulting consequences. The socio-political history of South Africa, and the problematic disentanglement of impacts related to the apartheid ideology from those of gambling impacts, will further complicate studies related to the impact of legalised gambling. The only advantage is that gambling was legalised throughout South Africa after the end of the apartheid and that future impacts of legalised gambling can be researched in terms of the perception that the apartheid legacy should not continue to worsen the socio-economic situation in South Africa. However, this does not mean that the legalisation of gambling should be seen as the only possible contributor to the changing socio-economic climate in the country.

As an example of the methodical difficulties experienced it is stated that many studies in the United States have suggested that casino developments increase the level of crime in the community. These studies rarely attempt to distinguish between the specific impacts of casinos and the more general impacts of tourism. They also do not establish casual relationships between casinos and crime patterns. Cavanaugh *et al* (1996:7) further stress that it is important to generate casino-specific data wherever possible and to identify intervening factors which might distort the data.

Studies in North America have documented impacts on casinos but no integrated socio-economic studies of the impact of casino developments have been undertaken in Australia or elsewhere at least until 1996. This is despite the fact that the need for

¹ McMillan (1995a:14) states that governments increasingly have recognised that they lack even the most basic information needed to guide policy decisions and budgetary calculation and have consequently made more money available for research.

research has been noted in several Australian government reports prior to casino legislation (Cavanough *et al*, 1996:7). Wiehahn *et al* (1995:55) also recommended that research be conducted on an ongoing basis in order to establish a South African perspective on the introduction and subsequent impacts of gambling. This recommendation was also done prior to gambling legislation. However, it is ironic that the full socio-economic impact of the gambling industry in South Africa can only be scientifically determined after the policy has been formulated and implemented.

Cavanough *et al* (1996:10-12) state that despite the shortcomings of previous studies of casino impacts, some issues has been raised that warrant investigation. The competing claims that are commonly made about the positive and negative social impacts¹ of casinos include the following:

Firstly, they identify the opinion that **casinos act as a catalyst for regional and economic development, generating jobs and relieving unemployment**. On the other hand, it has been argued that casino jobs tend to favour certain groups of workers and discriminate against others; there is little formal recognition for skills and training; career development is limited and selective; and over time the casino workforce is characterised by labour-shedding, casualisation and the trend for part-time work². Secondly, they identify the opinion that **casinos attract tourists to a region**. However, some Australian studies have argued that the majority of patrons in Australian casinos are local residents, that most casinos in the 1980s had little effect in increasing tourism to the region.

Thirdly, they identify the opinion that **casinos introduce a sophisticated form of entertainment that improves the leisure options available to residents and tourists alike**. However, it is also argued that the legalisation of casinos is an undesirable stimulation of gambling by governments and the private sector. Casinos are seen as having a greater potential for social harm than many other forms of

¹ See also McMillan (1995a:15-17) for a discussion of what we know of casino impacts in Australia.

² See also *Finansies & Tegniek*, 7 April 1995:27; *Financial Mail*, 17 March 1995; *The Cape Times*, 27 November 1996:7

gambling, encouraging people to increase their gambling and spend more than they can afford. An increase in casino related problem gambling has been linked with other adverse social impacts such as family breakdown, alcoholism, domestic violence and crime¹. They also identify the opinion that **the expansion of tourism associated with casino development revitalises and diversifies the local culture**. However, some critics argue that casino activities (like mass tourism) are increasingly standardised to conform to an American cultural model, in many respects overwhelming local cultural traditions and preferences, and changing the character of a city and the lifestyle of the residents.

Another opinion identified by Cavanaugh *et al* (1996:11) is that **the economic growth associated with casino development brings social benefits to the whole community, improving the average income and standard of living of local residents**. However, some studies suggest that tourist-related casino development can exacerbate the social disadvantage of some community groups. For example, speculative investment in luxury hotels and expensive homes can be at the expense of low-cost housing for low-income earners. This trend is often linked to an increase in real estate prices and rents, increasing the pressure on scarce cheap accommodation. Lastly, they state that the perception exists that **modern casinos are highly regulated and relatively free of crime**. Contrary to this is the view that casinos by their very nature attract criminals and illicit activity. This viewpoint emphasises the potential for crime in the casino itself (i.e. cheating by gamblers, 'organised crime', money laundering and political corruption) and community crimes (e.g. casino-related prostitution, muggings, drugs, theft, fraud).

Eadington *et al* (1997:8) are of the opinion that the answer to the question "What is the appropriate presence and role of gambling in society?" should be answered by research being developed by researchers and analysts in response to the sudden widespread presence of commercial gaming world-wide. He states further that many people have shallow preconceptions of what gambling is and what gambling does.

¹ See also Dickerson (1995:1-5) for an account of the amount of money allocated to information, prevention and treatment services of problem gambling in various American, Canadian and Australian states.

Gambling research should focus on three areas:

- Firstly there is the economic impacts of gambling. This will include issues like job creation, stimulation effects of gaming related investment and creation of new sources of tax revenue. Economists should also ask what are expenditure patterns on gambling by individuals, by families and by socio-economic classes. It should also investigate the displacement effects of gambling, i.e. from what other uses is money spent on gambling diverted¹.
- Secondly research should focus on the social impacts of gambling. Social scientists should explore to what extent does commercial gambling trigger pathological gambling in society; what proportion of commercial gambling revenues come from pathological gambling; and what is a good public policy working definition of pathological gambling?
- Thirdly research should explore legal and regulatory alternatives, such as where gambling should be allowed; who should be allowed to participate; what constraints should be established to mitigate problems and social costs associated with gambling; and how can society best manage gambling to capture the benefits and control the costs?

It is suggested that future research on the gambling industry should take note of the above suggestions by Cavanaugh and Eadington and use it as a possible guideline for scientific analysis and arguments. The next section gives an overview of some research that has been done in South Africa. Firstly there is the Wiehahn Report (1995) and this report represents official efforts from the government in order to establish gambling related impacts in society. Secondly, there are the efforts of the private sector represented by the research done by Collins *et al* (1997).

¹ See also: Collins *et al*, 1997, section 6:1-4; *Finansies & Tegniek*, 7 April 1995:27; *The Cape Argus*, 17 October 1996:14; *Die Burger*, 18 November 1997:14

3.1.3 The Main Report on Gambling in the Republic of South Africa (Wiehahn Report) and other opinions on the legalisation of gambling.

The Wiehahn Report published by the National Lotteries and Gambling Board in March 1995 submitted a whole chapter on the social and economic impact of legalised gambling to the Minister of General Services. It states that in terms of socio-economic impact on society there are two considerations underlying the protection of society. Firstly the protection of society against excessive gambling. This includes the stimulation of latent demand for gambling. They suggest a way to do this by stating that some jurisdictions impose restrictions like a limit on the number of gambling licences, restrictions on hours of operation, age limits for entry, dress codes and bans on advertising. Secondly, they suggest policy and law relating to gambling should also contain the principle of protection of society against the damaging excesses of gambling and should, to that end, impose limitations that are desirable and practicable. Law and policy on all levels of government should strike an acceptable balance between, on the one hand, allowing a clean and tidy gambling industry to flourish for the benefit of all its benefactors, and, on the other hand, the protection of the individual gambler and society (Wiehahn, 1995:65).

The Board stated that the main reasons for opposition to gambling have merit and that "*Ne sit summum malum alea, malum certe est*" (granted gambling is not the worst of evils, it is still an evil) still forms the view of many of those opposing gambling. The main reasons for opposition is that gambling negatively affects the relationship between people and God. It is God's command that happiness and joy are to be found in honest and hard work. This manifests people's dependence on God. Secondly gambling makes people more dependent on chance than on working for a living. The relation between labour and its rewards become completely distorted. Gambling also affects the gambler's family negatively. It also impacts negatively on society in general, in that it discourages people to work and facilitates the increase in crime and other social evils. Churches also warn against the sins of avarice, temptation, waste, addiction and prejudice which are associated with gambling and result therefrom (Wiehahn, 1995:65).

However, it is stated that gambling is a reality as it is natural for people to take a chance or a risk. The lack of success in the prohibition of gambling has led many countries to legalise the industry under strict controls and regulation. This was also one of the main motivators for the legalisation of the industry in South Africa.

3.1.3.1 Social impact

The Wiehahn Report deals with three possible social impacts that legalised gambling might have on society. Firstly, there is the effect on the work ethic of the people. They state that the contention is that gambling will have the effect that, instead of working for their money, people would rather spend a certain amount (which they can hardly afford to spend) on gambling in the hope that they will win a big prize. However, this aspect is not measurable and no accurate statistics can be given as to the extent a nation's work is, per se, negatively affected by gambling. According to most sources, it is also doubtful whether gambling alone is to be held responsible for the decline or change in a nation's work ethic. *The Board also recommended that this aspect should nevertheless be researched as part of a programme of study in order to establish a South African perspective on the subject (Wiehahn et al, 1995:55).* As mentioned before, a South African perspective will include the role of the apartheid legacy, multiculturalism etc. in the decline of the nation's work ethic and other values.

Secondly, the report deals with the effect on society. It states that gambling is becoming more acceptable in society. Research has shown that the impact of gambling on society is minimal where governments have introduced efficient and proper regulatory measures to control gambling. On the other hand, where no legalisation took place or where a laissez-faire approach to control measures was adopted, the impact on the society varied from being invisible, slow and undeterminable to being one of notable change. As in the case of work ethic, no table of measurement or standards of evaluation do exist and all conclusions are largely speculative and based on empirical observations. However, all authorities conclude that gambling definitely impacts on the society in many varied areas namely morality, attitudes, division between casino-goers and punters, change in lifestyles, attitude of

youth and adults and also the fact that the “nouveau riche” concept carries a negative association. *For the above mentioned reasons the Board also recommends that the impact of gambling on society should be researched and studied on a continuous basis in all countries* (Wiehahn *et al*, 1995:55). It is suggested that research in South Africa should also be area specific as impact on society could vary in different areas due to cultural differences.

Thirdly, the report deals with the problem of compulsive or addictive gambling. They state that this is possibly one of the biggest societal impacts of legalised gambling. Research on the impact of winning a big prize shows that firstly the winner might indulge in uncontrolled spending by squandering money on unnecessary purchases. Secondly, the winners might increase their gambling that could make them compulsive gamblers. Thirdly, the winner as a “nouveau riche” might become ostracised by society because of jealousy, envy or suspicion. Lastly the winners can be threatened and probably runs the risk of being deprived of their prize-money by unlawful means. The report also states that a minority of people becomes known as addictive or compulsive gamblers because they are driven by an urge. This type of pathological gambling very often leads to the destruction of a person’s relationship with others, his family and eventually themselves, as they become a burden to society. There is a consensus of learned opinion that certain people are compulsive or pathological gamblers and that their numbers are increasing worldwide. This condition is badly neglected by governments, researchers and therapists. They define a compulsive gambler as somebody who is chronically and progressively unable to resist gambling and who ultimately destroys himself and others if not treated. Gambling is also pronounced one of the most profound and complex features of the human mind and the repercussions extent far beyond the gaming table or the pack of cards into risk-taking and decision making in all walks of life. They further state that the complexity of human behaviour patterns make it very difficult to study and research and that various studies have shown that very few distinctions exist between the excessive gambler and the average gambler with regard to intelligence and other personality features (Wiehahn *et al*, 1995:57).

The report also gives the following diagnostic criteria pertaining pathological gambling as determined by various studies and state that this indicates that research

and analysis should also be conducted in South Africa from the moment gambling is legally and structurally introduced:

- 1̃ “The gambler frequents the gambling venues more and more. He is there from opening until closing time.
- 2̃ At times the person becomes very depressed, elated or aggressive in the venue.
- 3̃ The person defaults on his personal debts or other financial responsibilities.
- 4̃ The person becomes crime-oriented and this manifests itself in forgery, fraud, embezzlement, tax evasion etc.
- 5̃ The person borrows money from fellow gamblers- even those unknown to him.
- 6̃ The person’s relationship with his family, friends and others start to deteriorate
- 7̃ The person’s inability to account for money lost or evidence of his gains.
- 8̃ The person’s loss of employment due to absenteeism or other conduct related to excessive gambling.
- 9̃ Eventual depression, despondency, alcoholism or drug addiction.
- 10̃ Finally, the destruction of his social, family, personality and other structures, in the end, could drive him to self destruction in the form of suicide or serious crime” (Wiehahn *et al*, 1995:57).

The report stresses again the importance of ongoing research in the field of pathological gambling. This research should be conducted on an on-going basis. The Board also recommends that the National Gaming and Wagering Board conducts research and study into gambling, including compulsive gambling as well as keeping statistics and other data in this regard. Secondly it acknowledges the industry’s responsibility to compulsive gamblers and that it should make a contribution towards their rehabilitation and therefore the Board will recommend that the gambling industry establishes an institute or clinic for the treatment and rehabilitation of pathological gamblers (Wiehahn *et al*, 1995:58).

3.1.3.2 Economic impact

The Wiehahn report deals with several aspects pertaining the economic impact of gambling namely the effect on personal saving, gambling as a leisure time activity,

the generation of employment and income, the impact on economic growth, the impact on tourism, gambling as a source of tax and revenue and the effect of gambling on consumer spending¹.

In terms of **personal saving**, the report states that there is a view that gambling detrimentally affects the willingness of people to save money and that it is not conducive to private saving and thus domestic investment. On the contrary, if there is no gambling in a country, people would save more and thus contribute to investment and economic development and all its beneficial derivatives (Wiehahn *et al*, 1995:58).

However, the report states that this view is not entirely correct for two reasons. Firstly, there is no proof that that if people cannot gamble that they would save more. Secondly, if the revenue from gambling is properly regulated and channelled it can be highly conducive to investment as investment and economic development is not dependent only on personal savings of individuals. There is an international trend of people saving less money and spending more, especially on leisure time activities. There are several possible reasons for this: materialistic society, greater socialist consciousness in so-called welfare states, decline in buying power of money, change in value systems and attitudes etc. However, there is also no evidence that gambling does not affect the savings-rate of people. The Board concluded that there may be an indirect influence that results from a change in the value system in society due to the introduction of gambling, namely that gambling can be a “quick fix” for one’s financial difficulties. They also state that if a system of control is introduced by which gambling does not stimulate demand and only caters for the existing demand, then gambling should not impact significantly on people’s private savings (Wiehahn *et al*, 1995:59).

In terms of **gambling as a leisure-time activity**, the report states that because of the shortening of the working-time and the increase in available time for leisure time activity and entertainment, gambling has shown tremendous growth since the mid-

¹ See also *The Cape Times*, 27 November 1996:7; *The Cape Argus*, 19 May 1995:18; *The Star*, 30 May 1996:5; *The Star*, 29 May 1996:1; *Die Burger*, 6 August 1998:1; *Business Day*, 11 March 1996:3; *Business Day*, 12 March 1996:14; *Business Day*, 2 September 1997:5

60s. The competition for tourists, changing attitudes of people towards gambling, the advancement of technology producing innumerably more games of various types and realisation that gambling is to an increasing extent becoming a source of high revenue for governments has all contributed to the acceleration of the legalisation of the gambling industry. The Board is convinced that gambling will add a very important leisure-time activity to present pastimes. It will have a profound economic impact on the country and if gambling is properly controlled and kept clean of all vices and evils it is associated with, it could develop into one of the most important leisure-time activities in the country (Wiehahn *et al*, 1995:59).

The impact of gambling on **the generation of employment and income** is also discussed by Wiehahn *et al* (1995:59) It is stated that many people are and will be directly employed in the gambling industry in management positions, operations and maintenance. Many indirect jobs are also created by the industry i.e. sales people for lottery tickets, printers, manufacturers of gambling equipment and technology, security, state controllers, researchers etc. The Board estimated that by 1997 almost 100 000 people will be directly or indirectly employed by the industry in South Africa. The Board stated that it is convinced that the multiplying effect of legalised gambling on the employment market will be very beneficial and should be regarded as an important economic impact on the country. They state that this is an important reason for the legalisation of the gambling industry in South Africa.

Another aspect that is investigated is the **impact of gambling on economic growth**. The fact that it is described as an “industry” is due to several reasons. Firstly, there is the creation of employment opportunities by the gambling industry. Secondly, the wide range of activities in the leisure-time entertainment world is so vast that it attracts thousands of people, both locals and foreigners. Thirdly, it is a dynamic and high profile activity involving lots of money and therefore requires and creates a wide supporting base of services. The Board stated that the following other industries and services are stimulated by gambling: Manufacturing, building, paper, printing, transport, security, clothing, food and beverages, liquor, textile, tourism, the designated trades (electricians, carpenters etc.) sports and others. The Board stated that, although it is difficult to determine the level of economic stimulation, it is convinced that the industry will have a large positive effect on economic growth.

This will mainly be due to the attraction of large investments from both local and foreign investors. They state that an internationally renowned institute for policy research and planning has found that gambling “has become an accepted economic stimulant for local, state and federal governments”. The increasing of revenue by the legalisation of gambling is regarded as a viable alternative because it is, in effect, a voluntary tax. Politicians are more willing to consider gambling because it has a positive revenue impact without the obvious negative political implications of raising tax”¹.

In terms of the **impact of legalised gambling on tourism**, the Board had its reservations. They state that there is no evidence that the legalisation of gambling stimulates tourism to an area. It appears that people do not necessarily travel to a country in order to gamble there. One of the few exceptions in this regard is Las Vegas. This is due mainly to the fact that Las Vegas is in itself a destination resort due to the sheer scale of gambling facilities and other family oriented entertainment that it offers. The Board is of the opinion that gambling will not be a direct stimulant to the tourist industry as many would believe (Wiehahn *et al*, 1995:61).

In terms of **gambling as a source of tax revenue**, the Board stated that the generation of revenue through the gambling industry has been one of the prime movers for legalising the industry in many countries. They state that compared to tax (which is a compulsory measure) gambling is voluntarily and that no one is compelled to gamble. They also state that people part with their money voluntarily and that they are more willing to do so in the awareness that a portion thereof is earmarked for social projects and good causes. Governments receive income through taxes, levies and licence fees from licence holders and through the income tax paid by employees in the gambling industry. Lastly, the Board investigated the **impact of gambling on consumer spending**. They found no real evidence either locally or abroad of the impact on consumer spending and they are of the opinion that if it does have an impact it will be limited (Wiehahn *et al*, 1995:62).

¹ See also *The Cape Times*, 27 November 1996:7; *The Cape Argus*, 19 May 1995:18; *The Star*, 30 May 1996:5; *The Star*, 29 May 1996:1; *Die Burger*, 6 August 1998:1; *Business Day*, 11 March 1996:3; *Business Day*, 12 March 1996:14; *Business Day*, 2 September 1997:5

3.1.3.3 Other opinions

Collins *et al* (1997, section 8:14) state that, at a minimum, we need to ensure that the licensing of gambling in South Africa takes account of the following:

Firstly it should take account of the economic consequences of displacement, especially as these affect jobs and investment and may require inter-provincial co-operation and equity between urban and rural areas. Secondly there is the imperative need to ascertain the potential consequences of other forms of gambling on casino gaming and, in particular, to learn the lessons of international experience with respect to limited gaming outlets, gambling houses, slot routes, “pub and club” licences etc. and national and provincial lotteries.

Thirdly, it should take into account the need to minimise the incidence of pathological, addictive or otherwise destructive gambling behaviours, particularly as these will affect the well being of families. There is also a need to establish an effective inspectorate to regulate the smooth and honest operation of the industry without diverting scarce resources from, and relying on the South African Police Service (SAPS), though perhaps involving secondment of officers from appropriate policing disciplines. Lastly there is also the very important need to follow procedures in the awarding of licences which are fair, fully informed, transparent and demonstrably in the public interest.

Collins *et al* (1997, section 5:2) gives an indication of the possible policy guidelines that should be followed when formulating gambling policy. They are of the opinion that it will be necessary for provinces to articulate broad policy guidelines in order to ensure that their gaming industries should comply with international standards and that optimum economic benefit for the province should be obtained, but not at the expense of neighbouring provinces. It will also ensure that possible negative social impacts because of gaming should be minimised and that there will be transparency and integrity in the selection and regulation of gaming licences in provinces. Lastly, it will ensure that a casino operator’s licence should be regarded not as a right, but as a commodity.

Collins *et al* (1997, section 5:2) also give an indication of a possible gaming policy approach. The following aspects are normally used as a justification for the legalisation of gambling¹. However, they should be balanced equally and one aspect should not be incorporated into policy in such a way that it restricts the implementation of any of the other goals set out by the policy:

“Provinces will also need to specify the aims and objectives attendant upon their husbandry of gaming industries:

- to promote economic and investment with concomitant job-creation and skills-enhancement/training
- to create access to economic opportunity for those previously disadvantaged
- to stimulate the development of facilities for the community
- to generate revenue through taxation for the province
- to promote the growth and development of compatible industries, especially through SMMEs, in tandem with the gaming industry
- to ensure the development of tourism, in conjunction with neighbouring provinces”.

There is always the danger of the primary economic goals receiving more attention and emphasis than the secondary social goals set out by a policy. Therefore it is important that policy formulators and especially policy implementers should never lose focus of the balance that is required between the different goals as set out by the policy in order to implement a successful policy.

However, Collins *et al* (1997, section 5:2) also state that current gambling legislation means that the business of operating casinos in South Africa will mean that the industry will not be governed by ordinary business principles as the number of licences have been restricted. With this restriction on entry into the industry the Government has made the presumption of an exceptional public interest in such restrictions and it is important that the Provincial Governments quantify and meet

¹ See also *The Cape Times*, 27 November 1996:7; *The Cape Argus*, 19 May 1995:18; *The Star*, 30 May 1996:5; *The Star*, 29 May 1996:1; *Die Burger*, 6 August 1998:1; *Business Day*, 11 March 1996:3; *Business Day*, 12 March 1996:14; *Business Day*, 2 September 1997:5

this public interest as was done by legislation regulating the tobacco and liquor industry. They identify one of the dangers facing Provincial Governments as the public expectation and assumption that gaming revenues in this climate can finance resorts and infrastructure on a scale as such are to be found at Sun City.

However, the restrictions on competition that uniquely facilitated the development of Sun City no longer apply, and it is instructive to learn just how unprofitable that resort's casino operations have become. In cases where casinos have brought economic benefit to under-developed areas, such as happened in Nevada, the Australian Gold Coast, and South Africa's Northern Province, this process has without fail been dependant on visitors from outside the region. This is in contrast with cities such as Vancouver and New Orleans where a mega-urban casino is likely to negatively displace, by approximately 90%, expenditure already taking place in other sectors of the local economy. They come to the conclusion that locations and regions which have casinos that cater predominantly to local residents will not necessarily have a stimulative effect on the economy as consumers would simply be re-directing their spending from other goods and services already provided within the region (Collins *et al*, 1997, section 5:3).

Collins *et al* (1997, section 7:19)¹ give an indication of the criteria that should be taken into consideration when evaluating proposals for casinos and their economic impact in a specific region. These include the effect of the casino operation on total spending in the province, the impact on wages, the number of direct and indirect jobs created, the total value and mix of taxes generated, the impact of the construction phase on the local economy, the estimated risk inherent in the project, the proposed number of tables and slots relative to the number considered economically efficient and the overall developmental impact of the proposal.

Eadington (1998:2)² writes with reference to casino style gambling the following:

¹ See also *Finansies & Tegniek*, 7 April 1995:27; *Financial Mail*, 17 March 1995; *The Cape Times*, 27 November 1996:7

² Prof. Eadington is the Director of the Institute for the Study of Gambling and Commercial Gaming of the University of Nevada

“Perhaps the most fundamental public policy question on the subject is: What is the appropriate presence of permitted gambling in modern society? This enquiry can be divided into more specific questions, all of which have been part of the public policy debate as gambling has spread across America.

Representative of such questions is:

- What forms of gambling should be permitted?
- How available and accessible should gambling be to a jurisdiction’s residents and visitors?
- How much and what types of gambling should be allowed?
- What protections should be developed to limit abuses and to mitigate social and personal costs associated with gambling?
- What should be the objectives of gambling regulation?
- Who should benefit from supplying gambling services?
- What types of ownership regimes and market structures should prevail for legal gambling enterprises?”

According to Eadington (1998:7) debates to permit gambling - or to change the status of authorised gambling - must first evaluate the merits and detractions associated with gambling as a consumer activity, and then the merits and detractions of gambling as a source of local economic impacts and related negative side effects. It is useful to separate these two dimensions in examining the costs and benefits of gambling to communities and the society at large.

There is a definite need to re-evaluate current policy, especially concerning the main policy alternatives as proposed by Eadington (1998) and discussed in section 2.3 of this thesis. Collins *et al* (1997, section 12:1) give eleven criteria for the evaluation of provincial policy options with respect to casino licensing in South Africa. They state that in order to give concrete expression to the stated public policy objectives of any Provincial Government, gaming policy must:

- ĩ “maximise the rand for rand equivalent contribution which the Province’s licence awarding powers can secure from it for the gaming industry for the

- implementation of its RDP and Growth and Development policies over an initial period of five to ten years.
- 2̃ increase the expenditure by international tourists to South Africa, which accrues to the Provincial economy.
 - 3̃ facilitate efficient and economic revenue collection from all gaming activity in the Province, and in particular eliminate illegal gaming with the minimum of expenditure on the administration, policing and enforcement of gaming regulations.
 - 4̃ minimise the risk that gaming in the Province will increase such criminal activities as drug dealing, money laundering, robbery, gang warfare etc. Maximise the opportunity for using gaming generated resources to impact substantially and positively on the fight against crime.
 - 5̃ encourage the award of gaming licences to developers and operators who will be able to, and who, in fact, will deliver to the Province what they promise.
 - 6̃ generate confidence amongst the financial institutions who will be asked to advance capital for casino developments, and amongst Trade Unions who will be concerned with the job security of present and future employees, by minimising the likelihood of bankruptcies due to an oversupply of gaming services.
 - 7̃ show a comprehensive and sophisticated understanding of “displacement” or “substitution” effects, i.e. the fact that job-creating, taxation-generating moneys spent on casino gaming will be disposable moneys not being spent in other ways which may (or may not) be equally or more desirable in terms of job creation and the generation of revenues¹.
 - 8̃ ensure that displacement effects where possible are benign, e.g. the expenditure at legal casinos displaces expenditure at illegal casinos, or illegal drugs on the purchase of imported goods etc. Ensure that the losses generated by displacement effects are spread as thinly and widely as possible and fall most heavily on those individuals, groups and communities most able to afford them. Ensure, conversely, that the benefits generated by displacement effects will accrue to individuals, communities and groups whose needs and deserts in terms of overcoming past and present disadvantages, are greatest.

¹ See also Collins *et al*, 1997, section 6:1-4; *Finansies & Tegniek*, 7 April 1995:27; *The Cape Argus*, 17 October 1996:14; *Die Burger*, 18 November 1997:14

- 9̄ facilitate amicable and constructive co-operation between the government of the Provincial Government and the governments of neighbouring provinces as well as with the national government.
- 10̄ foster the enhancement of social and physical environments and minimise the risks of all forms of environmental degradation.
- 11̄ be cautious and flexible given uncertainty about the way the market for gaming may develop.”

Public debates on the above mentioned issues have been almost absent in the Western Cape as well as on national level and this is a disturbing fact and whether substantial scientific research has been done in this arena is also questionable. Although there were meetings held in April 1999 where the public could question licence applicants for the Western Cape, the gambling issue never became a political issue to the same extent as has happened in the United States in almost every jurisdiction that legalised gambling.

If the above is put against the background of the discussion in this thesis it becomes evident that the attainment of each of the criteria as stipulated by Collins *et al* (1997) have inherent difficulties and uncertainties.

Collins *et al* (1997, section 8:14) also state that, at a minimum, we need to ensure that the licensing of gambling in South Africa takes account of the economic consequences of displacement, especially as these affect jobs and investment and may require inter-provincial co-operation and equity between urban and rural areas. We should also account for the imperative need to ascertain the potential consequences of other forms of gambling on casino gaming. By doing this we should learn the lessons of international experience with respect to limited gaming outlets, gambling houses, slot routes, “pub and club” licences etc. as well as national and provincial lotteries. There is also the need to minimise the incidence of pathological, addictive or otherwise destructive gambling behaviours, particularly as these will affect the well being of families. There is also the need to establish an effective inspectorate to regulate the smooth and honest operation of the industry without diverting scarce resources from, and relying on the SAPS, though perhaps involving secondment of officers from appropriate policing disciplines. Furthermore, they also

identify the need to follow procedures in the awarding of licences that are fair, fully informed, transparent and demonstrably in the public interest.

Eadington (1998:2) observes that the rapid proliferation of legalised gambling has not occurred without controversy. Gambling, which historically has been viewed with scepticism and derision similar to other 'vices' - illicit drugs, the sex business, alcohol and tobacco - has found considerable acceptance during the latter half of the twentieth century. It shares with the vices common economic characteristics: strong demand for the activity from a segment of the society; sensitivity of demand to changes in its legal status; real or perceived social costs associated with its availability; a history of attempts to prohibit, constrain, or allow the activity; and volatility in the legal and social status of the commodity. He states that it is noteworthy that the other listed vices have all experienced legal and political battles over the last half century, but none have been as successful in that time frame as gambling in expanding their legal and economic franchise, and their perceived legitimacy. Indeed, illicit drugs, tobacco and alcohol have all retrenched under fire in the 1990's as society has attempted to rein in costs associated with their consumption. This was not the case with gambling.

The general acceptance of the legalisation of gambling in the Western Cape community can, apart from lack of information and ignorance, also be explained by the fact that the expected socio-economic consequences and costs will be difficult to link directly to legal gambling, as opposed to 'vices' like tobacco and alcohol where a socio-economic cost is more easily quantifiable in terms of medical costs etc. This also indicates a value shift in the local community concerning the moral acceptance of gambling as a form of entertainment.

If the actions of an organisation like Pagad during the last few years are taken into account, it is surprising that the legalisation of gambling has featured minimally on their agenda. Although there has been threats of mass action against the legalisation of gambling, the "g" in Pagad still refers to "gangsterism" and not "gambling" (*The Cape Argus*, 17 October 1996:14). This is a clear sign as to the extent of social acceptance that gambling has already attained in the Western Cape society, even before it has been legalised. However, in a survey commissioned by SunWest in

October 1997, it was found that the most significant opposition to gambling as a leisure activity came from the Muslim community where 29.9% of the Muslims surveyed expressed an opposition to gambling (SunWest Casino Licence Application, 1997: Section 2:210). The legalisation of gambling has had no significant opposition from any sector of the community and the result is an unchallenged policy for the regulation and legalisation of a potentially dangerous industry.

Simon (1995:4) writes that gambling is not the only kind of business that can remove capital from the local economy, but very few remove proportionately as much money for so marginal an increase in public revenue. Given the widespread evidence that gambling hurts a community, what rationale is there for the government to act as a conduit for the profits of private promoters? The answer is none. However, naïve public officials remained convinced that some day they would hit the jackpot. He states that it is a delusion as old as gambling itself.

The distinguished Nobel Prize-winning economist, Paul Samuelson, has warned that there is a substantial economic case to be made against gambling. He states that it involves simply the sterile transfers of money or goods between individuals, creating no new money or goods. Although it creates no output, gambling does nevertheless absorb time and resources. When pursued beyond the limits of recreation, gambling subtracts from the national income (Simon, 1995:5).

Goodman (1998:1) also addresses the transfers of money. He states that by diverting consumer dollars into gambling, it has also been responsible for the decline in jobs and revenues in other businesses¹. In addition, the expansion of legalised gambling is increasing the public and private costs of dealing with the social and economic problems among the rising numbers of people who gamble. While legalised gambling has produced increases in some forms of employment and tax revenues², the shifting of large amounts of consumer spending to state sanctioned gambling,

¹ See also *Finansies & Tegniek*, 7 April 1995:27; *Financial Mail*, 17 March 1995; *The Cape Times*, 27 November 1996:7

² See also *The Cape Times*, 27 November 1996:7; *The Cape Argus*, 19 May 1995:18; *The Star*, 30 May 1996:5; *The Star*, 29 May 1996:1; *Die Burger*, 6 August 1998:1; *Business Day*, 11 March 1996:3; *Business Day*, 12 March 1996:14; *Business Day*, 2 September 1997:5

also have negative effects on other local businesses. In addition, there are other expenditures, such as those for criminal justice, regulation, problem gambling behaviour and public infrastructure.¹

This poses another question for the legalisation of gambling in the Western Cape: Can the Western Cape, with its already struggling economy, afford the shifting of large amounts of public expenditure to an industry that creates no new money or goods? The money that would have been spent at already existing businesses, which are struggling for the consumer rand, is now being spent at a big multi-national corporation that has a state sanctioned monopoly for the Cape metropolitan area. This corporation creates no 'new money' or goods and apart from the tax revenues (of which a large amount will have to be spent on dealing with the socio-economic problems created by a legalised industry) and the few direct jobs that are created it holds very few economic benefits in stall for the Western Cape². However, it is not the casino project itself that holds limited economic benefits for the region. The projects related indirectly to the development of an urban casino hold far greater promise of regional economic development. The development of the tourism industry in general by means of the development of a canal project linked to the International Convention Centre on the Cape Town foreshore, the Grand West Cape Tattoo, assistance for the creation of a Tourist Assistance and Safety Patrol for central Cape Town etc. featured strongly in the application for a licence by SunWest (SunWest Casino Licence Application, 1997: Section 4).

It must also be noted that, according to Lubbe (interview 12 December 1999), approximately two thousand people were employed in the unregulated casino industry in the Cape Metropolitan area. These people were in effect rendered unemployed by the closing of these unregulated casinos. Taking into consideration that the unregulated industry has been allowed to flourish for at least a decade it can be assumed that these employees contributed considerably to the economy of the Western Cape in terms of job creation. The effect of their unemployment on the Cape economy will only be countered by the jobs that will be created in the legalised

¹See McMillan (1997:1-4) for a discussion on the emergence of gambling as a public health issue.

² See also *Finansies & Tegniek*, 7 April 1995:27; *Financial Mail*, 17 March 1995; *The Cape Times*, 27 November 1996:7

industry.

On the issue of job creation, the *Chicago Sun Times* (4 April 1992:16) (Quoted on Internet; "Social and economic consequences of gambling", 1998:9) reported the following:

"Taking all areas into account, gambling does not create jobs. Rather, it shifts them from one location to another and convert some jobs that would have been devoted to other things into gambling jobs... Consider the situation where a riverboat restaurant competes with a local restaurant, causing the local restaurant to lay off some of its servers. If these waitresses are hired by the riverboat, there is a shift in job location but no creation of new a new job... Comparing unemployment and employment before and after the introduction of riverboats fails to find the maintained beneficial effects... Instead the data are unable to show any net effect on unemployment and very little effect on employment as a result of gambling in the communities where it has been introduced."

The above-mentioned scenario of the shifting of jobs is currently quite evident in South Africa with the possible allocation of several urban gambling licences to Sun International. Under the new gambling legislation, Sun International will be forced to close several of its casinos in the former homelands namely Tlhabane Sun, Transgames (Pty) Ltd and Naledi Sun. SISA (Sun International South Africa) has also sold five other casino operations namely Mmabatho Sun, Molopo Sun, Taung Sun, Amatola Sun and Venda Sun. (SunWest Casino Licence Application, 1997: Section 2:11). According to Vosloo (interview 15 June 2000)¹, all indications are there that they will use their excess staff in the urban casinos. This will have a detrimental affect on the creation of new jobs in the urban areas².

It can be concluded that as far as direct job creation is concerned, the only growth that the legalised industry holds for the Cape Metropolitan area are the direct jobs in excess of approximately two thousand that will be created by the legalised gambling

¹ Vosloo is the Director of HR Recruitment services, a company that specialises in the recruitment of casino staff.

² See also *Finansies & Tegniek*, 7 April 1995:27; *Financial Mail*, 17 March 1995; *The Cape Times*, 27 November 1996:7

industry. It is also not probable that the legalised gambling industry will create a significant amount in excess of two thousand jobs directly involved in gaming (see Table 5). It can thus be assumed that the actual new job creation will be minimal considering how many people were rendered unemployed by the new legislation regarding gambling. With the announcement of SunWest as the licence holder for the Cape Metropole licence, this situation is made worse as explained above. The following table gives an indication of the number of direct employment opportunities created for Western Cape residents as indicated by SunWest in their Casino Licence Application (1997: Section 2:141).

In a study of the economic and social impacts of casinos in Florida (Internet, "Social and economic consequences of gambling" 1998:2) it is stated that to maintain the same quality of life after the legalisation [of gambling] occurs, social welfare budgets would have to increase by 100% to 550%. This will result in pressure on elected officials to increase taxes to address these social welfare costs. For the nation as a whole, there will be no net economic development from the spread of gambling, but there will be the creation of a new social problem and the social costs that it entails. The best research available indicates that these costs are very high. The cost-benefit question is whether we need another form of entertainment badly enough that we are willing to pay for another social problem whose costs are equal to an additional recession every decade in order to have it.

TABLE 5**Western Cape Employment Forecast**

Work Grades	Total Employed	Recruited from Western Cape Province	
		On Opening	After Five Years of Full Operation
Senior management	7	0 (0%)	2 (29%)
Middle management	45	9 (20%)	23 (51%)
Junior management	215	49 (23%)	139 (65%)
Supervisors	278	88 (32%)	189 (68%)
Staff and trainees	968	666 (69%)	863 (89%)
Total	1513	812 (54%)	1216 (80%)

(Source: SunWest International (Pty) Ltd. Casino Licence Application, 1997: Section 2, Business plan A: Detailed Proposal)

Lubbe (interview 12 December 1999) stated that the provincial government is bargaining, amongst other things, on attracting the so-called 'international high rollers' to make the gaming industry profitable for the Western Cape Province. The question that arises is twofold. Firstly, will these high rollers actually be interested in coming to Cape Town? Secondly, will the foreign capital that these high stakes players bring in be enough to compensate and address the possible negative socio-economic implication of a mega-casino in the Cape Metropole? According to Lubbe (interview 12 December 1999), Sun City failed to bring a significant number of these players to South Africa and with the fast expanding international gambling industry the options for these players are increasing internationally. When thinking of drawing this type of client, you have to take into consideration that the market is very small and the international suppliers are increasing at an alarming rate. However, Lubbe confirmed that the international clientele would contribute minimally to the revenue generated by the gambling industry in the Western Cape.

With the growth in the international gambling industry, it is becoming increasingly evident that any new development, especially if it is geographically as isolated as Cape Town, should be able to rely on a local market. It should also take into consideration the socio-economic effects of such a development on the local community.

3.1.4 The economic profile of gamblers

Eadington (1998:5) makes the valid distinction between gambling for entertainment and gambling for the improvement of the individual's economic status. This distinction lies at the core of the problems associated with gambling.

He says that one could examine the relative strengths of the 'entertainment' motivation versus the 'wealth' motivation of gambling customers. If a person gambles primarily as a recreation activity, then the former perspective has greater validity. However, if a person gambles mainly in the hope or expectation of increasing his economic status, the latter position should be given greater weight.

Even in this latter case though, some have argued that consumer sovereignty should still prevail.

Eadington (1998:7) states further that although measurement problems are significant, this argument offers an important policy implication. Gambling is more acceptable in a society where discretionary income is high rather than low. It is hard to argue against gambling for people who can afford it. For most of them, gambling losses are no more than an inconvenience. On the other hand, people with little discretionary income, or with limited opportunities for the increases in wealth, require greater protection from gambling. Money spent on gambling may take away from the genuine needs and responsibilities elsewhere. Expenditures on gambling may trigger real economic hardship¹.

A study conducted by Borg *et al* (1998:3) in the Las Vegas and Atlantic City areas looked into the regressiveness of taxes on casino gambling. Beyond determining who tends to gamble, Borg and her associates also looked at how much money individuals in different income categories spent annually towards gambling, in total dollars and as a percentage of their income. The findings are very revealing. For example, Borg found that people earning less than 10 000 dollars per year spend **over two times** as much money, as a percentage of their income, on gambling than people making 40 000 to 50 000 dollars per year. Compared to people making over 80 000 dollars a year, those in the 10 000 and less category spend **four times** as much, as a percentage of their income.

Based on the sample of people who have given themselves access to casino gambling, the [casino] tax is regressive, in fact, it is extremely regressive in Las Vegas. *Therefore, in this time of easier access to casino gambling, policy makers should be aware that taxes on casino gambling place a proportionately heavier burden on low-income groups* (italics by author)².

The question should be asked whether Cape Town, with large scale poverty and unemployment, can afford to allow large casino style gambling to be accessible to

¹ See also *The Cape Argus*, 22 July 2000:15

² See also Borg *et al*, 1991:323-332

low income groups. This argument is not an argument about freedom of choice and democratic rights, but it can be reduced to simple economic principles of why should large scale gambling be allowed if there is a question mark behind the economic viability and benefits for the greater Cape Town community. This argument is substantiated by the Sun International Report that indicates that the propensity to gamble as a percentage of income increases up to people who earn R50 000 per annum and decreases thereafter (see Table 6).

Simon (1995:6) writes that gambling addiction is a serious problem. We also know that men are more likely to gamble than woman, that the appeal of gambling is greater for low-income groups than those of above average income and that the location and accessibility of gambling increases gambling addiction significantly. In the USA less than one percent of the population are compulsive gamblers, but when gambling enterprises are located near an urban population, that number increases two to seven times. Lubbe (interview, 12 December 1999) defines problem gamblers as follows:

“...persons who no longer have rational control of their gambling behaviour, to the detriment of their personal well-being and that of their families and dependants.”

The Portuguese colony of Macao is probably one of the better examples of a small community that is definitely not benefiting from the large scale gambling that takes place there. It is a derelict and poor island characterised by glitzy casinos and a very poor local community. This is a good example of the regressiveness of tax. Even the billions of Hong Kong dollars spent there annually failed to make a significant difference to the standard of living for the local community. It can only be assumed that the initial policy formulation that proceeded the legalisation of gambling in Macao left a lot to be desired and the results were obviously devastating for the small community. For the people of Macao, the goose that lays the golden eggs certainly never even hatched. The importance of a pro-active policy aimed at addressing the socio-economic consequences associated with legalised gambling cannot be over emphasised¹.

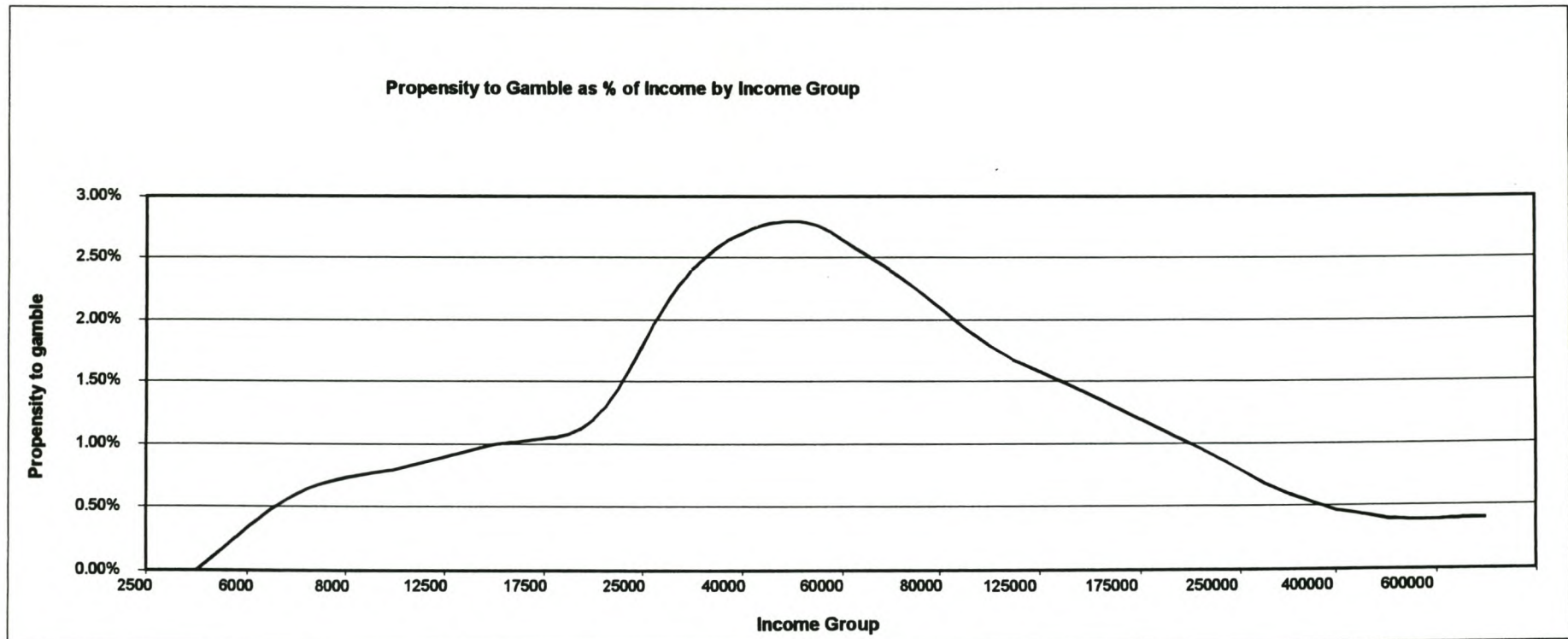
¹ The author observed this during a visit to Macao in June 1994.

TABLE 6

Propensity to Gamble as a Percentage of Income by Income Group

1-	5000-	7000-	10000-	15000-	20000-	30000-	50000-	70000-	100000-	150000-	200000-	300000-	>=
4999	6999	9999	14999	19999	29999	49999	69999	99999	149999	199999	299999	499999	500000
0.00%	0.60%	0.80%	1.00%	1.20%	2.40%	2.80%	2.40%	1.80%	1.40%	1.00%	0.60%	0.40%	0.40%

Graphical Representation of Propensity to Gamble across Income Group



(Source: Collins *et al*, section 7:9)

It can be concluded that to make legalised gambling beneficial for the tax collector and private industry is a very easy task. Casinos 'print' money for certain stakeholders and the same will definitely happen in the Western Cape¹. To make legalised gambling beneficial for the community is indeed a very difficult task that has not been accomplished successfully in most parts of the world where gambling is legal today. McMillan (Eadington *et al*, 1991:118) states that the costs and benefits of casinos have not been spread evenly throughout communities. The result is that for some groups the benefits exceed the costs while for others the costs will exceed the benefits.

It is interesting to note that research on social issues sponsored by the gambling industry rarely show 'negative' results and research conducted by independent organisations rarely show 'positive' results.

3.1.5 The location and types of casinos proposed for the Western Cape

Another issue that is of major significance in any policy that is related to the legalisation of large scale gambling is the actual geographical location of casinos. A large part of the benefit capacity of legalised gambling for local communities has to do with the location of a casino within a specific area as well as the casino developments and policies in surrounding areas. According to Lubbe (interview 12 December 1999), current legislation in the Western Cape makes provision for at least one large-scale resort type casino in the Cape Metropolitan area. In addition to this there is a provision for LPM's (low pay-out machines) or route operations that will be allowed in the Cape Metropolitan area as well as distance resort casinos in rural areas (*Gaming for Africa*, 1997, issue 14:16).

Concerning the route operations Eadington (1998:9) says that in terms of competitive impacts, the most important of the three alternatives is permitted gaming

¹ See also *The Cape Times*, 27 November 1996:7; *The Cape Argus*, 19 May 1995:18; *The Star*, 30 May 1996:5; *The Star*, 29 May 1996:1; *Die Burger*, 6 August 1998:1; *Business Day*, 11 March 1996:3; *Business Day*, 12 March 1996:14; *Business Day*, 2 September 1997:5

devices in non-casino locations, such as arcades or bars or taverns. In most modern casinos, gaming devices- slot machines and electronic gaming machines- generate over two thirds of all casino winnings. This approach permits such a demand to be met broadly and thus maximises the convenience and accessibility of casino-style gambling to a region's residents. Gaming devices placed in convenient locations outside of casinos can absorb much of the regional demand for gambling.

He adds that such gaming devices have quite different economic impacts than do casinos themselves. Government's ability to raise tax revenues is probably greater with widely placed gaming devices than with casinos of any type, because of greater access, lower operating costs, and therefore the ability to impose higher taxes. However, slot machines outside of casinos create relatively few jobs. *If policy makers really want development and other economic benefits that can accrue from casinos, they undermine such capabilities by permitting widespread placement of gaming devices* (italics by author) (Eadington, 1998:9).

These alternatives lead to greater negative impacts caused by excessive gambling. With destination resorts, distance provides an imperfect buffer to protect customers who would get into trouble with excessive gambling. Urban casinos lose the geographic buffer, but can still adopt policies of self-banning or selective exclusion, as is done in Holland, Quebec, and Australia. However, with widely dispersed gaming devices, the ability to impose these protections is far more limited. To the extent that casino-style gambling creates social problems, non-casino gaming provide fewest policy options to address those problems (Eadington, 1998).

Many of these operations will probably be in areas that is accessible to disadvantaged communities in order to fit in with the redistribution and development objectives (the allocation of operators licences to previously disadvantaged people) of the legalisation of gambling. People from these communities will inevitably be exposed to these gambling operations and it must be reconsidered whether, in the light of the evidence and issues previously discussed in this thesis, it is wise to make gambling so accessible to such a large part of the disadvantaged community of the Western Cape. With a mega-casino literally on the doorstep it will be a small step

from frequenting LPM's to becoming a frequent gambler at a big casino. LPM's will take the gambling experience closer to home and will expose many people to gambling that would not otherwise have been exposed to it.

The combination of widespread LPM's and an accessible urban mega-casino can only prove to be problematic when linking it to the social consequences of gambling as experienced elsewhere in the world.

Eadington (1998:8) makes the distinction that if the issue is limited to the most popular forms of casino-style gambling, there are three distinct types that could be developed: destination resort casinos in rural or remote areas; urban casinos in or around cities; and the widespread placement of gaming devices in specified locations throughout cities and communities. He is of the opinion that each one of these could become a significant regional economic presence by itself. However, they each have predictable competitive implications for one another if more than one is permitted.

It can thus be concluded even though it is obvious that the combination of LPM's and a mega-casino can have a negative social impact on the community of Cape Town, the economic viability for the businesses themselves is threatened by this combination.

The law also makes provision for smaller casinos in more rural areas. These areas have been identified as the following:

- The West Coast - Saldanha area
- The Breede River - Worcester, Tulbach
- The Overberg - Caledon, Hermanus
- Southern Cape - George, Wilderness

(Gaming for Africa, 1997, issue 14:16)

The intention of these destination resorts is to stimulate growth in the rural areas away from Cape Town. It is believed that the growth stimulation potential of these

casinos will also be seriously hampered by the allocation of licences for route operations and a mega-casino in the Cape Town area (*Finansies & Tegniek*, 7 April 1995:27). These casinos will have to rely on a more local market to support their business and, apart from the casino in the Southern Cape, it is doubtful whether these casinos can operate profitably without having a serious negative socio-economic effect on the local communities that are already economically pressured. The question has to be asked whether a casino in a rural area can stimulate enough growth, when it has to rely on a local market (while competing with local route operations and an urban mega-casino), in order to outweigh the serious negative socio-economic consequences normally associated with the location of a casino in any community.

It can be concluded that for any of the type of casino destinations identified by Eadington, to be economically and socially viable, they cannot co-exist in a geographical area where they interfere with each other's markets in a significant way. The urban mega-casino and accessible route operations will dominate the market at the expense of the destination resorts. This will have a serious effect on the growth stimulation potential of the latter.

Eadington (1998:9) is of the opinion that it is not possible to have urban casinos without reducing the economic potential of destination resort casinos within the same region. He states that both types of casinos may be deemed desirable with respect to regional objectives, but urban casinos competing for the same population base will reduce the demand and economic viability of more rural destination resort casinos. Urban casinos will be more economically viable simply because they are more convenient.

The co-existence of especially the mega-resort casino in a metropolitan area and destination resorts will have to be seriously reconsidered (*Finansies & Tegniek*, 7 April 1995:27). As far as the route operations are concerned, policy makers should seriously take into consideration the actual geographic location of these operations in order to minimise the effect of compulsive gambling and gambling in general on a section of the community that can least afford it. SunWest indicated in their Casino

Licence Application (1997: Section 2:128) that they consider the potential effect of slot routes on the gaming market in the catchment area of their proposed casino at Goodwood to be a major threat.

Of these three, Eadington (1998:9) identifies destination resort casinos as the strongest at job creation and at mitigating negative social consequences associated with gambling¹. As with resorts in Las Vegas and Atlantic City, and more recently in locales such as Biloxi, Shreveport, and South-eastern Connecticut, casino resort complexes generate not only casino jobs, but also additional jobs and investments throughout the community relating to other functions of a destination resort, such as hotels, restaurants, casino supply firms, outdoor recreation and retail shopping. However, because of their distance from population centres, destination resort casinos are less convenient for their customers than their urban counterparts (Eadington, 1998).

It cannot be emphasised enough that when a region is in the process of the legalisation of gambling, policy makers have the golden opportunity, and possibly the only opportunity, to formulate policy in such a way as to minimise the negative socio-economic effects related to the geographic location of gambling venues. The actual location, and therefore the accessibility of gambling, should be one of the most important considerations when any policy regarding the legalisation of gambling is formulated.

Eadington (1998:10) is also under the impression that policy makers usually authorise permitted gambling to create benefits for certain stakeholders. However, there is a tendency to continue to authorise new forms of gambling without fully appreciating the adverse effects of such actions on previously authorised forms of gambling and their benefactors. To avoid this, policy makers should prioritise their goals and objectives when authorising gambling, and make every effort to understand the qualitative and quantitative trade-offs implied by various approaches

¹ See also *Finansies & Tegniek*, 7 April 1995:27; *Financial Mail*, 17 March 1995; *The Cape Times*, 27 November 1996:7

to structuring a region's gambling industries.

By incorporating route operations, distance resort casinos and an urban mega-casino in its policy, it becomes clear that, although there were no previous forms of regulated casino gambling in the Western Cape, policy makers did not prioritise their goals and objectives correctly as far as the locations and types of gambling allowed are concerned¹. This becomes particularly evident when taken into consideration that it is estimated that 64 000 jobs would have been created in rural areas if legislation did not make provision for urban casino licences. It is estimated that only 18 220 jobs will be created in rural areas with current legislation that makes provision for an urban licence. It is also estimated that R1.2 billion would have been generated through taxes and licence fees compared to R697 million with current legislation (*Finansies & Tegniek*, 7 April 1995:27). Apart from the fact that it will have serious economic implications for the gambling operations themselves (it is questionable whether there is a market big enough to accommodate all three types of casino locations) the social impact of making gambling too accessible is potentially devastating. The effect on other legal forms of gambling, like horse racing, should also be considered².

Whether permitted gambling is beneficial based on its contributions to various stakeholders introduces a separate set of considerations. If most of a region's gaming revenues come from tourists, or from import substitution, then economic spin-offs stimulate local and regional economies; gambling acts as a regional export (*Finansies & Tegniek*, 7 April 1995:27). If, however, the bulk of gambling revenues for the newly permitted gambling are generated by local residents and do not represent import substitution [as will most probably happen in the case of distance resort casinos in the Western Cape], then spending on gambling reflects a reallocation of spending within the local or regional economy. *There may be little, if any, net gain for the local or regional economic activity as a result* (italics by author).

¹ See also McMillan (1996a:7) for an explanation of the redefinition of gambling policy priorities.

² See also *Business Day*, 28 February 1997:6

It must also be noted that by incorporating only distance resorts in its policy, the Western Cape could still have benefited from the development of urban projects related to the casino industry, i.e. the foreshore canal project and the International Convention Centre proposed by SunWest, as these projects were not geographically linked to the development of a large scale casino in an urban area.

Eadington has also conducted an independent study into gambling policies in South Africa. Among these recommendations were that national and provincial gambling policy should recognise that the three main gambling industries, being urban casinos, slot route operations and rural destination resort casinos could not co-exist.

In addressing the Institute of Directors in Port Elizabeth Eadington said the following:

“ If this industry is to yield the type of economic benefits which it undoubtedly can, South African policy makers must know in advance what they want. If infrastructure development and job creation are a priority, they will opt for destination resort casinos. If pure tax revenue and consumer convenience is their goals, urban casinos are the routes to follow¹. The distribution of spending on casino style gambling will largely be determined by the convenience of location. If casinos are permitted within the major metropolitan areas in South Africa, then many rural and destination resort style casinos will not be economically viable. If slot route operations are permitted in urban areas, then the revenue generating potential of urban and rural casinos will be substantially less than would be the case without them” (Quoted in *Gaming for Africa*, July 1997 Issue 12: 57).

Eadington (Quoted in *Gaming for Africa*, 1997, issue 12:57) identified the main policy alternatives for legalised gambling in South Africa as the following:

- “Permitted gambling could be used to broaden the base of rural tourism and economic development. This in turn could stabilise economies in particular

¹ See also *The Cape Times*, 27 November 1996:7; *The Cape Argus*, 19 May 1995:18; *The Star*, 30 May 1996:5; *The Star*, 29 May 1996:1; *Die Burger*, 6 August 1998:1; *Business Day*, 11 March 1996:3; *Business Day*, 12 March 1996:14; *Business Day*, 2 September 1997:5

locales which either presently have casinos, or are designated as casino locations. Such a policy would be consistent with destination resort casinos.

- Permitted gambling could be used to substantially reduce demand for illegal gambling in metropolitan areas, such as in Johannesburg, Durban and Cape Town. Coupled with an active policy of closure of illegal casinos, such an approach could considerably improve the legitimacy of the gambling industry and reduce the open disregard for the law demonstrated by illegal casinos. This objective is consistent with well controlled and regulated urban casinos¹.
- Permitted gambling could be used to maximise employment and small business opportunities - especially amongst the previously disadvantaged population - by effectively designing and enforcing procurement rules in the hospitality and service industry. Such a policy would be consistent with both urban and destination resort casinos.
- Permitted gambling could (and must) be particularly sensitive to the negative social consequences associated with excessive gambling, either by those with pathological gambling problems or by those with limited incomes for whom gambling expenditures could quickly result in financial problems. Such a policy would be consistent with destination resort casinos and, secondly, with well controlled urban casinos.
- National policy should be formulated to minimise interference of one province's gambling policies on the policies of nearby provinces. In order to do this, either co-operation amongst provinces is necessary or the national government will have to impose its authority to constrain the actions of provinces in authorising gambling franchises."

Eadington (Quoted in Gaming for Africa, 1997, issue 12 1997:57) also stated that it was critically important that policies be undertaken as soon as possible that would create a stable and acceptable group of gambling industries for the intermediate

¹ See also: *The Cape Times*, 6 March 1997:9; *The Cape Argus*, 19 May 1995:18; *The Cape Argus*, 19 May 1995:5; *The Cape Argus*, 8 December 1996:5; *The Cape Argus*, 1 March 1997:7; *The Cape Argus*, 24 May 1997:10; *The Cape Argus*, 28 August 1997:1; *Business Day*, 21 November 1996:6; *Die Burger*, 25 February 1997:2; *Die Burger*, 5 March 1997:12; *Die Burger*, 17 July 1997:12; *Die Burger*, 27 August 1997:11; *Die Burger*, 13 March 1998:13; *The Cape Argus*, 23 August 2000:1

and long term future of South Africa (italics by author). He advised that policy makers should act cautiously, wisely and with the best possible information to create a beneficial situation. He says that the alternative course of action - driven perhaps by political considerations, unrealistic expectations, or inaccurate forecasts - could very easily create a circumstance that ten years from now or later is considered a mistake, and a detriment rather than a benefit to South African society. Looking at the Macao scenario it is a definite possibility that something like this can happen easily. Macao is a destination resort that draws on the Hong Kong market. However, even with all the advantages of being a destination resort, it still does not benefit the local community.

The Western Cape has an advantage over other provinces, especially Gauteng, in that it's biggest urban centre is geographically reasonably isolated from other big urban centres (unlike Gauteng). Destination resorts, without the presence of an urban resort, could still have been developed in rural areas without competition from neighbouring provinces. These resorts would still be the closest gambling venues to the urban centre of the province. In the SunWest Casino Licence Application (1997: Section 2:128) they also state that they do not even consider the proposed four other casinos in the province to have a material effect on their Goodwood project because of the distance of these casinos. It can be concluded that even if an urban licence was not considered that gambling expenditure would stay in the province and stimulate considerable regional and rural growth.

3.1.6 The displacement effect

The displacement effect refers to the displacement of capital from one area of commerce to another because of the introduction of new opportunities for capital expenditure in a specific area. In terms of the gambling industry, it refers to the expenditure of capital on gambling rather than on other industries in an area (Collins *et al*, 1997, section 6:1). This effect is most evident shortly after the introduction of gambling into a local economy.

Collins *et al* (1997, section 3:11) state that there are at least three important policy implications of the realities of displacement. Firstly, the establishment of casinos will displace other forms of consumer expenditure. This statement is in contrast to the Wiehahn Report that stated that the effect on consumer expenditure would be either non-existent or negligible. However, the report also states that the granting of licences will result in the redistribution of consumer expenditure in such a way that some areas will benefit and others will lose. The awarding of gambling licences is thus also a process of taking away and some areas and communities are going to be worse off when casino licences are awarded. The resulting effect should be that the criteria which are established to assess the impact of casinos must take into account not only the positive effect of the casino but also the negative effects of which the displacement effect is the most serious¹.

Collins *et al* (1997, section 3:11) also ask the question on what is the best way to deal with the displacement effect. They state that the most obvious loser will be the illegal casinos. However, an attempt should be made to spread the effects of displacement as widely as possible. This will be done by ensuring that a casino draws from the widest geographic area as possible and the most likely candidate for such a casino is the distance resort casino. They state that people will travel from far and wide in order to visit a distance resort and the result will be that the displacement effect will not be concentrated in one specific area. Urban casinos do not have this geographic buffer and will draw capital from the immediate areas surrounding the casino. The displacement effect will thus be localised and concentrated in an urban area. They mention a very good example, although it is not gambling related, in Cape Town where the development of the V&A Waterfront had a deleterious effect on business in Sea Point and the CBD. A similar effect on consumer spending is expected with the development of an urban casino, but it will be far less politically acceptable than the displacement caused by a shopping centre. Therefore the awarding of casino licences is not just a matter of development but also one of redistribution where the displacement effects have to be considered very carefully

¹ See also Collins *et al*, 1997, section 6:1-4; *Finansies & Tegniek*, 7 April 1995:27; *The Cape Argus*, 17 October 1996:14; *Die Burger*, 18 November 1997:14

before making a decision about where a casino should be situated. There is also an argument for mechanisms to be developed that will result in the benefits from the casino industry being directed where they will do the most good while the displacement effects of casinos are directed where they will do the least damage (Collins *et al*, 1997, section 3:12).

However, SunWest detailed in their Casino Licence Application (1997: Section 2:160) several reasons why the displacement caused by their proposed project in Goodwood will be negligible. They are of the opinion that the very selection of Goodwood - with the disused and rundown showgrounds and the relatively lower level of economic performance - is paramount in ensuring that the SunWest Development Proposal will not damage existing local enterprise. They mention several reasons for this:

Firstly they state that by far the most important is the fact that the development proposal has been designed to generate the maximum economic growth through its focus on tourist revenue. The growth in buying power works directly against the displacement effects because people have more money for spending. Given the careful planning involved, the SunWest Development Proposal will result in a growth in income which will be sufficient to not only offset displacement effects in the Cape Town area, but will also actually result in a net increase in incomes and an increase in consumer spending. Secondly, they state that the facilities that will be offered will be unique and there are new additions to the local area - there is little, if any, local competition that will suffer.

Thirdly they are of the opinion that jobs on offer at the urban entertainment complex and the ancillary facilities will primarily be semi-skilled - this, together with high unemployment in the local area, will ensure that displacement of employees from existing business will be negligible. Lastly, they state that the SunWest Development Proposal will not be dependent on the disposable income of its immediate locale.

However, the displacement effect, together with the geographic placement of a casino in an urban area, lies at the core of the problems that can be expected from the

current gambling policy in the Western Cape. The problem is not with the placement of a casino in Goodwood, but the effect of displacement of capital in the greater urban area. The “immediate locale” is indeed not simply Goodwood, but stretches far beyond its borders if the size and scale of the development is taken into consideration. The displacement effect will be a direct result of the incorrect geographic placement of a casino resort in an urban area. The development of an urban casino will not only localise the displacement effect to the Cape Metropolitan area but it will also have a severe detrimental effect on the development potential of the distance resorts planned for the province. This intra-provincial competition in the gambling industry will also have a detrimental effect on the growth and development potential of the industry as the distance resorts cannot compete with a mega-resort in an urban environment. The reluctance of the private sector to invest in distance resorts is already an indication of their dubious economic viability due to the placement of an urban casino¹.

In terms of revenue for the province, Collins *et al* (1997, section 3:13) state that the displacement effect will result in non-gambling company profits and VAT (value added tax) will decrease while the provincial taxes will increase due to a gambling levy raised by gambling. The result is that provincial income will increase and national taxes will decrease².

The actual amounts raised by provinces through a gambling levy are relatively small and they are tiny compared to the provincial transfers from the national budget. Hence they suggest that, because these amounts are relatively so small and the potential for economic damage from an inappropriate gaming policy so great, the generation of revenue for provinces from casinos should be regarded as minor on the list of priorities when planning gaming policy (Collins *et al*, 1997, section 3:13).

¹ See also: Collins *et al*, 1997, section 6:1-4; *Finansies & Tegniek*, 7 April 1995:27; *The Cape Argus*, 17 October 1996:14; *Die Burger*, 18 November 1997:14

² See also *The Cape Times*, 27 November 1996:7; *The Cape Argus*, 19 May 1995:18; *The Star*, 30 May 1996:5; *The Star*, 29 May 1996:1; *Die Burger*, 6 August 1998:1; *Business Day*, 11 March 1996:3; *Business Day*, 12 March 1996:14; *Business Day*, 2 September 1997:5

It can be concluded that, in the case of gambling, “more” is not necessarily better in terms of revenue for the provincial government. An oversupply of the gambling market combined with the wrong geographic placement of casinos could have a severe detrimental effect on the local economy and on the industry itself.

3.1.7 Legalised gambling and crime in the Western Cape

The relationship between crime and the establishment of legal casinos in urban areas has been the topic of many debates. In the United States and in Australia many studies were that investigated this particular impact of legalised gambling. Debates have mainly focused on the differences between the increase of crime related to tourism and development in general and the increase in crime related to the establishment of casinos particularly¹.

In a study of the potential impact of the Cairns Casino in Australia, (McMillan *et al*, 1995:25) it is stated that arguments have been made that casinos lead to increased crime and corruption², but these arguments were not substantiated with systematic research or evidence to support these claims. Arguments concentrated mainly on the fact that casinos have particular characteristics (continuous cash flow, wealthy patrons who have abandoned their normal social inhibitions, crowded gaming tables, alcohol) which provide a fertile environment for criminal activity. It has also been argued that casinos are no different from any other form of entertainment that attracts large crowds intent on enjoyment. On the contrary, it has also been stressed that a distinction should be made between the more general impacts of tourism on crime and casino-specific crimes. However, McMillan *et al* stated that in the case of Cairns, it has been difficult to establish causality with any degree of confidence.

They state further that if casinos do increase community crime, prostitution or

¹ See also Cavanough *et al*, 1996:37-42; Eadington *et al*, 1997:663-688

² See also *Business Day*, 24 July 1998:1; *The Cape Argus*, 13 August 1998:10; *Financial Mail*, 17 March 1995:114; *The Cape Times*, 5 August 1998:3; *The Cape Times*, 28 July 1998:1; *The Cape Times*, 4 November 1998:3

organised crime as often claimed, this could increase the vulnerability of disadvantaged groups. An increase in public costs of policing and the discouragement of tourism and local patronage could also be expected. On the contrary they state that there is little reliable evidence in Australia to establish a link between casinos and crime; on the contrary, police statistics in South Australia have shown that street crimes in the vicinity of the Adelaide Casino actually decreased after it opened. The reasons given for this decline in crime rates were improved street lighting and police surveillance, and a more respectable clientele patronising the area (McMillan *et al*, 1995:26).

A distinction is also made between external crime (street crime) and internal casino crimes. The latter is related to crimes occurring inside casinos e.g. gambling cheats, violence and public disturbance by patrons. They state that such incidents not only erode community values and increase the regulatory costs for both the casino operator and the government, but they also threaten the reputation of the casino and consequently its revenues (McMillan *et al*, 1995:26).

As in the case of the Cairns casino, it is suggested that pro-active strategies and policy development should be developed in the Western Cape where crime will have a high research and policy priority with local authorities monitoring casino impacts. It is, however, a problem to differentiate between casino specific crimes and other crimes. In Cairns researchers have developed a coding system in conjunction with the local police in order to identify crimes that are casino related or crimes that occur in the immediate casino vicinity. This is in order to develop a system where quantitative data can be obtained on casino related crimes which, in effect, will help to determine exactly what impact the casino will have on crime in the area. It is suggested that such a system also be developed in the Western Cape.

The debates on the influence of the legalisation of the gambling industry on crime has been characterised by the emphasis being put on the increase in crime levels due the legalisation of gambling mainly by the anti gambling establishment in the United States. Although there has been little systematic research or evidence to support claims that casinos do increase crime levels in a community, these claims can give

researchers an indication of the type of crimes that could be effected. It has to be taken into consideration that in order to ascribe an increase in crimes to casinos specifically, it has to be proven that due to the nature of the business conducted in casinos, there is an increase in crime levels. Just because it is a new business development in an area is not enough reason to ascribe an increase in crime levels to a casino. The question has to be asked whether any other business that draws the same number of people creates the same infrastructure and employs the same number of people, will have any different effect on the crime level in a community. This aspect further complicates the study of the impact of casinos on crime in a specific area.

A good example of the above mentioned impacts on crime is the Harrison County Report (Internet, "Social and Economic consequences of gambling", 1998:3) that stated crime figures for various areas in the United States and claiming a significant negative influence of legalised gambling on crime. It states that Atlantic City's crime rate has exceeded that of the state of New Jersey ever since casinos were authorised in 1978. Between 1978 and 1981, the crime rate has tripled. In just three years following the opening of its first casino, Atlantic City went from 50th in the United States in per capita crime to the first. It also states that shortly after the advent of legalised casino gambling in November 1989, the Deadwood [South Dakota] casino economy lurched forward. The state attorney's office in Deadwood indicated that within approximately two years:

- 1 Child abuse cases had increased 42% to 43% (from 350 to 500 cases)
- 2 Police costs had increased 80% to 100% with virtual doubling of the number of police officers.
- 3 Although national statistics had increased only slightly, crime in the Deadwood area had increased overall by 10% (although before 1989 the crime rate had been declining) with 50% increase in felonies. Furthermore, there were 614 Class One misdemeanours or felonies in 1988, and 1070 in 1992, a 75% increase in just four years.
- 4 Domestic violence and assaults had risen 80%.
- 5 Burglaries and the writing of bad cheques had increased, while illegal drug, prostitution and drunk driving cases had remained relatively the same.

George G. Payne¹ released a report (Internet, "Social and Economic consequences of gambling" 1998:4) comparing the first six months of 1993 (when casinos were just initiated) with the first six months of 1994. He states that during the first six months of 1993, there were only 22 robberies in Gulfport; during the first six months of 1994, there were 70. This represents a 218% increase. Furthermore the number of rapes tripled, vehicle theft was up 166% from 53 stolen cars in the first half of 1993 compared to 141 in 1994, arson cases increased by 150%, burglaries doubled, assaults were up 66%, vehicle accidents were up 62%. In total, excluding vehicular accidents, there were 1597 crimes committed in the first six months 1993, compared to 3248 in the first six months of 1994. This represents a total increase in crime of just over 100%.

However, both of the above mentioned reports do not state whether these are casino specific as defined by McMillan *et al* (1995:26). At most, it indicates a general degradation in values that could be attributed, amongst other things, to the presence of a casino in the area. The analysis of crime figures in terms of casino related impacts in the context of the Western Cape would have to be handled with utmost sensitivity and care.

The relationship between crime and legalised gambling has indirect and direct links. Directly the increase in crime levels can be explained by the scenario where people, getting into financial trouble because of excessive gambling, turn to crime to retrieve financial losses. This will be visible in crime figures related to fraud, theft etc.

Indirectly, the increase in certain crime levels can be explained in a more psychological sense by the effect of legalised gambling on the moral fabric and values of a community in general. Gambling tends to let people lose self-respect and a sense of self worth. This may result in crime that is related to child abuse and neglect, drugs and alcohol abuse, suicide, spousal abuse etc. The effect of gambling on children is a particular area of concern and should be treated as a very important secondary impact of gambling that should also be researched in South Africa. Children whose parents gamble are more prone to adjustment difficulties. A study of four California high schools revealed that:

¹ Chief of police in Gulfport, Mississippi

- Children of problem gamblers have higher levels of use of tobacco, alcohol, illicit drugs and overeating during the year prior to their test period than their peers.
- 75% of problem gamblers' children reported their first gambling experience before 11 years of age, compared to 34% of their classmates.
- Children of compulsive gamblers experienced twice the incidence of broken homes due to separation, divorce, or death of a parent before they reached the age of 15 (37%).
- When compared to their classmates, children of problem gamblers rate themselves as more insecure, emotionally down and "unhappy with life and myself" while reporting poorer school and work performance.
- These children also acknowledged suicide attempts at twice the rate of their classmates (Internet, "Social and Economic consequences of gambling", 1998:5).

These results attempt to show that gambling has a definite negative influence on people that is not even directly involved in gambling at all. Any degradation in family values and relations has a negative influence on the moral fabric and values of society in general. This in turn could have a significant impact on crime levels in a community.

In terms of the levels of crime in the Western Cape, the SAPS (Internet, "The monthly bulletin on reported crime in South Africa", 2000:2) states that the Western Cape, Gauteng and the Northern Cape suffer the most of the first, second and third highest ratios as far as the incidence of serious crimes featured in Table 7 are concerned. Although these statistics is only for a period of four months and could be influenced by seasonal changes, it does give an indication as to where the Western Cape fits in on a national level in terms of crime levels. It is clear that the relationship between crime and the introduction of any legal activity (such as gambling) that could possibly influence levels of crime positively or negatively in the Western Cape should be investigated and researched properly and scientifically in order to establish a possible correlation based on local criteria.

Table 7**Specific crimes per 100 000 of the population for the provinces during the period January to April 2000**

CRIME	RSA	PROV 1	PROV2	PROV3	PROV4	PROV5	PROV6	PROV7	PROV8	PROV9
PROPERTY RELATED CRIMES										
Housebreaking - Residential	230.0	WC	GN	NC	MPL	FS	KZN	NW	EC	NP
		417.5	352.4	252.3	226.1	218.5	183.1	181.2	167.6	103.0
Housebreaking - Business	70.0	WC	NC	GN	FS	MPL	NW	KZN	EC	NP
		132.2	132.0	84	74.4	71.8	64.3	53.4	49.2	44.1
Other Robbery	60.7	GN	WC	NC	NW	EC	KZN	FS	MPL	NP
		119.7	95.2	74.0	56.0	44.5	44.3	42.3	32.2	21.8
Stock-theft	29.3	NC	FS	EC	MPL	NW	KZN	WC	NP	GN
		74.3	67.3	49.7	45.4	34.2	31.8	19.4	9.1	4.7
Shoplifting	48.7	NC	WC	GN	KZN	FS	MPL	EC	NW	NP
		80.7	79.6	69.9	47.8	47.4	41.8	41.4	25.2	19.9
Theft: Motor Vehicles	74.2	GN	WC	KZN	MPL	NW	FS	EC	NC	NP
		205.1	87.9	65.2	44.8	36.9	25.3	29.9	20.9	13.0
Theft out of/from motor	145.7	WC	GN	NC	KZN	MPL	FS	EC	NW	NP
		351.9	246.5	143.0	119.8	106.3	97.2	88.4	83.5	42.2
Other thefts	404.5	WC	GN	NC	FS	MPL	NW	KZN	EC	NP
		738.9	740.2	565.7	411.2	367.9	338.0	314.5	265.5	159.3
Fraud	52.4	GN	WC	FS	NC	KZN	EC	MPL	NW	NP
		120.7	84.8	44.3	43.6	39.3	34.6	33.9	29.5	15.2
VIOLENT CRIMES										
Murder	15.1	WC	KZN	NC	GN	EC	FS	MPL	NW	NP
		11.2	19.7	18.6	18.2	15.8	11.0	9.8	9.1	4.4
Attempted Murder	19.9	WC	GN	KZN	MPL	EC	NW	NC	FS	NP
		30.4	27.1	25.1	17.4	15.2	14.8	13.2	11.9	8.2
Robbery with aggravating circumstances	74.8	GN	KZN	WC	MPL	NW	EC	FS	NP	NC
		195.6	79.4	72.7	47.5	42.3	34.5	21.6	17.1	15.0
CRIMES RELATED TO THE SOCIAL FABRIC										
Rape	40.9	NC	WC	GN	FS	NW	MPL	KZN	EC	NP
		60.3	54.8	54.2	43.6	42.5	37.3	36.0	33.5	24.2
Assault GBH	208.1	NC	WC	GN	NW	FS	MPL	EC	NP	KZN
		560.0	387.8	247.2	227.3	225.8	211.9	201.7	140.3	124.1
Assault Common	208.1	WC	NC	FS	GN	NW	EC	MPL	KZN	NP
		432.9	371.6	321.1	229.6	165.0	164.0	129.0	124.0	112.0

Abbreviations of Provinces in Table 7:

GN = Gauteng, KZN = KwaZulu-Natal, EC = Eastern Cape, WC = Western Cape, NC = Northern Cape, FS = Free State, MPL = Mpumalanga, NP = Northern Province and NW = North West

Source: <http://www.saps.co.za/> (August 2000)

3.1.7.1 Organised crime and white collar crime

A lot of emphasis has been put in the Western Cape gambling legislation to ensure a transparent and fair process in the granting of gambling licences¹. However, this is a clear sign that no matter how strict the policy requirements are there will always be the threat of organised and white-collar crime entering the realm of legalised gambling. In the process of the legalisation of gambling there are mainly three aspects of organised and white-collar crime that could be identified:

Firstly there is potential crime related to the legalisation process itself, with the biggest threat the potential irregularities in the issuing of licences to various applicants from the private sector. The Western Cape bidding process has also been tainted by allegations of corruption where members of the Western Cape Gambling board as well as a former premier has been accused of corruption (*The Cape Times*, 4 November 1998:3). A good example that gives a historical perspective of such irregularities is the Sol Kerzner/Transkei debacle that involved alleged bribes being paid to officials in the former Transkei in return for exclusive gambling rights in the area. Although this incident took place under a previous dispensation, it gives a local perspective on white-collar crime related to the gambling industry and it shows that alleged corruption in the licensing process is not new to South Africa.

Secondly, there is the potential threat of crime syndicates using the gambling industry for money laundering purposes. Due to the cash nature of the business and the huge amounts of cash involved, it provides opportunity for laundering of money in order to avoid taxes or the laundering of proceeds from illegal activities associated with organised crime. As stated before, South Africa is rated third in the world in terms of organised crime, after Columbia and Russia (SunWest Casino Licence

¹ See Western Cape Gambling and Racing Law, no 4 of 1996:16-17, 25-29, 34-41,48-51

Application, 1997: Section 4:1). The latter is particularly relevant to the organised crime syndicates involved in the massive drug trade in the Western Cape. According to Lubbe (interview 12 December 1999), procedures will be implemented at casinos to minimise the potential of large scale money laundering. However, from the experience of the author in casinos, this is very difficult to implement.

Constant monitoring, policing and legal prosecution has to be an integral part of the control of legalised gambling in the Western Cape. The policing of the unregulated gambling trade over the past few years leaves much to be desired and this has to be improved. The unregulated gambling trade in the Western Cape was and still is infiltrated largely by organised crime related to tax evasion, drugs and illegal prostitution etc. There are indications that illegal casinos in Sea Point, an area close the Cape Town city centre and known for it's vibrant night life, are linked to the Chinese Mafia (*The Cape Argus*, 19 August 2000)¹.

Thirdly, in the United States concern has been raised about the political influence that the gambling industry might have in the formulation of general policies. Although the legalisation of gambling in South Africa has not become politicised to the same extent as in the United States, the potential is always there. However, it is unlikely that the gambling will ever become as politicised as in the United States. Simon (1995:8) addressed this issue in his report "The explosive Growth of Gambling in the United States". He mentioned that the gambling elite is not only generous employers of lobbyists, but they are multimillion-dollar donors to political campaigns and that this combination makes them politically potent. The unsavoury and unhealthy influence of lobbyists and legislators as a protector of this rapidly growing industry means sensible restraint will not be easily achieved.

Simon (1995:9) also notes an interesting side to the story in that public opinion in the USA is not with the gambling gentry. This is proven by the fact that even after well-financed campaigns, when there are referenda on whether legalised gambling

¹ See also: *The Cape Times*, 6 March 1997:9; *The Cape Argus*, 19 May 1995:18; *The Cape Argus*, 19 May 1995:5; *The Cape Argus*, 8 December 1996:5; *The Cape Argus*, 1 March 1997:7; *The Cape Argus*, 24 May 1997:10; *The Cape Argus*, 28 August 1997:1; *Business Day*, 21 November 1996:6; *Die Burger*, 25 February 1997:2; *Die Burger*, 5 March 1997:12; *Die Burger*, 17 July 1997:12; *Die Burger*, 27 August 1997:11; *Die Burger*, 13 March 1998:13; *The Cape Argus*, 23 August 2000:1

should be expanded in a State or a community, rarely do those initiatives win. Every referendum on a gambling establishment held in 1994 lost.

If such a referendum took place in the Western Cape it is doubtful whether legalised gambling would have lost. As in the case of the development of a nuclear power station and its potential environmental impact, South Africans has been generally ignorant to socio-economic issues related to the gambling industry. This has been despite the fact that legalised gambling, like the nuclear power developments in especially Europe, has experienced opposition in various jurisdictions across the world. This is a clear sign of how uninformed the local community is about the possible negative influences versus the possible positive influences of a legal gambling industry in the Western Cape.

The Western Cape already has a significant problem with organised crime in the form of highly organised gangsterism that is connected to the drug trade (*The Cape Argus*, 19 August 2000:1) (See also Table 7). The 1997 Global Competitiveness Report of the World Economic Forum rated South Africa as the third-worst country in the world for organised crime after Columbia and Russia (SunWest Casino Licence Application, 1997: Section 4:1). A study on the impact of the gambling industry on crime as well as the constant monitoring of casino related crime, through updated statistical information, should be a priority.

3.2 Concluding remarks

This chapter attempts to show that there will be differences in the *actual* and *expected* gambling policy outcomes in the Western Cape as per Dunn (1994:15-19). This is done by analysing the role of public policy in the legalisation of gambling and the problems experienced with the scientific research of gambling in other parts of the world as well as South Africa. The *expected* socio-economic impact of gambling is discussed against the background of the findings of the Wiehahn Report. The *actual* socio-economic impact is discussed in terms of the economic profile of gamblers, the displacement effect, the location and types of casinos and the effect of

gambling on crime. This is done by investigating impacts in various jurisdictions around the world.

It also attempts to show that, despite the unique social, cultural and economic characteristics of the Western Cape community, there are certain socio-economic impacts that can be expected by legalising the gambling industry. These impacts are present in almost all gambling jurisdictions in the world and it is just the extent of these impacts that vary. This chapter attempts to identify certain areas of concern that should be properly researched in order to formulate policy that will address the problems caused by the legalisation of gambling in South Africa and in the Western Cape specifically.

Chapter 4: Conclusions and recommendations

All four stages of Dunn's policy analytical model (Dunn, 1994:18), as described in Chapter 1, mention the creation of "policy relevant knowledge" as an integral part of policy evaluation. This thesis attempted to highlight the need for the above mentioned knowledge by identifying several areas of concern in the Western Cape gambling policy. This knowledge can only be obtained through thorough independent scientific research. It is clear that not enough emphasis was put on this aspect during the process of policy formulation in the Western Cape. However, it is never too late to acquire policy relevant knowledge in order to address problems related to or caused by the implementation of a specific policy. The Wiehahn Report (as discussed in section 3.1.3 of this thesis) stressed the need for research on the socio-economic impact of gambling policy and it is strongly recommended that an independent South African Institute for Gambling Research be established in order to yield policy relevant knowledge regarding South African gambling. It is recommended that it should be operated along the same lines as the Australian Institute for Gambling Research (linked to the University of Western Sydney) and the Institute for the Study of Gambling and Commercial Gaming (linked to the University of Nevada in Reno, USA). The lack of knowledge on the socio-economic impact of gambling in South Africa is a big concern and the establishment of the above mentioned institute will certainly address this problem to some extent. It is recommended that the establishment and operating costs of this institute be funded by taxes collected from the gambling industry.

Although the scope of this thesis does not allow for in depth analysis of specific potential problem areas, it's main aim is to stimulate interest in gambling research that is more specific in terms of quantifiable data. This thesis shows that the current gambling policy in the Western Cape does not maximise the potential socio-economic benefits of the industry. This is especially evident when taken into consideration that the current geographic placement of casinos in urban areas make gambling extremely accessible to the public. It is thus recommended that future research should identify boundaries for gambling research that is not only compatible with the unique South African socio-economic scenario as a whole, but also

addresses the different provincial jurisdictions in terms of socio-economic impacts. It should take into consideration the multi-cultural nature of South African society as well as differences in provincial gambling policy and should therefore make provision for different impacts in different jurisdictions and geographic areas.

Recommendations for future study will include research on the following:

- Impact of gambling on family values.
- Impact of gambling on consumer expenditure (displacement of capital).
- Impact of gambling on tourism.
- Impact of gambling on crime.
- Compulsive gambling
- Impact of gambling on regional growth (rural and urban).
- The formulation of policy that addresses negative socio-economic impacts of gambling.
- Impact of gambling on productivity.

Policy regarding legalised gambling in the Western Cape needs to be re-evaluated in order to make it more community friendly. Specific provision has to be made to address the social impacts and inevitable economic impacts for the province. It has to be taken into consideration that the role players in this industry are not only the provincial government and the private investors, but also includes the community as well. The fact that the current policy allows for the establishment of a casino in the urban area of Cape Town makes it clear that the generation of tax revenue, and not the stimulation of regional economic growth, was one of the main motivators for the legalisation of gambling in the Western Cape. It can be concluded that the main beneficiaries of legal gambling in the Western Cape will be the casino operators and the provincial government. The Western Cape community will be negatively effected by the implementation of the current gambling policy both in terms of a negative social impact (gambling addiction, degradation of family values etc.) as well as the negative economic impact (displacement of capital, crime etc.). As mentioned in section 3.1.3.3 of this thesis there is always a danger of the primary economic goals receiving more attention than the secondary social goals set out by policy. It is concluded that policy formulators and policy implementers in the Western Cape lost focus of the balance that is required between the different goals as set out by the

policy in order to implement a successful policy. Current policy does not minimise the economic consequences of the displacement of capital nor does it minimise the incidence of pathological, addictive or otherwise destructive gambling behaviour that might affect the well being of families.

As the Western Cape gambling policy has already been formulated and is in the process of being implemented, the question arises: What can be done to address the expected problems that are created by the implementation of this policy? Again, it is imperative that knowledge be obtained pertaining the socio-economic impact of the Western Cape gambling policy. This can only be done through independent scientific research. This information should serve as a guideline for the formulation of a policy, or amendments to the current policy, that addresses the specific problems created by the socio-economic impact of the existing gambling policy.

As mentioned in section 3.1.3.3 of this thesis, a good example of how gambling policy is formulated to the specific needs of a community is the American Tribal gaming ordinances. This will obviously have to be adapted to address the needs of the local community in the Western Cape, but it can give an idea of the direction that has to be taken regarding community friendly policy.

This type of policy that specifies exactly where and how revenues collected from legalised gambling should be spent is a way of making sure that the negative socio-economic consequences of the gambling industry is directly addressed by funding generated from that same industry. In order to avoid creating one problem in order to address another, it is suggested that these needs have to be prioritised, but that the first priority must be to address the negative socio-economic impact of the legal gambling industry.

It is the hope that this thesis will encourage the Western Cape Gambling and Racing Board to put into motion a pro-active policy that deals with the above mentioned problems related to legalised gambling before these problems become a reality. This should be done in consultation with the representatives of the local communities and the private sector in order to incorporate all stakeholders in the process. Some of the information contained in this document can be used as a guideline for the

formulation of such a policy, but it is recommended that more in-depth research be conducted. A good opportunity to address some of these issues is at the licensing stage of the legalisation of gambling. This way maximum gain can be obtained at the cost of the licensee by way of stipulation of pre-conditions attached to the granting of licences. However, due to the advanced stage of the licensing process and the problems that is expected with the attachment of a pro-active policy to gambling licences, it is suggested that a policy be formulated in order to address the problems associated with the possible negative socio-economic impact of legalised gambling. It is also suggested that this policy should be implemented on regional/provincial level as opposed to national level as the impact of legalised gambling may differ from one area to the next.

It is also the hope that this thesis will stimulate debate between all stakeholders and especially the general public, that has up to now only seen the legalisation of gambling as the resolution to a lot of socio-economic problems in the Western Cape. It is perceived as the goose that *promises* to lay golden eggs. However, the egg-laying success of this goose will in fact be determined by how it is conceived, nurtured and disciplined. Although the legalisation of gambling has inherent socio-economic advantages, these have been over emphasised in the press mainly by interested stakeholders of the private sector and government. There is another side to the legalisation of gambling that the public is not being made aware of and these are the issues that are discussed in this thesis. It is understandable that the private sector with interests in the gaming and wagering industry can intentionally ignore the socio-economic impacts related to the legalisation of the gambling industry since there are substantial financial rewards to be tapped from a legalised industry.

Policy regarding the types of gambling establishments (route operations, distance resort operations and urban mega-resorts) has already been finalised. As previously discussed, the combination of these three in an area the size of the Western Cape might prove to be disastrous for the province. This needs to be addressed and can be done through the stipulations in the requirements for the granting of licences and/or through legislation that address social and economic aspects on a regional basis. This policy has to be specific in nature, especially as far as the spending of revenue collected through tax is concerned. (e.g. the American tribal gaming ordinances).

The accessibility of gambling and the economic profile of potential gamblers should also be taken into consideration when formulating any social policy regarding the legalisation of gambling. It is imperative that policy makers should consider that the Western Cape wants to protect the interests of especially the lower and middle income groups of the region and that economic growth can be stunted severely by the legalisation of large scale gambling. The initial investment in the Western Cape region will surely have a major economic impact on the region. The legal gambling industry will surely provide immediate and significant revenue for the region, but the long term socio-economic impact of legalised gambling should have been addressed in the initial policy. It is clear that not enough emphasis has been put on the long term effects of legalised gambling and it is suggested that, despite a good short term policy, such a specified policy be formulated as soon as possible.

It is also clear that policy makers cannot only rely on attracting big spending foreign gamblers to attract foreign capital to the region. The international supply of first rate gambling venues is growing faster than the market of big spending gamblers caters for. It is also clear that a gambling venue that caters for a local market is not necessarily beneficial to local communities as the negative socio-economic consequences could outweigh the positive socio-economic consequences.

A legal gambling industry should not be seen as a saviour of local economies. On the contrary, a legal gambling industry should be perceived as a possible serious threat to the socio-economic well being of local communities. It is not necessarily the goose that lays the golden eggs and this should be reflected in the formulation of gambling policy.

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