These are times of turmoil; ergo, these are times of finger-pointing. The gaming industry has certainly been on the receiving end of its share of pointed fingers. Take, for instance, this quote excerpted from the US national media:

Like a gambler on a prolonged winning streak, Las Vegas had the feeling its run of luck couldn’t end... but when the excitement died down, the town looked at its new places where customers were scarce and the betting light, and wondered: Has Las Vegas pushed its luck too far?

The headlines of the article are no less predictable: “Has Las Vegas Overextended Itself? Gambling Town Pushes Its Luck.”

The arguments in the article make some intuitive sense: like a gambler intoxicated on his own success and overly confident that this bodes well for his future (laws of probability be damned), the Las Vegas-based segment of the gaming industry finds itself in a bind not unlike that of its less fortunate customers. Now, like an unlucky gambler after a long losing streak, Las Vegas finds itself questioning its own foundations, and indeed wondering about its own long-term sustainability.

The punch line here, however, is a temporal one, and one that is familiar to those who have followed the industry through its ups and downs over the years. The date that these seemingly timely accusations were published in the national news media? June 20...

1955.

In a cover story in LIFE magazine, no less – a venerable journalistic institution that was among the most influential and widely-read in its day. So certainly, the negative attention that the gaming industry has received of late is not new. This does not make it any less damning, however, and the most recent attacks come from a surprisingly wide variety of voices – from the political right, from the political left, and even from the new US president.

John McCain, himself a famously passionate casino gambler, made a point of giving gambling a center-stage appearance on his presidential campaign’s web site. As was the case in 1955, his arguments have what researchers call “face validity” – they make sense in our gut and on the surface. McCain vehemently decried the “casino culture” that has replaced the (presumably Puritan) foundations of our national economy, and blamed the current economic downturn on Wall Street types drunk on speculation (Mason, 2008).

These perspectives are not limited to conservative commentators. Even The New York Times editorial page – purported to be the most liberal in the American media, if conservatives are to be believed – has published an anti-gambling critique entitled “Keep It in Vegas.” And it comes from no less revered a voice than Thomas Friedman – perhaps the most influential editorial columnist of the 2000s:
Now is the time for coolly sorting out what markets can do best and what governments need to do better... In sum, government’s job is to police that fine line between the necessary risk-taking that drives an innovation economy and crazy gambling with other people’s savings in ways that threaten us all. We need to make sure that what happens in Vegas stays in Vegas - and doesn’t come to Main Street. We need to get back to investing in our future and not just betting on it (NYT, September 16, 2008).

Once again, few would argue with Friedman’s logic: the fundamental question before us requires “coolly sorting out what markets can do best and what governments need to do better,” and it seems to go without saying that “crazy gambling” is not the answer. The “what happens in Vegas stays in Vegas” quote might have served as a cheap and easy writing device, but the metaphor is clear even if it was not meant as a direct, literal attack on the city.

However figurative these kinds of arguments might be, though, they still can have real effects on the actual gaming industry. To see this, of course, we need only observe US President Barack Obama’s recent off-hand comment that during these times of trouble, he did not want to see stimulus package dollars supporting Las Vegas jaunts – a statement that sent Goldman Sachs, among others, scrambling for less offensive (and ironically, significantly more expensive) meeting locations such as San Francisco (Friess, 2009).

What is so often missed in the race to “point” and blame, however, is the (admittedly more tortoise-like) quest to understand. But understanding is vital in the gaming industry – perhaps now more than ever, as in 2009 and beyond, the industry (and many others) may no longer have the luxury of relying upon a “consumption-consumed” customer base.

So let us try to invoke the spirit of research – let us try, through sober empirical inquiry, to understand. To start, let’s put forth a simple proposition that runs exactly counter to the spirit of these media attacks: perhaps the gaming industry provides a “how-to” map rather than a “how-not-to” admonition for our times.

Rather than pointing fingers at “gambling” or “Las Vegas” or “casinos” as illustrative of what is wrong in America right now, we might be better off fingering this industry as an illustration of some things that are right — and “right” in ways that are remarkably timely right now. If Thomas Friedman is correct (and I think he is), the key question of our day is this: what can markets do best and what can governments do better? And I would modestly propose that the gaming industry is one industry that has been surprisingly effective in forcing a graceful “dance” between its allegedly nimble private sector interests and the presumably awkward government metronomes that dictate the beat.

To explain why this might be the case, it helps to turn to the history of this oft-maligned industry in the United States. This history is dotted with sparkling examples of eye-catching moments of entrepreneurial genius – sprung forth from the minds of famous dreamers from Bugsy Siegel to Steve Wynn. More quiet but no less important, however, was the behind-the-scenes transformation of the government’s role in regulating this industry. “Quiet pioneers” such as Grant Sawyer, Shannon Bybee, the not-so-currently-quiet Harry Reid, and even our own International Gaming Institute’s Patty Becker helped develop a regulatory model admired the world over for its thoroughness, effectiveness, and perhaps most importantly, what we might call its “cleanliness.” The victories in this sphere were alternately plodding and sudden, and have been outlined in greater detail elsewhere (see Nevada Gaming Law, 3rd edition for a summary authored by several of these quiet pioneers). Unquestionably, these efforts reached a vital pinnacle in the mid-1980s, when the last remnants of organized crime were removed from the executive suites on the formerly dusty boulevard known as the Las Vegas Strip.

Looking back with the benefit of hindsight today, here’s what’s noticeable about the mid-1980s in the gaming industry: it was from almost exactly this moment that

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The Battered Gaming Industry: A Case Study for Our Times?

The industry took off, and indeed became a truly global economic force. Now to be clear, this “takeoff” happened for a lot of reasons – from the aforementioned Wynn’s entrepreneurialism to relatively monopolistic market conditions to the transformation of access to capital (another development that looks different today with the benefit of hindsight). But one clear reason why the industry was able to take off was because it effectively “cleaned up” via government regulation.

Here’s why this happened: for the gaming industry, cleaning up was not just a masterful governmental stroke – it proved to be a brilliant stroke of marketing genius. Once the Nevada-based gaming industry began to demonstrate that it could operate and regulate cleanly, it became more socially acceptable for, say, conservative church-goers to dip their toes in Las Vegas’ alluring waters (and then to return to their pews and tell their fellow congregants about it). Somewhat unwittingly, this opened Las Vegas’ doors to a much larger market – one that included a much bigger swath of the population. There are few ironclad “laws” in business, but this might be one of them: anytime you can dramatically broaden your market, this tends to be a good business “thing” for virtually any business entity. In this case, gaming opened up, and the world in turn became more open minded, at least as it pertained to gambling as a socially and economically acceptable activity.

For their part, other governments watched these successful developments and gradually warmed to the possibility of offering gaming in their jurisdictions. This process took place over and over, and arguably reached its zenith in 2006, when even the prohibition-prone government of Singapore – Singapore, where it remains illegal to purchase chewing gum and bans all sorts of “deviant” behaviors – decided to open up its doors to welcome two of the largest, most spectacular casinos on the planet.

While many economists tend to assume that the equation is straightforward, and more aggressive government regulation inevitably leads to lesser profits for the regulated industry, for the gaming industry it did not exactly work this way. The industry figured out an effective balance between government regulation and free market principles – or put more precisely, government provided the appropriate (but make no mistake, more stringent) regulatory framework that in turn allowed the free market to do what it does best. It bears re-emphasizing that this is a gross oversimplification, but it remains a useful one: the gaming industry’s historical chapters without serious, effective government regulation yielded a relatively small-time, shunned industry. The chapters when the industry got serious about regulation, meanwhile, have helped usher in an era of unprecedented global economic growth. As was the case in the Progressive Era of the early twentieth century, government and business worked together to produce regulation—and the end result, while hardly perfect, emerged as a marked improvement over the past.

Rather than pointing to the industry as an example of what’s wrong, then, perhaps we might use it as an imperfect-but-informative “how to” case study in academic, research, and policy settings. Today, those who criticize America’s “gambling problem” might be well advised to take a closer look at the targeted industry itself. What they may see is a highly-regulated industry, where customers have been protected from unscrupulous operators. In contrast, regulators of the banking and securities industry are accused of, at a minimum, misfeasance in allowing toxic assets, sub prime loans, complicated derivatives, and credit swaps to run wild (and essentially unregulated) — while its customers have stood by largely unprotected by government or industry. If you are one of the many consumers who has misplaced her confidence in 2009, which of these two approaches inspires trust?

And while the gaming industry no doubt faces massive challenges today (with too much debt and not enough inflows in a time of precipitous economic declines worldwide), this broader, longer historical trajectory remains clear. This is why today’s gaming leaders are often quick to point out that theirs is the rare US industry that wants strong regulation. Put simply, this is an industry that has effectively grappled with
the complex dance between government and the free market – or to put it in Thomas Friedman’s terms, this is one sector that has to a significant degree addressed the key question facing our times. This is especially ironic given that in one breath, Friedman aims his editorial sword at “crazy gambling,” and in the next, he wonders where on earth we might find a sober answer to the government-private sector quandary that baffles our best minds today.

If we want to “coolly” figure out what the private sector can do best and governments can do better, we could start by coolly studying gambling.

And that, for readers of this journal, is pretty… well, “cool” as my students might say.

References

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