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Should Online Gambling Be Banned?

A WALL STREET JOURNAL ONLINE NEWS ROUNDUP
April 4, 2006

Internet gambling is booming as Americans continue to wager billions of dollars on online sports books, Web casinos and virtual poker rooms even though the U.S. Department of Justice considers such activities illegal.

Several U.S. lawmakers are trying to crack down on the industry by clarifying existing U.S. laws and making it easier to go after offenders. One of those measures, the Unlawful Internet Gambling Enforcement Act, seeks to curb online gambling by trying to cut off the money supply: the bill would outlaw the use of credit cards, checks or money transfers to settle wagers.

The bill is sponsored by Rep. Jim Leach (R-Iowa). The Wall Street Journal Online asked Rep. Leach and David Carruthers, chief executive of BetOnSports Plc, an online sports book and casino based in Costa Rica, to debate whether Internet gambling should be banned in the U.S. Their exchange, carried out over email, is below.



Rep. Leach writes: Casino gambling, as it is practiced in all Western democracies, has been allowed to exist only with comprehensive regulation. Internet gambling lacks such oversight.

Offshore Internet gambling sites, which target the U.S. market and accept bets from Americans, operate in direct violation of U.S. law. This is not theoretical or subject to interpretation. When a site solicits and accepts wagers on sporting events and games of chance, these online casinos violate the [Wire Act](#) and the [Professional and Amateur Sports Protection Act](#).

Gambling is one field where the efficiencies of the Internet are counterproductive for society. When consumers deal with an offshore entity, they give their personal financial information to unknown individuals, who, by definition, are engaged in criminal activity. Internet casinos introduce a gaming room in homes, offices and school dormitories with bettors who abdicate the comprehensive protections afforded by U.S. law.

Offshore Internet gambling sites sweep dollars out of the U.S. into largely unknown, often criminal hands. The potential

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threat of identity theft and fraud is high for the individual better just as the risk posed to our national security from terror and criminal organizations that control such sites or used them for money laundering purposes is real.

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ABOUT THE PARTICIPANTS



James A. Leach, a Republican from Iowa, is serving his 15th term in Congress. He is chairman of the Asia and Pacific Subcommittee of the House Committee on International Relations and chairman emeritus of the Committee on Banking and Financial Services, which he headed from 1994 to 2000. During his tenure, the committee enacted the Gramm-Leach-Bliley Act, a banking reform law. Born in Davenport, Iowa, Mr. Leach graduated from the London School of Economics, the Johns Hopkins School of Advanced International Studies and Princeton University.



David Carruthers, a veteran of the British gambling industry, is the CEO of BetOnSports Plc, which runs [Internet sports books](#) and online casinos. The company, which operates out of Costa Rica and is publicly traded on the London Stock Exchange, gets most of its revenue from U.S. bettors. Mr. Carruthers joined Ladbrokes, one of the U.K.'s largest bookmakers, when he was 19, and spent 24 years there before joining BetOnSports in 2000. A native of Edinburgh, Scotland, Mr. Carruthers attended art school and graduated with an MBA from University of Wolverhampton.

Internet gambling's

characteristics are unique: Online players can gamble 24 hours a day from home; children may play without sufficient age verification; and betting with a credit card can undercut a player's perception of the value of cash, leading to gambling addiction, bankruptcy and crime.

The illegal Internet gambling business is booming and the consequences of this unfettered illegal activity are profound. Americans will send nearly \$6 billion to unregulated, offshore online casinos this year, nearly half of the \$12 billion bet world-wide on Internet gambling. These sites evade rigorous U.S.-based regulations that control gaming by minors, problem gamblers, and ensure the integrity of the games.

But Internet gambling is more than a theoretical issue of technology confronting law. Society is the family writ large, and it is the American family

that is jeopardized by the lure of Internet gambling.

Problem gambling can lead to serious psychological and physical as well as financial harm. Individuals who become "hooked" frequently lose their jobs, homes and marriage and sometimes even contemplate suicide. Internet gambling is not alone in causing such consequences, but it facilitates and accentuates the challenges posed by problem gambling.

The problem with the current circumstance is that enforcement tools are so inadequate. What the [Unlawful Internet Gambling Enforcement Act](#) (H.R. 4411) basically does is make it illegal to use a bank instrument such as a credit card or money transfer or check to settle an internet wager. No approach to squelching Internet gaming will ever prove perfectly effective, but one that constrains the payment system has the highest chance of achieving credible results.

H.R. 4411 focuses on the gambling business, not the gambler. It puts the principal enforcement burden on financial intermediaries such as banks. The law stays generally static on what is illegal; but enforcement is upgraded by making it more difficult for an Internet casino to operate.



Mr. Carruthers responds: It may surprise Rep. Leach to know that I share his concerns about problem gambling and underage gambling. That is why I would like our business to be regulated by the U.S. government.

I run a multi-billion-dollar public company listed on the London Stock Exchange, and we operate with the highest standards of practice to protect consumers, restrict minor access and protect the vulnerable. My company has controls in place that restrict access by minors and would cut off gambling from customers who exhibit excessive compulsive behavior. Online gambling is the most transparent form of gambling there is -- every transaction is logged and

every transaction is available for scrutiny. I, and my peers at other major online operators, want regulation of our industry. Regulation would standardize and strengthen our best practices and in addition provide taxable revenues to the U.S. government.

It is inconsistent to have comprehensive regulation of land-based casino gambling and to not have the same oversight of the Internet-gambling industry. This is what we seek. Precedents for regulation of our industry exist. Online gambling is regulated in 64 countries, including the United Kingdom. Gambling is a source of entertainment for millions of people around the world and has been for centuries. Online, millions of people enjoy it every day. We are asking to be regulated. Prohibiting online gambling would be catastrophic. Prohibiting the industry would have the exact opposite effect to what the congressman seeks. Prohibition would not stop online gambling, it would send it underground and leave the vulnerable unprotected.

While Rep. Leach maintains that online gambling is illegal in the U.S., the legal issues are not clear. Rep. Leach is relying on an outdated, irrelevant law that is inapplicable and unenforceable for online gambling. That is why we are looking for clear standards, regulations and licensing for what is an everyday entertainment medium enjoyed by millions.



Rep. Leach: Mr. Carruthers is correct that there is some imprecision in the Wire Act, which dates back to 1961. But there is little imprecision in the Professional and Amateur Sports Protection Act of 1993, which stipulates that it is "unlawful for a person to sponsor, operate, or advertise ... any gambling scheme ... based on games in which amateur or professional athletes participate."

When he calls for "regulation of our industry," he is really suggesting that gambling companies should be allowed to do legally what they are currently doing illegally. He is also suggesting not only that the law of the U.S. (the above two referenced statutes) but similar laws that currently exist in all 50 states be overturned.

He suggests that prohibition would not stop online gambling, but "send it underground and leave the vulnerable unprotected." This is the case today. The vulnerable are unprotected because companies that tap the American market violate our law and its protections. No amount of regulation can address Web-based gaming's particular intrusiveness and harm to the American home.

Internet gambling regulation cannot work like traditional casino-based regulation. Brick-and-mortar casinos have the means to keep kids and problem gamblers away. But not an Internet casino. The anonymity the Internet provides a gambler is unique and novel. Regulation over the Internet would not have the effect of protecting underage or problem gamblers nor would it eliminate the money laundering problem or deal as comprehensively with the integrity of games. Even if one concedes that a regulatory regime could attempt to address each of these things, the Internet is so pervasive and borderless that one country's regulations are woefully insufficient. Ultimately the result of regulating Internet gambling will be extending an industry which adds few advantages to the economy and many disadvantages to society.

It is no accident that supporters of the legislation I have introduced range from every major sporting organization -- the NFL, MLB, NHL, NBA, NCAA -- to the American Bankers Association to the Christian Coalition to the Episcopal, Presbyterian, Methodist, Baptist and Lutheran churches, to 48 of the 50 state attorneys general.



Mr. Carruthers: Gambling on the Internet is entertainment and a personal choice. Why is the congressman trying to tell Americans what they can and cannot do in

the privacy of their own homes? Isn't he supposed to represent his constituents? According to the Wall Street Journal's own poll on online gambling last month, 85% of those polled believe Congress should not ban online gambling. The fact that a small number of people gamble more than they should is not reason to prohibit the entertainment for every adult.

[Editor's note: The [poll](#) Mr. Carruthers refers to was an informal online survey of WSJ.com readers' opinions, and not a scientific sampling.]

Thinking that one can ban a form of entertainment on the Internet is ludicrous. The Internet gives people access to the world and is a communications tool. Ultimately, it is the individual in his or her own privacy who should be in control of their access to the Internet -- not any government.

There is no other institution that has more interest in preserving the integrity of sports than the online gambling industry. Had the online gambling industry been in existence and been regulated, Pete Rose's gambling problem, for example, would have been brought to the attention of authorities immediately. My company currently maintains controls to protect the interest of our customers. We utilize specific customer tracking controls that help customers assess and limit their own behavior, but also allow us to set limits for deposits and indicate a cooling off period for customers who may need it. We train our customer relations employees to recognize excess or irregular behavior and address it immediately. Regulation would standardize these best practices throughout the industry. American consumers would then know which companies are licensed and which are not.

I would like to invite Rep. Leach and any of his colleagues to see our operations first-hand in Costa Rica. This way, he can see directly the controls and practices we have in place. We have found that once people are educated about our business, they are willing to work with us to address those social concerns that we all care about.



Rep. Leach: Entertainment is multi-dimensional, but gambling online is not the same as bowling. No home, no office, no college dormitory should be a casino.

American law varies by state but generally makes no moral judgments on the wisdom of gambling. The legislation I have introduced does not extend existing prohibitions on gambling; it only provides an enforcement mechanism for laws on the books. In a country of laws, upholding the law is fundamental.

In addition to protecting the rule of law, it is also fundamental for a society to protect the security of its citizens. Here, it is relevant to note the testimony before Congress of Dennis Lormel, then chief of the FBI's Financial Crimes Section:

"The Internet gambling and online capabilities have become a haven for money laundering activities. We believe there is a huge potential for offshore sites being utilized to launder money, and there are examples of pending cases, particularly in our organized crime program, involving enterprises using these types of services as conduits for money laundering."

Likewise, [in a formal report](#), the U.S. Department of State expressed a similar concern:

"The Internet gambling operations are, in essence, the functional equivalent of wholly unregulated offshore banks with the bettor accounts serving as bank accounts for account holders who are, in the virtual world, virtually anonymous. For these reasons, Internet gambling operations are vulnerable to be used, not only for money laundering, but also criminal activities ranging from terrorist financing to tax evasion."

Mr. Carruthers's invitation to visit the gambling operations of BetOnSports in Costa Rica may seem a generous gesture. But for a congressman to accept it would be ethically dubious, if not illegal.



Mr. Carruthers: I take offense to the congressman's unsubstantiated allegations about this industry and money laundering. He talks about money laundering but doesn't have any specific facts to back it up. There have been absolutely no convictions of online gambling's association with money laundering. And, as a CEO of a multi-billion-dollar public company, it is clear that I follow very specific transparent reporting practices and governance procedures to run this company. I have fiduciary responsibility to my shareholders and ethical responsibilities to my customers.

The congressman's refusal to educate himself about the realities of our industry are disturbing. Has he asked his constituents what they think about this kind of government invasion of their privacy and whether they want the government to ban online gambling? If he won't fund a poll to ask his constituents, then I will. The fact is millions of Americans are now gambling online everyday. They are enjoying this form of entertainment and doing it responsibly.

And if the congressman does not want to accept my invitation to visit our operations and see our effort first-hand, I suggest then that we get together in Washington. I would like to meet him and tell him first hand all that we are doing to protect American citizens. How could one possibly think of legislative action without knowing all the information?



Mr. Carruthers adds: The fact is Americans account for 45% of the consumers who bet online. Overall, Americans wagered nearly \$6 billion dollars online in 2005, compared to \$1.5 billion dollars in 2001. This is a thriving, legitimate and successful business that will not go away.

Trying to prohibit the online gaming industry is a futile exercise and waste of resources. The constantly evolving structure of the Internet will make prohibition increasingly difficult, if not impossible. Time could be much better spent establishing regulations to prevent underage gambling and protecting the vulnerable members of society from excessive and compulsive behavior. These controls currently exist and the best operators use them. Regulation and licensing would help standardize best practice across the board and allow the customer to differentiate the good operator from any bad operator.

There is a lot of hypocrisy in the effort to ban online gaming. Some forms of online gaming are permitted -- state lotteries and horse racing, for example. Regulation would bring clarity to efforts clouded with hypocrisy. Regulation and licensing would set standards that demand businesses operate in the best interests of their customers, or they would not be licensed in the US.

The issue is: What are the most viable and effective ways to regulate a business that not only exists, but is growing? We have begun the process by working with the [International Institute for Conflict Prevention and Resolution](#) to spearhead the creation of an independent advisory council to bring together individuals from both sides of the argument in hopes of creating operating standards that could be acceptable to everyone. Not only would regulation strengthen companies that wish to operate responsibly, licensing our companies would also bring billions of dollars of tax revenues to state and local budgets.

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