

Michael Waxman

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Public Gaming: Please describe your mission and advocacy position.

Michael Waxman: Our mission at the Safe and Secure Internet Gambling Initiative is to reverse the federal prohibition against Internet gambling. We believe that Americans should be given the freedom to gamble online in a regulated environment where operators are required to protect against fraud while preventing problem gambling and underage gambling.

There are some who would argue that federal law doesn't explicitly prohibit Internet gambling. What's your view?

M. Waxman: While current law – UIGEA – does not expressly prohibit Americans from gambling online, since it requires the financial service sector to block payments for unlawful gambling activity, the intention is quite clearly prohibition. The financial service sector has argued that this approach is burdensome and doomed to fail, which should encourage Congress to forge a new path.

In moving forward, Chairman Barney Frank has drawn from the playbook used during the reversal of the prohibition of alcohol in the 1920s. In that case, the federal government removed the federal prohibition and allowed the states to determine how best to control and distribute the product, or if they choose, to prohibit it. Chairman Frank's approach is similar. He proposes having the federal government regulate Internet gambling activity and grant licenses to qualified operators, while allowing the states to decide how, and even whether, Internet gambling would occur. States would also have the authority to impose additional fees or taxes on Internet gambling as is allowed with other similar economic activities.

You referred to the Frank bill. What are the differences between the Frank and the Menendez bills?

M. Waxman: They are more similar than different. Both want to expand the opportunity for Americans to gamble online. And both require licensed operators to impose stringent safeguards to protect consumers. The most significant difference is that Chairman Frank's legislation would allow for Americans to play a wider range of games including poker and casino games. The Menendez bill would only allow for games of skill, which I would presume implies to be games like poker, chess and bridge since it isn't defined in the

legislation.

The other significant difference is in the way that fees on the activity and industry would be charged and allocated.

To clarify, in the House, the Frank bill is more focused on the non-financial regulatory requirements, only specifying that licensed operators collect and pay all applicable taxes. A companion piece of legislation, introduced by Rep. Jim McDermott, lays out in more detail the fees that would need to be paid. This includes a two percent licensing fee on all player deposits that would be paid by the operators.

In the Senate, Sen. Menendez wrapped all the provisions into one bill. He proposes a flat 10 percent license fee paid by the operators on all deposits, which would be evenly split between the federal government and the states or Indian territories where the online gambling activity is taking place.

And the state government can apply additional taxes if they choose, correct?

M. Waxman: This would be the case with approval of the McDermott bill, which would grant states the authority to regulate the activity and impose fees beyond what is mandated by federal law. Sen. Menendez's bill would not have this flexibility. States would only be entitled to the five percent fee on all deposits, as well as other applicable taxes on business operations and income generation, which is also going to be a hefty sum.

With so many cash-strapped states, I'm shocked there aren't more elected officials at the state and local levels calling for the regulation of Internet gambling in order to protect consumers and collect substantial revenues otherwise lost to offshore operators who accept wagers in the US.

To give you a sense as to the size of the underground marketplace and opportunity to generate new revenue, if this regulation is enacted, it's estimated the federal government could receive up to \$42 billion over the next ten years. This figure doesn't even factor in what could be collected at the state level.

Do you have an advocacy position that favors one bill over the other? The Frank bill versus the Menendez bill?

M. Waxman: Passage of either of these bills will be better than what we have now. The first step is just getting the door opened and expanding the opportunity for Americans to wager online in a safe and secure environment.

Do either of these bills allow for an evolutionary process to occur without going through this burdensome process of having things approved by Congress?

M. Waxman: With the passage of either bill, Congress would determine how the industry is regulated and which activities would be permissible. However, any legislation passed to regulate Internet gambling can be improved over time. For example, in the future, we would hope that Congress would consider permitting online wagering on sporting events.

As previously stated, the key first step is getting legislation passed that creates a framework for expanding online gambling activities while protecting consumers.

What is the likely timing for the passage of any of this legislation?

M. Waxman: Momentum has clearly swung in our direction and we believe passage of legislation to regulate the industry is inevitable.

One major factor working in our favor is the support of key leaders in Congress. Not only is our most ardent supporter – Barney Frank – chairman of the Financial Services Committee, but among the growing number of co-sponsors are George Miller, John Larson, John Conyers and Charles Rangel – all key power brokers in the House.

Another factor is Congress' opportunity to collect billions of dollars in new revenue through Internet gambling regulation. These monies are desperately needed for critical unfunded or underfunded programs.

It's hard to predict when this is going to get done. It could be accomplished this year or, most likely, sometime in the next couple of years.

There is so much money on the table in the form of tax receipts. It seems such a shame for Congress to let what would appear to be a minimum of \$15 billion in tax receipts go out the window every year. And that's actual tax receipts, not just taxable revenue. The states need that revenue desperately.

M. Waxman: I agree with you that the incentive is there for Congress to act quickly. However, Congress moves at its own speed and we will not be able to get this done until more members come on board. We have some great champions on our side, and we need to support them. But, we also need to continue to push to get this done. As previously stated, I ultimately believe we will be successful, and am hopeful it will be sooner rather than later. ♦