

GOVERNMENT LAW CENTER OF ALBANY LAW SCHOOL  
**GOVERNMENT LAW ONLINE**

---

**BANKRUPTCY AND GAMBLING**

**JUNE 14, 2005**



80 New Scotland Avenue  
Albany, NY 12208  
[www.als.edu](http://www.als.edu)

© Copyright 2005 Albany Law School

GOVERNMENT LAW ONLINE publications are available at [www.governmentlaw.org](http://www.governmentlaw.org)

# **BANKRUPTCY AND GAMBLING**

**Bennett Liebman, Esq.**  
**Coordinator/Staff Attorney**  
**Racing and Gaming Law Program**

**JUNE 14, 2005**

© Copyright 2005 Albany Law School

These materials are copyright by Albany Law School (ALS) on behalf of its Government Law Center or ALS licensors and may not be reproduced in whole or in part in or on any media or used for any purpose without the express, prior written permission of Albany Law School or the licensor. Neither Albany Law School, the Government Law Center or any licensor is engaged in providing legal advice by making these materials available and the materials should, therefore, not be taken as providing legal advice.

All readers or users of these materials are further advised that the statutes, regulations and case law discussed or referred to in these materials are subject to and can change at any time and that these materials may not, in any event, be applicable to a specific situation under consideration. The information provided in these materials is for informational purposes only and is not intended to be, nor should it be considered to be, a substitute for legal advice rendered by a competent licensed attorney or other qualified professional. If you have any questions regarding the application of any information provided in these materials to a particular situation, you should consult a qualified attorney or seek advice from the government entity or agency responsible for administering the law applicable to the particular situation in question.

## **Bankruptcy and Gambling**

Frankly, we have no idea what factors cause bankruptcy in the United States. We possess no expertise whatsoever.

Yet, it's become accepted gospel that gambling helps to cause bankruptcy problems. Here are just a few of the more recent examples. Here is the Hartford Courant in an editorial of June 7, 2005. "Among the well-documented side effects of gambling addiction are embezzlement, bankruptcy, divorce and suicide.

Bill Thompson, a professor at the University of Nevada at Las Vegas recently said of a potential casino in the San Francisco Bay area of California, "Increases in problem gambling, missed work, bankruptcies and crime would cause millions of dollars more in economic harm."

A Congressional Quarterly article from May 7, 2005 stated, "Studies generally have agreed that bankruptcies increase when a casino comes to town." The Oregonian in an April 9, 2005 editorial stated, "Another major casino means all of the attendant problems -- gambling addiction, higher rates of crime, bankruptcy and divorce."

Yet, if bankruptcy was directly tied in to gambling, where would you expect the highest rates of bankruptcy? The logical answers would be Nevada, New Jersey, Connecticut, Mississippi, and California (California now has 55 Indian casinos plus easy access to Nevada)—the states with the biggest commercial and Indian casino gambling operations. Perhaps we should look at Oregon and South Dakota with video lottery terminals in numerous bars and taverns? Maybe West Virginia, Rhode Island, and Delaware states with small populations but large racinos? What about Massachusetts and the District of Columbia which among the non-VLT jurisdictions have by far the highest per capita sales for lotteries?

The answer is that the highest bankruptcy rates are in the two states in the continental United States which offer the least gambling. According to the statistics of the American Bankruptcy Institute, household bankruptcy filings for the 13 month period ending March 31, 2004 were highest in Utah, the one state in the continental United States with absolutely no legal gambling. Utah's bankruptcy rate per household was approximately twice the United States average. The rate of bankruptcy in Utah has tripled in the last decade according to a May 18, 2005 article in the Deseret Morning News.

Finishing second in bankruptcies was Tennessee. During most of the period in the study, Tennessee also had no gambling. The state lottery started in Tennessee on January 20, 2004; so for about 80% of the time period covered by the study, Tennessee had no gambling. Thus, the

highest rates of bankruptcy were found in the jurisdictions with the least gambling. On the other hand, Hawaii – which also has no gambling – finished 47<sup>th</sup> out of 51 jurisdiction in bankruptcy filings.

What about the casino states? It's a mixed bag. Nevada and Mississippi are high ranking at 4<sup>th</sup> and 9<sup>th</sup> respectively. New Jersey is in the middle at 25. California is 32<sup>nd</sup> and Connecticut is 43<sup>rd</sup>.

The states with VLT's in bars and taverns also were mixed in the bankruptcy rates per household. Oregon ranked 11<sup>th</sup> while South Dakota ranked 41<sup>st</sup>.

The racino states had generally low bankruptcy rates. Delaware was 30<sup>th</sup>, Rhode Island was 39<sup>th</sup>, and West Virginia was 24<sup>th</sup>. Even West Virginia's bankruptcy rate was lower than the national average.

The two big per capita traditional lottery jurisdictions also had low bankruptcy rates. The District of Columbia was 45<sup>th</sup>, and Massachusetts was 49<sup>th</sup>. Considering that Massachusetts is by leaps and bounds the foremost seller of traditional lottery tickets, it would be hard to link traditional lottery games and bankruptcy filings.

In short, while there is inevitably anecdotal evidence linking bankruptcy and gambling, it is hard to prove this connection from the statistics. Given the evidence of Utah and Tennessee, it would probably be easier to link the lack of legalized gambling to higher bankruptcy rates. We don't know the causes of bankruptcy, but given the State statistics, we think caution is in order. In short, the title of the General Accounting Office's report of 2000 makes the most sense: Impact of Gambling: Economic Effects More Measurable than Social Effects.

Here's the chart from the American Bankruptcy Institute.

<http://www.abiworld.org/statcharts/HouseRank.htm>