

Testimony of J. Terrence Brunner
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While at the Justice Department, I had widespread experience with illegal gambling. As chief of Pittsburgh Organized Crime Strike Forces I ran the largest gambling raid in western Pennsylvania- 44 locations simultaneously on a Saturday afternoon during football season. But that was back in 1971. When Mayor Daley introduced the Casino Proposal in 1992, \$2 billion, five Las Vegas casinos in downtown Chicago, our Board said it was an important issue. Many of my Board members represented various casino interests. However, Chicago has changed. Tourism and the service industry have replaced stockyards and steel mills. Our downtown has been rejuvenated. Many high-end suburbanites have moved downtown for museums, restaurants, and concerts. The quality of life in Chicago's loop has become very important to them. Consequently, the Casino Proposal has directly affected many of my Board members and their friends who live downtown.

Consequently the BGA joined with the Chicago Metro Ethics Project to hold eight hearings throughout Chicago to ventilate the issue.

We quickly learned that gambling expertise at Chicago universities was extremely limited. So we began reaching out for experts around the country. Henry Lesieur in New Jersey, Dr. Shaeffer at Harvard, Professor Jacobs at UCLA, and Dr. Hunter in Las Vegas. We videotaped the testimony for the committee. We also brought crime experts from the Department of Justice, Industry representatives, as well as local activists. We also filmed college students drinking and gambling in Las Vegas. Researched Court records on Casino affirmative action . Interviewed local labor leaders and minority community representatives. Researched Casino Job Data, applied for jobs and eventually placed one of our investigators in Ceasars as a Keno Runner. We also received in Las Vegas the internal documents of the casinos, including:

- Their PR plans to fight the Indian Casinos in California.
- Focus group studies analyzing how to approach selling the Chicago Casino Proposal.
- Internal battle plans to carry out this strategy in the Chicago Media.
- And sheets indicating how they would attempt to influence every Illinois Legislator.

These document which became known as the "Secret Casino Papers" were presented for five nights as an investigative series on NBC TV Channel 5 in Chicago so that Chicagoans could understand clearly the roots of the Casino Proposal.

We discovered that the academic universe was very small, numbering about a dozen, constantly debating the effects of gambling among themselves. This was logical because casino gambling was limited to two states.

Most of the debate centered on the concept of "social costs." There was general agreement on certain facts.

- Large numbers of teens were gambling
- Many teens were visiting casinos in Atlantic City.
- Teenagers were drinking and gambling in large numbers in Las Vegas.
- A certain percentage of "exposed gamblers" became "problem gamblers."
- These gamblers often engaged in anti-social behavior ranging from criminal conduct to broken homes to suicide.
- These activities from teen gambling, to problem gamblers, to crime emanating from gambling effects society in a negative way, and quantifying it was called a social cost.

But there was a raging academic debate about what costs should be included, how to quantify them, and how the numbers added up. You could figure the numbers of gamblers who commit crimes, get caught, are prosecuted and go to jail, and the criminal justice costs involved. Similarly everyone agreed that there would be monetary cost involved in treating problem gamblers but how much? But how to put a value on lost productivity of problem gamblers, "abused dollars," the dollars gambled away by problem gambler instead of using it for family purposes. Who should be diagnosed as "bottomed-out problem gamblers" who tended to commit more crimes than regular problem gamblers. Would cities which never had casinos produce the same number of problem gamblers as Atlantic City or Las Vegas?

- We chose to use a formula developed by Dr. Politzer at Johns Hopkins who estimated that each problem pathological gambler cost society \$50,000, assuming that casinos in Chicago would produce 69,000 problem gamblers, the social costs would be 3.7 billion dollars annually. Dr. Politzer included lost productivity and abused dollars, along with crime costs and incarceration costs.
- We were roundly criticized by the media and the academic community saying the 50,000 figure was too high. That Dr. Politzer's formula was too high. Lesieur, using a different formula, thought it would be more like \$10,000 per pathological gambler. Professors Thompson and Gazelle in their Wisconsin study compromised saying costs estimates by academics range from \$10,000 to \$50,000 per year and thus, they chose the conservative \$10,000 figure.
- Meanwhile, Vegas casinos owners have never admitted that casinos produced any problem gamblers. In the academic debate over social cost, a secondary theme ran through the argument. That if someone robs a bank what's the real economic cost to society. If he takes \$100,000 and buys a Mercedes, this creates jobs and the multiplier effect so how can we ever determine societal costs? The whole debate began to collapse under its own weight. Clearly, you could calculate the Justice costs, but lost time and "productivity" and "abused dollars" and their effect on families was very difficult. One of the underlying problems was that many of the professors had no first hand knowledge of crime. Law enforcement officials had extensive hands-on experience, but seldom attempted to tender valid academic research conclusions about these bigger picture questions like social cost of crime. For years, the Organized Crime section of Justice, who's expertise was number one in the area, could not accurately estimate the volume of illegal gambling nor could they accurately estimate the size of the mob's legitimate business activity. They felt their job was to catch crooks, not to do academic studies. At that time, everyone within Justice viewed J. Edgar Hoover's yearly appropriations claim to Congress that

the FBI recovered more stolen property than it cost to run the bureau as a colossal joke. Crime statistics have been constantly manipulated for the past 40 years, depending on political need since the Nixon/Mitchell war on crime in 1968. If the public ever stopped to analyze the results of our various President's declarations of war on narcotics, an objective analysis would result in a wholesale firing of the law enforcement community for incompetence.

The gambling crime stats have been treated in much the same way. So when we polled local northern Wisconsin DAs, they told us new crime from Indian casinos was a big problem. But sheriffs in these counties said it didn't exist. The sheriffs received an extra state money stream based on gambling in their area and weren't about to contribute to killing the gambling goose.

However, some hard facts on crime do stand out:

Facts:

Commissioned by the state government, Dr. Lesieur's New Jersey prison studies found:

- 85% of females gambled in the last six months, while 78% of males gambled in the last six months.
- 13% of the total prison population were arrested for gambling crimes including sale of drugs, burglary, larceny, pimping, and prostitution.
- 97% of the incarcerated problem gamblers admit illegal behavior in order to subsidize gambling debts.

Similarly, Julian Roebuck found:

- 38% of 400 Washington DC prisoners spent their leisure time at gambling games.
- 56% of armed robbers, 14% of men, 70% of assaultive drinkers, 55% of burglars were classified as inveterate gamblers.

Professors Hakim and Friedman discovered crime rates rose significantly along major routes from New York and Philadelphia to Atlantic City after gambling was introduced.

Lesieur agreed that casinos export Crime.

In Atlantic City, law enforcement costs increased greatly. In Las Vegas, police budget went from 54 million in 1986 to 91 million in 1991.

Lesieur told our Committee "Chicago Crime rate is already very high. A casino will just bring more crime to the area." Hakim stated "After legalized gambling, the Chicago crime index will rise to some extent. The exact amount of the crime increase depends on the size and extent of the final gambling complex."

Las Vegas in 1981 was first in total crime and highest per capita rate in the nation. There were 10,000 prostitutes. One of every nine women between 15 and 39. Las Vegas drove the crime rate down by an aggressive police to 82nd in 1992 which caused strife between the police and minority community. In 1990, they incarcerated 63,000 people in regional correctional facilities. The total population within the police district was 640,000; Thus, 1/10 of the total population was within the police district.

Organized Crime

Kurt Muellenberg, former Chief of the Organized Crime & Racketeering section of Justice asked if Organized Crime in casinos can be controlled. He said not at a price he'd be willing to pay. "Ultimately, a government can control almost anything if the citizens are prepared to pay that kind of price."

Gary Shapiro, Chief of Chicago's Organized Crime Strike Force, said that the Mafia "Don't have to come in the front door, they often come in the back through ancillary services. Not only is legalized gambling a 'cash cow', it is also irresistible to organized crime. We know that."

Attorney General Richard Thornburgh characterized the complaint, which charged that Local 54 of the Hotel Employees and Restaurant Employees International Union has been dominated and controlled by the Bruno/Scarfo family of organized crime, by saying it, "Graphically shows how criminals and their willing union followers take control by means of murder, threats, and manipulation." He also stated that, "Through their brutal and sometimes deadly acts of violence and intimidation, members of the Bruno/Scarfo organized crime family have destroyed the integrity of the union and its leadership."

Illegal Gambling

William Jahoda (the ex-Mafia gambling director for Cook and Lake Counties, who during his tenure oversaw approximately \$250 million in illicit gambling activity for the mob) stated to the Chicago Crime Commission that new legal gambling leads to a proliferation of illegal activity:

"During my criminal career, there have always existed one solid constant--any new form or expansion of legal gambling always increased our client base. Simply put, the stooges who approved our Las Vegas nights, off-track betting, lotteries, etc. became our unwitting front men and silent partners. Of most benefit to us in the illegal gambling underworld were: (a) agency marketing and media advertising blitzes promoting gambling, coyly, as urgent opportunity or healthy entertainment; and (b) the resultant desensitization within the community from the reality that most forms of gambling, whether ruled by the State, a corporation, or the mob, are by their very nature an actual and potentially dangerous vice."

Gary Shapiro told the CMEC panel that Mr. Jahoda is "an expert on gambling; as knowledgeable as anyone I've ever met. They (Jahoda and Robert Cooley) believe that legalized gambling will impact illegal gambling, and I believe them."

Bob Walsh, Assistant Director of the FBI in Chicago, also warned of the expansion of illegal gambling should casino gambling become legal in Chicago. He told the CMEC that "gambling generates new gambling; the more accepted it becomes, the more all forms of gambling benefit ... Organized crime is continuously involved in gambling."

Interestingly, focus group study prepared for the three casino owners proposing casino gambling in Chicago stated that the public knows this instinctively that casinos bring "the poor getting poorer as they gamble away the rent money, gangs out of control, crime, and prostitution."

This report, the Glick Associates report for Circus Circus, Hilton Hotels, and Caesars World, reveals that the strategy for casino owners was to portray, "The Mob as Businessmen." The public relations campaign intended to maintain "The more positive interpretation of the 'the mob'." The crime involved in this interpretation, "Is skimming profits off the top--which is

understood as the equivalent of normal business practice." Strategists hoped to convince Chicagoans that, The "money left afterward" justified the, "Money taken off the top."

"The word 'organized' when placed before 'crime' should not alter a perception of the severity of the impact of organized crime. Organized crime, even in its purely financial aspects, is not victimless crime, but an enterprise which used intimidation and corruption to achieve its ends. Kurt Muellenburg responded to the 'mob as businessmen' public relations campaign by calling it 'ludicrous.' He explained that the U.S. Government is spending hundreds of millions of dollars to put these 'businessmen' in jail, and is running a witness protection program with 300-400 participants, also at great expense. They're not there because [mobsters are] businessmen. They're there because they are afraid for their lives, and to try to project it any other way defies all reason...the best PR campaign can't pull that one off."

Public Corruption

The greatest political scandal in recent Illinois history was the race track stock scandal--in which key public officials received stock in Arlington Race Track in return for beneficial racing dates. It resulted in resignations of two Supreme Court Judges and conviction in Federal Court of Governor Otto Kerner. Illinois already leads the nation in public corruption cases.

Gambling interests have already become the number one campaign contributors in Illinois.

In Illinois, I served on Speaker Madigan's Commission on gambling. We held over 10 meetings in Springfield and Chicago many of the same witnesses testified. The overwhelming impression was the lack of data on social costs and economic development. Clearly, we have made important public policy economic decisions with regard to gambling on little more than a "hunch." We analyzed the debate on riverboats in Illinois. It rested on Senator Zeke Georgi's estimate of "how many will show up on a sunny day." We have consistently argued that government must do the research in these areas to place a solid base under these decisions. This data has not existed in Illinois.

There was obviously a trade-off between the social costs and the positive effects, taxes and economic development. But how to measure that. No one in state government who testified before the commission could authoritatively estimate the plus's of economic development or the negatives of social costs. They could accurately estimate taxes, but there their expertise ended. There was no comprehensive independent research available in Illinois, although there were magical claims of wondrous economic development by the casino industry. On behalf of the Metro Ethics Coalition, the BGA and Professors Thompson and Gazel studied 780 riverboat gamblers. We found there was no tourism.

- 84% of gamblers are from Illinois while only 16% are from out-of-state.
- 85% of people who gamble in Illinois live within 50 miles of the casino
- Over one half of the Out-of-state players live within 50 miles
- Only 4.6% travel more than 100 miles.
- 97.7 % of all Illinois gamblers stay less than one day.
- 9.2 % of the our-of-state visitors stay over night.
- Less than 12 % of the out-of-state visitors stayed in either a hotel or motel.
- The purchases that casino patrons made outside of the casino were minimal, and irrelevant to any discussion of economic impact. Out of 785 players interviewed, only one out-of-state visitor, that traveled over 100 miles, reported making a purchase in town. Only 3% of all out-of-state players spend money outside the casino.

When these demographic numbers were inserted into the economic model developed by Professor Gazel and Thompson they concluded:

"Casino riverboats do not contribute to the economic development of the state of Illinois."

"Casino riverboats are detrimental to the economic development of the local areas in which they operate."

They found that:

- The overall statewide monetary impact of casino gambling in Illinois is a negative \$6.7 million. In addition there are regulatory and infrastructure costs, and social costs which Thompson and Gazel estimate to be in the range of several hundred million dollars for Illinois. Which increases the negative impact!
- The monetary impact on local areas in a 35 mile radius surrounding the casinos is very large, and very negative, The local areas lose \$239.7 million a year from their economies.
- For every dollar lost gambling on an Illinois riverboat 18.4 cents is lost from the local economy.

Armed with these findings we then confronted the question are Illinois riverboat gambler tourists? Are gamblers tourists? What are tourists? Remember, the purpose of riverboat gambling in Illinois was tourism and economic development.

We interviewed 1194 people in downtown Chicago at three Chicago Tourist locations: The Art Institute, Navy Pier, and Michigan Avenue. Unlike the riverboat gamblers these high-end demographic "cultural tourists":

- Half lived greater than 35 miles away. 223 or 56.9% of the Art Institute visitors were non-local who came from places all over the U.S.- 40 or 18.9 % of those were from other countries.
- They stayed overnight. The average stay of those 223 visitors was 2.4 days- only one stayed in Chicago less than one day (ergo, not overnight.)
- They arrived by plane. 116 or 52.3% of those same visitors arrived by air.
- They spent lots more money on a variety of things. Each of those 223 visitors spent on average \$225.11 on a combination of food, lodging, shopping, transportation, sightseeing, etc. If you take into account that they also came in groups of 2-3 people, they spent nearly \$500. Based on these findings, visitors of the Art Institute alone are responsible for an addition of nearly \$160 million to Chicago's economy each year.

We asked them to rank their motivations for coming to Chicago in the future.

- 85.2% ranked free music and arts events high or very high in their primary motivations to come to Chicago.
- 83.4% ranked new museums high or very high.
- 21.5 % ranked amusement parks
- only 11.1% ranked casinos as high or very high motivation to come to Chicago. Of the 223, only six said they'd be more interested in coming to Chicago if we had casinos, and six others said they'd be less interested. Casinos would have no effect on these people.

The stated purpose behind the statute instituting riverboat gambling was Tourism and economic developments, leading Governor Edgar to state, there is no tourism.

So why are we doing this in Illinois?

Professor Ryan of University of New Orleans predicted in Chicago testimony that there would be huge play by locals, huge taxes, and a large transfer of wealth from local citizens to the owners of the casinos, but limited job creation.

In defense of the concept of casino creation of tourism, jobs, and economic development, two points are important to remember:

- Riverboats in Illinois create a revenue stream for the local municipality. While the Illinois Gaming Board now admits there is no "retail development" from casino patrons. In the long-term, the improved infrastructure could create a climate for future economic development.
- Other businesses, Wal-marts, sports-stadiums are not held to the same scrutiny as casinos. So if a new Walmart creates 200 new jobs, but puts local business out of business creating a job wash, the promoters never mention this. Nor do politicians demand debate on both sides of the economic development equation. Are casinos being held to a different standard?

It is worthwhile remembering, however, that until recently casino gambling was considered a crime in most states. So it isn't unusual that the current debate is taking place, given the quick transition from crime to legal activity. But if our conclusions are correct and the Illinois Gaming Board has now done their own studies admitting the lack of tourism and the type of economic development envisioned by the legislature, the question arises, why are we doing this? What are the results of this legislative initiative? We are left with taxes and huge campaign contributions from the casinos to law makers. The former Governor of Wisconsin told me that gambling in Wisconsin is a real mess. But he asked, how do we replace the money? Gambling has emerged as a silent form of taxation. Generally, a very regressive tax on the poorest members in society. As the former head of Nevada Gaming Board economic analysis told me: It's nothing more than a regressive tax on the poorest people in society and the politicians are the addicts. They are hooked on the money. Indeed, the question is not the morality of gambling. But the morality of gambling as a form of taxation.

The state of Illinois is a 20% partner in these casinos. They are encouraging gamblers to lose their money to raise taxes.

The Illinois Lottery which advertises disproportionately in the black community "from Madison Street to Easy Street -- The Illinois Lottery" takes money from black neighborhoods and gives it to white schools.

Black activists maintain this is done to keep black schools bad to keep people playing the lottery. If you are poor, black, and make under \$10,000, our study shows you play the lottery at 6 times the level of white suburbanites making over \$50,000.

Is this what we want our government to do? Is this the way we want to treat our citizens? Is this the fairest means of taxation?

In an era of high economic production and burgeoning state surplus's, do the premises upon which gambling was predicated still exist?

Or are we going to merely continue to play the game because the casino owners and politicians who thrive off gambling have become fat and happy, in a mutual admiration society.