A National Economic Picture of Gambling

Testimony

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Executive Summary and Outline

1. A Model of Analysis and Existing Studies

Gambling for local, state and regional economies is best understood with the utilization of an input-output model. Such a model can also be used to gain insights regarding the impacts of gambling upon national economies. Existing assessments of the national economic picture of gambling have for the most part been made by gambling industry sponsored groups. These assessments categorically neglect the fact that gambling activities must be supported by expenditures of players who live within the nation. They also choose to not assess costs of externalities.

2. The Major Conclusion

Nationally, the direct inputs of money into the economy due to the presence of gambling are for the most part balanced by direct outputs of money leaving the economy or losses of money due to extra public costs necessary for regulating and administering gambling systems. As the gambling activity itself is a zero-sum game and no overall wealth is created as a result, the national economics of gambling are at best a break-even proposition at the direct costs level. When indirect costs are factored into the equation, gambling has to be seen as a net economic loser for the nation.

3. The Direct Effects--Inputs and Outputs

Gambling brings very few dollars into the American economy--that is, from exterior sources. The play of foreign patrons is for the most part balanced out by Americans' play in foreign casinos, notably those of Ontario and The Bahamas. The direct costs of regulation negate any positive inward flows from players. As gambling is at best a break-even industry relative to direct effects, that net value of the industry to the national economy must be determined with an analysis of indirect effects.
These may be called externalities.

4. The Indirect Effects

Externalities bring definite values to the equation. They are the factors that should be used to assess the economic vitality of gambling enterprise for the nation.

4a. Positive Externalities

(1) Redistributions of wealth are incurred through gambling. Persons with expendable wealth pass money onto less fortunate persons who are beneficiaries of charities and public programs supported by gambling, and also to employees who are in middle or lower income categories.

(2) Gambling opportunities provide worthwhile job training and experience for many persons otherwise left out of the employment scene. This is especially the case on Native American reservations and with properties in Las Vegas. Training is an investment in America's economic future.

(3) The placement of gambling opportunities near the citizenry reduces costs for the majority of gambling persons who are engaged in the activity solely as a responsible recreation activity. Moneys are not wasted in time expenditures, energy, transportation costs, and in additional externalities such as pollution caused by extra transportation. For persons who demand gambling outlets, their presence enhances a freedom of choice in expenditures of personal private resources. People should be free to spend money as they please. There is a value in that freedom.

(4) Gambling must be considered in comparison with the purchase of other products and service (tangible and intangible). The purchase of an automobile produced in a foreign country results in a large proportion of the price leaving the country (eg the profit factor) without a commensurate value remaining. Most gambling activity is domestic. Therefore profits remain in the country.

(5) The economic externalities of other products subject to abuse in society (alcohol, tobacco) are often greater than costs of abuses of gambling. It may be preferable that a person gamble.

4b. Negative Externalities

(1) Flows of Money often go from Poor to Rich. Quite often games attract moneys from persons who are less able to afford the recreation of the play. Moneys go to affluent owners or to government programs that distribute benefits to all persons, or in some cases to more affluent persons (eg. Georgia lottery play often comes from the less affluent and goes to scholarships for the affluent).

(2) Gambling jobs may provide great opportunities for some persons. However, in a break-even game, the jobs become available only at the cost of other lost jobs. The other jobs may or may not offer better salaries and better training opportunities for person otherwise unable to get jobs. Many gambling jobs are low paying and dead-end jobs in terms of career advancements.

(3). While convenience of gambling does reduce costs for persons whose demand for gambling products is inelastic, these cost savings must be balanced (or outbalanced) by creation of new demands that lead people to use gambling beyond their recreational needs, and who expend resources that go beyond those they can afford.

(4) The availability of gambling availability throughout the nation leads to more gambling and a greater incidence of problem gambling. The problem gambler's activity results in large expenditures of moneys by the entire society (through governments and other

sources) that would otherwise be available for individual citizens to spend on the items they would rather spend money on. Very conservative analysis indicates the economic loss for one compulsive gambler is at least $7076 per year. Nationally the loss to the economy exceeds a conservative estimate of $17.2 billion. Costs of problem gambling deprive the vast majority of the public of freedoms to expend money as they choose. This loss of freedom carries costs.

(5) The presence of gambling activities is associated with crimes committed by persons who may or may not have problems gambling. This crime activity imposes costs on the entire society. An economic loss of $8 per person equates to a national economic loss of $2.2 billion.

(6) Gambling activity does not replace other addictions. The evidence suggests rather that gamblers are more likely than others to have multiple addictions. Social cost externalities of gambling are not reduced by a reduction of other addictive activity.

5. The Balance Sheet

The externalities of gambling impose major costs on the national economy. The value of benefits derived from positive externalities must pale in comparison. The net losses in these indirect costs make the overall economic equation a negative one. As an overall negative, we cannot conclude that the gambling industry adds jobs or taxes to society. These factors are more than balanced out and negated by losses of jobs in other industries and by a reduction in taxes that would come from those other industries. Therefore the only multiplier that can be used in the formula is a negative multiplier. The benefits of gambling in terms of jobs cannot be multiplied. Rather the negative costs that are identified by an honest assessment must be multiplied. It only gets worse.
That said, we must have more independent studies using input-output models to replicate and validate the reasonable and conservative conclusions presented.