

1 COMMISSIONER WILHELM: Would I be right in thinking
2 that neither Mayor Morial nor Mayor Dement are here? I presume
3 they have a lot of more pressing issues to deal with on a day
4 like this in their cities. They were the next scheduled
5 speakers; we certainly would understand their not being here.

6 In that case, the last scheduled speaker, who we'd
7 very much like to hear from, is Dr. Adam Rose. For background
8 for those in attendance, as well as for the record, one of the
9 pieces of research that the Commission paid to have done was done
10 by Dr. Adam Rose who is a professor at Pennsylvania State
11 University -- although his research was performed not on behalf
12 of the university but on behalf of his own consulting firm -- and
13 the charge that Dr. Rose was given was not to do original
14 research -- and I want to stress that -- but rather to synthesize
15 the existing literature with respect to the economic impact of
16 gambling. Dr. Rose did that task in the rather short time frame
17 imposed upon him by the Commission. Dr. Rose, I'd like you to
18 know that your entire report was distributed to the full
19 Commission well in advance of this meeting, and we appreciate
20 your doing it so promptly. It was also discussed at some length
21 this morning in the meeting of the Research subcommittee of this
22 Commission of which I happen to be a member, and we certainly
23 appreciate the work that you've done which, in my view, is quite
24 responsive to the request that we made of you.

25 And we're very grateful for your attendance today.
26 And I think you heard my previous comments about the importance
27 of this testimony in terms of the record, even though a number of
28 the commissioners are missing. So I do want you to be

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1 comfortable that all of the commissioners have had an opportunity
2 to read your report and it will be further discussed when the
3 full Commission reconvenes.

4 Again, we're very grateful to you for the work you've
5 done and for being here. So if you would like to comment in any
6 way on your report or if there's any other information or
7 suggestions that you'd like to convey to us, I'd like to invite
8 you to do that, if you choose to.

9 DR. ROSE: Thank you very much. I was encouraged to
10 provide a brief summary of my report. Is that okay with you?

11 COMMISSIONER WILHELM: Absolutely. Thank you.

12 DR. ROSE: Well, the purpose of my report is to
13 assess the many studies on the economic impacts of casino
14 gambling or gaming. The report consists of seven sections:
15 first, an itemization of considerations affecting regional
16 economic impacts of casinos; second, an evaluation of formal
17 impact models and methods used in these studies; third, a
18 detailed review of important features of major studies; fourth, a
19 meta analysis or formal statistical analysis of the causal
20 determinates of impacts; fifth, a point by point summary of
21 findings; sixth, a set of guidelines for future studies; and
22 finally, a research agenda to help close the knowledge gap.

23 What I thought I would do in my summary today is to
24 go over 13 questions that I've posed in my executive summary and
25 give the answers to those.

26 Let me begin with the last one which is my overall
27 conclusion, and that is that the aggregate direct and indirect
28 regional economic impacts of the construction, operation and

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1 taxation of casinos are significantly positive. Broader economic
2 costs are not trivial but they not cancel out the more
3 conventional gains. Broader negative impacts are offset by some
4 longer term positive impacts from tax revenue and subsequent
5 spending on education, infrastructure, and redevelopment.

6 At the same time I should note that the determination
7 of social costs of gambling are beyond the scope of this study,
8 but from what I could tell, warrant careful further examination.

9 Let me then proceed with the first twelve of the
10 questions. The first is: Is a casino more like a factory or a
11 restaurant? And this is a common analogy used in the literature
12 in this area, and the key issue is whether a casino serves an
13 external market so that it can bring new money into an area
14 rather than just re-circulating dollars that are already there.
15 And the answer hinges on characteristics of individual
16 facilities, but in most cases a casino is much more like a
17 factory and can be an engine of regional economic growth.

18 A related question is: How large is the spending
19 substitution effect of casino gambling of resident patrons on
20 site, or how much does the spending simply displace other local
21 spending in the area? More recently there have been a rash of
22 studies that suggested that substitution effect can be as high as
23 100 percent or more, but I found more of the credible studies to
24 come up with estimates between 35 percent to 75 percent for
25 casinos that serve a mix of tourists and residents.

26 Also, the question arises: How large is the
27 substitution effect with respect to other gambling activities?

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1 And the answer here is that the substitution effect is rather
2 low, except for charitable gaming.

3 Question two: How large are the short-run multiplier
4 effects of casino gambling? And this refers to the ripple
5 effects of business stimulation off site. There are many rules
6 of thumb on multiplier effects for new businesses in general and
7 casinos really don't differ from those. For a small city or
8 group of rural counties, the multiplier could be as high as 1.5;
9 for medium sized to large cities, the multiplier could be as high
10 as 2; and for very large cities, for states, the multipliers
11 could be 2.5. And again, these should be applied once the
12 substitution effect modifies the direct spending impacts.

13 Third question: How large are the recapture effects?
14 And that refers to what extent will a casino in a region keep
15 residents from being tourists elsewhere. And the answer is the
16 ability of a new casino to keep its customers depends on its
17 location and casino characteristics such as size, gaming choices,
18 amenities, and image. The bottom line is that these effects can
19 render a recapture rate as high as 50 percent.

20 Question four: How significant is the market
21 saturation --

22 COMMISSIONER WILHELM: Excuse me, Doctor. Could I
23 ask people who are using cellular phones to go use them outside,
24 please. It's quite disruptive to the listening.

25 Excuse me for interrupting.

26 DR. ROSE: That's fine.

27 Question four: How significant is the market
28 saturation effect? And this refers to whether too many casinos

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1 are being built to be economically viable. This is related to
2 the long-term aspect of the recapture rate, and my findings
3 indicate that there's a growth potential of 10-plus percent for
4 casino gambling over the next decade.

5 And another piece of evidence to bring to bear is
6 that the researchers have found that the income elasticity of the
7 demand for gambling to be as high as 1.5, and that means as
8 income goes up by 5 percent, the amounts spent on gambling can go
9 up by 7.5 percent. That's not 7.5 percent of total income but
10 just that small proportion that people originally spend on
11 gaming.

12 A related question is: To what extent does
13 saturation affect the substitution rate? Saturation could lead
14 to a situation of convenience gambling everywhere, but the
15 chances of this happening are remote, given market forces. And
16 the bottom line here is that casino operators are businessmen and
17 are not likely to build casinos that will be doomed to failure.

18 Question five: Are there broader economic effects
19 that should be considered? Well, the main negative short-run
20 impacts include: a drain on public services, costs of increased
21 crime and crime prevention. On the other hand, there are longer
22 term positive economic impacts. No one has documented any longer
23 term negative economic impacts, per se, and the positive impacts
24 refer to: payoffs of public expenditures from casino taxes, on
25 education, infrastructure, and redevelopment.

26 Question six: What kind of jobs do casinos provide?
27 And here we've got a two-part answer. The majority of jobs are
28 relatively low skilled and low paying service jobs; however,

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1 employee benefits for these jobs are far above the national
2 average.

3 Question seven: What are the impacts of casinos on
4 the size and distribution of personal income? And this includes
5 people who work in casinos, people who live in these communities,
6 people who might be the customers, whether they live on site or
7 are tourists, and the question gets to whether the rich get
8 richer and the poor get poorer as a result of casino gambling.
9 Now, not a single study to date has come close to providing a
10 convincing answer of the entire picture, and few have really even
11 attempted that.

12 Question eight: What are the racial/ethnic
13 distributional implications of casino gambling? Well, first,
14 employment studies indicate good records by casinos in minority
15 hiring and the hiring of women. On the other hand, racial/ethnic
16 minorities, except for Native Americans, are not likely to be
17 sharing in the profits.

18 Question nine: What are the tax implications of
19 casino gambling? Casinos are subject to higher levels of
20 taxation than other enterprises in most locations.

21 And a related question is: Do gambling taxes pay for
22 the government expenditures needed to support casino operations?
23 The answer is they typically more than pay for normal
24 expenditures. Another related question is: Are some communities
25 over-dependent on casino tax revenues? And the answer is
26 probably, but there's no difference from a fiscal standpoint
27 alone in being a casino company town versus an auto manufacturing
28 company town.

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1 Question ten: What are the social costs of casino
2 gambling? And I have to answer that, unfortunately, that was
3 beyond the scope of my study.

4 Question eleven: What effect do government
5 regulations have on casinos? Well, first taxes and regulations
6 do add costs and restrain the size of overall casino operations.
7 On the other hand, casinos do benefit from government
8 involvement. Governments often provide monopoly status for the
9 casinos in business which raises their profits over and above
10 what they would be in a competitive environment; they help ensure
11 financial stability; and they help verify the integrity of the
12 games on site.

13 Question twelve: Are there dynamic aspects of the
14 issue that will make future impacts of casino gambling different
15 from the past? First, multiplier impacts will increase in
16 established areas as they grow and more specialized support
17 industries move in; second, recapture effects at any one location
18 will increase, however, offsetting these a bit will be the fact
19 that substitution effects will increase as well.

20 The bottom line -- again going back to question 13 --
21 is that a new casino of even limited attractiveness, placed in a
22 market that is not already saturated will yield positive economic
23 benefits on net to its host economy. I might add, most markets
24 are not yet saturated; at the same time, not every casino will
25 live up to expectations.

26 I'm just briefly going to go over some of the other
27 parts of the study. I made a detailed examination of factors
28 that influence the impacts of the construction, operation and

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1 taxation of casinos, focusing on special features that I've
2 mentioned before: the substitution effect, the recapture effect,
3 market saturation, public service costs, long run government
4 spending. I also surveyed regional economic impact
5 methodologies, models that are used to determine the impacts or
6 estimate and project the impacts, and evaluated their relative
7 strengths and weaknesses.

8 These methodologies include: input-output models
9 that are the most prevalently used; economic base models;
10 econometric models are also often used; computable general
11 equilibrium models which have a great potential for future use
12 and haven't been used thus far because they place an important
13 emphasis on behavioral assumptions in a regional economy; and
14 things like gravity models which help identify the boundaries of
15 a given market.

16 I read over 100 studies in compiling my report and
17 gave a separate itemized evaluation of 27 of those as to about 20
18 important characteristics dealing with their findings, related to
19 who the authors were, what the author's credentials were, who
20 sponsored them. And the bottom line of these studies, in looking
21 at 27 of them, only two of the 27 came out with overall negative
22 impacts; seven of the 27 studies came out with neutral impacts
23 including some very slightly negative or very slightly positive;
24 ten of the 17 studies concluded that the impacts were significant
25 positive; and eight of the 27, almost a third, suggested that the
26 impacts would be highly positive.

27 Now, to some extent, the impact results depended
28 heavily on the assumptions and scopes of the study. Obviously,

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1 those studies that came up with neutral impacts identified huge
2 offset effects; those studies with significantly positive impacts
3 often ignored some of the negative effects, but still adjusting
4 for these biasing assumptions, I concluded that overall economic
5 impacts were positive.

6 I also undertook a meta analysis in addition to my
7 more informal review, and a meta analysis is an application of a
8 formal statistical procedure to collections of empirical findings
9 from individual studies for the purpose of integrating and
10 synthesizing them. The dependent variable in the study was total
11 gross output or revenue by casinos.

12 The explanatory or independent variables were things
13 like: the direct spending on site; the type of casino, whether
14 it was a land, riverboat or Native American; the extent of offset
15 effects such as substitution, recapture and saturation effects;
16 the reliability of the study based on such considerations as the
17 methodology, the data, the author's credentials, the sponsor, the
18 amount of bias; and also background economic conditions in the
19 host community such as population, unemployment, and per capita
20 income.

21 The results of the formal statistical analysis
22 indicated an average multiplier of 1.8. It also found the casino
23 type matters with land-based casinos having higher impacts, but
24 probably mainly due to the fact that they're larger to begin with
25 in size. Offset effects mattered greatly which meant the
26 substitution effect and saturation effects did have an influence.

27 Interestingly, reliability measures of the studies
28 had somewhat mixed results and background economic conditions

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1 didn't seem to matter in the formal statistical analysis, and
2 that is that casinos can do well in poor areas and well-to-do
3 areas, both, depending on who they can bring in from the outside.

4 Another question that might be asked in relation to
5 my study is: Why does my study differ from Robert Goodman's
6 famous study referred to as "The U.S. Gambling Study Report of
7 1995"? First, I found many of the studies I examined were biased
8 too. Goodman tended that practically every study he looked at --
9 I think 14 of the 16 -- were biased and they were biased in a
10 direction of inflating the results and suggesting the impacts
11 were positive; to him a positive result was a biased result.

12 I found that the studies were biased in both
13 directions, some intentional but probably most unintentional due
14 to their narrow scope, the lack of data, mechanical application
15 of models, the lack of analytical sophistication.

16 I think probably the major factor that made a
17 difference between my study and his was the fact that four years
18 had elapsed between the two studies, and analysts since have
19 realized that they have to consider such factors as the
20 substitution effect, the recapture effect, market saturation, and
21 at least to note or not ignore social costs. And what this had
22 the effect of doing was narrowing the range of impacts of these
23 studies so that they wouldn't be quite as biased and the results
24 wouldn't be as inflated.

25 Let me just summarize by going through two lists of
26 items. The first is a set of guidelines I set forth in my report
27 toward the very end that were guidelines for future studies, and
28 there are five guidelines I've suggested:

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1 First, to provide a check list of major aspects of
2 casino impacts that should be included in future studies, sort of
3 musts that have to be addressed for this to be a credible study;
4 second, to provide bounds for key determinants in relation to
5 casino characteristics, and this pertains to things like
6 substitution effects, multiplier values, bounds or numbers that
7 would raise a flag if analysts suggested higher or lower numbers;
8 I also suggested that studies should be encouraged to estimate or
9 include some estimate of social costs; I also encouraged the
10 standardization of definitions and terminology across studies;
11 and finally, I suggested that we provide references to
12 pedagogical works that explain the appropriate use of alternative
13 modeling approaches.

14 As to suggestions for future research, I suggested
15 seven studies: the first to measure the extent or bounds of key
16 determinants to serve as reality checks on future reports;
17 second, a study setting bounds for social costs of crime and
18 problem gambling, and again, to provide some reality checks on
19 the studies and reports out there; third, a study of the national
20 and regional markets for casino gambling as a basis for
21 estimating future saturation effects; fourth, a study of the
22 distribution of impacts across income brackets and racial/ethnic
23 groups; fifth, a study of the relative merits of alternative
24 impact modeling approaches; sixth, a study comparing Native
25 American and non Native American casino experiences; and finally,
26 a study on how the industry and government might cooperate to
27 enhance and more widely distribute the benefits of casino
28 gambling.

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1 That concludes my report.

2 COMMISSIONER WILHELM: Thank you very, very much, Dr.

3 Rose.

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