

Testimony before the National Gambling Impact Study Commission

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The purpose of my presentation is to discuss the policy implications of my research on Indian gaming, and to offer some recommendations to help us more fully comprehend the costs and benefits of this activity.

One of my professors in graduate school used to say that no argument is so flat that it has only one side. This is especially true regarding conflicts among states, local communities, and Native American tribes regarding gaming. Native Americans assert that because of their sovereignty, federally recognized tribes have the right to engage in gaming. In 1988 IGRA affirmed those rights, while at the same time, requiring tribes to negotiate a compact with states.

For the most part, Native Americans have been a historically oppressed and disenfranchised minority. They lost their lands and have been relegated to the bottom of American society. Many reservations are among the poorest and least developed parts of the United States. Native Americans have seen government services cut, and live with diminished opportunities to equally participate in the American dream. Over five or six generations the reservation culture of hopelessness and dependence has bred numerous maladies symptomatic of unequal educational opportunities, high unemployment, low incomes, poor health care, and social disintegration.

Tribes in Arizona are, in many ways, a cross-section of the Native American experience and typify the situations found in parts of the country. Arizona tribes may have fared better economically and culturally than some other tribes. For over ten years, however, Arizona tribes have been in conflict with the state over issues of taxation and equity in the provision of services for Native Americans.¹ Several important court cases have been decided here, and there is a long-standing contentious element to tribal-state relations because of sharp differences over control of tribal resources including: land, minerals, timber, water rights, and now gaming.

Since 1992, there have been 17 reservation casinos established in Arizona. These casinos have generated hundreds of millions of dollars in profits for tribal communities. From the state's point of view, Indian gaming is a business that externalizes the social and infrastructure costs on to the state and should be taxed. Tribal leaders argue that casinos have created jobs, raised living standards, and stimulated new business opportunities that also benefit the state. In addition, gaming tribes have been able to improve health care, help needy tribal members, modernize the housing stock, and build infrastructure. The benefits and costs of Indian gaming from the state's perspective are presented in Figure 1.

Research conducted with my colleague at ASU West, Don Siegel, has been directed towards understanding the fiscal impacts of Indian gaming on the State of Arizona. In a recent article, we found that Indian casinos have destabilized sales tax revenues.² That is, since the casinos have been doing business in Arizona, actual sales tax revenues are below projected sales tax revenues. Furthermore, we found evidence of revenue leakages from taxable sectors, such as restaurants and bars, to non-taxable gambling establishments. We argue that these displacement effects are currently being masked by strong economic growth and favorable demographic trends in the state.

Given the magnitude of the revenues generated by the casinos, it is not surprising that we find strong evidence of displacement. Based upon slot machine and card table earnings, the four Indian casinos close to Phoenix are estimated to earn annual revenues of approximately \$750 million per year. Off the reservation the State of Arizona collects a Transaction Privilege Tax of 5% on taxable sales. Since Indian casinos do not pay taxes to the state or federal government, these four Indian casinos alone displace state sales taxes by approximately \$37.5 million per year.

In another study, we found that an expansion of Indian gaming is associated with a decline in state lottery sales.³ Thus, these new findings imply that we may have a conservative estimate of the total revenue leakages attributable to Indian gaming.

Since the data on Indian casino revenues are not publicly available, our research involves the use of fairly sophisticated statistical techniques. Also, existing socioeconomic economic data on Native American may be confusing or misleading. Consider the following example. Gaming tribes point to the thousands of jobs created by casinos, and argue that gaming is good because it increases tribal employment. If this is true then decreases in reservation unemployment and the number of families dependent upon welfare can offset displacement of state revenues.

While the reasoning is rather straightforward the available evidence does not support the claim. Using data from the Department of Employment Security, it cannot be determined that the difference in changes in the unemployment rates between Arizona tribes is the result of a casino. While individual tribes (e.g. Cocopah) have experienced a decrease in unemployment from 36.5 % in 1991 to 15.4% in 1997, rates of unemployment for all tribes have shown a downward trend after peaking in 1994. (See Table 1). Conversations with state gaming officials suggest that the rate of employee turnover in Indian casinos is high, and that the residual level of permanent employment is much lower that one might assume.

My co-panelist William Thompson and I are currently writing a book that attempts to apply public policy evaluation techniques to IGRA. After reviewing much of the published literature we are left with the realization that hard data on Indian gaming are almost non-existent. **In short, seldom has a public policy of this magnitude been allowed to operate without an evaluation framework to assure that the law is meeting its stated purpose.**

My purpose in presenting this information is to give the Commission a better understanding of the need for a comprehensive database that researchers can use to evaluate both the benefits and costs of Indian casinos. This brings me to two final points that I wish to put before the Commission.

There is a risk that the research undertaken under the auspices of the NGISC will miss two important aspects of the gambling phenomenon. First, the public has a right to know more about the cumulative effects of Indian gaming on the welfare of tribes and the impact of tribal casinos on surrounding communities. There should be a special effort to compile and evaluate the existing studies, and then collect new data on employment, income, welfare dependency, educational attainment, and other socioeconomic variables. This should be done with the cooperation and support of the National Indian Gaming Association, National Indian Gaming Commission, and tribal governments. There are too many instances where “national” studies have not adequately focused on the economic and social conditions of Native Americans. One important contribution of this work will be to document successful strategies used by tribes to promote economic development and diversification of reservation economies. The findings would be useful for other tribes and provide an important baseline for discussion of development models appropriate to Native peoples.

Second, despite an extensive literature on compulsive and problem gambling there is a strong behavioral orientation in the NGISC research agenda. Gambling is a \$60 billion dollar industry has had a profound effect on the U. S. economy. We need to better understand these impacts on economic growth, capital accumulation, technological innovation, employment, and a whole host of related topics. Some will assert the conventional bias that gambling is mala in se (an inherent evil) and argue that we should devote the entire research effort to defining the magnitude of its negative externalities. The NGISC could make an important contribution by supporting research of the growth effects of gambling. Using county and state data, economists would be able to identify important statistical relationships that would help us better understand gambling as an entertainment industry, and not focus solely its negative aspects.

I appreciate the opportunity to present these remarks to the Commission and will be happy to answer any questions that you make have.

Figure 1
Benefits and Costs of Indian Gaming

Benefits	Costs
1. Some tribal economies profit.	1. Reduced taxes and lottery sales.
2. Can reduce unemployment both on and off the reservation.	2. Can increase unemployment in other sectors of the state economy.
3. Can reduce state social service costs.	3. Can increase state social service costs.
4. Increased tribal income can stimulate local businesses.	4. Casino gaming negatively impacts local businesses.
5. Decreased cost of providing public services to reservations.	5. Increases the demand for public services.

Gila River*							
Labor force	2,722	2,925	2,866	3,159	3,310	3,426.0	3,745
Unemployment	684	900	768	853	747	826	787
Unemployment rate (%)	25.1	30.8	26.8	27.0	22.6	24.1	21.0
Havasupai							
	91	92	93	94	95	96	97
Labor force	169	180	171	188	203	208	232
Unemployment	22	29	24	27	24	26	25
Unemployment rate (%)	13.0	16.1	14.0	14.4	11.8	12.5	10.8
Hopi							
Labor force	2,155	2,344	2,395	2,637	2,787	2,877	3,163
Unemployment	288	547	551	611	535	592	564
Unemployment rate (%)	18.0	23.3	23.0	23.2	19.2	20.6	17.8
Hualapai*							
Labor force	343	407	303	334	348	361	393
Unemployment	116	178	89	99	87	96	92
Unemployment rate (%)	33.8	43.7	29.4	29.6	25.0	26.6	23.4
Kaibab*							
Labor force	58	66	53	58	62	64	70
Unemployment	13	20	10	11	10	11	10
Unemployment rate (%)	22.4	30.3	8.9	19.0	16.1	17.2	14.3
Maricopa (Ak-Chin)*							
Labor force	158	161	167	184	200	204	229
Unemployment	11	15	15	17	14	16	15
Unemployment rate (%)	7.0	9.3	9.0	9.2	7.0	7.8	6.6
Navajo							
Labor force	22,519	24,310	24,985	27,533	28,913	29,904	32,743
Unemployment	4,180	5,659	6,446	7,157	6,268	6,930	6,603
Unemployment rate (%)	18.6	23.3	25.8	26.0	21.7	23.2	20.2
Papago							
Labor force	1,889	2,000	2,092	2,304	2,450	2,523	2,787
Unemployment	257	343	422	468	410	453	432
Unemployment rate (%)	13.6	17.2	20.2	20.3	16.7	18.0	15.5
Pascua Yaqui*							
Labor force	588	639	687	757	785	815	885
Unemployment	127	170	215	239	209	231	220
Unemployment rate (%)	21.6	26.6	31.3	31.6	26.6	28.3	24.9
Payson (Yavapai-Apache)*							
Labor force	85	82	82	90	101	102	116

Unemployment	0	0	0	90	0	0	0
Unemployment rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Salt River*							
Labor force	1,720	1,778	1,791	1,972	2,127	2,179	2,431
Unemployment	218	286	245	272	238	263	251
Unemployment rate (%)	12.7	16.1	13.7	13.8	11.2	12.1	10.3
San Carlos*							
	91	92	93	94	95	96	97
Labor force	1,849	2,020	1,946	2,145	2,246	2,325	2,540
Unemployment	387	577	529	588	515	569	542
Unemployment rate (%)	20.9	28.6	27.2	27.4	22.9	24.5	21.3
San Xavier							
Labor force	368	384	399	439	472	484	539
Unemployment	35	46	59	65	57	63	60
Unemployment rate (%)	9.5	12.0	14.8	14.8	12.1	13.0	11.1
Yavapai*							
Labor force	94	103	92	101	111	113	126
Unemployment	10	15	10	11	10	11	10
Unemployment rate (%)	10.6	14.6	10.9	10.9	9.0	9.7	7.9
Indian Reservations less Navajo							
Labor force	18,847	20,208	22,251	24,505	26,096	26,860	29,698
Unemployment	3,422	4,830	4,344	4,823	4,223	4,669	4,449
Unemployment rate (%)	18.2	23.9	19.5	19.7	16.2	17.4	15.0

Source: Arizona Department of Economic Security

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¹ For example, compare the record of these public discussions: The 34th Arizona Town Hall, "Indians and Arizona's Future," April 8-11, 1979, p. 71; and, The Arizona Commission of Indian Affairs, 11th Annual Indian Town Hall, "The Future of Tribes: State or Tribal Taxation? Phoenix, AZ, October 19-20, 1989.

² Anders, G., Siegel, D., and Yacoub, M. 1998. Does Indian Casino Gambling Reduce State Revenues: Evidence from Arizona. Contemporary Economic Policy, forthcoming.

³ Siegel, D., and Anders, G. 1998. The Impact of Indian Casinos on State Lotteries: A Case Study of Arizona. Paper presented at the 73rd Annual Meeting of the Western Economic Association, Lake Tahoe, NV. June 28 - July 2.