National Considerations for a National Commission

Prepared for:

National Gambling Impact Study Commission
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100 W. Randolph Street
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by

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Why is there is no National Symphony-Concert Impact Study Commission as there is for gambling? Both are recreation. Both compete under the same laws of commerce for entertainment dollars. The answer is that for casinos, unlike concerts, we systematically observe harmful side effects that are believed to exceed their benefits. Like sale of a hazardous child's toy or adult tobacco, an *intrinsically* flawed product damages a percentage of its users and creates costs that nonusers must pay.

The right question, therefore, is what are the total social benefits *and* costs of casino gambling? Especially for a *national* commission, a *national* viewpoint is called for, not a narrow, partial, or regional one.

The Social Benefits and Costs of Gambling

The economic benefit of having casinos in more locations is that consumers will not have to travel as far to gamble. My research indicates that $26 per year probably overstates the consumer value of this benefit to the average person.[1] Producer and government benefits are generated if casino profits and taxes rise more than profits and taxes in other sectors go down due to casino introduction. Producer and government benefits total around $12 per person.

$26+$12 = $38—the upper bound in new benefits. However, the additional costs associated with gambling expansion are greater than $110 per person annually and may

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[1] Imagine the experiment of comparing the United States as it was in 1990 with casinos only in Nevada and Atlantic City to the alternative of placing a casino within 35 miles of every adult and averaging benefits for everyone.

be significantly higher.[2] **Figure 1** shows costs, benefits, and casino revenues on a per person basis.[3] Gambling thus fails a cost-benefit test.

This is the reason for a national commission: When the benefits go one place and larger costs go another, national policy is the answer.

Ignoring Costs

Rather than address social costs, regional gambling supporters generally prefer to discuss casinos narrowly as regional development. However, casinos are no different than other entertainment in this regard: In some cases they expand, in other cases they shrink or negligibly affect the regional economic base.

As the commission may be aware, virtually the same debate rages as to whether major league sports teams represent economic development. To expand the economic base, any activity must bring more new dollars into the evaluated area than it causes to leave. The professional consensus is that sports teams do not appreciably represent economic development because they usually serve a market that is contiguous with the area being evaluated for economic effects. This does not stop promoters from making development claims however. If revenues do not come from the outside, more money for the sports sector means less money for other sectors, the "cannibalization effect" so often referred to. For sports teams, building a stadium is often a public burden. Evaluating the economic benefits of bringing a sports team to town while omitting to include the publics' cost of building the stadium would be unthinkable. Yet this is comparable to the case for many studies of the regional economic effects of casinos which do not discuss social costs.

There are other ways that regional industry supporters provide an unbalanced view of the economics of casinos.

Convenient Assumptions

Currently Minnesota, Wisconsin, Iowa, Missouri, Illinois, Michigan, and Indiana all have casinos. Based on different studies each believes that it experiences economic gains at the expense of its neighbors as a result of gambling. Nevada has seen boom times in the 1990s with the expansion of casinos in the rest of the country. Yet unless Nevada's boom is fueled by foreigners, the rest of the country is losing to Nevada. I have also seen studies predicting that Ohio would gain from casinos, as would Pennsylvania, West Virginia, and Virginia. As these studies continue to appear, the reader can be excused if he asks where all of the supposed gains are supposed to come from. Is everyone above average?

One clue is in the way these studies choose comparisons. The first state to introduce casinos assumes that it will take from bordering states. Later states assume that they will take back from the first. Thus all studies show gains even when a consistent analysis would show that neither state gains, but both end with higher social costs.

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[2] Because available studies vary, social costs of casino expansion at the upper end might be in the range of $340.

[3] In areas with casinos easily accessible, an average adults can be expected to lose approximately $200 per year according to industry data. The figure shown of $171 is taken from a state of Iowa study.

It should not be the role of national policy to encourage or permit sale of destructive products where the total cost to the nation exceeds the benefits to the winning region or regions.

Selective Reporting

Studies by gambling supporters of even limited regional effects are sometimes biased. The press release by International Game Technology Company for a report it sponsored said, "States and localities that permit casino gaming have improved their overall economic performance, according to a nationwide study on the economic impact of gaming released today."[4] The study provided **Figure 2** in support of its conclusions in Illinois that "the opening of a casino reduced the unemployment rate in that county in both the year it was opened and in the following year."

What the industry-commissioned study failed to report is in **Figure 3**. For each casino county, Figure 3 collects all counties from Illinois' 102 counties that had the same starting unemployment rate within .1 percentage point and displays the equivalent performance data cited by the study. If the state had the same unemployment rate it is also included for comparison. As shown, the performance of the casino county looks little different than the other counties over the same period. In fact, in the case of Kane and Jo Davies counties, the average drop in unemployment for the state exceeded the performance of these counties.

Selective Assumptions

There are other reasons for caution in reading industry studies. To show employment gains, a sufficiently large share of gambling revenues must come from visitors outside the area. Even though more than three out of five gamblers would be Chicagoans, a prominent study of casinos in Chicago[5] concluded that only 29 percent of revenues would come from Chicagoans.

How did they conclude this? The study assumed that adults within 35 miles of Chicago would lose only $65.12 per person each year to casinos, compared to $198.84 for comparable adults in Atlantic City and $105.88 for those in Las Vegas. (See **Figure 4**.) The assumption, therefore, was outside the range of experience of the only two comparably large casinos in operation at the time.[6]

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[4] The Evans Group, *A Study of the Economic Impact of the Gaming Industry Through 2005*, September 1996. The portion on Illinois reads, "It would appear that the opening of a casino reduced the unemployment rate in that county in both the year it was opened and in the following year. The average employment in these eight counties (two riverboats each in Will and Kane counties) for 1993 was 614,000), which implies a total of 37,000 extra jobs, or almost four times the 10,000 new casino jobs created by 1994. These multiplier figures are much higher than ordinarily obtained, and employment in these counties might have risen for other reasons as well. Nonetheless, the figures do indicate that casino gaming has been a boon to these counties, especially those that are more rural."

[5] Deloitte & Touche, City of Chicago Gaming Commission, Economic and Other Impacts of a Proposed Gaming, Entertainment and Hotel Facility, 1992. The study did not include a study of the social costs.

[6] After challenged about this, the authors justified their lower figure by claiming that Chicagoans currently lost $480 million annually to Las Vegas and Atlantic City, much of which would be recaptured. However, $480 million represented 16.3 percent of Atlantic City and Las Vegas revenues from those more than 300 miles away while Chicago was only 4.1 percent of the over-21 population more than 300 miles from both

Interestingly, Mirage Hotel submitted a May 1993 study to the West Dundee Riverboat Project Task Force. West Dundee is a community near Chicago and would want Chicagoans to gamble more to show gains for West Dundee. The report said, "It appears that a conservative estimate of the annual per capita gaming revenue for persons residing within a fifty mile radius would be $200"—not $65.12.

Selective Reporting Again

Studies with a regional objective can be suspect for yet other reasons. In a phone conversation with a researcher at an economic consulting firm hired by a casino company to produce an impact study the researcher told me that the casino firm asked for a progress report. After being shown the results, they indicated that the benefits did not seem large enough and asked that they be made bigger. The consulting firm replied that they did not think they could make the benefits larger because they believed their original estimates were correct. The casino canceled the study.

Conclusion

Partial, regional focus,
Ignoring costs,
Convenient assumptions,
Selective reporting,
Selective assumptions:

Having witnessed how regional studies have been conducted, I urge the national commission to keep a *national* perspective and to retain a healthy skepticism of regional studies with an intentionally limited focus. Also, when benefits are presented to you, remember to ask about the costs.

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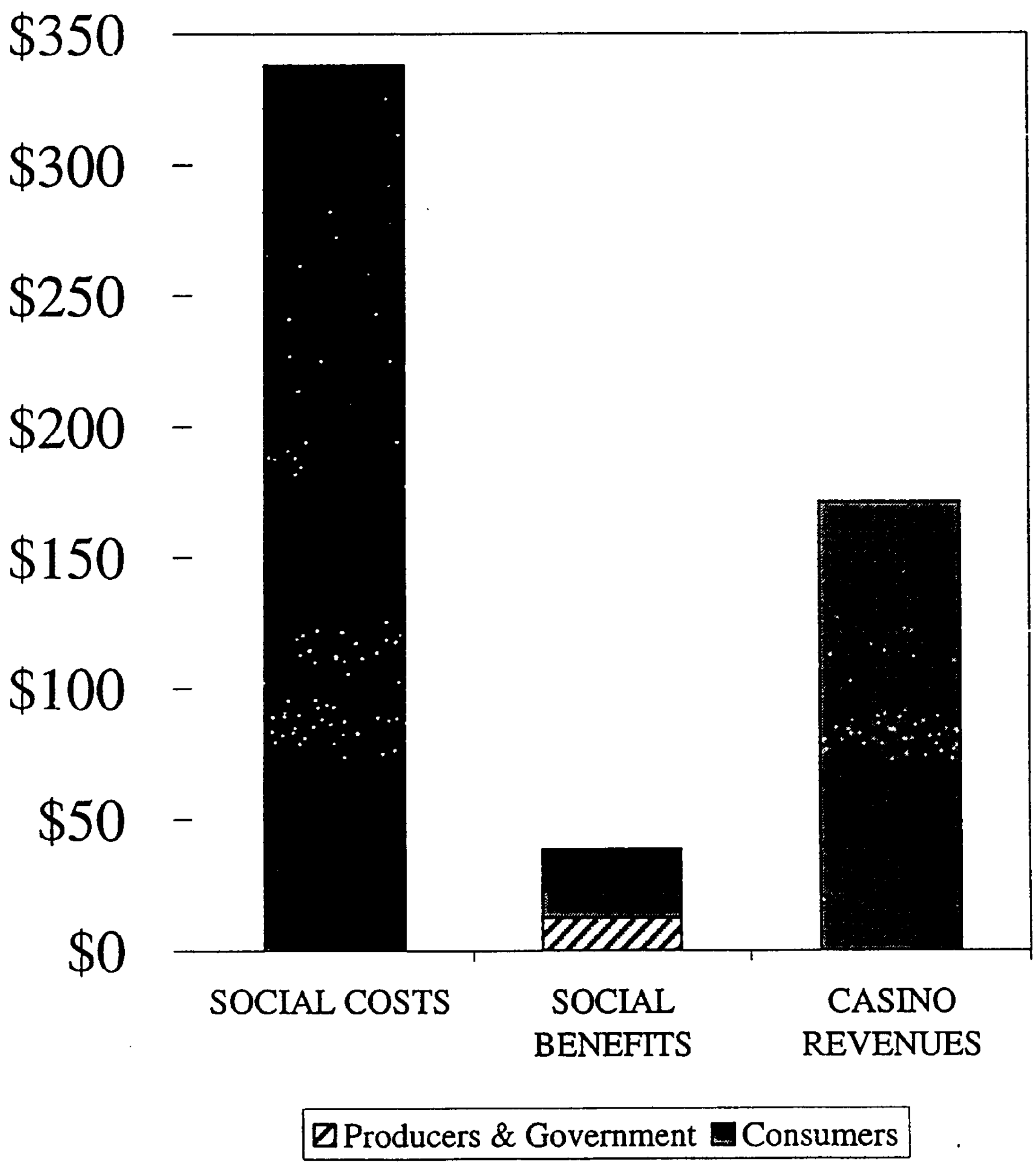
locations. While the original numbers had Chicagoans gambling 1/3 to 1/2 as much as those in other cities, the justification had them gambling 4 times more.

FIGURE 1: SOCIAL BENEFITS AND COSTS
Annual Dollars per Adult



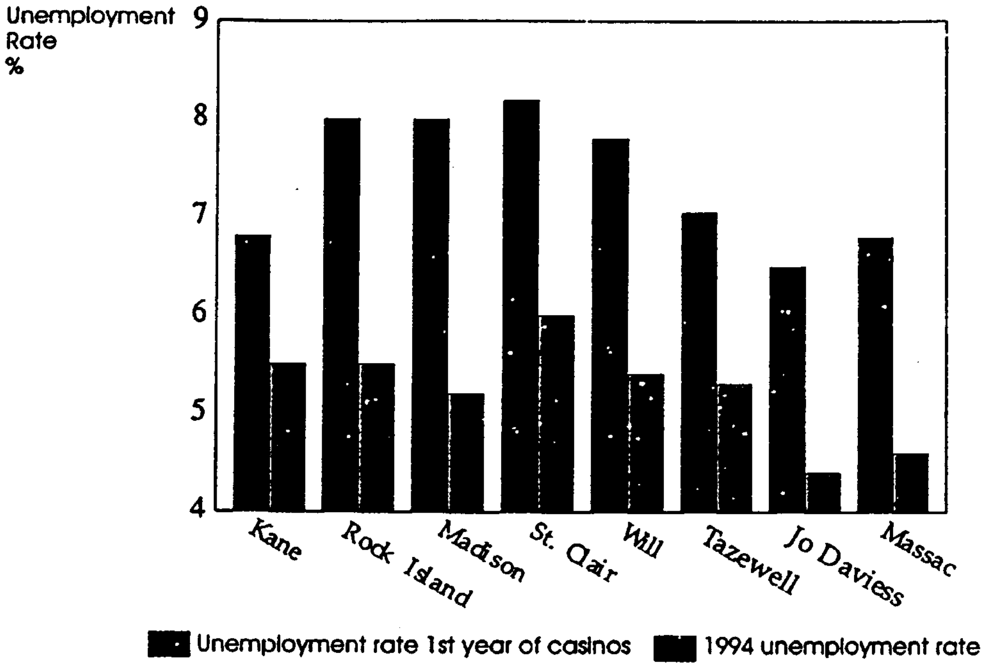


FIGURE 2:

Unemployment Rate in Illinois Counties that have Casinos.

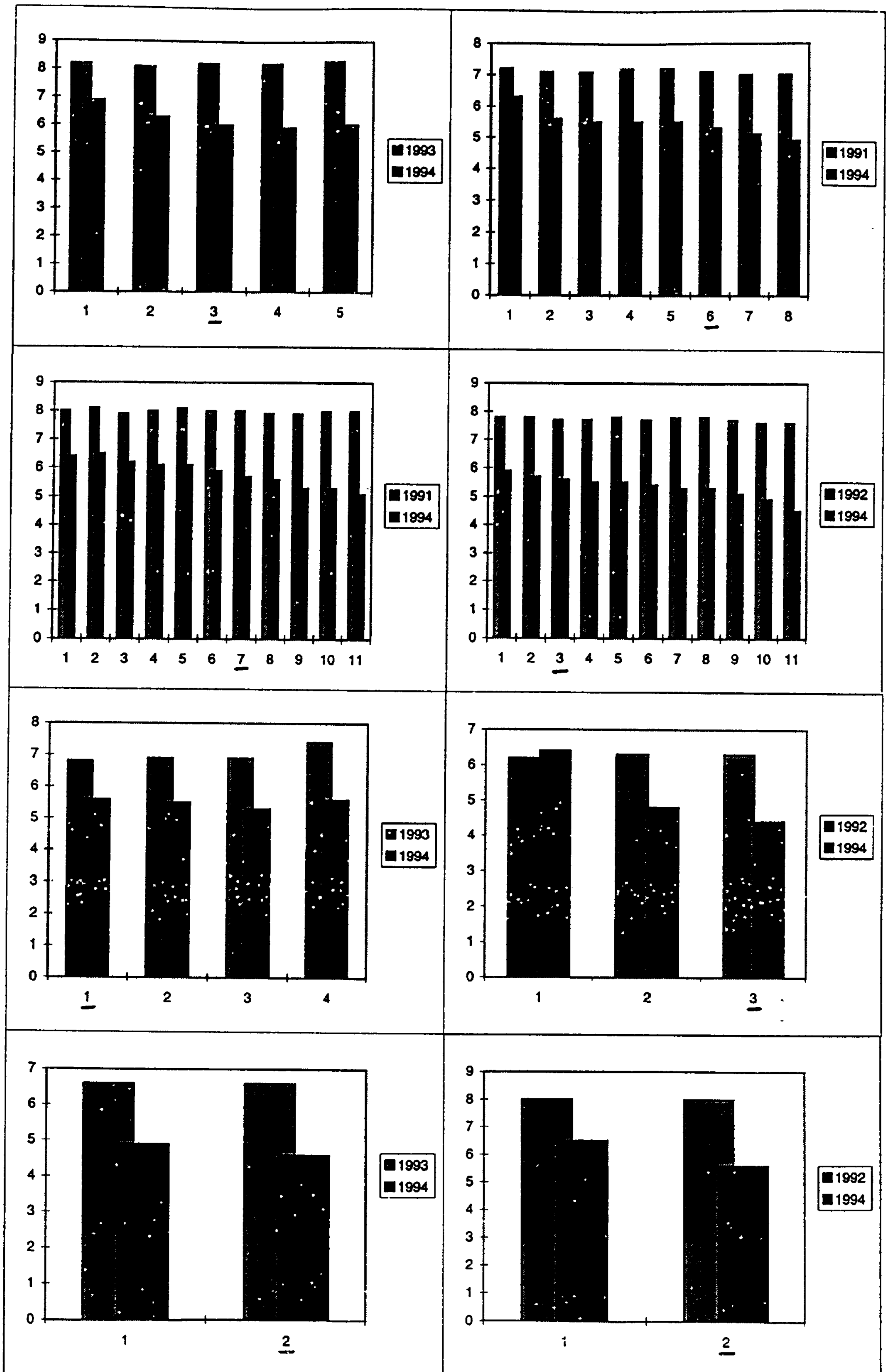


FIGURE 3: ILLINOIS COUNTY BEFORE AND AFTER UNEMPLOYMENT RATES
(Casino Counties are Underlined)

FIGURE 4: SKEWING ASSUMPTIONS FOR DESIRED RESULTS