

1 MR. EARL GRINOLS, PROFESSOR OF ECONOMICS, UNIVERSITY OF ILLINOIS

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3 CHAIRMAN JAMES: Mr. Grinols.

4 MR. GRINOLS: Instead of gambling, why don't we have
5 a national symphony concert impact study commission? I'm going
6 to use four slides.

7 I'll ask my question again. Instead of gambling, why
8 not have a national symphony concert impact study commission?
9 Both are entertainment, both compete for the same dollars, they
10 both operate under the same laws of commerce. The answer of
11 course is that for casinos we observe harmful side effects that
12 are believed to exceed the benefits. Like the sale of a
13 hazardous child's toy or tobacco for adults, an intrinsically
14 flawed product damaged a percentage of its users and creates cost
15 that non-users have to pay.

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

20 The consumer benefit of having casinos in more
21 locations is that consumers will not have to travel so far to
22 gamble. My research indicates that \$26 per year probably
23 overstates the value of this benefit to the average person.
24 Producer and government benefits are generated if casino profits
25 and taxes rise more than profits and taxes in other sectors go
26 down due to the casino introduction. Producer and government
27 benefits total approximately \$12 per person. So 26 plus 12 is
28 \$38, the upper bound in new benefits.

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1 However, the additional costs associated with
2 gambling expansion are greater than \$110 per person and may be
3 significantly higher, possibly as high as \$340. Figure one shows
4 that the cost benefits and casino revenues on a per person basis,
5 so gambling fails a cost benefit test.

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

9 Rather than address social costs, regional gambling
10 supporters prefer to discuss casinos narrowly as regional
11 development. However, casinos are no different than other
12 entertainment in this regard. In some cases they expand, in
13 other cases they shrink and in most cases they probably
14 negligibly effect the regional economic base.

15 As the Commission may be aware, virtually the same
16 debate rages as to whether major league sports teams represent
17 economic development. To expand the economic base any activity
18 must bring more new dollars into the evaluated area than it
19 causes to leave the area. The professional consensus is that
20 sports teams do not appreciably represent economic development
21 because they usually serve a market that is contiguous with the
22 area being evaluated for development. This does not stop
23 promoters from making development claims, however. If revenues
24 do not come from the outside, more money for the sports sector
25 means less money for other sectors, the cannibalization effects
26 often referred to.

27 For sports teams building a stadium is often a public
28 burden. Evaluating the economic benefits of bringing a sports
29 team to town while omitting to include the public's cost of

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1 building the stadium would be unthinkable. Yet this comparable
2 to the case for many studies of the regional impacts of casinos
3 which do not discuss social cost. There are other ways that
4 regional focus creates an unbalanced view of the economics of
5 casinos.

6 Currently Minnesota, Wisconsin, Iowa, Missouri,
7 Illinois, Michigan and Indiana all have casinos. For those who
8 are not from the Midwest, that's the entire map of the Midwest.
9 Based on different studies each believes that it experiences
10 economic gains at the expense of its neighbors as a result of
11 gambling. Nevada has seen boom times in the 1990's with the
12 expansion of casinos in the rest of the nation. But unless
13 Nevada's boom is fueled by foreigners, the rest of the country is
14 losing to Nevada. I've also seen studies predicting that Ohio
15 would gain from casinos, as would Pennsylvania, West Virginia and
16 Virginia, not to mention studies for Hawaii and Florida.

17 As these studies continue to appear the reader can be
18 excused if he asks where all the of the supposed gains are
19 supposed to come from. Is everybody above average? One clue is
20 the way these studies choose comparisons. The first state to
21 introduce a casino assumes it will be taking from bordering
22 states. Later states assume that they will take back from the
23 first. Thus, all studies can show gains even when a consistent
24 analysis would show that neither state gains but they both end up
25 paying higher social costs afterwards.

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

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1 Studies by gambling supporters of even regional
2 effects are sometimes slanted. The press release by
3 International Game Technology Company, for example, for a report
4 it sponsored emphasized that, quote, "States and localities that
5 permit casino gaming have improved their overall economic
6 performance account to a nationwide study." For Illinois the
7 study provided figure 2 in support of its conclusions that the
8 "opening of a casino reduced the unemployment rate in that county
9 in both the year it was opened and in the following year." The
10 dark graph is unemployment in these counties before and the lower
11 bar represents unemployment afterwards.

12 What the industry commissioned study failed to report
13 is figure 3. For each casino county, figure 3 collects all
14 counties from Illinois' 102 counties that have the same starting
15 unemployment rate, within a tenth of a percentage point, and
16 displays the equivalent performance data cited by the study. If
17 the state had the same unemployment rate, it was also included
18 for comparison. As shown, the performance of the casino county
19 looks little different than the other counties over the same
20 period. The counties that are casino counties I've underlined so
21 that you can see where they fit into the distribution.

22 There are other reasons for caution in reading
23 industry studies. To show employment gains, a sufficiently large
24 share of gambling revenues must come from visitors outside the
25 area. Even though more than three out of five gamblers would be
26 Chicagoans, a prominent study of casinos in Chicago concluded
27 that only 29 percent of revenues would come from Chicagoans. How
28 do they do this? The study assumed that adults within 35 miles
29 of Chicago would lose only about \$65 a year, compared to \$199 a

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1 year for comparable adults in Atlantic City and \$106 for
2 comparable adults in Las Vegas.

3 Now, here's the assumption made by the study for
4 Chicago which needed little gambling by Chicago residents to
5 reach its conclusion. The assumption therefore was outside the
6 range of experience of the only two comparably large casinos in
7 operation at the time. Interestingly, Mirage Hotel submitted a
8 May, '93 study to the West Dundee riverboat project task force.
9 West Dundee is a community near Chicago, and would want
10 Chicagoans to gamble more to show gains for West Dundee. The
11 report said that it appears that a conservative estimate of the
12 annual per capita gain in revenue for persons residing within 15
13 miles would be \$200. So there's what the Mirage Hotel assumed
14 for the same people.

15 Studies with a regional objective can be suspect for
16 yet other reasons. In a phone conversation with a researcher at
17 an economic consulting firm hired by a casino company to produce
18 an impact study, the researcher told me that the casino firm
19 asked for a progress report on that study. When shown the
20 results, the company indicated that the benefits didn't seem
21 large enough and asked that they could be made larger. The
22 consulting firm replied that they did not think they could make
23 the benefits larger because they believed their original
24 estimates were correct. The casino cancelled the study.

25 Partial regional focus, ignoring costs, convenient
26 assumptions, selective reporting, selective assumptions. Having
27 witnessed how regional studies have been conducted, I urge the
28 national Commission to keep a national perspective and to retain
29 a healthy skepticism of regional studies with an intentionally

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1 limited focus. Also when benefits are presented to you remember
2 to ask about the cost. Thank you.

3 CHAIRMAN JAMES: Thank you, Mr. Grinols.

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