SOCIAL IMPACTS AND RIVERBOAT GAMBLING

TESTIMONY PREPARED BY
William R. Eadington
Professor of Economics
Director, Institute for the Study of Gambling
and Commercial Gaming
University of Nevada, Reno

May 21, 1998

1. The past ten years have seen an unprecedented expansion of permitted casino and casino-style gambling throughout the United States and, indeed, in most parts of the world. This has been a result of a number of factors, including:

    - An increase in the acceptability of gambling as a legitimate recreational pursuit among the general population[1];
    - A decline in the perceived and real influence of organized crime and other notorious elements in existing casino industries in the United States and abroad;[2]
    - Improvements in the reputability and sophistication of companies in the casino and gaming business;
    - Improvements in the abilities of regulatory bodies to address control issues dealing with the provision of casino gaming; and
    - A general desire by political jurisdictions to capture economic benefits associated with permitted casino gaming, such as new investment, tax revenue generation, job creation, tourism stimulation, and economic development or redevelopment.[3]

2. Prior to the mid-1980s, no country in the world permitted wide-open "American style" casino gaming in urban or metropolitan areas. Casinos, when permitted, tended to be located in destination resort areas such as Las Vegas, Atlantic City, the Caribbean, the French Riviera, etc.; or away from—but within reach of—population centers, such as Macao.[4] However, in the past decade, there has been a clear trend

[1] See, for example, Harrah's Entertainment, Inc. (1996), Harrah's survey of casino entertainment.

[2] For a discussion on the corporatization of the casino industry in America, see David Johnston (1992), Temples of chance: How America Inc. bought out Murder, Inc. to win control of the casino business. New York: Doubleday.

[3] Another motivating factor for introducing casino-style gaming is to diminish illegal gambling by competitive alternatives with permitted gaming.

[4] See, for example, William R. Eadington (1995), "The emergence of casino gaming as a major factor in tourism markets," pp. 159-186, in Change in tourism: people, places, processes, Richard Butler and Douglas Pearce (eds.). London and New York: Routledge.

toward permitting casinos located close to where people live. This trend has led to major urban or suburban casinos throughout Australia, in a number of major Canadian cities, and in some metropolitan areas in the United States, such as Kansas City, Minneapolis, St. Louis, Detroit and Chicago.

3. The major driving force that has motivated governments, parliaments, and legislatures to authorize casino-style gambling has been the quest for ancillary economic benefits, as opposed to allowing gaming activity to take place primarily in response to consumer demand. With the exception of the United Kingdom, most jurisdictions throughout the world have ignored the primary interests of the consumer, and have made the case for or against legalizing gambling based on trade-offs between expected economic benefits and potential negative social impacts;[5]

4. Though some jurisdictions have decided to permit casinos rather than prohibit them, few have been willing to allow casinos to operate within an unregulated *laissez faire* economic environment. Various "protections," in the form of regulatory constraints—on where, how, or for whom casinos can do business—have been implemented with the broad objective of mitigating social impacts associated with permitted casinos. Among such approaches have been:

   - Permitting casinos only in certain locations, such as in historic mining towns or on riverboats placed in authorized bodies of water;
   - Permitting riverboat casino gaming only when the boats are sailing;
   - Placing limits on the maximum permitted wagers;
   - Limiting the amount any customer can lose on any visit to a casino;
   - Placing restrictions on credit facilities within casinos;
   - Placing restrictions on hours of operation, the minimum age of patrons, standards of dress, or allowed entertainment within a casino;
   - Placing restrictions on the types of advertising and promotions that can be used to attract custom to casinos;
   - Permitting only government owned, or government owned and operated casinos;
   - Restricting the number of casino operating licenses in a jurisdiction; and
   - Setting high excise tax rates on gross gaming revenues.

5. The types of social impacts that have raised the greatest concerns have been linkages between casinos and casino-style gambling and:
   - Organized crime;
   - Neighborhood crime and other crimes against property, such as burglaries, break-ins and embezzlements; and

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[5] For a discussion of the British approach to legalization and regulation of gambling, see David Miers (1996), "Objectives and systems in the regulation of commercial gambling," pp. 288-311, in Gambling cultures: studies in history and interpretation, Jan McMillen (ed.). London and New York: Routledge. For a discussion of some philosophic issues that underpin policy toward gambling in the U.K., see Gordon Moody (1995), "The roots, significance, value and legalization of gambling," pp. 35-60, in Journal of gambling studies, vol. 10, no. 1.

- Family-related crime and disruptions, such as child abuse, spousal abuse, suicides and divorce.

6. One of the fundamental realities regarding economic and social impacts associated with gambling is that economic impacts—which tend to be positive—are quantifiable, tangible and measurable; whereas social impacts—which tend to be negative—are qualitative, elusive, and very difficult to measure. Thus, one can often readily account for positive economic impacts within new casino industries, such as visitations, revenues, tax collections, jobs created, and new investments undertaken. However, it is very difficult, if not impossible, to come up with meaningful measures of the incidence of many social impacts attributable to an expanded presence of permitted gambling.

7. The above point notwithstanding, various claims have been made in recent years, primarily by opponents of legalized gambling, about the incidence of negative social impacts linked to casinos and casino-style gambling, and the costs they create for society at large.[6] Such claims have been based on questionable research methods, unverifiable and untraceable numbers, selective data interpretation, incorrect concepts, or just shoddy analysis. Nonetheless, claims made in the popular media tend to take on a life of their own, especially in the politically charged environment that has surrounded recent debate on the overall effects of permitted gambling on society.[7]

8. Measuring social impacts associated with casino gaming is inherently difficult. Conceptually, one would expect that most negative social impacts—including issues of crime and family related problems—are a result of problem or excessive gambling in one form or another. In many respects, negative impacts from gambling consumption parallel those that result from alcohol consumption. For both commodities:

   - A high proportion of the population participate as consumers at some time or another;
   - A subgroup of all consumers are avid (heavy) consumers of the commodity;

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[6] See, for example, Robert Goodman (1995), The Luck Business. New York: Free Press; Earl Grinols and J.D. Omorov (1997), "Development or dreamfield delusions: assessing casino gambling's costs and benefits," Journal of law and commerce, vol. 16, issue 1, pp. 49-87; William N. Thompson, Ricardo Gazel, and Dan Rickman (1997), "Social and legal costs of compulsive gambling," Gaming law review, vol. 1, no. 1, pp. 81-89; and John W. Kindt (1998), "Follow the money: gambling, ethics, and subpoenas," Annals of the American Academy of Political and Social Science, vol. 556, pp. 85-97.

[7] For a discussion of some of the rebuttals of claims made regarding negative social impacts and gambling, see Douglas M. Walker and A.H. Barnett (1997), "The social costs of legalized casino gambling reconsidered," (paper presented to the 10th International Conference on Gambling and Risk Taking, Montreal); and Joseph Kelly (1997), "The *American Insurance Institute*, like that bunny that keeps on going and going ..." Gaming Law Review, vol. 1, no. 2, pp. 209-212.

- Within that subgroup there is some proportion of the total who consume to excess, to the point where their consumption patterns become a significant negative influence on their lives and the lives of those to whom they are responsible.

Problem/pathological gamblers thus parallel heavy drinkers/alcoholics, and create difficulties not only for themselves but also for other members of the community and society at large.

9. Our conceptual understanding of problem/pathological gambling is far from complete. The empirical dimensions of problem gambling are even more difficult to achieve with any degree of reliability.

   Measuring prevalence of problem gambling is more difficult than measuring the prevalence of problem drinking, because there are fewer—if any—physical correlates. Problem gambling, to the extent it exists, is a largely invisible phenomenon. Measurement devices commonly used in prevalence studies, such as the South Oaks Gambling Screen (SOGS), were initially designed as clinical diagnostic tools rather than survey instruments, and should therefore be used with caution.

   Going to the next stage—linking the prevalence of problem gambling to explicit social costs, such as costs associated with reduced productivity, absenteeism, unpaid gambling debts, criminal justice costs, social welfare costs, etc.—is even more difficult. To undergo such an exercise and come up with apparently precise aggregated cost estimates that can then be plugged into a cost-benefit type of framework, is either academically naïve, academically dishonest, or both. Thus, claims made by some authors that the costs to society from each compulsive gambler ranges from $15,000 to $35,000 per annum simply do not have either conceptual or empirical evidence to sustain them.

10. Measurement problems notwithstanding, there are legitimate concerns regarding the relative benefits and costs of permitted casino-style gambling as a function of the kinds of protections that regulatory constraints provide. Especially if consumer well-being (consumer surplus) dimensions are not given much priority, the policy trade-off is typically between economic benefits and social costs. Consider the following alternative frameworks for permitting casinos or casino-style gambling:

    a. Destination resort casinos located away from population centers (i.e. Las Vegas, Atlantic City, Biloxi);
    b. Casinos in rural (non-urban) locales within reach of population centers (i.e. Foxwood's, Tunica County, Joliet, many Indian casinos);
    c. Casinos in urban or suburban locations in metropolitan areas (i.e. Minneapolis, Kansas City, St. Louis, Detroit);
    d. Casino-style gaming permitted in a wide range of neighborhood locations (i.e. video poker in Montana, Louisiana, and South Carolina; VLTs in South Dakota and Oregon);

e. Gambling at home (i.e. Internet casinos or wagering; interactive television betting).

As we work down this list, the ratio of benefits to costs steadily declines. For destination resorts and for casinos in rural locales not too distant from population centers, casino gaming is exported to residents of other areas, and negative social impacts are exported as well. Such jurisdictions are net beneficiaries of economic injections that result in multiplier effects that are job creating and growth inducing.

With urban/suburban casinos, the ratio of benefits to costs declines relatively because the export component largely disappears; this is due to the fact that most of the casinos' customers are drawn from the metropolitan area. Social impacts stay within the area as well. Jobs created in the casino industry are *ceteris paribus* matched by reductions in jobs elsewhere in the metropolitan area, reflecting the shifting of spending patterns.[8] Depending on expected profitability, such casinos can be important magnets for financial capital for construction and reinvestment (i.e. Detroit).

Casino-style gaming permitted ubiquitously throughout a region (i.e. in bars and taverns) generates even lower scores on benefit/cost comparisons. This is because such authorization would trigger little in the way of new capital investment (especially in comparison to permitted casinos), and would likely have incrementally greater social impacts because of the increased access to potential consumers. It is possible that such casino-style gaming might be an efficient tax collector, however.

Gambling at home—via the Internet, interactive television, or phone betting—would show the lowest benefit/cost ratio. There would likely be little or no economic spin-offs into the local community. Social impacts could be significant in light of the high degree of access such wagering opportunities would create.[9]

11. Riverboat gaming jurisdictions fall—more or less—into categories b and c. Contributions of riverboat casinos to local economies tend to be concentrated, and are dependent on the population and economic conditions of the community where they are located. However, the fact that most riverboat casino customers come from within the region where the riverboats are located (i.e. within a 100 mile radius), implies there are only limited regional economic impacts.

Mississippi provides an exception. Dockside riverboats in that state, especially in Biloxi and Tunica County, create economic impacts similar to those in Nevada and

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[8] For a detailed case study dealing with these issues, see Charles Leven and Don Phares (1998), "The economic impact of gaming in Missouri," a study presented to Civic Progress, St. Louis, Missouri.

[9] For further discussion of this framework, see William R. Eadington, CONTRIBUTIONS OF CASINO STYLE GAMBLING TO LOCAL ECONOMIES

Atlantic City. As these areas mature as destination resort areas serving their respective economic regions, the pattern of economic benefits will evolve as well.[10]

12. Though one might expect that there should be an increase in crime in areas that introduce casinos, the evidence to support such a hypothesis is neither very strong nor conclusive in its directions.[11] Though, *ceteris paribus*, one might expect crime rates to increase as a result of problem gambling, this might be offset by improved job opportunities for previously unemployed workers. Furthermore, local tax receipts might lead to increases in funding for local law enforcement. That, coupled with increased security provided by casinos themselves, might push crime out of the casino's vicinity or the political jurisdiction where the casinos are located.

    The issue of organized crime and systematic corruption with respect to casinos has steadily diminished over the past three decades. With few exceptions, modern permitted casino gaming has severely limited any role of organized crime. This is mainly a result of effective and diligent regulatory regimes, along with new technologies that have made monitoring money within casinos easier to achieve.

    One must keep in mind, however, that the commercial gaming industries are among the largest industries created primarily through the process of legislative permission and, as such, are subject to considerable lobbying efforts, or *rent seeking*.[12] Recent scandals or alleged improprieties that have occurred in states such as Louisiana and Missouri can be explained better in terms of rent seeking behavior than as anything specific to the gaming or casino industries.

13. There is no evidence that the particular "protections" provided by riverboat casino legislation—requirements that casino gaming only be permitted on boats and, in some states, only when the boats are sailing—protect the general public from possible social costs associated with gambling, in comparison to land-based casinos of similar scale. Rather, riverboat casinos provide a good example of *symbolic regulation*, which serves the purpose of suggesting to the general public that such casino-style gambling is "safer" than land based casinos. Indeed, the spread of riverboat casinos among the six states that permit them was largely driven by the political palatability of riverboat casinos rather in comparison to land-based facilities; by the nostalgic romanticism associated with the 19th century riverboat gambler mystique; by a belief that riverboats would "sanitize" gambling and thus mitigate its negative consequences; by the riverboat cruising industry who viewed such legislation as an economic windfall; and by "copy cat" legislation among neighboring states.

14. Riverboat casinos provide an excellent example of "regulation by inconvenience." Though legislatures and even riverboat operators at first felt permitting casino gaming

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[10] See Klaus J. Meyer-Arendt (1998), "From the river to the sea: casino gambling in Mississippi," in Meyer-Arendt and Rudi Hartmann (eds.), Casino gambling in America: Origins, trends, and impacts, New York: Cognizant Communication.

[11] See, for example, Jeremy Margolis (1997), "Casinos and crime: An analysis of the evidence," Washington, D.C.: American Gaming Association.

[12] See Walker and Barnett, op. cit., pp. 19-24.

on riverboats would *enhance* the riverboat experience, the actual effect was to totally transform riverboats with casino gaming to casinos that float.

This parallels the experience of race tracks that have introduced slot machines in recent years, as in the states of Iowa and Delaware. In such circumstances, over 90% of gaming revenues can come from slot machines and less than 10% from pari-mutuel wagering.[13] It is clear that such enterprises are less race tracks with slot machines than casinos with animals racing around an oval as a side show.

Mandated sailing of riverboat casinos serves no efficient purpose. The great majority of customers to riverboat casinos have no interest in sailing. Indeed, the experience of neighboring riverboat casinos in competing markets in Iowa and Illinois (Dubuque v. Galena; Davenport /Bettendorf v. Rock Island) strongly suggest customer preferences for dockside casinos over riverboat casinos that have mandated sailing. Operators—whose primary business is offering casino services, not riverboat excursions—must incur additional costs, as well as risks, by sailing versus not sailing.[14] For local governments, mandated sailing for riverboat casinos raises the specter of providing adequate resources for safety and rescue. This issue is further complicated by existing commercial river traffic, and competition for limited traffic lanes. Boats can sink, and near tragedies have already occurred with riverboat casinos. The risks for serious life threatening incidents will continue as long as mandated sailing is the prevailing rule in some states.

Thus, one must ask: Who benefits from mandated sailing rules? The only possible beneficiaries are those who are in opposition to casino gaming in the first place, aside from a handful of economic interests—riverboat captains and crews, shipyards, maritime industries—that receive windfall gains from this eccentric legislation.

15. To further complicate matters, legislation in some states with riverboat casinos is irrational from other perspectives as well. Illinois provides a case in point. Enabling legislation authorizes no more than ten casino licenses, and each license is limited to no more than 1,250 gambling stations. The result of this statutory limitation is to significantly under-supply the market demand for gambling services.

The economic effects of such rules are fairly predictable. First, existing riverboat casinos—especially those close to major metropolitan areas—have the opportunity to earn excess profits. This situation can bring about continuing political pressure to adjust tax rates upward to redistribute excess profits to state coffers, which finally did occur in Illinois.

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[13] Prairie Meadows Race Track in Altoona, near Des Moines, Iowa, generated $127 million in gaming revenues from slot machines in 1997; their handle on racing was approximately $50 million, with about $10 million retained by the operator.

[14] Indeed, in the states of Louisiana, Missouri, and Indiana, considerable efforts have been undertaken by the riverboat casino industry to try to avoid sailing. In Illinois, the industry has unsuccessfully lobbied for the right to remain dockside. In the two remaining riverboat states, Iowa and Mississippi, mandated sailing has effectively disappeared.

Second, such casinos have little incentive to allow the gaming entertainment product to evolve beyond "pure" gambling. Why should a gaming company add hotels, restaurants, entertainment venues, or other attractions, when the size of the casino is constrained by law and is already running at high capacity utilization?

Third, such jurisdictions are placed in a strategically weak position if and when competition from neighboring jurisdictions emerges. This indeed was the case of Illinois riverboats when regional casino competition came about from Iowa, following its 1994 legislative reforms, and from Indiana, especially in the Chicago market.

16. From a public policy perspective, the major difficulty with riverboat casinos is the absence of clear purpose as to why they were authorized with such constraints. There are clearly some local economic development and fiscal benefits that have resulted from riverboat casinos in communities such as Joliet and East St. Louis, but limitations on the ability of such casinos to expand to meet demand, along with sailing requirements, limit such benefits. Mississippi, which built its legislation around competitive market forces—rather than artificial restraints on size and conditions for permitted gaming—is the only new jurisdiction evolving in directions similar to Nevada and Atlantic City. All other riverboat states have limited the number of licenses, either explicitly by statute or by regulatory decision based on concerns about potential market over-supply.

A case can be made that permitting casinos only on riverboats is a *de facto* form of zoning. It does prevent the kind of land speculation that characterized Atlantic City and the Colorado mining towns shortly after casinos were legalized, which is beneficial. However, such an approach thwarts the kind of casino destination development that has characterized the casino industries in Nevada, Atlantic City, and Mississippi.

In summary, riverboat casino jurisdictions—with the exception of Mississippi—have passed legislation with a variety of restrictions and constraints that are difficult to understand in public policy terms. As such, they provide only limited positive lessons for other jurisdictions who might consider casino gaming.