

1 **BILL EADINGTON, PROFESSOR OF ECONOMICS, UNIVERSITY OF NEVADA AT**  
2 **RENO**

3  
4 CHAIRMAN JAMES: Mr. Eadington.

5 MR. EADINGTON: Thank you, Madam Chairman. Besides  
6 my prepared testimony, there are three issues I would like to  
7 address to the Commission. These are the nature of cost benefit  
8 studies as they relate to casinos and casino style gambling. The  
9 second is morality issues as they relate to gambling and public  
10 policy, and the third point is how well riverboat casinos fulfill  
11 their broad mission as legal permitted enterprises. Let me start  
12 with the cost benefit discussions.

13 Much discussion is centered around the benefits and  
14 cost associated with the casinos and casino style gambling. The  
15 underlying reality is that for the most part, the economic  
16 impacts from the development of casinos tend to be positive, are  
17 highly measurable and easily observable. Whereas, social impacts  
18 tend generally to be negative. They tend to be qualitative,  
19 elusive and very hard to measure.

20 With regard to economic impacts, it is very important  
21 to distinguish between direct impacts that are readily  
22 observable, such as jobs created, total revenues generated, taxes  
23 paid by gaming enterprises versus the overall net impacts for the  
24 jurisdictions of interest. Generally speaking, destination  
25 resort casinos have greater net impacts than do urban or suburban  
26 casinos primarily because they are exporting gaming and  
27 entertainment services to residents of other jurisdictions.  
28 Whereas, urban casinos or casinos that cater to a local market  
29 provide primarily gaming services for people who live within that

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1 region and therefore, create substantially greater shifting of  
2 spending patterns within those particular markets.

3           With regard to social costs and social impacts, one  
4 must realize it is very difficult to measure social costs  
5 associated with gambling for a number of reasons that have been  
6 highlighted in the hearings so far. First, problem gambling is  
7 largely an invisible phenomenon. It's a very difficult one to  
8 measure, and it's certainly very difficult to measure the costs  
9 associated with it.

10           Secondly, until very recently, there was virtually no  
11 research that was done on this topic, especially from a public  
12 policy perspective. Another factor that certainly is important  
13 on the social impact issue is that causality is very difficult to  
14 establish, especially with problem gambling and links between the  
15 presence of permitted gambling and crime. After participating as  
16 a social science researcher and observing this issue over a  
17 number of years, I would like to read a quote from William Miller  
18 and Martin Schwartz's article "Casino Gambling and Street Crime,"  
19 which I think summarizes my view on much of the social science  
20 research that has been done on social impacts and gambling. They  
21 say, "Although a great deal has been written on the subject, so  
22 much of the writing on all sides is bombast and blather, that it  
23 is difficult to discern any strong facts."

24           We also have in social impact issues conceptual  
25 problems as to what is appropriately a social cost versus what is  
26 a private cost. This issue comes up especially on issues of  
27 gambling deaths, on questions of lost productivity and certainly  
28 in the issue of what is the appropriate comparison if we have  
29 permitted casino gambling versus prohibited casino gambling.

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1 Certainly the baseline should not be zero, rather what is the  
2 alternative situation we would deal with as a society.

3 All of the above considerations notwithstanding, this  
4 does not stop some researchers from plowing forward in estimating  
5 with apparent precision the social costs associated with casino  
6 style gambling in various jurisdictions throughout the country,  
7 leading to results, whose sensational value has headline  
8 grabbers, that far exceed their usefulness for policy makers  
9 trying to understand the alternative implications of their  
10 decisions.

11 As research, this kind of analysis is either  
12 academically naive or academically dishonest. In either event,  
13 it is clearly poor scholarship. As examples of such information  
14 I would just cite the following claims that have been widely  
15 discussed in national newspapers as well as in research journals.  
16 These claims, I would say, are lacking in substantial empirical  
17 basis.

18 The claim, for example, that for every job created in  
19 the casino industry, three are lost elsewhere in the economy; the  
20 claim that 40 percent of all white collar crime is attributable  
21 to compulsive gambling; the claim that the cost to society from  
22 compulsive gambling is between \$15,000 to \$35,000 per year per  
23 compulsive gambler. If these claims were true, then we would be  
24 seeing very obviously major public sector manifestations of these  
25 costs, as we have seen a substantial increase in gambling.

26 Furthermore, if we are to look at other societies,  
27 for example Australia, where the per capita expenditure on  
28 gambling is substantially greater than it is in the United  
29 States, we would expect to find societies that were bordering on

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1 a dysfunctional state because of the overwhelming costs to  
2 society and to the public sector that gambling would have brought  
3 about. The fact is we do not see these manifestations, and as a  
4 result these issues have to be put into question.

5           What these issues do is I think redirect our  
6 attention from what are important dimensions. The social cost  
7 dimensions surrounding gambling are quite important, but to make  
8 claims such as the ones I mentioned, strain credibility and do  
9 not contribute to the role of public policy makers trying to  
10 answer what I think is the most important question surrounding  
11 gambling which is to strive toward an appropriate balance of the  
12 appropriate presence of gambling in society at large.

13           With regard to morality issues, I would like to point  
14 out that gambling is one of those activities where people tend to  
15 be highly judgmental, either enjoy the activity and feel it's  
16 appropriate for themselves and everybody else, or they think  
17 people who gamble are foolish or stupid and because of that they  
18 need to be protected from themselves. In either event, there's a  
19 wide tendency in gambling policy to discount the consumer's role  
20 in public policy formation.

21           I think one of the attitudes that dominated public  
22 policy in this country for the last ten years is if gamblers are  
23 foolish enough to spend so much money on gambling, we should try  
24 to exploit that particular preference and generate tax revenues  
25 or other economic benefits for other beneficiaries in society at  
26 large. This has probably been a weak foundation for a lot of  
27 public policy that we have seen.

28           Gambling challenges us on the issue of should people  
29 be responsible for themselves or should they be protected from

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1 themselves. This is really one of the fundamentals that gambling  
2 poses. I think one of the observations that we can make in  
3 America, and for that matter in most parts of the world, is that  
4 as societies have become more affluent and more educated, they  
5 have tended to become more responsible for themselves. Gambling  
6 is a by-product of societies which have experienced a higher  
7 degree of affluence, a higher degree of self-defined ethical  
8 standards. And because of that, the patterns that we see in the  
9 United States we can see in most parts of the industrialized  
10 world at essentially the same period of time. That  
11 notwithstanding, gambling remains a morally complicated issue.

12           There is more than just economic considerations that  
13 should enter into the discussion of what is the appropriate role  
14 of gambling in the society at large. Communities need to come to  
15 some decision on that appropriate presence. Now, with regard to  
16 riverboat gambling and especially the issues of riverboat  
17 jurisdictions that mandate sailing, I would cite this as a very  
18 good example, especially in comparison to legislation dealing  
19 with casino style gambling throughout the world as terribly  
20 unfocused.

21           Riverboat gambling is a good example of symbolic  
22 regulation. It presents itself as, quote, "safer than comparable  
23 land-based casino style gambling," but from my studies I can find  
24 no evidence that this indeed is the case. Riverboat gambling  
25 came into existence probably because it was more politically  
26 palatable than other forms, or comparable forms, of land based  
27 gambling and once the states of Iowa and Illinois had passed  
28 legislation other states followed in a copycat manner.

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1 Riverboat gambling is an example of regulation by  
2 inconvenience. It inconveniences the customers who have  
3 virtually no interest in being on a boat, let alone a boat that  
4 is sailing. It inconveniences operators whose primary purpose is  
5 to offer gaming opportunities to their customers, not to operate  
6 boats. It inconveniences local political jurisdictions who have  
7 to prepare for the potentiality of disaster and safety and rescue  
8 types of issues. Recent incidents that have occurred on the  
9 Mississippi River in the states of Missouri and Iowa point out  
10 some of the dilemmas that we confront by having symbolic policy  
11 that has no real impact, that mandates sailing of boats or  
12 mandates that boats compete with barges and other commercial  
13 traffic on waterways within the United States.

14 I think one needs to note the parallels that exist  
15 between putting customers of riverboat casinos in safety jeopardy  
16 with some of the complicated issues we deal with in the United  
17 States in debates concerning needle exchange programs for drug  
18 addicts or sex education issues in school. In one sense we are  
19 debating issues of principle in trying to create a symbolic  
20 protection versus questions of public safety.

21 If you have bad legislation, which I would put  
22 riverboat legislation into that category, there is ongoing  
23 pressure for rationalization. We have seen this in, for example,  
24 the state of Iowa which after five years decided to remove  
25 mandatory sailing and remove some of the wagering limits that had  
26 been placed upon their gaming operations. We have seen pressure  
27 in states such as Missouri or Louisiana to move away from  
28 mandated sailing.

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1 I think there's a natural tendency for industries to  
2 try to rationalize, especially when the purpose of the regulation  
3 doesn't seem to have any empirical impact. Poor legislation, as  
4 is the riverboat legislation in Illinois, also tends to be  
5 politically unstable. I think you have seen this in the state of  
6 Illinois where not only the mandated sailing but also the  
7 limitations on the number of gambling stations created a  
8 situation of excess profit within the industry which created  
9 ongoing pressure at the legislative level to change the tax  
10 structure to capture a greater portion of the economic rents for  
11 the benefit of the government.

12 I would like to offer some conclusions with regard to  
13 my various remarks. First, with regard to research regarding the  
14 social and economic impacts of gambling, we have a long way to go  
15 to fully understand the implications of what has been presented.  
16 I think it's very important that we distinguish between the  
17 economic and social impacts of different types of gambling,  
18 different types of casino style gambling, noting in particular  
19 that destination resort casinos will have very different benefits  
20 and costs to their jurisdictions than will urban or suburban  
21 casinos.

22 Urban casinos will have very different impacts than  
23 the proliferation of slot machines outside of casinos, as with  
24 slot operations that can be found in states such as South  
25 Carolina or Montana or South Dakota or Oregon. And given the  
26 trends that are occurring, especially in the area of Internet  
27 gambling and the potential for interactive gambling at home via  
28 television, I think we are going to be confronting some more

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1 challenging issues on what are the overall impacts of these forms  
2 of gambling.

3           The real challenge we have is to move towards a more  
4 appropriate balance of the appropriate presence of gambling in  
5 society at large. And as we establish this policy we should try  
6 to keep in mind the consumer rather than the other revenue  
7 sharers or potential rent seekers in trying to establish a basis  
8 for good policy toward gambling. We should look at strategies  
9 that have real effects in mitigating social impacts, negative  
10 social impacts rather than strictly symbolic regulation as the  
11 riverboat industry so aptly characterizes. Thank you.

12           CHAIRMAN JAMES: Thank you very much.

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