July 30, 1998 N.G.I.S.C. Tempe Meeting

CHAIRMAN JAMES: Mr. Anders.

MR. ANDERS: Madam Chair, Commissioners, it's a pleasure to be here today. I feel qualified to give this presentation at this time in part because of my knowledge about economics, but also because I teach working MBA students in the evening and I teach them business economics so I try to keep their eyes from glazing over while we get the points across.

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 the benefits of this activity.

I have no axe to grind, I approach this from the social science point of view and try to maintain a degree of objectivity and neutrality in analyzing these issues.

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 local communities, states 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 have lost their lands, as Governor Thomas pointed out, 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 the five or six generations of the reservation culture 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 other parts of the country. Native Americans in Arizona may have fared better economically and culturally than other tribes, but for the last ten years, however, Arizona tribes have been in conflict with the state over issues of taxation and equity in the provision of services. Several important court cases have been decided here, and there is a longstanding contentious element to tribal-state relations because of sharp differences over the 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 their housing stock, and build infrastructure.

A summary, in general terms the benefits and costs are included in a figure associated with my presentation. And
this is simply an attempt to try to put the benefits and the
costs from the state's perspective in a conceptual framework so
that we can begin talking about it.

Research conducted with my colleague at ASU West, Don
Siegal, has been directed towards understanding the fiscal
impacts of Indian casino gaming on the State of Arizona. In a
recent article in Contemporary Economic Policy we found that
Indian casinos have destabilized state sales taxes, that's
Arizona TPT collection. 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 gaming 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
these Native American casinos, it is not surprising that we find
strong evidence of displacement. Based upon slot machine and car
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
TPT, Transaction Privilege Tax, of 5 percent on taxable items.

Since Indian casinos do not pay taxes to the state or Federal
Government, these four casinos alone displace state sales taxes
buy approximately 37.5 million dollars per year.

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

3 Since the data on Indian revenues are not publicly
4 available, our research involves some fairly sophisticated
5 statistical techniques. Also, the existing socioeconomic data on
6 Native Americans may be confusing or misleading. An example in
7 point is the reference to reduction in the unemployment rate on
8 the Gila River reservation. I checked the two sources that I
9 have, both the Bureau of Indian Affairs and also the Arizona
10 Department of Economic Security, and neither of those two sources
11 provide evidence of that great a change in the decrease in
12 unemployment. This information is also included in a table on
13 unemployment rates on Indian reservations and it includes both
14 those with casinos and those without.

15 Okay. Consider the following example. Gaming tribes
16 point to the thousands of jobs created by casinos, and argue that
17 gaming is good because it increases tribal employment. If this
18 is true then decreases in reservation unemployment and the number
19 of families dependent upon welfare can offset the overall
20 displacement in state revenues.

21 While this reasoning is rather straightforward the
22 available evidence does not support the claim. Using data from
23 the Department of Employment Security, it cannot be determined
24 that the difference in the changes in the unemployment rates
25 between Arizona tribes is the result of a casino. While
26 individual tribes may experience a decrease in unemployment,
27 overall rates of unemployment for all tribes have shown a
28 downward trend after peaking in 1994. More over, conversations
29 with state gaming officials suggest that the rate of employee

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turnover in Indian casinos is high, and that the residual level
of permanent employment is much lower than we might assume.

My co-author and co-panelist William Thompson and I,
Bill Thompson and I, are working on 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 is 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.

I would like to end my discussion by talking about
two final points that I think are very important for the
Commission’s attention.

First, there is a risk that the research undertaken
under the auspices of the NGISC will miss two 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 also collect new data on
employment, income, welfare dependency, educational attainment,
and other socioeconomic variables. This should be done in
cooperation with the support of the National Indian Gaming
Association, the National Indian Gaming Commission and tribal
governments. There are too many instances where so called
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 on reservation economies.

And let me just mention that in looking at the data on Gila River there is a substantial decrease in unemployment and to go along with this there is a decrease in the number of recipients receiving cash welfare payments. So we're talking here about an example of a tribe that's made some real progress utilizing the revenues from the casino.

Such studies of successful tribes would provide an important baseline for the discussion of development models appropriate to all Native peoples.

Second, despite an extensive literature review on compulsive and problem gaming there is still a strong behavioral orientation to the NGISC research agenda. Gaming is a $60 billion dollar a year industry that has a profound effect on the total economy. We need to better understand the 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 will 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 on the growth effects of gambling. Using county and state data, economists would be able to identify important statistical relationships that would help give us a better understanding of gambling as an entertainment industry, and not focus exclusively on its negative externalities.
CHAIRMAN JAMES: Mr. Anders, thank you very much. We do have the full text of your comments in front of us and I do want to make sure that Mr. Thompson gets his full time.