JOHN KINDT, PROFESSOR OF ECONOMICS, UNIVERSITY OF ILLINOIS

CHAIRMAN JAMES; Professor Kindt.

PROFESSOR KINDT: With the Chair's permission I have some overheads. I want to thank you for your kind invitation to speak today. While we'll setting up, let me just say that these, of course, are my opinions and this is a first draft. We're still refining the numbers. I would request the Chair's permission to revise and extend my remarks and correct any mis-statements when I see the actual copy here.

We're missing the issue. The issue is what is the scope. The scope of gambling has to be viewed on a strategic national scale. Gambling has a zero sum effect within its market and that's the point. It has a zero sum effect within its market. Only in the most unusual hypothetical would the strategic regional benefits outweigh the negatives, like legalizing cocaine. The socio-economic costs of legalizing gambling overwhelm the benefits when looked at the strategic scope. Much of the other economic analysis is simply irrelevant.

And here we have a prime example, a country which legalized casinos in 1983, they wound up with the social cost of addictions, bankruptcy, crime and corruption. They re-criminalized it just this year. It took them 15 years to bottom out with addictions, bankruptcy, crime and corruption. And that's what this is about, the ABCs of gambling or addictions, bankruptcies, crime and corruption. I have some new numbers here for you.

The National Office of Drug Policy has indicated that the drug abuse problem is a $70 billion a year problem in the
United States and going down. But gambling abuse has been increasing, according to the Harvard Medical School Center on Addictions analysis. I'm prepared to state here today that it's now greater than the drug abuse problem. Gambling abuse is an $80 billion per year problem here in the United States.

We have 13.2 million people in the population who are involved in any illicit drug use. We have 15.4 million people or 5.7 percent of the U.S. population as pathological and problem gamblers. And the Harvard analysis indicated that the estimate should be 17 million people. So these are conservative numbers. Now, what does this mean?

The increase in pathological gamblers, again according to the Harvard Medical School Center on Addictions, this is what their report says, we can compare their charts and tables, they're saying up to 2.2 million people or .5 percent of the U.S. population became new pathological gamblers in three years, 1994 to 1997. This is what their numbers say. I say about 1.5 million, being very conservative. But if you look at what the Harvard addictions medical analysis indicates, this is what they're coming up with. Now, these are new pathological gamblers. This is a new addiction sponsored by government.

The problem gamblers, 3.5 million new people or two percent of the U.S. population became new problem gamblers in three years. The drug abuse cost, $70 billion a year; pathological gambling cost, $80 billion per year.

Just to summarize from Howard Schaffer, who has testified before this committee, gambling is an addictive behavior, make no mistake about it. It's listed in the DSM-4. It's an addictive behavior pursuant to the American Psychiatric
Association. But what do we have in the Harvard Med analysis? The most important numbers are missing, and with your kind permission, I'll use a laser pointer.

Where are the percentages of pathological gamblers and problem gamblers in this study? Where are the percentages? The most important numbers from each of these 120 studies are missing. Now, I called up Harvard and I asked them, why didn't you include these numbers. They said we didn't have room on the table there. Well, does everybody know that Connecticut is in New England? Does everybody know that Maryland is in the Mid-Atlantic states?

Here's my older study. As you can see, we've got the numbers of pathological and problem gamblers. It doesn't take much to just list those numbers. And you can see I was trying to update too as the years went by.

Now, what are the numbers that these 120 studies would report? Well, what these 120 studies are going to report, for example, in Iowa we have a base line of 1.7 percent pathological and problem gamblers; we have the casinos come in and by 1995, you heard testimony yesterday to the effect, it's up to 5.4 percent. That's over a 200 percent increase in, what, about a five, six year period with regard to pathological and problem gambling. So here are my recommendations to the committee. There's just three.

First of all, the authors of the Harvard addictions medical analysis should provide these 120 studies, give us the reported numbers of pathological and problem gamblers. Those are the most important numbers. Those are essential to the calculations. And the second, make it accessible to the public.
Put it in the Library of Congress and put copies of these studies in the U.S. Federal depository libraries across the country so the public can look at them, the press can look at that. And finally, let's have a request for the high rollers list from every U.S. casino. That would be a very helpful piece of information to answer some of these questions.

You saw this yesterday. Here we have a lady who allegedly killed one of her children. And they're investigating the death of a second child, allegedly to get the insurance money of $200,000. She has a love of gambling. That's what the addiction problem brings. These are real cases here.

Let's project this into the military population. Since 1991 the military readiness has been destabilized in U.S. military personnel by at least a 66 percent increase in addicted gambling. Pathological gamblers, 66 percent increase; problem gamblers, 108 percent increase, again, using the Harvard addictions med analysis, applying this to the military personnel. And I would suggest that Congress take a look at this.

Here's the summary. Military readiness, addicted gamblers up 66 percent; up 108 percent, for a combined doubling. Let's just look at the problem and see what's going on in the military. This is a serious issue which I don't think the Commission -- but this needs to be examined.

Now, what about bankruptcies? What do these new pathological gamblers bring to bankruptcy? We've got 1.5 million new pathological gamblers, 3.5 million new problem gamblers. By the way, that should be between $12 billion and $19.7 billion. That's a little misprint there. That should be between $12 billion to $19.7 billion in new cost of bankruptcy to the country.
in the last three years, four to $6.6 billion a year. Here, this shows the range between $12 billion and $19.7 billion and if you factor in the Harvard med analysis increase, you're getting up here into the higher numbers.

Bankruptcy is now, according to SMR research, the fourth -- I'm sorry -- legalized gambling is the fourth leading cause of creating bankruptcies in the United States in gambling communities. And this is in their feeder market. This is the proper thing to look at. In the feeder markets, in the communities, in the counties in which these gambling areas are located, they're finding 18 to 35 percent more bankruptcies than the national average.

In Nevada, as you might expect, it's 50 percent above the national average. In Atlantic City, it's 70 percent above the state average. And we hear all this about Tunica, Mississippi, great economic explosion. Look at what's going on in their feeder market, 400 percent above the national average in bankruptcies. That's the feeder market to Tunica, Mississippi, the highest rate in the country.

Projected increase in bankruptcy cost to legalized gambling. Well, it's about $40 per household in 1997. It's projected to increase to $220 per household by the year 2000. And this is according to SMR research and also the Weefa Group which the gambling industry uses all the time for their studies.

What does the Harvard addictions med analysis say here? What they're basically saying is we're creating just the pathological gamblers, 1.5 million people are becoming new criminals. Now, that doesn't mean they're going to wind up in jail. That means that they're going to steal money in order to
support their habit. Usually they start off stealing from friends, relatives, close associates. And conservative new crime cost, $12 to $15 billion in the last three years, cost per year at least four to five billion dollars.

If you put Henry Lesieur's studies together with some of the other studies and you apply this to the Harvard addictions medical analysis, you're talking about an incredible increase in the number of these people who wind up in jail. I frankly think these numbers are too high, that Harvard theoretically has projected. It should probably be cut down by 50 percent, maybe even two-thirds.

So crime and corruption, the proper focus is not at the casino site where you see crime going down. It's not in the cities of Peoria and Joliet where crime is going down. You've got increased police security. It's the 35 mile feeder market and the 100 mile feeder market. There's a study out of Minnesota that shows that there was 100 percent faster increase in crime in the gambling counties, a feeder market analysis.

Look at the scope of the feeder market analysis around the casinos than in the rest of the state, and that is the proper focus for this. Ricardo Gizel who was just here yesterday did a study in Wisconsin as well that said that crime overall was up about 20 percent in the feeder markets around the gambling in Wisconsin. Nobody asked him the question.

So what's the summary of this? Cost. What are the benefits? We have new tax revenues of about $17 billion per year coming in nationally, most of that from lotteries and the socio-economic costs are at least $3 for each $1 that's coming in, in new tax revenues. So this is not a close call. There are other
studies which are higher and say it's up to $8 to $12 in cost for
each $1 coming in.

What are the cost benefits? It's zero sum. You had
Professor Grinols here yesterday. He's done four or five
studies, one just published and he's in the Congressional
hearings in 1995, the tables are all laid out and he's done
regression analysis on all the communities that have riverboats
here in Illinois. And they're indicating that basically what we
would expect to see, you're just transferring jobs out of the
pre-existing economy. For every casino job created, you're
losing one from the feeder market.

So what are the conclusions here? Well, I believe
that these are national security types of issues that need to be
explored. U.S. gambling abuse is $80 billion per year. It's
greater than U.S. drug abuse costs. The addictions I would place
between -- and these are not my numbers. I've got the tables in
the back that show that they come from various sources, various
studies. I've tried to collate, as one of the questions that was
asked here yesterday, where these came from.

I've got hundreds of footnotes, $10,000 to $60,000
per year pathological gamblers, and actually there are estimates
that go up to 80 or $90,000 per year, and those aren't even
adjusted to 1997 dollars yet. Bankruptcies, four billion to 6.6
billion per year; crime and corruption, 15 billion per year to 34
billion per year.

Now, $34 billion per year, that's from the Florida
analysis which is the leading edge report out of the State of
Florida, done in 1994. But it still has the most advanced
methodology which has been used to try and calculate the cost of
crime in a region. So my conclusion is legalized U.S. gambling destabilizes U.S. military readiness and military personnel. The financial and banking systems, you'll find this in my testimony—and I think that's a major point which has not been explored yet. You can look at some of the crises around the Pacific Rim and I think they can be linked to the gambling philosophy.

As you may already know, we have a provision in the federal statutes that say that banks cannot participate in gambling activities such as lotteries. There's a reason for that. For public confidence in what we call stability of expectations. You have to have stability of expectations and the maintenance of a favorable legal order and if you don't have that, you're jeopardizing the U.S. economy and the world economy.

In some instances, we just propped up, for example, Mexico with billions of dollars in loans from the U.S. and World Bank and I've been getting calls from Mexico which say they want to put casinos in downtown Mexico City, the largest population base in the world in a concentrated area. That would lead to addictions, bankruptcy, crime and corruption and I believe it would destabilize third world countries which have less stable economies than those in the United States. They cannot withstand the pressures that I'm sure you've all heard about with regard to these types of problems.

I think I've got a little bit of time left, so I'll just put a little summary up here. The way to view this is to continually look at the feeder market. Identify the relevant market and for the National Commission the relevant market is the entire United States. We have a gentleman here from California, one last statement. One of the definitive reports that I have in
my testimony is from California. Visualize this. Put a fence around Nevada and don't let anybody in or out for a year. That economy will collapse. Why? Because it's living off of Southern California and the rest of the country. California is losing $3.8 billion a year and over 100,000 jobs to that economy. Thank you very much, Madam Chairman.

CHAIRMAN JAMES: Thank you very much.