1   **JOHN KINDT, PROFESSOR OF ECONOMICS, UNIVERSITY OF ILLINOIS**

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3   CHAIRMAN JAMES; Professor Kindt.

4   PROFESSOR KINDT: With the Chair's permission I have

5   some overheads. I want to thank you for your kind invitation to

6   speak today. While we'll setting up, let me just say that these,

7   of course, are my opinions and this is a first draft. We're

8   still refining the numbers. I would request the Chair's

9   permission to revise and extend my remarks and correct any mis-

10   statements when I see the actual copy here.

11   We're missing the issue. The issue is what is the

12   scope. The scope of gambling has to be viewed on a strategic

13   national scale. Gambling has a zero sum effect within its market

14   and that's the point. It has a zero sum effect within its

15   market. Only in the most unusual hypothetical would the

16   strategic regional benefits outweigh the negatives, like

17   legalizing cocaine. The socio-economic costs of legalizing

18   gambling overwhelm the benefits when looked at the strategic

19   scope. Much of the other economic analysis is simply irrelevant.

20   And here we have a prime example, a country which

21   legalized casinos in 1983, they wound up with the social cost of

22   addictions, bankruptcy, crime and corruption. They re-

23   criminalized it just this year. It took them 15 years to bottom

24   out with addictions, bankruptcy, crime and corruption. And

25   that's what this is about, the ABCs of gambling or addictions,

26   bankruptcies, crime and corruption. I have some new numbers here

27   for you.

28   The National Office of Drug Policy has indicated that

29   the drug abuse problem is a $70 billion a year problem in the

1 United States and going down. But gambling abuse has been

2 increasing, according to the Harvard Medical School Center on

3 Addictions analysis. I'm prepared to state here today that it's

4 now greater than the drug abuse problem. Gambling abuse is an

5 $80 billion per year problem here in the United States.

6   We have 13.2 million people in the population who are

7 involved in any illicit drug use. We have 15.4 million people or

8 5.7 percent of the U.S. population as pathological and problem

9 gamblers. And the Harvard analysis indicated that the estimate

10 should be 17 million people. So these are conservative numbers.

11 Now, what does this mean?

12   The increase in pathological gamblers, again

13 according to the Harvard Medical School Center on Addictions,

14 this is what their report says, we can compare their charts and

15 tables, they're saying up to 2.2 million people or .5 percent of

16 the U.S. population became new pathological gamblers in three

17 years, 1994 to 1997. This is what their numbers say. I say

18 about 1.5 million, being very conservative. But if you look at

19 what the Harvard addictions medical analysis indicates, this is

20 what they're coming up with. Now, these are new pathological

21 gamblers. This is a new addiction sponsored by government.

22   The problem gamblers, 3.5 million new people or two

23 percent of the U.S. population became new problem gamblers in

24 three years. The drug abuse cost, $70 billion a year;

25 pathological gambling cost, $80 billion per year.

26   Just to summarize from Howard Schaffer, who has

27 testified before this committee, gambling is an addictive

28 behavior, make no mistake about it. It's listed in the DSM-4.

29 It's an addictive behavior pursuant to the American Psychiatric

1   Association. But what do we have in the Harvard Med analysis?

2   The most important numbers are missing, and with your kind

3   permission, I'll use a laser pointer.

4   Where are the percentages of pathological gamblers

5   and problem gamblers in this study? Where are the percentages?

6   The most important numbers from each of these 120 studies are

7   missing. Now, I called up Harvard and I asked them, why didn't

8   you include these numbers. They said we didn't have room on the

9   table there. Well, does everybody know that Connecticut is in

10 New England? Does everybody know that Maryland is in the Mid-

11 Atlantic states?

12   Here's my older study. As you can see, we've got the

13 numbers of pathological and problem gamblers. It doesn't take

14 much to just list those numbers. And you can see I was trying to

15 update too as the years went by.

16   Now, what are the numbers that these 120 studies

17 would report? Well, what these 120 studies are going to report,

18 for example, in Iowa we have a base line of 1.7 percent

19 pathological and problem gamblers; we have the casinos come in

20 and by 1995, you heard testimony yesterday to the effect, it's up

21 to 5.4 percent. That's over a 200 percent increase in, what,

22 about a five, six year period with regard to pathological and

23 problem gambling. So here are my recommendations to the

24 committee. There's just three.

25   First of all, the authors of the Harvard addictions

26 medical analysis should provide these 120 studies, give us the

27 reported numbers of pathological and problem gamblers. Those are

28 the most important numbers. Those are essential to the

29 calculations. And the second, make it accessible to the public.

1 Put it in the Library of Congress and put copies of these studies

2 in the U.S. Federal depository libraries across the country so

3 the public can look at them, the press can look at that. And

4 finally, let's have a request for the high rollers list from

5 every U.S. casino. That would be a very helpful piece of

6 information to answer some of these questions.

7   You saw this yesterday. Here we have a lady who

8 allegedly killed one of her children. And they're investigating

9 the death of a second child, allegedly to get the insurance money

10 of $200,000. She has a love of gambling. That's what the

11 addiction problem brings. These are real cases here.

12   Let's project this into the military population.

13 Since 1991 the military readiness has been destabilized in U.S.

14 military personnel by at least a 66 percent increase in addicted

15 gambling. Pathological gamblers, 66 percent increase; problem

16 gamblers, 108 percent increase, again, using the Harvard

17 addictions med analysis, applying this to the military personnel.

18 And I would suggest that Congress take a look at this.

19   Here's the summary. Military readiness, addicted

20 gamblers up 66 percent; up 108 percent, for a combined doubling.

21 Let's just look at the problem and see what's going on in the

22 military. This is a serious issue which I don't think the

23 Commission -- but this needs to be examined.

24   Now, what about bankruptcies? What do these new

25 pathological gamblers bring to bankruptcy? We've got 1.5 million

26 new pathological gamblers, 3.5 million new problem gamblers. By

27 the way, that should be between $12 billion and $19.7 billion.

28 That's a little misprint there. That should be between $12

29 billion to $19.7 billion in new cost of bankruptcy to the country

1 in the last three years, four to $6.6 billion a year. Here, this

2 shows the range between $12 billion and $19.7 billion and if you

3 factor in the Harvard med analysis increase, you're getting up

4 here into the higher numbers.

5   Bankruptcy is now, according to SMR research, the

6 fourth -- I'm sorry -- legalized gambling is the fourth leading

7 cause of creating bankruptcies in the United States in gambling

8 communities. And this is in their feeder market. This is the

9 proper thing to look at.   In the feeder markets, in the

10 communities, in the counties in which these gambling areas are

11 located, they're finding 18 to 35 percent more bankruptcies than

12 the national average.

13   In Nevada, as you might expect, it's 50 percent above

14 the national average. In Atlantic City, it's 70 percent above

15 the state average.   And we hear all this about Tunica,

16 Mississippi, great economic explosion. Look at what's going on

17 in their feeder market, 400 percent above the national average in

18 bankruptcies. That's the feeder market to Tunica, Mississippi,

19 the highest rate in the country.

20   Projected increase in bankruptcy cost to legalized

21 gambling. Well, it's about $40 per household in 1997. It's

22 projected to increase to $220 per household by the year 2000.

23 And this is according to SMR research and also the Weefa Group

24 which the gambling industry uses all the time for their studies.

25   What does the Harvard addictions med analysis say

26 here? What they're basically saying is we're creating just the

27 pathological gamblers, 1.5 million people are becoming new

28 criminals. Now, that doesn't mean they're going to wind up in

29 jail. That means that they're going to steal money in order to

1   support their habit.   Usually they start off stealing from

2   friends, relatives, close associates. And conservative new crime

3   cost, $12 to $15 billion in the last three years, cost per year

4   at least four to five billion dollars.

5   If you put Henry Lesieur's studies together with some

6   of the other studies and you apply this to the Harvard addictions

7   medical analysis, you're talking about an incredible increase in

8   the number of these people who wind up in jail. I frankly think

9   these numbers are too high, that Harvard theoretically has

10   projected. It should probably be cut down by 50 percent, maybe

11   even two-thirds.

12   So crime and corruption, the proper focus is not at

13   the casino site where you see crime going down. It's not in the

14   cities of Peoria and Joliet where crime is going down. You've

15   got increased police security. It's the 35 mile feeder market

16   and the 100 mile feeder market. There's a study out of Minnesota

17   that shows that there was 100 percent faster increase in crime in

18   the gambling counties, a feeder market analysis.

19   Look at the scope of the feeder market analysis

20   around the casinos than in the rest of the state, and that is the

21   proper focus for this. Ricardo Gizel who was just here yesterday

22   did a study in Wisconsin as well that said that crime overall was

23   up about 20 percent in the feeder markets around the gambling in

24   Wisconsin. Nobody asked him the question.

25   So what's the summary of this? Cost. What are the

26   benefits? We have new tax revenues of about $17 billion per year

27   coming in nationally, most of that from lotteries and the socio-

28   economic costs are at least $3 for each $1 that's coming in, in

29   new tax revenues. So this is not a close call. There are other

1   studies which are higher and say it's up to $8 to $12 in cost for

2   each $1 coming in.

3   What are the cost benefits? It's zero sum. You had

4   Professor Grinols here yesterday. He's done four or five

5   studies, one just published and he's in the Congressional

6   hearings in 1995, the tables are all laid out and he's done

7   regression analysis on all the communities that have riverboats

8   here in Illinois. And they're indicating that basically what we

9   would expect to see, you're just transferring jobs out of the

10   pre-existing economy. For every casino job created, you're

11   losing one from the feeder market.

12   So what are the conclusions here? Well, I believe

13   that these are national security types of issues that need to be

14   explored. U.S. gambling abuse is $80 billion per year. It's

15   greater than U.S. drug abuse costs. The addictions I would place

16   between -- and these are not my numbers. I've got the tables in

17   the back that show that they come from various sources, various

18   studies. I've tried to collate, as one of the questions that was

19   asked here yesterday, where these came from.

20   I've got hundreds of footnotes, $10,000 to $60,000

21   per year pathological gamblers, and actually there are estimates

22   that go up to 80 or $90,000 per year, and those aren't even

23   adjusted to 1997 dollars yet. Bankruptcies, four billion to 6.6

24   billion per year; crime and corruption, 15 billion per year to 34

25   billion per year.

26   Now, $34 billion per year, that's from the Florida

27   analysis which is the leading edge report out of the State of

28   Florida, done in 1994. But it still has the most advanced

29   methodology which has been used to try and calculate the cost of

1 crime in a region. So my conclusion is legalized U.S. gambling

2 destabilizes U.S. military readiness and military personnel. The

3 financial and banking systems, you'll find this in my testimony -

4 - and I think that's a major point which has not been explored

5 yet. You can look at some of the crises around the Pacific Rim

6 and I think they can be linked to the gambling philosophy.

7   As you may already know, we have a provision in the federal

8 statutes that say that banks cannot participate in gambling

9 activities such as lotteries. There's a reason for that. For

10 public confidence in what we call stability of expectations. You

11 have to have stability of expectations and the maintenance of a

12 favorable legal order and if you don't have that, you're

13 jeopardizing the U.S. economy and the world economy.

14   In some instances, we just propped up, for example,

15 Mexico with billions of dollars in loans from the U.S. and World

16 Bank and I've been getting calls from Mexico which say they want

17 to put casinos in downtown Mexico City, the largest population

18 base in the world in a concentrated area. That would lead to

19 addictions, bankruptcy, crime and corruption and I believe it

20 would destabilize third world countries which have less stable

21 economies than those in the United States. They cannot withstand

22 the pressures that I'm sure you've all heard about with regard to

23 these types of problems.

24   I think I've got a little bit of time left, so I'll

25 just put a little summary up here. The way to view this is to

26 continually look at the feeder market. Identify the relevant

27 market and for the National Commission the relevant market is the

28 entire United States. We have a gentleman here from California,

29 one last statement. One of the definitive reports that I have in

1 my testimony is from California. Visualize this. Put a fence

2 around Nevada and don't let anybody in or out for a year. That

3 economy will collapse. Why? Because it's living off of Southern

4 California and the rest of the country. California is losing

5 $3.8 billion a year and over 100,000 jobs to that economy. Thank

6 you very much, Madam Chairman.

7   CHAIRMAN JAMES: Thank you very much.