Excerpts from

A Second Look at Gambling, by William B. Keleher

http://www.nmcag.org/affected/gambling1.htm

B. A Florida Study

The conclusion of Grinols and Omorov as to the economic effects of casinos who rely, for the most part, on a local customer base, is substantially similar to a Florida study, prepared by the Executive Officer of the Governor, State of Florida, entitled "Casinos in Florida and Analysis of the Social and Economic Impacts. The Executive Summary of the Florida study reads as follows:

Casino industry officials promote the legalization of casino gambling as an incredible economic development tool, producing substantial revenues for government and growth in local economies. Research demonstrates this to be true - for small or isolated jurisdictions.

Gambling destinations appear to be successful to the extent they can export their product. Traditional views of gambling picture tourists coming from all over the nation to participate in this unique experience. As gambling continues to spread across the nation, market saturation reduces the pool of potential tourists and forces casinos to rely upon local residents as patrons.

In examining the impacts of legalizing casinos in Florida, it was determined that:

1. State gaming tax revenues (at a rate of 16 percent on revenues) would range between $324 million and $469 million each year.
2. Existing annual pari-mutuel and Lottery revenue sources would decrease by at least $14 million and $85.5 million, respectively.
3. Recurring sales tax revenues would experience a net decrease of at least $84.7 million as Floridians diverted some of their existing taxable spending to casinos.
4. Crime and social costs attributable to casinos would total at least $2.16 billion annually.
5. When comparing annual projected state tax revenues to costs, the state would experience a substantial deficit each year.

Annual projected state tax revenues related to casinos are sufficient to address only 8 to 13 percent of annual minimum projected costs related to casinos.

Florida's substantial population and geographic size make it impossible for the state to export its casino problems to other areas while retaining revenues in state. This system works well for Atlantic City, New Jersey, which draws substantially off the gambling markets of New York City, Washington, D.C., Philadelphia and other heavily populated areas. It has also supported the City of Las Vegas which initiated casino gambling when there was relatively no other competition. Still, the City has required major adjustments to maintain its tourist market, such as appropriating a $48 million tourism promotion account each year and developing Orlando-style theme parks.

Unlike Mississippi, which suffered from some of the most impoverished conditions in the nation, Florida has much to lose from casino gambling and, apparently, little to gain. The stakes are high and the payoff low.

The Florida study states that problem gambling behavior is one of the most significant, but least often considered, cost associated with casino gambling." (p. 67) The American Insurance Institute is cited as estimating that 40 percent of all white-collar crime has its roots in both legal and illegal gambling (p. 67). Further, . . . as many as 10-17 people may be innocent victims of each compulsive gambler (cite omitted), including spouses, children, parents, other relatives, employers, co-workers and friends. Two out of three compulsive gamblers will commit illegal activities in order to pay gambling related debts and to continue gambling. (p. 68)

The study cites a Maryland Department of Health and Mental Hygiene task force as determining that ". . . its 52,000 adult gambling addicts cost citizens $1.5 billion in lost work productivity, moneys stolen and embezzled, bad checks and unpaid taxes. (p. 67)

The bottom line was a recommendation that Florida reject expanded gambling.
C. A Wisconsin Study

A report published by the Wisconsin Policy Research Institute, April 1995, Vol., 8, No. 3 entitled "The Economic Impact of Native Americans Gaming In Wisconsin," concluded that 80 percent of the revenues of the 17 casinos on 11 Indian reservations come from residents of Wisconsin and 20 percent of the revenues come from residents of other states (p. 1, 4). The following points from the Executive Summary of the Wisconsin study, are among the major findings.

When viewed geographically, the gaming revenues and the other visitor revenues result in clear economic gains to both the areas with casinos and the state overall, unless social costs are deducted from the gains.

The areas around the casinos -- within 35 miles -- cumulatively enjoy a $404.1 million net economic gain from the gaming revenue and other new visitor spending minus the outflow of money from the areas. However, also considering a low estimate of the social costs of compulsive gamblers in the areas reduces the net gain to $338.63 million.

Overall, the state gains $326.72 million in net revenue (inflow of funds minus outflow, direct and indirect) from the presence of the casinos. However, this figure is reduced substantially -- to $166.25 million -- when even the lowest estimated social costs of compulsive gambling are included in the calculations. With mid-range estimated social costs, the overall impact becomes negligible, while with higher social-cost estimates, the impact becomes clearly negative.

The economic gains of the areas with casinos are derived from both out-of-state residents and residents of areas of the rest of the state not served by local casinos. Without considering the social costs of compulsive gambling, the "rest-of-the-state" areas lose -- or, transfer in -- $223.94 million to the local gaming areas. Considering the lowest estimated social costs of problem gambling, the rest of the state currently loses $318.61 million to gambling.

Gaming estimates are, indeed, estimates. If we are to better understand the impact and scale of this new industry, public officials will need to have access to more data on the industry than current agreements allow.

The social cost of gambling was estimated using 50 percent of published estimated numbers per gambler ($13,000 to $52,000) per gambler per year and using 0.7 percent (said to be a low number) of increased problem gamblers (the high was 4 percent) within the population. The result was:

Range of Compulsive Gambling Costs to Wisconsin:
Low................$160.46 million per year
Medium...........$320.92 million per year
High.................$456.69 million per year
based on an adult population of 3,526,000 adults. (pages 41, 42)

The Wisconsin paper cautioned that much of the data set forth in the report were estimates, as information from the Indian casinos themselves was confidential. The report states:

It is regrettable that the State of Wisconsin, as a matter of public policy, has decided that information about Native American casino gambling within its borders must be kept confidential. The state's position, as conveyed to the researchers by personnel of the Wisconsin Gaming Commission, may have been negotiated into compact agreements by the tribes of Wisconsin. However, in the interest of good policy -- policy that seeks to result in benefits for Native Americans as well as other residents of Wisconsin -- public information should be public. Rational, public-policy processes require full, open access to all pertinent information if good decisions are to be the result of the processes. (p. 6)

The Wisconsin study analyzed data for the economic effect of casinos on the local area (within 35 miles of a casino) and the state as a whole The economic effect of out-of-state visitors was included. The conclusion (p. 42) is:

Casino gambling is an economic transfer policy - money is transferred from some people to other people.

The Indian Casinos have a positive economy effect on the Tribes and local areas surrounding the casinos in terms of economic analysis.

The authors of the study did not see the gambling activity as a major loss for the Wisconsin economy overall - in terms of direct analysis; however losses do occur when social costs of gambling are added into the total equation.

We can safely conclude that the gaming enterprise is not a major money maker for the State combined economy. (p. 42)

VI. CONCLUSION

The weight of the studies I have reviewed leads me to conclude:

* that gambling has a positive economic effect on casino owners and operators (the "winners"), a severe negative effect on the problem and pathological gamblers and their families (the "losers") and an overall negative economic effect on the community as a whole unless the larger "outside" money is sufficient to offset the overall negative economic effects.
* Casinos, unless part of destination resort casinos, cannibalize tax revenues and consumer spending from other local businesses, however, if the casinos are taxed (or, in the case of Indian Casinos, a revenue sharing agreement is in place), the revenue effect on the state may be neutral.
* In spite of a revenue neutral effect on state tax revenues, gambling creates costs for all within the state (or region) who do not gamble. Such costs are borne by all, including the social-non problem and non-pathological gambler.
* The social costs of gambling may not appear suddenly, rather the social costs may take time, perhaps months or two or three years, to surface.
* The availability of legalized gambling leads to an increase in gambling and the number of problem and pathological gamblers in the population.
* The closer a casino or other gambling outlet is, geographically, to a potential patron, the more likely it is that the individual will be a gambler and the greater the opportunity for an individual to become a problem gambler, or pathological gambler.
* The social costs of gambling to the population outweigh the benefits to the owners of casinos, their employees and vendors.

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