

THE NATIONAL IMPACT OF CASINO GAMBLING PROLIFERATION

HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES ONE HUNDRED THIRD CONGRESS SECOND SESSION

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CONTENTS

	Page
Hearing held on September 21, 1994	
WITNESSES	
WEDNESDAY, SEPTEMBER 21, 1994	
Bloomberg, Jeffrey, State's attorney, Lawrence County, South Dakota	14
Franklin, Webster, executive director, Chamber of Commerce, Tunica County, Mississippi	18
Goodman, Robert, director, The U.S. Gambling Study, Lemelson professor of Environmental Design, Hampshire College, and professor of regional planning, University of Massachusetts	4
Grinols, Earl, professor of economics, University of Illinois	8
Lorenz, Valerie, director, Compulsive Gambling Center, Baltimore, Maryland	11
WEDNESDAY, SEPTEMBER 21, 1994	
APPENDIX	
Opening statements:	
Baker, Hon. Richard H.	33
Klink, Hon. Ron	36
LaFalce, Hon. John J.	37
Prepared statements:	
Bloomberg, Jeffrey	42
Franklin, Webster	50
Goodman, Robert	56
Grinols, Earl	71
Kindt, John Warren,	77
Lorenz, Valerie	82
Additional material:	
Letter and statement of Ada Deer	93
Letter and statement of Arnold Hewes	98
Letter of A.J. Holloway	89
Letter and statement of Christine Milliken	108
Letter and statement of Ray Scheppach	144
Letter and statement of Tim Wapato	159
Statement from Hon. Frank R. Wolf	87

Statement of John Warren Kindt*

From a business-economic perspective, the main issue involved in legalizing various forms of gambling is whether gambling activities constitute a valid strategy for economic development. While the dollars invested in various legalized gambling projects and the initial jobs created are evident, the industry has been criticized for inflating the positive economic impacts and trivializing or ignoring the negative impacts.¹ The industry's tendency to focus on specialized factors provides a distorted view of the localized economic positives, while ignoring the strategic business-economic costs to different regions of the United States.²

Since some issue areas have not received widespread public attention, this analysis highlights some of the neglected issue areas as they relate to tax revenues, social-welfare costs, education, and job creation. From the perspective of U.S. economic history, the United States has had previous economic cycles with widespread legalized gambling activities. The most relevant cycle occurred after the American Civil War and paralleled the post-bellum migration to the "Wild West." Although gambling proliferated during this time-frame, within a few years the trend toward prohibiting gambling activities had begun, and by 1910 there was virtually no legal gambling in the United States. Gambling activities were not just prohibited via state statutes and local ordinances, but a fortiori, these prohibitions were incorporated into most state constitutions. The fact that state constitutional provisions were utilized to make it as difficult as possible for future generations to legalize gambling activities (and thereby experiment once again with a classic "boom and bust" economic cycle) lends substantial credence to arguments that both historically and currently, the legalization of gambling activities eventually causes: (1) increased taxes, (2) a loss of jobs from the overall region, (3) economic disruption of other businesses, and (4) large social-welfare costs for society in general and government agencies in particular.

In recent economic history, legalized gambling activities have been directly and indirectly subsidized by the taxpayers. The field research throughout the nation indicates that for every dollar the legalized gambling interests indicate is being contributed in taxes, it usually costs the taxpayers at least 3 dollars--and higher numbers have

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This statement should be interpreted as representing only the individual views of the author.

¹See generally, R. GOODMAN, LEGALIZED GAMBLING AS A STRATEGY FOR ECONOMIC DEVELOPMENT (Ctr. Econ. Development, U. Mass.-Amherst 1994).

²See, e.g., CAL. GOVERNOR'S OFF. PLAN. & RESEARCH, CALIFORNIA AND NEVADA: SUBSIDY, MONOPOLY, AND COMPETITIVE EFFECTS OF LEGALIZED GAMBLING ES-1 (Dec. 1992).

been calculated.³ These costs to taxpayers are reflected in: (1) infrastructure costs, (2) relatively high regulatory costs, (3) expenses to the criminal justice system, and (4) large social-welfare costs.⁴ Accordingly, several state legislators (e.g., South Dakota) have called for at least partially internalizing these external costs by taxing all legalized gambling activities at a straight 50 percent tax rate. Furthermore, as a matter of good public policy, state officials and legislators in Illinois have proposed legislation to prohibit contributions by legalized gambling interests to politicians and political campaigns.

In the context of social-welfare issues, it is well-established that legalized gambling activities act as a regressive tax on the poor.⁵ Specifically, the legalization of various forms of gambling activities makes "poor people poorer" and can dramatically intensify many pre-existing social-welfare problems. Demographic analyses reveal that certain disadvantaged socio-economic groups tend to gamble proportionately greater amounts of their overall income⁶ and marketing efforts, particularly by state lotteries, have allegedly been directed at these target groups.

From the business perspective, businesses are not naive.⁷ With the exception of the cluster services associated with gambling, new businesses tend not to locate in areas allowing legalized gambling because of one or more of the aforementioned costs. In areas saturated with legalized gambling activities, pre-existing businesses face added pressures that push them toward illiquidity and even bankruptcy. Although South Dakota does not constitute a saturated gambling state, this trend has already been reported. South Dakota had virtually no gambling in 1988 and then instituted casino gambling and video lottery terminals by the end of 1989. Within two years legalized gambling activities constituted one of the leading causes of business and

³For example, just the social-welfare costs mentioned at footnotes 10, 12 infra usually dwarf the projected new tax revenues from the legalized gambling activities.

⁴See, e.g., Press Release, Off. Ill. Gov. James Edgar, "Governor Warns Land-Based Casinos Could Bring Crime Surge As Well As Overall Loss Of Jobs And State Revenues," Sept. 29, 1992 (summarizing several Illinois State reports).

⁵See, e.g., C. CLOTFELTER & P. COOK, SELLING HOPE 215, 222-27 (Nat'l Bur. Econ. Research, Harv. U. Press 1989).

⁶Id. at 99.

⁷For example, "[i]n a rare public stand on a controversial political issue, the Greater Washington Board of Trade's 85-member board voted unanimously against" Mayor Sharon Pratt Kelly's initiative to bring casino-style gambling to Washington, D.C. Spayd & Woodlee, Trade Board Rejects D.C. Casino Plan, Washington Post, Sept. 25, 1993, SA, at 1, 8 (emphasis added).

personal bankruptcies among South Dakota residents (whereas this cause was non-existent in 1989).⁸ More subtly, traditional businesses in communities which initiate legalized gambling activities can anticipate increased personnel costs due to increased job absenteeism and declining productivity. The best blue-collar and white-collar workers, the Type-A personalities, are the most likely to become pathological gamblers. A business with 1,000 workers can anticipate increased personnel costs of \$500,000 or more per year--simply by having various forms of legalized gambling activities accessible to its workers.⁹

To some extent businesses must already internalize the societal costs associated with assisting personnel with drug or alcohol-related problems. Legalizing various gambling activities increases the number of problems related to pathological gambling in the context of the workforce, and these costs are reflected in increased personnel costs--such as "rehabilitation costs," which can easily range from \$3,000 to \$20,000 (or more) per pathological gambler.¹⁰ In the context of the current healthcare debate, the spectre of these unanticipated costs can raise further concerns to businesses already being asked to bear certain healthcare costs.

Gambling activities and the gambling philosophy are directly opposed to sound business principles and economic development. Legalized gambling activities also negatively affect education--both philosophically and fiscally.¹¹ In states with legalized gambling activities which were initiated allegedly to bolster tax revenues to "education," the funding in "real dollars" has almost uniformly decreased.

⁸See, e.g., Nelson, S.D. bankruptcies down 5 percent: Judge: Gambling caused most cases, Argus Leader (Sioux Falls, S.D.), Jan. 15, 1993, at 1.

⁹The large social-welfare costs caused by legalizing gambling activities are necessarily reflected to some extent in the workforce. See footnotes 10, 12 infra and accompanying text. For example, lost work productivity alone has been calculated at \$23,000 per year per pathological gambler. See, e.g., BETTER GOV'T ASSOC., STAFF WHITE PAPER: CASINO GAMBLING IN CHICAGO 14-15 (1992) (a comprehensive report). The costs of a "bottomed-out" pathological gambler are significantly higher. Id. at 14 (\$27,000 per pathological gambler). See also ALCOHOL & DRUG ABUSE ADMIN., MD. DEP'T HEALTH & MENTAL HYGIENE, TASK FORCE ON GAMBLING ADDICTION IN MARYLAND 2, 59-61 (approximately \$15,000 per year per compulsive gambler in lost productivity).

¹⁰See, e.g., GAMBLING ADDICTION IN MARYLAND, supra note 9, at 29-30, 36-63 (1990); CASINO GAMBLING IN CHICAGO, supra note 9, at 12.

¹¹See, e.g., CLOTFELTER & COOK, supra note 5, at 151-53; CASINO GAMBLING IN CHICAGO, supra note 9, app. Q.

Those states which embrace legalized gambling activities can expect enormous socio-economic costs and declines in the quality of life. Unlike traditional business activities, legalized gambling activities cater to a market consisting of addicted and potentially-addicted consumers, and most pre-existing traditional businesses will find it quite difficult to compete for "consumer dollars" which are being transformed into "gambling dollars."

For example, the field research strongly suggests that the introduction of widespread legalized gambling in South Dakota, including casinos and video lottery terminals (VLTs), over a two-year time span caused a one percent increase in the number of problem and probable pathological gamblers--a recognized addiction pursuant to the American Psychiatric Association. Each newly-created pathological gambler has been calculated to cost society between \$13,200 to \$52,000 per year.¹² These costs are not just reflected in society as a whole, but impact on all businesses. In particular, small businesses could easily experience disproportionate negative impacts, and unlike large corporations, small businesses would be less likely to have the asset base necessary to cushion against those negative impacts.

Sociologists almost uniformly report that increased gambling activities which are promoted as sociologically "acceptable" (the acceptability factor) and which are made "accessible" (the accessibility factor) to larger numbers of people will increase the numbers of pathological gamblers. The baseline of pathological gamblers as part of the population begins at .77 percent as reported by the 1976 U.S. Commission on Gambling.¹³ Since gambling has been legalized and made accessible in several states, the range has increased to 1.5 to 5 percent¹⁴ in those states. This translates into increases in socio-

¹²See, e.g., STRATEGY FOR ECONOMIC DEVELOPMENT, *supra* note 1, at 61-63; Politzer, Morrow, & Leavey, Report on the Societal Cost of Pathological Gambling and the Cost-Benefit/Effectiveness of Treatment 8-10, 18-20, 23-25, 29-30 (5th Nat'l Conf. on Gambling and Risk Taking 1981); CASINO GAMBLING IN CHICAGO, *supra* note 9, at 14. See also GAMBLING ADDICTION IN MARYLAND, *supra* note 9, at 2, 59-61.

The more recent estimates are tending to cluster in the range of \$13,200 to \$35,000 (without adjusting for inflation). Even the lowest estimates reflect large social-welfare costs, which should be compared with any projected new tax revenues from legalizing various forms of gambling activities. In most instances an increase of one cent or less in the sales tax would raise more tax revenues than the total of a state's projected revenues from legalized gambling activities.

¹³U.S. COMMISSION ON THE REV. OF THE NAT'L POL'Y TOWARD GAMBLING, GAMBLING IN AMERICA 73 (Gov't Printing Off. 1976) (another 2.33 percent equal "potential" pathological gamblers).

¹⁴See, e.g., ALTA. LOTTERIES & GAMING, GAMBLING AND PROBLEM GAMBLING IN ALBERTA 18 (Jan. 1994) (summarizing 20 studies showing the range of problem and probable pathological gamblers at 1.7 to 6.9 for adults and 3.6 to 12.4 for adolescents).

economic costs which must be addressed and absorbed primarily by taxpayers, but also by businesses, charities, social-welfare organizations and governmental units.

On a regional level, the combined ranges of these various socio-economic costs are so large¹⁵ that they tend to dwarf the localized economic positives. These drains on society could easily translate into a net loss of jobs on a statewide or regional level.¹⁶ Furthermore, it can be argued that the combined economic positives and negatives result in a net negative economic multiplier.¹⁷ From the perspective of business-economics and strategic development, major businesses are and should be concerned with the trend toward expanding various forms of legalized gambling activities. Among other reasons, nongambling-related businesses will not be competing for consumer dollars or recreational dollars on a "level playing field," because legalized gambling activities can cater to an addicted and potentially-addicted market segment.

Since the U.S. economy and most state economies are extensive in scope, the socio-economic negatives associated with legalized gambling activities can remain hidden for long periods of time. However, just because a particular activity is "legalized" by a state government does not mean that the negative business or societal impacts have been eliminated--or even reduced.

Increasingly, taxpayers and businesses are beginning to realize that, as Professor Jack Van Der Slik has summarized for much of the academic community, state-sponsored gambling "produces no product, no new wealth, and so it makes no genuine contribution to economic development."¹⁸ Business-economic history supports this proposition. To paraphrase Georg Hegel's common quote, "those who forget the lessons of economic history are condemned to relive them."¹⁹

¹⁵See, e.g., SUBSIDY, MONOPOLY, AND COMPETITIVE EFFECTS OF LEGALIZED GAMBLING, supra note 2, at ES-1.

¹⁶Id.

¹⁷See, e.g., STRATEGY FOR ECONOMIC DEVELOPMENT, supra note 1, at 50.

¹⁸Van Der Slik, Legalized gambling: predatory policy, ILL. ISSUES, Mar. 1990, at 30.

¹⁹J. BARTLETT, FAMILIAR QUOTATIONS 507 (14th ed. 1968).