POLICYBRIEF

February 7, 2008

Providing Analysis and Research on the Dangers of Gambling

Expanded Gambling: Casinos' impact on a new community

By Joseph Day

As gambling expands in America local and state governments face tough decisions regarding the welfare of its people. Governments want to provide services to its people but the lack of plush budgets leads to tough choices. Instead of cutting spending or increasing taxes, the two basic philosophies of balancing budgets, many in government are looking to use gambling as a way to solve budget shortfalls. The belief is that you can put an enormous tax on gambling institutions to make up budget dollars while not directly increasing taxes nor cutting any spending. The problem is that a wealth of evidence indicates that such a notion is tremendously flawed.

Unfortunately, this information is often lost to the blinders that the gambling industry places on both citizens and those charged with making governmental decisions. The issue of expanding gambling almost always attracts a well-funded campaign of nonacademic disinformation by the gambling industry. As explained in the Stanford Journal of Law 2003, they routinely use their influence to create studies that don't have backed university support, that don't properly provide the numbers behind their research necessary for proper peer review and are produced by biased pro gambling interests. As a consumer watchdog organization, Casino Watch is concerned that proper academically peer reviewed non-biased information will be lost. We want to supply you with as much reputable information as possible so you can not only make the best decision for yourself but also hope to influence those tasked with making such important decisions.

The National Gambling Impact Study Commission (NGISC) unanimously submitted its report to Congress on the dangers of gambling and used analysis from gambling's economic and social impacts to determine if the costs outweigh the benefits of expanded gambling. When looking to the economic impact of a casino in your communities it's important to understand a few key concepts; a casino would cannibalize a local economy and result in a net loss of jobs not a net gain.

Most casinos would not bring in tourists to the area and become a destination gambling location the likes of Las Vegas. Rather, most communities will be dealing with a situation of convenience where local people will be mainly coming from the surrounding area. Professor John Kindt of the University of Illinois reported in the Michigan State DCL Law Review in 2003 that, "in a convenience gambling economy, discretionary spending is diverted from other forms of entertainment and consumer expenditures to casinos and other gambling establishments. Restaurants, hotels, and other competing local businesses lose revenues and fail." The NGISC reported this cannibalizing effect in Atlantic City where 78% or 245 of the local businesses and restaurants near the boardwalk went out of business after the casinos opened. Local area businesses, especially small "mom and pop shops," will start going out of business in local communities as they will struggle to compete with elaborate cheap buffets and the marketing buying power that casinos bring to small markets.

Not only will casinos create economic loss, rather than economic growth by cannibalizing the local economy, they will also exacerbate the problem by taking the money they do collect out of local communities and often out of the state. As Dr. Earl Grinols, currently professor of Economics at Baylor University explains in his book *Gambling in America: Cost and Benefits* in 2004, "'these (casino) companies do not take their profits and throw them back into the local economy.'" Statistics range from 35% to 87% of the profits are sent out of states in the form of vendor contracts, capital investment dividends and parent company profit sharing. This money does not get reinvested into the community, which is the foundation of economic development.

The gambling industry tries to point to job creation as a measure of economic development. Several key factors must be understood when dealing with such claims. First, job creation is not an indicator of economic development and local residents may not benefit at all from job creation. Dr. Grinols explains that, "a faulty emphasis on jobs derives from an erroneous understanding of economic development. Jobs are neither necessary nor sufficient for economic development, which is the enhancement of the welfare or utility of households from given resources." Second, when dealing with unemployment Dr. Grinols argues that, "a significant amount of promotional material purports that casinos decrease unemployment, but fails to prove what employment *would have* been in the absence of casinos." Most importantly however, because casinos represent negative not positive economic development, more jobs are actually lost in the long run, not created. In 2007 professor Frederic H. Murphy of Temple University, proved in his economic impact analysis of expanded gambling in Philadelphia, that because money from the casino was leaving the area and not staying in the local economy, there would be a net loss of over 4,000 jobs. Dr. Grinols points out that, "according to research not sponsored by the casino industry, commercial casinos nationwide generated job losses in more than 42 percent of the counties with casinos." Very few communities could absorb this kind of impact, thus a local casino would have the exact opposite effect and would be extremely costly to its residents.

It is important to understand that everyone from economists to medical professionals agrees that a certainty of social costs exists and will occur with a new casino . As explained by the NGISC, "pathological gamblers 'engage in destructive behaviors: they commit crimes, they run up large debts, they damage relationships with family and friends, and they (commit suicide).'" The National Opinion Research Center found that the presence of a gambling facility within 50 miles roughly doubles the prevalence of problem and pathological gamblers." The National Research Council points to loss of employment as a cost to pathological gamblers as "roughly one-fourth to one-third of gamblers in treatment in Gamblers Anonymous report the loss of their jobs due to gambling."

One of the largest problems with gambling addiction is that it's a silent addiction. It is often too late to prevent the devastation of addiction because people stay quiet and hide the problem. But as Dr. Grinols explains, "it is important to put a face on the social costs of casinos because many of the social costs are hidden." Not all crime for example is seen immediately to the public. It would be easy to say that because a new casino town or area is not reporting an increase in crime then crime is not happening, but that is not the case. White-collar crimes are some of the most devastating. The National Research Council reported to the NGISC "as access to money becomes more limited, gamblers often resort to crime in order to pay debts, appease bookies, maintain appearances, and garner more money to gamble." The NGISC reported, "in a survey of nearly 400 Gamblers Anonymous members, 57% admitted stealing to finance their gambling. Collectively they stole $30 million for an average of $135,000 per individual. One witness before the Commission indicated that '80 to 90 percent of the people in Gamblers Anonymous will tell you they did something illegal in order to get money to gamble.' A lot of them do white collar crimes, fraud, credit card and employee theft."

Because of gambling's negative economic and social impacts Dr. Grinols concluded "casino gambling fails a cost-benefit test by a wide margin." Professor John Kindt points out in the Ohio Northern University Law Review 2003 that, "a headline in the Omaha World-Herald highlighted that economists affirmed that the costs far outweighed the benefits by stating '40 Economists Side Against More Gambling.'" The NGISC reported that for every $1 collected in tax revenue from the casino, the state spends $3 to deal with the problems it creates. Dr. Earl Grinols of Baylor University and David Mustard of the University of Georgia in their study "Business Profitability vs. Social Profitability," outlined gambling's impact on local economies. Updating for 2006 numbers, $1.5 billion was gambled away in Missouri casinos. The state collected $314 million for taxes, however, with $814 million in social cost, there was a potential net loss of $500 million dollars.

Such startling economic impact analysis is why the National Gambling Impact Study Commission stated that "no economic benefit to either a place or person was advanced by proponents of convenience gambling," and that "the Commission is unanimous in its belief that the incidence of problem and pathological gambling is of sufficient severity to warrant immediate and enhanced attention on the part of public officials and others in the private and non-profit sectors. The Commission strongly urges those in a position of responsibility to move aggressively to reduce the occurrence of this malady in the general population."