

Legalized Gambling: Public Policy and Economic Development Issues

Robert Goodman

Governments are shifting from their role of gambling regulator to that of gambling promoter. More productive approaches to gambling policy and economic development are outlined.

The following are excerpts of testimony before the House Committee on Small Business, Congress of the United States, September 21, 1994.

Two and one half years ago, I became the director of the United States Gambling Study, a research project designed to study the economic consequences of legalized gambling in America. This project was conducted at the University of Massachusetts at Amherst, with funds from the Ford Foundation and the Aspen Institute.

Working with a number of economic and legal consultants and graduate students, we interviewed politicians, business leaders, Attorneys General, state lottery directors, gambling industry executives, newspaper reporters, and researchers. We also reviewed a large body of research information about the gambling industry.¹

The results of our research, published in a 222 page report titled *Legalized Gambling as a Strategy for Economic Development*, we hoped, would provide communities with better ways to analyze this issue, to debate it, and then to be able to make more informed choices. While I knew the issue of legalized gambling was controversial, I never expected that our relatively modest study would cause such a stir.

Since the study was released, I've been invited to testify before government legislative committees, to speak at Chambers of Commerce meetings, at national conferences of state legislators and Attorneys General and to appear on American and Canadian radio and TV programs. We have received requests for our study from as far away as Mexico, Canada, South Africa and Australia. We have received a great deal of very positive response from business, community and political leaders. Debate in public forums

has also involved heated exchanges with politicians and gambling industry executives.

The intensity of some of the attacks against the study by politicians and the gambling industry, at first, surprised me. Complaining letters were written to the University of Massachusetts' president, which questioned my right to do this research at a state university. Unnamed sources called newspaper reporters to describe the Ford Foundation and the Aspen Institute as "moral crusaders" against gambling. In spite of the fact that I openly acknowledged that I occasionally enjoy gambling myself, I have been attacked as an anti-gambling moralist.

But in the process of studying and debating the economic consequences of gambling expansion in America, I've come to understand why gambling industry executives and some politicians are so disturbed by criticism of this industry. For people in the private gambling industry, the answer is straightforward. Government-regulated casino and slot machine operations, with limited licenses for operators, can be immensely profitable. Criticism about their economic and social impacts is seen as threatening to those profits. For some political leaders, criticism can also be threatening, but for more complex reasons. These stem from the limited opportunities available for economic development in many parts of America.

The reason why state and local governments have found themselves in the position of expanding gambling as a form of industrial policy is understandable. Having had to deal with downsizing by major private firms, having had to bear the brunt of reduced federal aid for their budgets, and having seen major increases in social problems like drugs, homelessness, crime, and unemployment - any new enterprise which promises

large numbers of jobs and revenues can give the appearance of salvation and economic revival. With constituents hurting and with more productive solutions hard to come by, even desperate solutions can seem better than no solutions.

Just how desperate the plight of workers in many of our cities has become, and the degree to which their desperation is being exploited by the gambling industry, can be seen in one incident that occurred in Detroit last year. This city, one the world's leading producers of automobiles, is similar to many other older American cities which are hungry for jobs and revenues. During the Fall, a local casino developer announced that he was accepting applications for jobs - even though no casino had actually been legalized. These applications were being sought, according to the developer, in order to have time to train workers in the event that the company's proposed casino project might be legalized. Then mayor-elect Dennis Archer, who opposed the project, said the job application process was a cruel tactic, one which raised people's hopes in a ploy to create political pressure for legalized casino gambling.

On a cold November morning, three hours before the doors opened for applications, hundreds of people began lining up. As the day progressed and more people arrived, nearby streets were closed off to accommodate the huge crowds. By the day's end, it was reported that over ten thousand people, most of them black, had filled out applications for these non-existent jobs.²

But using gambling as government policy to create jobs and to supplement public treasuries is a dangerous form of economic development. When legal gambling existed in only a few places in this country - in Nevada and in Atlantic City, New Jersey - it was possible for those states to have something of an export monopoly economy. Leaving aside some of the local social problems created in this process, from a simple economic perspective, dollars came into the local community, had a multiplier effect in creating other local jobs besides those in the casinos, and for the most part the economic costs of the tourists with problem behaviors were exported back to their home communities.

But as gambling proliferates, and local markets become saturated with even more convenient gambling opportunities, what little discretionary consumer dollars still exist in these markets are being drained from other, already troubled

local businesses. Not only are local economies further undermined by this process, but increased numbers of problem gamblers are adding new costs to government and the operation of existing non-gambling businesses. Expanded gambling ventures are creating an onerous financial burden, while simultaneously undermining what remains of America's productive economy.

It is a strange paradox that while the federal government is trying to develop new partnerships with the country's most productive, job-enhancing and economy-expanding industries -- by providing research assistance for high technology firms in semiconductors, in the information superhighway, and in developing a clean car, for example -- state and local governments are moving in just the opposite direction. These governments are developing new partnerships with businesses in some of the most unproductive sectors of the economy, helping to expand an industry whose success increasingly depends on cannibalizing dollars from other businesses and whose expansion will create serious future problems for other businesses and government to deal with.

State and local governments have in effect created a regressive industrial policy with the gambling industry. To continue in this direction would contradict the extensive efforts by the federal government at targeting government help for businesses which can take the lead in enhancing the nation's competitiveness in the face of increasing global competition.

At the federal level, enormous time and resources have gone into debating and developing international trade agreements and patent protection to help expand American business, and to protect against predatory foreign trade policies. Yet the federal government has done little to protect American businesses against a predatory industry at home -- those state and local government partnerships with the gambling industry, whose monopolistic powers will have a devastating effect on large portions of the existing economy.

In the process of turning to this kind of quick relief, state and local governments are creating an economic legacy which will make current federal efforts at long term solutions for the growth of the American economy even harder to realize. As expanded gambling continues to drain money from the productive sectors of the American economy, private savings, and consequently, potential invest-

ment capital is reduced; existing businesses which lose consumer revenues are pushed closer to decline and failure; workers from these declining businesses will be laid off and people with addictive gambling problems will increase -- as will the enormous public and private cost of dealing with addictive behavioral problems.

Using our research findings, we have conservatively estimated that each problem gambler costs government and the private economy \$13,200 a year. As an example, simply increasing the incidence of problem gambling in a small state like Iowa by only one-half of one percent of the adult population would cost private business and government at least \$73 million per year. This same slight increase in problem gambling in a much more populated state like California would result in yearly costs of about \$780 million dollars.

These involve such costs for the private economy as money which problem gamblers borrow but do not pay back, work time lost by problem gamblers, salaries lost by those laid off as a result of their problem, private insurance losses through fraud by problem gamblers, and losses as a result of embezzlement and check fraud by problem gamblers. In addition, there are the public costs of processing problem gamblers who engage in criminal behavior through the criminal justice system -- including the costs of keeping people involved in more severe crimes in prison.

With aggressive marketing and promotions, government-gambling partnerships clearly still have some distance to go before saturating the American gambling market. While there have already been many casino bankruptcies and large-scale lay-offs of casino workers in states like Colorado, South Dakota, and Mississippi, the industry has shown a willingness to spend enormous sums to promote existing and new forms of gambling throughout the country. In recent years, lobbying campaigns in states like Connecticut and Missouri have resulted in the largest amounts ever spent on a single campaign in the state's history. Very few of the small local businesses which will be negatively impacted by the new ventures have anywhere near the financial resources of the gambling industry for their lobbying efforts.

In what is a bizarre form of economic development policy, small business organizations sometimes find themselves forced into taking positions in favor of expanded gambling even when their

members are against this policy. Certain businesses, like restaurants, fear that government proposals for casino-style gambling will siphon consumer dollars and time away from their establishments. Rather than stand idly by and watch this happen, they lobby for the right to operate slot machines on their premises in order to defend themselves.

The head of a state restaurant trade association explained to me that his membership was initially against the expansion of casino-style gambling in the state, having observed that few independent restaurants in existing casino dominated areas have survived against the competition of slot machines and restaurants inside the casinos. The organization's membership would prefer that people spend their time eating at their restaurants rather than playing at slot machines. But if the state was going to legalize casino-style gambling anyway, they would rather see the slot machines in their restaurants.

Most states have shown little restraint in spending money to recruit more people to gamble. States with lotteries are spending over \$300 million a year to advertise their products. By comparison, states with industrial extension programs spend only \$50 million throughout the United States to provide technical advice to mostly small and medium-sized firms. A 1991 report by Congress' Office of Technology Assessment criticized the lack of national and state government support for commercializing new technologies for America's 350,000 small and medium-sized manufacturing firms, contrasting the American experience with the extensive help being given business by national and local governments in Japan.³

While state governments in America expand promotion of their gambling ventures in order to entice more players, the operators of some state industrial extension programs are actually reluctant to promote their services, since they lack the necessary funds to handle additional clients. Georgia Tech, for example, which operates one of the most successful of these government-sponsored industrial extension services, does not advertise, fearing it will be overwhelmed by requests for help if it did.⁴

The solution of the economic and social problems being created by expanding gambling in the United States cannot be solved with solutions within this industry alone. While some reforms can be addressed here, long-term solutions must deal with the reasons why state and local governments have turned to gambling as industrial policy

solutions in the first place. What is needed, I believe, are the following approaches:

□ A more extensive and objective assessment of the impact of expanded gambling on the American economy. This should include an ongoing, objective assessment of the economic and social cost impacts of problem gambling on private and public economies in the United States. What are the real costs and benefits? We found that most research that government leaders rely on was done by the gambling industry itself or researchers who worked for the gambling industry.

□ An assessment of the impacts and implications of state and local gambling economic development policies on federal government and private sector efforts to improve the national economy. How, for example, are national efforts at improving America's global competitiveness being impacted by state and local government gambling industrial policies?

□ The creation of a plan for coordinated and cooperative efforts among federal, state, local and tribal governments in expanding the economy. This would include a coordinated effort at national gambling policy and an end to state gambling expansion being used to protect local discretionary dollars from crossing borders.

□ The development of what I call winner-winner gambling opportunities for the public as opposed to currently existing state-sponsored gambling based on winner-loser models. These would be opportunities which recognize people's desire to risk their money in the hope of gaining more money, but would move in the direction of combining an investment approach with gambling, rather than an all or nothing wagering approach.

One such alternative, which I am currently developing, I call "the investment lottery." This is based on an over 300 year-old idea for lotteries developed in England. In these games players bought tickets, but those who did not win prizes were paid back their original purchase price plus interest over a period of time.

NOTES

¹See Goodman, Robert, *Legalized Gambling as a Strategy for Economic Development*, (March, 1994), United States Gambling Study, Northampton, MA.

²Bennet, James, "Mere hint of jobs draws crowd in Detroit," *New York Times* (Nov. 12, 1993), p. 1.

³Office of Technology Assessment, *Competing Economies: America, Europe and the Pacific Rim*, Congress of the United States, Office of Technology Assessment, Washington, D.C., (October 1991), p. 16.

⁴Office of Technology Assessment, *op. cit.*, p. 16.

APPENDIX

FROM "LEGALIZED GAMBLING AS A STRATEGY FOR ECONOMIC DEVELOPMENT"

Major Conclusions of the Study

1. There is no popularly-based movement for expansion of legalized gambling -- it has been the result of lobbying by the gambling industry and initiatives by government officials.

2. The research being relied upon by public officials and the media is often done by the gambling industry itself. In the fourteen economic impact studies analyzed, claims of economic benefits were usually exaggerated, while costs were understated.

3. Expansion has produced increases in employment and tax revenues, but the shift of consumer spending to gambling significantly cannibalizes existing local businesses. There are also increased public and private expenditures for criminal justice, regulation, problem gambling behavior and public infrastructure.

4. As governments expand and promote more gambling, the number of people who gamble is increasing. Personal income spent on gambling is also rising. Gambling revenues come disproportionately from lower income residents.

5. As state budgets become more gambling dependent, legislators are legalized more addictive games like video lottery terminals (slot machines). In the future, governments are likely to look towards expansion through home-accessed gambling, like telephone and interactive TV betting.

6. States have shifted from the role of gambling regulator to that of gambling promoter. Regulations designed to protect the public are being undercut and spending on advertising and promotion of gambling is increasing.

7. As growing numbers of people work in the gambling industry, new pro-gambling constituencies are developing to protect these jobs. This will make it increasingly difficult for governments to curtail or terminate these ventures.

8. Tribal relations with the states over gambling have often been adversarial. As tribal revenues expand, state governments are attempting to tap into or curtail them. There are currently significant legal challenges pending to the regulatory framework for Indian gambling.

Recommendations

1. Communities need more objective information about economic and social impacts. They should avoid reliance on information by researchers who work for pro-gambling constituencies.

2. There is need for state and national organizations, independent of the public and private gambling industries, to conduct ongoing analysis of the impacts of existing and proposed gambling ventures.

3. Governments should avoid promoting gambling and legalizing more addictive games, such as electronic machines, interactive television and other home-accessed gambling.

4. Governments engaged in gambling ventures should prepare comprehensive gambling plans, which clearly describe their goals and methods of achieving them, as a guide for their future gambling development.

5. Governments should avoid financial dependence on gambling ventures. Public monies and expertise would be better used developing and supporting more economically and socially productive ventures.

6. Tribes, while having the right to make their own decisions about whether or how to engage in gambling operations, should be attentive to using the capital generated by their successful venture to engage in diversified, long-term economic development activities.

The full text of *Legalized Gambling As A Strategy For Economic Development* (222 pages) can be obtained from Broadside Books, Northampton, Massachusetts, Tel. (413) 586-4235.

Robert Goodman

Mr. Goodman is an urban planner, economic development consultant and Lamelson Professor of Environmental Design and Planning at Hampshire College in Amherst, Massachusetts. He is the author of *The Last Entrepreneurs: America's Regional Wars for Jobs and Dollars* and *After the Planners*. His new book, *The Luck Business; The Devastating Consequences and Broken Promises of America's Gambling Explosion*, will be published by The Free Press in October, 1995. Mr. Goodman has been a speaker at the annual meetings of the American Bar Association, the Associated Press Sports Editors, the National Association of Attorneys General, as well as the National Conference of State Legislatures. He can be reached at 413/584-0855 (voice) or 413/585-0688 (fax).

