

COUNTING ON GAMBLING

State lawmakers often look at gambling to increase revenues. But is it worth it?

By Ian Pulsipher

Editor's note: This is the second in a three-part series on gambling. Next month's article looks at Indian gaming.

Does gambling pay off? This is the million dollar question, and for many the jury is still out. The debate centers on the possible social costs and effects of gambling on economic and community development.

Proponents say that gambling creates jobs and attracts visitors with money; the increased economic activity sends multiplier effects throughout the community and state. State lawmakers have also looked to gambling for revenue during tough fiscal times when the aversion to tax increases is especially high. Other gambling supporters see it as a defensive measure necessary to keep up with surrounding gambling states.

Opponents, on the other hand, warn of small businesses being driven out by casinos, more costs to government for infrastructure and community services, and a caldron of social ills, including gambling addictions, personal bankruptcies and crime. Others question a public policy where states rely on gambling to solve their problems.

"The greatest addict of the gambling industry is state government," says Reverend Monty Brown, minister of St. Mark's United Methodist Church in Charleston, W. Va., one of the first states to catch the most recent wave of gambling expansion that began in 1989.

A LOOK BACK

Although criticisms of gambling are not new, neither is the idea of using it as a tool of economic development. Nevada legalized gambling back in 1931 to strengthen the



economy of a state that was suffering from a depleted mining industry. Few would deny that today the gambling capital of the world—Las Vegas—has become a major tourist destination, attracting both domestic and international visitors.

New Jersey came next, permitting casinos in Atlantic City in 1978 to revitalize a decaying resort community. Some think the plan worked.

"The presence of casinos and the added security have actually served to make the city safer. Gambling has attracted tourists



SENATOR
WAYNE BRYANT
NEW JERSEY

and generated new revenues," says Senator Wayne Bryant. "The casinos have provided jobs to citizens that didn't exist in Atlantic City before."

Mississippi's experience is the type of economic growth states are seeking to replicate with the current wave of gaming expansion. After the 1990-1991 recession, Mississippi experienced a remarkable economic recovery, with job growth in poor counties, attributed mostly to the explosive growth of riverboat gaming.

Joining the now 20 other casino-style

gambling states, policymakers in New York turned to gambling after the terrorist attacks on the World Trade Center. To boost state revenues and lure tourists back in October 2001, the New York Legislature authorized a significant expansion of legalized gambling. Even some lawmakers who were generally opposed to gambling reluctantly approved the bill in an attempt to find new revenue.

"Establishing casinos in Western New York and the Catskills will put New York on an even playing field with Canada, New Jersey and Connecticut," says Senate Majority Leader Joseph Bruno. "New York is currently exporting tourists to other countries and



SENATOR
JOSEPH BRUNO
NEW YORK

states and now we will be bringing tourists here." The measure authorized additional Indian tribal casinos, participation in a multi-state lottery, and gambling machines at horse racing tracks.

A DEFENSIVE MOVE

In the case of New York, and many other states, interstate competition is a big factor in making the decision to expand gambling. With more and more states offering casinos, some see opening their state to gambling as a defensive move. To stop the flow of money from their citizens who gamble in the state next door, they introduce gambling to keep spending inside the state economy and within the state tax system.

"When you see the proliferation of gaming around us and see the money in those states

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SENATOR
DAVID BOSWELL
KENTUCKY

going to their roads and infrastructure and to pay their teachers, you know some of that money is coming from our state and you want to do something about it," says Kentucky Senator David Boswell, sponsor of casino gambling legislation for the last two years.

Gambling has come to be regarded by some as an important part of a complete state tourism package. Without it, states fear they could be passed up by vacationers who might go somewhere else with more options, even if gambling isn't the primary objective of their trip. "The casinos are a piece of the pie. They may have helped some additional things happen. They're not the end-all, but they're part of the package," says Michael O'Callaghan, executive vice president of the Detroit Metro Convention and Visitors Bureau, speaking on the redevelopment and tourism strategy for the Motor City.

LASTING POWER

But is the growth of the last 15 years in the gambling industry sustainable? Can every state get some other state's tourist dol-

THE PROS AND CONS OF GAMBLING

PROS

- Increased tax revenue for states and local communities
- Increased tourism
- More jobs
- General economic development
- Gambling revenue stays in state

CONS

- Government dependence on gambling revenues
- Increased government expenditures on infrastructure and regulation
- An inability for local small businesses to compete with gambling establishments
- More gambling addictions
- Increased crime

lars without tapping the local populace for gambling spending? Eventually, gambling reaches a market saturation point, defined by the Illinois Economic and Fiscal Commission as "when the portion of income people are willing to gamble no longer increases, even with the introduction of new games or variations of old ones." As this saturation point nears, the ability of gaming to attract outside visitors and their money also goes down—a prospect that is worrisome to both sides of the gambling debate.

Louisiana's land-based casino in New Orleans is often cited as an example of what happens when a casino can't bring in new money. After deciding in 1992 that Bourbon Street wasn't enough, the Big Easy created a land casino in the city to boost the number of tourists and stimulate the economy. But after 11 years, two bankruptcies and signifi-

cant relaxation of state regulations to prop up the casino, many wonder what went wrong. Too little outside spending is the conclusion of most.

"If you can figure out a way to attract nonresidents to your community to gamble, it can be economic development. If not, it's just another thing for people to spend their money on," says Tim Ryan, economist and chancellor of the University of New Orleans.

THE CANNIBAL EFFECT

Gambling facilities that don't draw outside money into the community, and do nothing but provide a gambling option to the local population, bring little or no positive change to the development of an economy or revenue system. They can even end up doing more harm than good. By competing for, and often winning, much of a lim-

HOW STATES USE CASINO TAX REVENUES

State	2003 Revenues (in millions)	Uses
Colorado	\$ 95.6	Shared by local communities, historic preservation and state.
Illinois	719.9	Shared by local governments and state education assistance fund.
Indiana	702.7	Shared by local governments and state for property tax relief, economic development and capital expenditures.
Iowa	209.7	Shared by state and local governments.
Louisiana	448.9	Shared by local governments and state for teacher salaries/pay raises and gambling enforcement.
Michigan	250.2	Shared by the state school aid fund and the cities where casinos are located for public safety and economic development.
Mississippi	325.0	Shared by state and local governments.
Missouri	369.0	Shared by state and local governments.
Nevada	776.5	Shared by education, local governments and the state general fund.
New Jersey	414.5	Used for financial assistance to the elderly and disabled.
South Dakota	11.3	Shared by state and local governments, tourism and historic preservation.
Puerto Rico	NA	Shared by hotels, higher education, K-12 education, economic development and tourism.

Source: National Conference of State Legislatures' survey of the Commerce Clearing House summary of state tax laws, 2004 and American Gambling Association, State of the States, The AGA Survey of Casino Entertainment, Annual Report, 2004.

ited market, gambling operations can hurt local firms, ultimately driving them out of business.

Economists call this cannibalization, and often times the businesses that get eaten up first are those offering other leisure activities such as dining out, theater or sports events. A study done at the University of Wyoming found that in Deadwood, S.D., more than just entertainment businesses were affected—

78 business had been converted to casinos one year after gambling began there. The change that resulted in the local economy was summed up by the retiring sheriff in Deadwood who claimed, “I have to drive 60 miles to buy a pair of socks!”

Where the gambling saturation point is for states, regions and the country is unclear. Despite some signs of decreasing public enthusiasm for more gambling, more than 25 states

considered measures last year that would expand gambling. And with a number of these same states already beginning to debate the issue again in 2005, the push for gambling expansion is not likely to end any time soon.

THE TAX ISSUE

States that have expanded gambling still have to decide how to tax their gaming operations, which are always taxed at higher rates than other entertainment options. Still, revenue from these taxes does not represent a major source of income for most states.

There are those who believe that the problems associated with gambling far outweigh any benefits that may come from extra revenues. Besides business cannibalization, the costs to government for infrastructure as well as regulatory and public services are likely to increase when gambling comes to town. Opponents of gambling also point to more crime and the costs of dealing with compulsive gambling, lost worker productivity and debt.

THE ANSWER

So, does gambling pay off? Experts on both sides of the issue admit that a conclusive answer is hard to come by. “There are surprisingly few independent studies that have addressed issues such as these,” concluded the landmark National Gambling Impact Study Commission Report for the federal government in 1999. “Add to this the fact that many studies were contracted by partisans of one point of view or another, and uncertainty becomes an understandable result.”

A consensus on the net effects of gambling is not likely to materialize any time soon. Nevertheless, legislators will likely continue to face the question of whether or not it will pay off to expand gambling. Lawmakers will be better equipped to answer the million dollar question if they consider the possible costs and benefits of gambling, information on successful gambling models, and an understanding of the individual conditions, needs and characteristics of the states and communities they represent. As the possible costs and benefits associated with gambling affect fiscal policy, economic development and a number of social issues, even legislators without gambling fever might want to keep track of the debate on whether gambling pays off.

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