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Gambling Commission [5]

Committee on Small Business
U.S. House of Representatives

Honorable John J. LaFalce, Chairman

Hearing on
The National Impact of Casino Gambling Proliferation

September 21, 1994

Witness List

Robert Goodman, Director, The U.S. Gambling Study, Lemelson Professor of Environmental Design, Hampshire College, and Professor of Regional Planning, University of Massachusetts

Earl Grinols, Professor of Economics, University of Illinois

Valerie Lorenz, Director, Compulsive Gambling Center, Baltimore, Maryland

Jeffry Bloomberg, State's Attorney, Lawrence County, South Dakota

Webster Franklin, Executive Director, Chamber of Commerce, Tunica County, Mississippi

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COMMITTEE ON APPROPRIATIONS
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The Honorable Frank R. Wolf
September 21, 1994
Statement Before the House Small Business Committee

Chairman LaFalce, distinguished members of the House Committee on Small Business, I appreciate having the opportunity to submit the following statement for the record on the issue of casino and riverboat gambling. I commend you, Mr. Chairman, for holding this informational hearing because there are many details about gambling which remain mysterious, and, as a rapidly expanding industry, it is appropriate for Congress to investigate the effects, detrimental or otherwise, of these growing gaming concerns.

In a recent study, Professor Robert Goodman, who will testify before this Committee, found that costs associated with casino and riverboat gambling were always underestimated by gambling proponents. Few of the localities studied prepared useful economic impact studies. Professor Goodman concluded that "[w]here such studies were done they tended to be self serving, examining gambling from a gambling industry, rather than an objective community economic development perspective."

If policy makers are using research prepared by the casino industry itself, what information then are they not considering? Those in the restaurant business, entertainment business, tourism industry, as well as other businesses are concerned about the cannibalization of existing businesses by gambling enterprises. Gambling does not necessarily stimulate demand for entertainment, it merely shifts disposable income from one expenditure to casinos. This cost shifting does not stimulate other sectors of the economy and may even be a net loss. One who spends his money on gambling forgoes some other form of entertainment like a trip to the beach or movies, a night out to eat, or a day trip to one of Virginia's many historic places. Furthermore, as gambling increases, expenditures for clothing, recreation services, business services, new cars and service stations will decline.

Professor Goodman found that casinos have negative economic impacts on nearby restaurants. "As a way of enticing players to stay on the premises, casino owners generally include a variety of low priced food services and restaurants within their casino complexes. Food prices are often subsidized . . . As a result, independent restaurants close or have difficulty competing with those in the casinos." As an example of the deleterious impact gambling has on the restaurant industry, Professor Goodman points out that the number of restaurants in Atlantic City declined from 243 in 1977, the year <u>after</u> casinos were legalized, to 146 in 1987.

Crime is another cost that defenders of gambling try to ignore. Since 1978, Atlantic City's crime index exceeded that of the state as a whole. By 1981, there was a near tripling of total crimes. That brought Atlantic City from 50th in the nation in per capita crime to first. Increased expenditures on police and other crime prevention measures will be needed to combat loansharking, prostitution, drug trafficking and other crimes that increase because of the introduction of gambling.

Research also shows that the social and economic costs of behavioral gambling are considerable and it is indisputable that compulsive and pathological gambling increases in communities that permit gambling. Various studies indicate that the mean gambling related debt (excluding car loans, mortgages and other 'legitimate' debt) of people in compulsive gambling therapy ranged from about $53,000 to $92,000. Compulsive gamblers in New Jersey were accumulating an estimated $514 million in yearly debt. Who pays that debt? The answer is everyone pays in the form of increased prices on goods and services and increased taxes.

Also, the work habits of problem gamblers are costly to employers which drives the costs of goods and services up for the rest of us. Pathological gamblers engage in forgery, theft, embezzlement, drug dealing and property crimes to pay off gambling debts. They are responsible for an estimated $1.3 billion worth of insurance-related fraud per year which is borne by the rest of us in the form of increased premiums, deductibles, or copayments.

Other costs cited by Professor Goodman include impaired judgment and efficiency on the job, unrecovered loans, divorces, added administrative costs in programs like unemployment compensation, lower property values, the costs of depression and physical illnesses related to stress, lower quality of family life and increased suicide attempts by gamblers and spouses of pathological gamblers.

Proponents of riverboat gambling will argue that these are costs associated with land based casinos, not riverboats. Riverboat gambling brings most of the same costs as land based gambling. Moreover, once riverboat gambling is established, land based casinos soon follow. In the Rust Belt, where riverboat gambling began, casinos now line the Mississippi River moored to the dock never to leave the riverfront. Also, once the riverboat gambling business becomes established in a community, they demand concessions on drink limits, hours of operation, infrastructure improvements like roads, police, water and sewer, which attracts even more gambling related problems. Before long, the unsuspecting community is saddled with permanent, land-based casinos.

Mr. Chairman, today you will hear from experts who will expand on these serious concerns. I want you to know that this member is concerned about the economic effects a proliferating gambling industry has on other industries, communities, and families, and I look forward to working with you and the Committee as you continue to study this important issue.

I request unanimous consent that the following statement by Professor John Kindt from the University of Illinois at Urbana-Champaign be included in the record.

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.

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

[2] See, 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 income[6] 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

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

[4]_See_, _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).

[5]_See_, _e.g._, C. CLOTFELTER & P. COOK, SELLING HOPE 215, 222-27 (Nat'l Bur. Econ. Research, Harv. U. Press 1989).

[6]_Id_. at 99.

[7]For 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, $A, 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.

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[8] See, 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.

[9] The 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).

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

[11] See, 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 percent[14] in those states. This translates into increases in socio-

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[12]See, 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.

[13]U.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).

[14]See, 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 large[15] 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]

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

[16]Id.

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

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

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

Written testimony by Robert Goodman,
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Before the House Committee on Small Business,
Congress of the United States, September 21, 1994

Summary of

LEGALIZED GAMBLING AS A STRATEGY FOR ECONOMIC DEVELOPMENT
Final report of the United States Gambling Study
Robert Goodman, Director

Funds provided by the Ford Foundation and the Aspen Institute

A. Primary Purposes

1. To examine the public and private economic consequences of gambling, such as the effects on state budgets and local business.

2. To improve the decision-making process for legislators, business leaders, media representatives and citizens by providing objective information.

B. Study Methods

1. Analysis of the existing research materials and political processes concerning the spread of legalized gambling.

2. Interviews with researchers, government and business leaders involved in this process.

C. 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 legalizing 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.

C. 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 ventures 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.

The Future of Gambling, the Future of the Economy

Testimony by Robert Goodman,
Lemelson Professor of Environmental Design,
Hampshire College, Amherst, Massachusetts

Before the House Committee on Small Business,
Congress of the United States, September 21, 1994

Thank you Congressman LaFalce and members of this committee for the opportunity to discuss my recent research findings and recommendations with you. My name is Robert Goodman and I am a Lemelson Professor of Environmental Design at Hampshire College in Amherst Massachusetts. Two and a 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] I have submitted a written summary of this study to the committee as a seperate document.

The results of our research 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 legalizing gambling was controversial, I never expected that our relatively modest study would cause such a stir.

Since the study was released, early this year, 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 staightforward. 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, once the world's leading producer 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 was opposed to the casino 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 in Detroit.

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 an simple economic perspective, dollars came into the local community, had 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 ever 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 on future generations, 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 and destructive 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 governments 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 those 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 such policies as 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 in the process of 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 investment capital, is being reduced; existing businesses which lose consumer revenues are being 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 these 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 1% 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 don't pay back, work time lost to private industry by problem gamblers who are ineffective on the job, salaries lost by problem gamblers who are laid off as a result of their problem; private insurance losses as a result of 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 those people who engage in more severe crimes in prison.

With aggressive marketing and promotions, government-gambling partnerships clearly still has some distance to go before saturating the American gambling market. While there have already been many casino declines and bankruptcies and large-scale lay-offs of casino workers in states like Colorado, South Dakota, and Mississippi, the gambling industry has shown a willingness to spend enormous sums to promote and expand existing and new forms of gambling throughout the country. In recent years, lobbying campaigns by the gambling industry 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 bizzare 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 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 to 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:

1) 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.

2) 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?

3) 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 simply to protect local discretionary dollars from crossing borders.

4) 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 researching and 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 didn't win prizes were paid back their original purchase price plus interest over a period of time.

I hope our work has been helpful to the committee, and again, I thank you for the opportunity to testify. I will be happy to answer any questions you may have.

Endnotes

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

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

3. Office 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.

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

Statement of

HONORABLE JOHN J. LaFALCE, CHAIRMAN

Committee on Small Business
U.S. House of Representatives

Hearing on

The National Impact of Casino Gambling Proliferation

September 21, 1994

The Small Business Committee meets this morning to examine the impact of casino gambling on the nation. We are drawn to this topic due, in large part, to the fantastic growth of the casino industry in recent years. If you pick up a newspaper from just about any city, in any state in the country, you can read about a local referendum on casinos or the construction of a new gambling complex. A recent New York Times Magazine cover story offers a striking portrayal of casino proliferation:

> **"Gambling is now bigger than baseball, more powerful than a platoon of Schwarzeneggers, Spielbergs, Madonnas, and Oprahs. More Americans went to casinos than to major league ballparks in 1993. Ninety-two million visits! Legal gambling revenues reached $30 billion, which is more than the combined take for movies, books, recorded music and park and arcade attractions."**

The article goes on to state that within a decade, virtually all Americans will live within a four-hour drive of a casino.

What is the cause of this growth? I suspect there are three primary reasons, all centering on a competitive atmosphere to attract the gambling dollar. First, states are competing with Indian tribes, both in a race to build casinos ahead of the other. Second, states are competing with other states to lure potential gamblers across state lines. Finally, with the recent success of a casino development in Windsor, Ontario, where 80% of the patronage consists of Detroit residents, there is a competition developing between border states and Canadian communities to our north.

I hope to explore the causes of casino proliferation in the future. Today, however, we focus on the impact of this proliferation, examining the benefits and costs to individual communities and to the nation as a whole.

In terms of benefits, there is no question that casinos generate revenue, not only for casino owners but for local and state governments. Recent windfalls in casino revenues have provided relief to many resource-strained state and local governments, allowing, in some cases, for levels of spending on education, building-preservation, and other public services that have not been seen in years. This is new money flowing into what have been some of the poorest regions in our country. The casinos themselves have provided jobs in places where the opportunity to work has long been absent. These are clearly social and economic benefits accruing directly from the recent emergence of casinos in places like Tunica, Mississippi and Deadwood, South Dakota.

And if this were the end of the story, if casinos were typical businesses in the recreation industry, there would be little reason for us to focus on the impact of their explosive growth, except to applaud the success of casino owners. But casinos do not appear to be typical businesses. In social and economic terms, casinos may have significant externalities that we do not see in other businesses or industries.

Specifically, I am concerned about the consequences of casino proliferation in three areas: the impact on other small businesses, and more broadly on the economic well-being of communities nationwide; the impact of casino growth on gambling addiction; and the impact on levels of crime. In each of these areas, there is an emerging body of evidence to suggest that the pace of future casino development should be more measured and further growth should receive more careful scrutiny at the local, state, and national levels.

At the national level, the impact of casino proliferation on existing small businesses appears to be mixed. Some businesses will likely benefit from the increased traffic in a community that casinos create. On the other hand, we know that Americans have a fixed amount of entertainment income; if they spend more of it on gambling, then it would seem that they will spend less of it on movies, restaurants, and sporting events. This is one important question we will consider today: do those who gain from casinos do so at the expense of other businesses, other communities, and other states?

Turning to the issues of gambling addiction and crime, evidence suggests the two are inextricably linked. The American Insurance Institute estimates that as much as 40 percent of all white collar crime is committed by individuals who have serious gambling problems. Another question for us to consider today is: to what extent does casino proliferation lead to a proliferation of compulsive gamblers?

This morning, we want to hear the full story on casino proliferation. We hope to gain considerable insight into the benefits and the costs associated with casino proliferation, both for individual communities and for the nation as a whole. To help us identify the costs and benefits of casino gambling to our nation, we have an expert panel of witnesses.

First, we are pleased to welcome **Robert Goodman**, director of The United States Gambling Study and Lemelson Professor at Hampshire College. Professor Goodman's study, funded by the Aspen Institute and the Ford Foundation, stands alone in its superb synthesis of collective knowledge nationwide on the topic at hand.

Next, we welcome **Earl Grinols**, professor of economics at the University of Illinois. Dr. Grinols has devoted considerable effort to analyzing the economics of casino gambling, both at the state and national levels. We look forward to his insights today.

We next welcome **Valerie Lorenz**, director of the Compulsive Gambling Center in Baltimore, Maryland. Dr. Lorenz is a nationally-recognized expert on compulsive gambling and has devoted much of her career to bringing more national attention to the issue.

We will then turn to two local perspectives on the casinos issue, welcoming **Jeffry Bloomberg**, State's Attorney for Law County, South Dakota, and **Webster Franklin**, executive director of the Tunica County Chamber of Commerce, in Tunica, Mississippi. Both have seen their communities change dramatically due to casino developments. We look forward to their valuable insights today.

Finally, I will submit two statements for the record. First, **Representative Frank Wolf** has requested that we submit his statement along with attachments. Mr. Wolf has followed the issue of casino gambling with concern in recent years. We welcome his statement. I would also like to submit for the record the statement of the **Honorable A.J. Holloway**, mayor of Biloxi, Mississippi. Mayor Holloway was unable to attend the hearing today but his insight, offered in the letter, is valuable. Casinos have generated revenues for Biloxi that no one there could have dreamed of just five years ago. I suspect that the Mayor's perspective is a common one in communities across the country: he welcomes the new revenues that the casinos have generated but expresses some concern for the continued rapid pace of casino development in the region.

OPENING STATEMENT by

CONGRESSMAN RICHARD H. BAKER

House Committee on Small Business

September 21, 1994 Hearing on

"The National Impact of Casino Gambling Proliferations"

Mr. Chairman, I thank you for calling this hearing on an issue of importance to our nation and our Committee. I am genuinely pleased to take part in this hearing designed to afford greater protection to Americans, small businesses, and communities nationwide.

The subject matter of today's hearing is the national impact of casino gambling proliferation. I have reviewed the written testimony offered by all of the witnesses, and it is abundantly clear that casino gambling has a tremendous impact on the surrounding communities. I have also had the opportunity to witness firsthand, the impact that gaming has on the state and local economies of Louisiana and Mississippi. I look forward to hearing the expanded debate this afternoon as we continue to educate and to enlighten Members of Congress on the finer points of this troubling issue.

Generally, states and local communities view casino gambling as an economic development tool. Rural towns in Mississippi have become booming metropolises because of the impact of gaming. In July of this year, five gaming riverboats in Louisiana took in $52.5 million from its patrons. The gambling interests then paid $9.7 million in state taxes and $3.5 million in local taxes. I am particularly sensitive to the gaming issue because in my district, the Sixth Congressional District of Louisiana, a land-based casino has recently opened on the Tunica-Biloxi Native American Reservation near Marksville. Many constituents have expressed their concern over the unseen, or social costs, associated with the gaming industry coming to your neighborhood. Local businesses and local and state elected officials have contacted me and raised concerns over how the local community will bear the costs of casino gambling. Their concern is confirmed by many of the witnesses here today.

This hearing is an excellent forum to explore the impact of casino gambling. I have many questions that I hope will be answered during the course of today's hearing: What kind of jobs are created by gambling? Which businesses are cannibalized? How is the community's transportation and utility infrastructure burdened? How should the judicial system and local law enforcement officials best handle the increased rates of serious and personal property crimes and bankruptcies? How should gambling addicts be treated? How much income is shifted to the gaming industry? As casino gambling proliferates, what will the net benefit, if any, be to the state, local, and Native American communities? And, how can communities be protected from the real and social costs associated with the gaming industry?

in the state. In that same time period, 53.18% of the county's total population received food stamps. Public revenue was almost entirely based on ad valorem taxes, and public infrastructure improvements were mainly funded through grants from the state and federal governments. Our county was known for its substandard housing, poor healthcare delivery systems, and sanitation problems caused by inadequate or antiquated sewage systems.

Over the years, Tunica County has been the subject of study by the Harvard Medical School Committee on Poverty, the United States House of Representatives Committee on Hunger, and the Congressionally mandated study of the Lower Mississippi Delta Development Commission. All of these studies have recommended more government assistance to our community, and because of this national attention, we have received over time necessary help from the government. However, the permanent solution to our problems - jobs for our citizens - did not materialize until the introduction of gaming.

The Mississippi Legislature legalized gaming in 1990. The new law authorized dockside gaming on a local county option basis for those counties on the Mississippi Gulf Coast and along the Mississippi River. Tunica County legalized gaming in 1991, paving the way for the economic explosion which quickly followed.

Splash Casino opened its doors for gaming at Mhoon Landing on October 19, 1992. A seven mile, narrow, winding, two lane road led thousands of new visitors through the City of Tunica to our first casino. Splash enjoyed a monopoly on gaming in Tunica for eleven months before Lady Luck joined them at Mhoon Landing. For the initial eleven month period, when Splash was our only casino, its gaming revenue and profits were unprecedented. Splash, which on September 5, 1994, celebrated welcoming its 3 millionth visitor, became the envy of the national industry.

The industry realized that Tunica County, because of its location, had the potential of becoming a billion dollar gaming market and the nation's third regional gaming destination resort. Investors flocked into our community and quickly acquired rights and control of all available casino sites from Mhoon Landing north to the DeSoto County line. Land values skyrocketed as national gaming companies acquired prime locations and planned massive casinos, entertainment complexes, hotels, golf courses, and restaurants. The per acre price of land suited for casino development has increased from an average of $250.00 per acre in 1991 to $25,000.00 per acre in 1994. Since the inception of gaming, over 1 billion dollars in building permits have been granted by our once inactive and now very busy county planning commission.

In 1993, twelve major casino projects were under construction in Tunica County. New investors eager to open their doors ahead of the competition directed their construction crews to work around-the-clock. Every able bodied person in the county was afforded, for the first time, the opportunity to work in the construction industry for excellent wages (averaging in excess of $10.00 per hour) and for as much overtime that those workers could withstand. Many Tunica County citizens who had never worked before, except as part time farm labor, started as general construction laborers and learned new skills to become craftsmen, foremen and supervisors in the construction field.

Prior to opening, each casino conducts a training school to teach prospective employees the technical skills necessary to work in gaming. Many formerly unemployed citizens have taken advantage of this educational and vocational opportunity and are now employed as black-jack and craps dealers, slot machine mechanics and security guards. The average annual salary for a casino employee is $25,000.00. Service industry employment for Tunica County residents increased 435% from 1990 to 1993.

Nine casinos currently operate in our community and each facility averages 1,000 employees. The County's unemployment rate has been reduced from a high of 26.2% in 1992 to a low of 4.9% in October of 1993, one of the state's lowest. The unemployment improvement has also impacted some of the social ills historically experienced in Tunica County. The welfare department's collection of child support has increased from a monthly average of $38,500.00 in 1993 to a monthly average of $65,000.00 in 1994. From July 1992 to July 1994, the number of Tunica County residents receiving welfare benefits has decreased 41.4%. Food stamp recipients in the county decreased by 13% from 1992 to 1993, and that downward trend continues in 1994. More jobs exist in Tunica's casinos (9,000) than there were residents of the county in 1990 (8,200).

Ancillary developments are currently underway. New housing, service sector businesses, recreational vehicle parks, restaurants and motels are currently under construction. Business in Tunica County is booming. Many new service sector jobs are needed. I, for instance, am the first paid director of the Tunica County Chamber of Commerce, and a new Department of Tourism is currently being organized. To illustrate the totality of the effects of this new influx of money and people, the tax collector responsible for selling automobile license plates exhausted his supply and had to re-order because of the demand. In fiscal year 1994 Tunica County recorded the highest percentage increase in retail sales of all 82 counties in Mississippi. The 299.05% increase represented retail sales of $256.5 million compared to $64.2 million for fiscal year 1993.

The Mississippi Gaming Law requires that a percentage of the state tax on casino revenue must be returned to the counties. The anticipated return for Tunica County in FY 1995 is $2.5 million. The county also anticipates receiving additional casino impact fees of $12 million. This new public revenue source will allow the county to continue making much needed infrastructure improvements.

Monday of this week the county started construction of a major five lane highway connecting 5 of our casinos in the Robinsonville area to U.S. Highway 61. Another local highway connecting all of the casinos is approved and in the planning stage. Budgets of local law enforcement agencies and fire departments have been substantially increased. Two new utility districts have been created, and funding has been approved for long range land use development planning. Our public school system is being completely overhauled. The entire community is committed to improving our school system. Revenue from gaming has allowed our county to provide $1.4 million of additional funding for this school year. New class rooms, much needed equipment, and an increase in teacher pay will be provided with this extra funding. Our Board of Supervisors has recently voted to reduce its tax on property in the county by 32%.

Gaming has had an extremely positive economic impact on our local community. We are experiencing tremendous growing pains, which should be expected. All of us in Tunica County are committed to developing our area into a major destination resort. We envision a major airport, a first class family oriented theme park, shopping malls and championship golf courses.

I extend to all of you an invitation to visit us in Tunica County and experience our Mississippi Hospitality.

TESTIMONY

OF

HONORABLE JEFFRY L. BLOOMBERG

STATE'S ATTORNEY, LAWRENCE COUNTY, SOUTH DAKOTA

BEFORE A HEARING OF THE

HOUSE COMMITTEE ON SMALL BUSINESS

CONCERNING

THE NATIONAL IMPACT

OF CASINO GAMBLING

PROLIFERATION IN THE

UNITED STATES

My name is Jeffry Bloomberg. Since 1982 I have been a prosecutor, first as a deputy States Attorney and since 1986 as the elected States Attorney of Lawrence County, a county of 21,000 in the Black Hills of western South Dakota.

Until November of 1988, I had no background or interest in the issues related to casino gambling. However, in that year the citizens of South Dakota passed a constitutional amendment which allowed so called "limited," casino gambling in Deadwood, a town of 1,800 people and the county seat of Lawrence County. Perhaps because Deadwood was the first place outside Atlantic City and Nevada to legalize casino gambling, my office has been contacted by dozens of journalists, government officials, and private citizens seeking information on the effects of casino gambling on a small community.

Since that time, as I have traveled to various states which have been considering casino gambling, the promoters of gambling have uniformily made the same pitch, "economic development, new jobs and lower taxes." While these goals appear lofty, I believe that it is imperative that government leaders and citizens scrutinize these claims very closely before opening the Pandora's Box of gambling because as we have learned in Deadwood, once gambling is legalized it is virtually an irrevocable decision.

No one predicted the dramatic changes which took place in Deadwood once gambling actually commenced on November 1st, 1989. Within two or three months, a mainstreet that was typical of any small town was converted to a four block strip of small casinos, now totaling 82 separately licensed gaming halls. Gone were the clothing, shoe, hardware, and grocery stores as well as three separate car dealerships, all converted to gambling establishments. Many of the necessities of life such as clothing are no longer available within Deadwood and customers of the town's only remaining grocery store walk a gauntlet of slot-machines as they exit with their purchases.

Real estate values sky-rocketed. Commercial properties, which before gambling were valued at $150,000 sold for $500,000 one day and more than $1,000,000 the next. Of course this windfall was relished by the former property owners, but it did nothing for the auto mechanics, store clerks or other employees who were suddenly without jobs. They were faced with the decision of either moving away or finding new jobs in the gaming industry.

The town's economy, which was previously based on gold mining, timber and family orientated tourism, quickly became dominated by the gambling industry. According to one study, approximately 1,500 gaming as well as nearly 600 spin off jobs were created by the legalization of gambling. Because of the geographic location of Deadwood within a mountain canyon, very little room exists for housing expansion, thus, most of the new employees live in surrounding communitties and commute as much as 50 miles to get to their jobs.

This overnight transformation created enormous problems for the infra structure of Deadwood and its city government. Parking, streets, water and sewer lines all proved to be inadequate. The City was faced with a dilema. The needs were immediate, but cash flow from gaming taxes would not be sufficient for years. Thus, the city counsel decided to sell revenue bonds pledging revenues from predicted gaming and sales taxes to finance the improvements. The result was a municpal building boom which has updated the city's infra structure, but which has financially tied the city's economic viability to gambling. If the citizens of Deadwood wanted to get rid of gambling today they could not without total bankruptcy.

For the most part, the jobs which were created earn minimum wage or slightly better and are without benefits. Many are seasonal and face layoffs after Labor day when the summer season has ended. Even many of the "licensed," support workers such as black-jack and poker dealers, pit bosses and other gaming personnel depend on tips to make a living.

The economic effect for the gaming entrepreneurs has also been a mixed bag. While only a handful of casinos have closed in the nearly five years since the birth of Deadwood's gaming industry, today they claim that over half of their businesses are operating at a loss. On the other hand, other gaming operations, those which combine ownership of multiple casinos in particular, appear to be making handsome profits.

As for the claim that gambling brings tax relief this simply has not proven true. In fact, real property taxes for both residential and commercial properties have risen each and every year since gambling was legalized. This has ocurred for several reasons. First, because of the dramatic increase in property values the assessments for virtually all property also increased whether they be gaming, non-gaming, commercial, residential, or agricultural in nature. Secondly, while gaming has generated nearly six million dollars annually in gaming taxes to the city and county those amounts have been eaten up by increased administrative, law enforcement, and infra-structure costs. The city of Deadwood went from a pre-gambling 1988 budget of $1,430,919 to a 1994 budget of $9,113,796. As an example, the police force of five officers more than doubled to eleven full time officers.

In my office we have also seen our case load more than double as set out on the chart which is attached to my written testimony. This increase in criminal case load is attributable to two areas. First, the largest increase is attributable to the simple fact that there are more people working and visiting Deadwood than before gambling. While it is true that any increase in visitors will statistically result in higher crime rates than before, I believe that the type of visitors we are attracting results in numbers higher than in a more family oriented tourist community. Compare crime rates in Atlantic City versus Orlando, Florida, for a demonstration of this principal on a larger scale.

But even if you attribute the bulk of the increase in crime to simply more people, there is a second category of increase that is due to the nature of gambling itself. It is this group that I find particularily disturbing for we have seen individuals who, prior to their exposure to gambling had no criminal history, who were not junkies or alcoholics, many of whom had good jobs, who became hooked on slot-machines and after losing all their assets and running all credit resources to their maximums began committing some type of crime to support their addiction.

In general these crimes are theft, embezzlement, bad checks and other forms of larceny.

Often times the individuals in this category have stolen thousands of dollars and become desperate. I think of the pizza restaurant manager who had a spotless record and embezzled $45,000 from his employers, or the gaming business, book-keeper who, having run up thousands in debt, committed suicide or most tragically the technical sargent in the United States Air Force who, prior to gaming, had an exemplary ten-year military career, who became hooked on slot machines and eventually murdered a casino operator in a desperate attempt to retrieve four hundred dollars in bad checks he had written to the casino. Sgt. Cobb is now serving a life sentence without parole at the potential cost of over a million dollars to South Dakota taxpayers not to mention the loss of training dollars invested by the federal government or most tragically the loss of human life.

Our office has also seen an increase in the number of child abuse and neglect cases as a result of gambling. These run the spectrum from the children left in their cars all night while their parents gamble, to the children left at home alone while their single mothers work the casino late shift to the household without utilities or groceries because one or both parents have blown their pay check gambling.

Interestingly, we have not seen an increase in DUI cases and there has been no evidence of prostitution. In addition, I believe because of the extensive background investigations and regulation conducted by the South Dakota Commission on Gambling, there is no evidence of any involvment by organized crime. This fact might also be attributed to the low, five dollar bet limits authorized in South Dakota, which helps to minimize any efforts to launder illegal funds.

As to the claim that gambling promotes economic developement, that was certainly true for Deadwood at the out set, but as competition from tribal casinos and other states has escalated the growth in Deadwood gambling has stalled. It has been estimated that by the year 2000 everyone within the continental United States will be within a 4 hour drive of casino gambling. When that saturation level has been reached, who then will want to fly or drive to Deadwood, or Elgin, Illinois, or Biloxi, Mississippi, simply to pull a slot machine lever that they can just as easily pull in their hometown or state? Then gambling will survive almost entirely off of the local economy. One can only speculate as to what other businesses will suffer as a result. This pricipal has already been visible in Deadwood and the surrounding area where a number of non-gaming restaurants have closed due to their inability to compete with gaming subsidized restaurants.

Probably most disturbing has been the growing dependence of local and state government on gambling dollars. Because government officials have been unwilling to make the politically difficult decision to either raise taxes or cut services, they have turned to gambling as a supposedly, "painless," revenue source. The gaming industry in South Dakota, armed with large amounts of cash, has gone from being non-existant seven years ago to being one of the most powerful lobbying forces in our state capital and virtually every decision at city hall is made based upon what is best for the gaming industry. Government is hooked on the money generated by gambling and I believe in the long term the ramifications of this governmental addiction will be just as dire as for the individual who becomes addicted to gambling.

Does legalization of gambling bring about short term benefits? The answer at least for Deadwood has been yes, but it remains to be seen whether, in the long term the benefits will outweigh the negatives and any community considereing legalization should take that step only after careful consideration of both sides of this issue.

LAWRENCE COUNTY CASE FILINGS (SOURCE: SOUTH DAKOTA SUPREME COURT'S ANNUAL REPORT "BENCHMARK".)

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Class 2	3997	3878	3683	3758	4325	4279	5309	5262	4303
Class 1	629	591	483	507	569	685	900	1008	957
Felony	127	129	131	132	197	178	170	225	226
	4753	4598	4297	4387	5091	5142	6379	6495	5486

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Statement of

VALERIE C. LORENZ, PH.D.
before the

U. S. HOUSE OF REPRESENTATIVES
Committee on Small Business

September 21, 1994

Mr. Chairman and Distinguished Members of the Committee:

My name is Valerie Lorenz. I have specialized in the field of compulsive gambling for over twenty years. I am Executive Director of the Compulsive Gambling Center, Inc. (formerly National Center for Pathological Gambling, Inc.), a not-for-profit organization providing treatment, education, training, research, and program implementation in the field of compulsive gambling. The Center also operated the oldest national 24-hour Compulsive Gambling Hotline for seven years (discontinued in July 1994 for lack of funding). I served as Co-Chair of the 2-year Task Force on Gambling Addiction in Maryland, and have been Director of the Forensic Center for Compulsive Gambling, specializing in expert witness in testimony and forensic reports for over ten years. I have been a member of the editorial board of *The Journal of Gambling Studies* since 1985, and I have published extensively on the problems of compulsive gambling. I have testified numerous times in this area before state and federal legislative bodies, including the White House Conference on Families.

I am pleased to appear before this Committee today to answer your questions about the impact of casino proliferation. I applaud your asking such questions, and encourage this committee to expand this exploration into all types of legalized gambling. And I encourage this Committee to be the leader in establishing national policy on gambling.

Let me make something very clear: ALL types of gambling can become addictive, regardless whether one gambles on or with machines, races, tickets or games. Fortunately, only certain people will become gambling addicts. However, the number of compulsive gamblers has been increasing at an alarming rate in the past twenty years - ever since the spread of casinos and state lotteries, which has turned this country into a nation of gamblers. These gamblers spent $394 billion last year on gambling - money that was not spent in local shopping centers, pizza parlors or corner gorceries, monies that in seven years could pay off our national debt.

Until the mid-1970s, the typical compulsive gambler was a white, middle-aged, middle-class male. A dozen years ago, a female compulsive gambler was a rarity. Lottery addicts were just beginning to surface. Teenage compulsive gamblers and senior citizens addicted to gambling were nonexistent.

The profile of today's compulsive gambler is truly democratic, all ages, races, religious persuasions, socio-economic levels and education. Sixteen or sixty, the desperation and devastation is the same.

The New Jersey Casino Control Commission regularly reports 25,000 or more teenagers being stopped at the door or ejected from the floors of Atlantic City casinos. One can only guess at how many teenagers do get in, gamble, and are served drinks. Today, research indicates that as many as 7% of teenagers may be addicted to gambling.

Adult gambling addiction has increased from .77% of the acult population (U.S. Commission on the Review of the National Policy Toward Gambling, 1975) to as much as 11% in some states in 1993. Why? Because our governments are saying, "Gambling is OK" and because gambling is now so readily available, with so very little regulation.

The formula is quite simple: Availability leads to more gamblers which leads to more compulsive gamblers. Casino gambling, now in 21 states, is particularly onerous because of the allure of escaping into fantasy, the fast action, and emphasis on quick money, all of which are basic factors in gambling addiction.

Gambling addiction increases socio-economic costs far greater than any amount of revenue generated for the government by the gambling industry. For instance, in 1990, the Maryland Task Force on Gambling Addiction found that Maryland's 50,000 compulsive gamblers cost the state $1.5 billion per year in lost work productivity and monies that are abused (stolen, embezzled, state taxes not paid, etc.).

The total cumulative indebtedness of Maryland's compulsive gamblers is $4 billion. That means a lot of small and large businesses are not getting paid, which means they will have to reduce their work force or close up shop.

Other costs resulting from compulsive gambling are broken homes, physical and mental health problems, increase in social and welfare services, indebtedness, bankrutcies, and crime. Each and every one of these are far-reaching, affecting neighbors, employers, entire communities, and generations to come. These direct and indirect costs are staggering.

Taking just the issue of crime alone, virtually all compulsive gamblers, sooner or later, resort to illegal activities to support their gambling addiction. After all, money is the substance of their addiction, and when legal access to money is no longer available, these addicts will commit crimes. The crimes are typically of a non-violent, financial nature, such as fraud or embezzlement or failure to pay taxes. About 25% of them are charged with criminal violations, and about 15% face incarceration. It costs about $20,000 per year for the U.S. Bureau of Prisons to keep one young, healthy compulsive gambler in jail. This cost can escalate to $50,000 for the ailing senior citizen. Then there are the costs for half-way houses, electronic monitoring, and supervised parole and probation.

While in jail, the gambling addict is neither gainfully employed nor paying federal or state taxes. The family may be surviving on drastically reduced income or be on welfare. Well-paying jobs for felons are hard to come by, which means the gambling addict will most likely be earning less in future years, after he or she is released from prison.

Further, compulsive gamblers tend to have a very high rate of civil violations, such as motor vehicle infractions. Probably as much as 90% of casino addicts resort to reckless driving, speeding, and falling asleep at the wheel, resulting in accidents, either to or from the casino. They are a menace on the highway, worse than drunk drivers. Yet what is being done about that, other than to raise the costs of law enforcement and medical care?

About two thirds of compulsive gamblers come from homes with an alcoholic parent. Some compulsive gamblers are alcoholics first, maintain sobriety but turn to another addiction, gambling. Other compulsive gamblers may be co-addicted to either alcohol, drugs, or both. Ironically, while there are many education, prevention and treatment programs for the substance abuser, supported by state and federal monies, what is there for the individual who becomes addicted to a government licensed or sponsored activity, gambling? Pathetically little in a few states, nothing in most.

In 1988, Congress passed the Indian Reservation Gambling Act. Some 80% of incarcerated Native Americans have an alcohol problem. Yet what is being done to prevent gambling cross-addiction or co-addiction among them? And by whom? The casinos historically have failed to take any measure of responsibility for compulsive gambling, and only recently have a few Indian Reservations addressed this potential problem among their own people or among their customers. In short, the greed of the gambling industry is matched only by its lack of concern for its customers or the community in which it operates. That is not good business.

Maryland first recognized compulsive gambling to be a serious socioeconomic problem in its state in 1978, and funded the first public treatment program. (The first in the nation was established in 1971 at the Brecksville, Ohio VA Medical Center.) Today, the state does not allocate a single dollar to combat compulsive gambling. Why not? Because every legislative bill introduced to aid compulsive gamblers was fought by the gambling industry - the state lottery, the charitable casinos, the race track, tavern associations, fraternal clubs with video poker machines, and bingo parlors.

What is the end result of widespread casino gambling? Just look at the housing and poverty in Atlantic City, the lack of quality of life in Deadwood, South Dakota, or the alcoholism and crime rate in Las Vegas.

What must this government do to contain this national health problem, one that has been labelled The Addiction of the Nineties?

First of all, it must face the fact that the problem exists, instead of continuing to ignore it or minimize it. Secondly, it must stop believing the deceptions perpetrated by the gambling industry, that legalization of casinos or race tracks or lotteries are the answer to governments' fiscal woes, the anwer to unemployment, or the way to stop tax increases.

This government needs to establish an office to look at the negative consequences of widespread gambling, and it needs to establish comprehensive policy: how much gambling, where, what hours, who will run the game, why, how much money is needed for law enforcement and crime prevention, what is the uniform minimum age, what research is needed, who will educate the public, business and industry, or train health providers, who will fund prevention and treatment programs?

State legislatures across the country are seeking to implement new forms of gambling. One riverboat quickly becomes thirty riverboats in one area. Yet there are less than a dozen professional inpatient treatment programs for compulsive gamblers. The maximum bed capacity is approximatly one hundred.

The number of compulsive gamblers in this country today runs into the millions. Who will provide the treatment, and who will pay for it? Not the gambling addicts - they have neither the money nor the health insurance - that was spent at the casinos or on other gambling.

This country can ill afford to ignore the problems caused by the proliferation of gambling and the resultant increase in compulsive gambling. We do not need the economic ruin, broken homes and crime brought on by this industry, which encourages instant gratification, somehting for nothing, while making a mockery of family, work and community. This country needs your concern and your action.

Thank you for your attention.

Oral Testimony
Committee on Small Business
U. S. House of Representatives

Earl L. Grinols
University of Illinois
21 September 1994

My name is Earl Grinols. I am an economist at the University of Illinois. I have been studying the economics of gambling for the past four years.

Basic Issue. The essence of the gambling debate from an economic perspective can be understood by asking the question: "Does America need another form of entertainment so badly that it is willing to add another social problem to the list that it already deals with such as crime, alcoholism, teen pregnancy, illegal drug use, and so on?"

From the Federal government's perspective, a good analogy might be the following: Imagine that a pharmaceutical company invents a new pharmaceutical. There are already other drugs available for the same purpose. The product works extremely well for 98 1/2 percent of the people who use it. However, for 1.5 percent of the people who use it, the drug completely ruins their life. Would the FDA license this drug?

Gambling vs. Entertainment. To see how gambling differs from other entertainment we can ask, "How would gambling have to be 'sanitized' to make it like other forms of entertainment?" At least three things are needed: First, we would have to eliminate the 1.5 to 5 percent of the population who we know will become pathological or compulsive or "addicted" gamblers. Second, we would have to eliminate those who gamble beyond the point of recreation or entertainment. Though gambling is a sterile transfer of money from one pocket to another, it does use time and resources. Gambling for nonrecreational or entertainment purposes reduces national income. Third, we would have to eliminate the massive concentration into the hands of a small group in the gambling industry of money and influence, and its effect on the legislative process in statehouses and city councils across America. If all of these three things were done, gambling would be no different than the opera, major league sports, or any other type of entertainment about whose growth we need not be concerned.

Social Costs. Let us take a closer look at the negative concerns. The social damage from gambling derives primarily from the 1.5 to 5 percent of pathological gamblers. As with a small list of other activities such as alcohol, drugs, or crime, it is a tiny percentage of the people that creates the enormous social costs that must be borne by the many, even those who do not gamble. Gambling social costs include direct regulatory costs, lost productivity costs, direct crime costs (including apprehension, adjudication, and incarceration costs), as well as harder-to-price costs such as suicide, family disintegration, and even increased car accidents.

Multiplying the costs per compulsive gambler times the number that will be created by gambling's spread implies social costs in the range of $100-$300 per adult per year in a region where gambling is prevalent and has been present long enough for the problems to materialize. Were the nation to introduce gambling everywhere, the damage would equal the costs of an additional 1990-91 recession every 8 to 15 years. Equivalently, this would be like the costs of an additional hurricane Andrew (the most costly disaster in American history) or two Mid-West floods every year.

Economic Development. The gambling industry says we should accept such costs because gambling will provide economic development. How do we evaluate these claims? A factory, when it locates in an area, sells to rest of the country. Its payroll, materials purchases, and profits spent locally are new money to the area that represent tangible goods produced. On the other hand, adding a new restaurant that caters to local population in an area simply takes business from local firms. The question for a region therefore is: Is a casino more like a factory or a restaurant? In Las Vegas, casinos are more like factories because they sell gambling services to the rest of the nation. In most other parts of the country gambling, is like a restaurant drawing money away from other businesses, creating no economic development, but leaving social costs in its wake. A study I did of Illinois casinos, for example, examined 10 counties where casinos were opened from September 1990 to June 1993. Although direct gambling jobs were 7,806 added to an employment base of 118,000, jobs rose in these counties by only 2,038 and the decrease in number of unemployed was only 21. When job gains that would have occurred anyway were accounted for, the net effect of gambling was that roughly one job was lost for each gambling job created. An increase in the gambling industry, yes, but not economic development.

Money Flows. So far we are describing the normal forces of competition when one business that competes for consumer dollars expands at the expense of its rivals. In the case of gambling, however, government restrictions prevent other small businesses from competing. Casinos can offer food, liquor, and entertainment, but existing small businesses cannot offer gambling.

In response to such a one-sided and unfair arrangement, small businesses have no choice but to seek to have all gambling banned, or lobby for gambling licenses of their own. It does not take much insight to see that licensing everyone who asks means that we could have casinos on every corner in America like---McDonald's hamburger stands. But to what end? So that casino owners can get rich and the country can have another form of entertainment? The social costs of that, as we have just said, would be massive.

In general, it seems that consumers take gambling money from purchases where postponement is possible. It is always possible to put off buying clothing a little longer, for example. Preliminary results from my own studies show that casinos draw money from expenditures that would have gone for items such apparel, and that other expenditures for consumer durables such as furniture can also be negatively affected. Interestingly, food purchases within ten miles of the casino are also negatively impacted. A study conducted for the state of South Dakota showed similar declines for clothing stores, recreation services, business services, auto dealers and service stations. In Minnesota restaurant business within a 30-mile radius of casinos with food service was reported to fall by 20% to 50%. This has been verified in press accounts by restaurant owners near Illinois casinos. We know in Atlantic City that the number of restaurants declined from 243 in 1977, the year after casinos were legalized there, to 146 ten years later and that retail business and retail employment in Atlantic city has continued to decline despite the presence of gambling.

Oral Testimony
Committee on Small Business
U. S. House of Representatives

Earl L. Grinols
University of Illinois
21 September 1994

Unhealthy Social Dynamics. In my longer written submission I emphasize the harmful social dynamic that gambling engenders. The incentives that apply to the different state and regional players that gambling touches induce poor social outcomes. Gambling promoters have an incentive to do whatever is necessary to get their license. Can we blame them that in Illinois nearly 2/3 of the members of the legislature have received gambling industry money, with the largest recipients just happening to be the speaker of the House one year (a Democrat) and the president of the Senate the next (a Republican)?

The proposal for casino gambling in Chicago has been defeated three times in Illinois, but the prognosis is that it will be brought up again and again until the gambling promoters succeed. In another major state where casinos are also being planned, my contact, a former president pro tem of that state's senate tells me in his words that gambling interests "own the whole legislature." In spite of millions of dollars in gambling advertising, Missourians voted down a change to their constitution in April to allow games of chance--but the question is being put back on the ballot this Fall, just six months later. The phenomenon of staging multiple re-votes if gambling is defeated is a scenario being played out in Detroit, Iowa and other places. Is this how we run our republic?

State representatives have no incentive to view gambling in terms of its overall effect on the country. To them it is a way to raise tax money--hopefully from people of neighboring states who will take their problems back home--even though the social costs for an additional dollar of tax raised through gambling is in the range of $3.50 or more compared to only $1.45 for raising taxes by raising taxes. City councils want to believe that they are being told the truth that gambling will bring economic development--even at the expense of neighboring jurisdictions. Yet when everyone has gambling, no region gains at the other's expense.

Prognosis and Summary. Racing to see who can get gambling first, means that when we all arrive at the goal, the only thing we will find is a new social problem that should be prevented now by national policy. That is the economics of gambling in a nutshell.

Written Testimony
Committee on Small Business
U. S. House of Representatives

Earl L. Grinols
University of Illinois
21 September 1994

TIME FOR A NATIONAL POLICY

The United States faces a problem, the size of which is only now beginning to be understood. The cause for alarm derives from the enormous costs and consequential social changes that are foreseen to accompany the spread of casino gambling to all parts of the country. Gambling is now expanding so fast that it is outrunning any coordinated or prudent national policy.

Tremendous excess profits are available to the early promoters of gambling in new regions. The gambling industry's demonstrated willingness to use big money to influence state and local legislators and apply pressures pitting region against region, cause different jurisdictions to vie with one another in destructive contests to advance their local economies. Gambling promoters have argued both that gambling will attract revenues from neighboring areas, while at the same time claiming that new forms of gambling are needed to keep revenues at home as a defensive countermeasure against other areas' gambling ventures. Such "Beggar-Thy-Neighbor" competition produces a classic race to the bottom. The bottom is reached when every market is saturated with gambling. Since every region cannot gain at the others' expense, the promised benefits will not materialize. However, each region will be left paying the costs of gambling addiction and experience lower regional income. They will also have to contend with the effects of wealth concentrated in the gambling industry.

Because of its interregional aspects, gambling regulation is no longer a purely local question. The magnitude of the problem suggests that foresightful national policy should be developed to counteract the false short term incentives for states to individually introduce gambling to their common long term harm.

An Additional Recession Every Decade

The gambling industry describes itself as another form of entertainment among the many that are available. The industry's preference for the word "gaming" instead of "gambling" reflects this view. However, economists have historically opposed gambling because it differs from other entertainment in at least two respects: It reduces national income and it creates social costs that must be paid by those who do not gamble. Paul Samuelson, Nobel Prizewinning economist, summarized the first of these points as follows.

> There is, however, a substantial economic case to be made against gambling. First, it involves simply sterile transfers of money or goods between individuals, creating no new money or goods. Although it creates no output, gambling does nevertheless absorb time and resources. When pursued beyond the limits of recreation, where the main

purpose after all is to "kill" time, gambling subtracts from the national income.[1]

The second way in which gambling differs from other entertainment is that it imposes costs on the private sector, including those who do not gamble.[2] The direct costs of gambling derive primarily from the small percentage of pathological gamblers present in the adult population. A similar situation exists, for example, with respect to a short list of activities such as alcohol, drugs, prostitution, or crime: It is a tiny percentage of the population that creates the social costs that must be borne by the many, even those who do not engage in the abused activity.

How big are the costs? Conservative estimates place the percentage of pathological gamblers at 1.5 percent of the adult population.[3] The rate may be as high as 6 or 7 percent. The reported figure for studies of teenagers is double that of adults. Surveys show that more than 3 out of 5 compulsive gamblers engage in criminal activity to support their gambling. One-fourth are charged with criminal offenses. Ten percent are convicted and incarcerated or given a combination of incarceration and probation. Another ten percent are given probation. Compulsive gamblers also often lose control of their lives. Associated job problems lead to lost production, nonpayment of taxes, and so on. Adding together the direct crime costs (average annual law enforcement, adjudication, and detention costs for the typical type of 'white collar' crime committed by pathological gamblers)[4], incarceration costs (average confinement costs for a typical crime committed by pathological gamblers)[5], and direct regulatory costs (cost of operating state regulatory agencies to oversee gambling) leads to current-dollar costs per compulsive gambler that range between $14,000 and $30,000 annually. This translates into costs over the entire

[1] Paul A. Samuelson, *Economics*, New York: McGraw-Hill, 1970, p.402.

[2] My estimates suggest that were the entire nation to introduce gambling the costs equal would equal 1/2 percent of GDP annually.

[3] See *Final Report: Task Force on Gambling Addiction in Maryland*, The Maryland Department of Health and Mental Hygiene, Alcohol and Drug Abuse Administration, Baltimore, MD, 1990, p. 55. Also Politzer, R. M., Morrow, J.S., and Leavy, S., "Report on the Societal Cost of Pathological Gambling and the Cost-Benefit Effectiveness of Treatment," The Gambling Papers: Proceedings of the 1981 Conference on Gambling, University of Reno, Nevada, 1981, p. 9, 10. Subsequent studies confirm earlier figures. Some find even higher rates.

[4] Politzer, R. M., Morrow, J.S., and Leavy, S., "Report on the Societal Cost of Pathological Gambling and the Cost-Benefit Effectiveness of Treatment," *The Gambling Papers: Proceedings of the 1981 Conference on Gambling*, University of Reno, Nevada, 1981, p. 8. Politzer et. al. 's source: Kole, B. Personal Communication, Baltimore city State's Attorney's Office.

[5] Politzer, Op, cit., p. 9. Politzer et al. 's source: *Governor's Commission on Law Enforcement and Administration of Justice, Description of Maryland Criminal Justice System costs and Resources-FY 1977*, State of Maryland, April 1977, 12-749, Staff Report, Statistical Series III.

population of $115 to $300 per adult annually, or $21-$37 billion at the national level. For comparison, in the recession of 1990-91, lost GDP was $306 billion. Gambling therefore is equivalent to suffering an additional recession in the country every 8 to 15 years. Hurricane Andrew was the most costly natural disaster in the history of the United States. It cost slightly more than $30 billion in damages. Gambling would be like suffering an additional Hurricane Andrew every year--forever. Other forms of entertainment--the symphony, major league sports, restaurants--do not cause such massive social costs.

Social Restructuring

Gambling can also imply a major restructuring of the business sector, particularly the entertainment and leisure components. Most businesses earn profit between 5 and 8 percent of revenues. The gambling industry, in contrast, frequently earns gross profits of 30 to 50 percent or more. In Illinois, one prominent casino nearly tripled the original multimillion dollar investment of its owners in the first six months. This money comes at the expense of other sectors, primarily those that compete most directly with the gambling industry such as restaurants and local recreation. Income that is currently earned by many small businesses would be centralized in a few hands in the gambling industry. In state after state large amounts of gambling money have been used to influence government and its plans. In Missouri the gambling industry waged a $2.8 million campaign--just for the right to have slot machines. Though voters rejected the gambling initiative, promoters have placed the same issue on the ballot in less than six months. In Illinois more than $650,000 in campaign contributions came from riverboat casinos over a 12-month period. The largest contribution from casinos, not surprisingly, went to Illinois House Speaker Michael Madigan (D), who has become a backer of gambling expansion in the state. In the following year the largest contributions are reported to have gone to Senator Pate Phillips (R) who heads the Senate. The same story is now being played out in other states including Louisiana, Alabama, Mississippi, Virginia, Florida and others. In Illinois, the proposal to introduce casino gambling in Chicago has been defeated three times, but is coming back for yet another try. Why? Those who follow the issue closely suspect that gambling money is behind the constant pressure to alter previous decisions.

How much money could be absorbed by the gambling industry? Gambling has just begun its expansion in earnest, but already its sales equals roughly 2.5 percent of GDP.[6] How much of an increase to expect or how much money from the "lesser" forms of gambling would flow to harder forms of gambling if casino gambling is franchised throughout the nation is hard to predict. The potential is enormous, however. Seeing 1/2 percent or more of GDP--this is more than the *total sales* of books, movies, recorded music, and attractions such as amusement and theme parks combined--accrue as gross

6 Computed from LaFleur's 1993 *Gambling Abstract*, cited in *Wagering in Ilinois: A Report Updating the Economic Impact of Gambling Activities*, Illinois Economic and Fiscal Commission, January 1994, p. 5.

profits to a single industry with as much potential for social costs as gambling has would have significant consequences.

Jobs and Economic Growth

Concerned with its trade balance, just before the Great Depression the United States passed the Smoot-Hawley Tariff raising tariffs to historic levels of 58-60 percent on average, in a misguided effort to increase the inflow of trade dollars from other countries relative to the outflow. States' introduction of casino gambling today to draw revenues from citizens of other states bears many similarities. In the case of Smoot-Hawley, the attempt backfired as over 60 foreign nations responded with major tariff increases of their own within two years. This misanthropic competition shriveled trade for everyone. Today it is generally agreed that such self-centered Beggar-Thy-Neighbor politics contributed to the Great Depression.

The gambling industry admits that there are social costs (described above as equivalent to suffering an additional recession every decade) but argues that gambling brings economic development and tax revenues by drawing money from other regions. This is a Beggar-Thy-Neighbor activity. Whether gambling causes jobs to be gained or lost in an area depends on whether gambling attracts more dollars to the region than it takes out. Las Vegas gains from gambling because it draws dollars from California. Atlantic City gains because it draws dollars from Philadelphia. If there were no gambling, economic activity in California would be greater, and economic activity in Las Vegas would be less. If Philadelphia introduced large-scale gambling to defend against Atlantic City, as the gambling industry has been urging it to do, Atlantic City will lose part of what it is now taking from Philadelphia.

Apart from government control, gambling is a free entry activity. It requires little knowledge or high technology to offer gambling. This means that it is physically and economically possible to introduce gambling anywhere. Gambling could be franchised on every street corner in the nation like McDonald's Hamburger stands. When each locality has gambling of its own, few areas will gain at the expense of others, but every region will have to pay the economic costs.

In Illinois, riverboat gambling has had virtually no effect on reducing the pool of unemployed or increasing the number of jobs in the communities where it has been introduced. In a few cases where a measurably significant effect can be found, the increase in jobs in the region appears to be less than 50 percent of the number of people employed on the riverboats. In other words, riverboat employment was due almost entirely to a shift into gambling of jobs that were lost elsewhere. In some cases a partial employment increase occurred but with no reduction in the number of unemployed in the area. This is consistent with the explanation that people from outside the area came in to take some of the gambling jobs but that insufficient numbers of outsiders gambled at the boats relative to locals to affect overall employment.

The progression of gambling to greater number of forms offered is a predictable process. Starting from a no-gambling position, the typical pattern is to introduce a state lottery. This may be accompanied by allowing additional limited forms of gambling such off-track betting parlors or racetracks. The next stage often involves proposals for psychologically acceptable types of gambling such as riverboat casinos. This is followed by land-based casinos. Next, the cities that did not get licensed seek casinos to compete with the first licensees. Next restaurants and bars note that casinos can offer food and liquor, but they are prohibited from offering gambling. They then ask to be allowed to compete on equal terms by offering gambling on their premises. This point, for example, has already been reached in Minnesota where bars and small businesses with a liquor license have already asked the legislature to allow them to install video gambling machines. After bars, restaurants and the like turn to slot machines and video gambling machines, even grocery stores and retail stores may eventually feel the need to offer gambling. At this point, the gambling culture is fully sanctioned and government nurtured. Citizens--even those who did not gamble before--find the travel and time costs for gambling so reduced that they respond to the pressure to gamble. Gambling expands manyfold. No region gains at the expense of others, but the permanent social costs described above begin to weigh in. These costs are shared by gamblers and non-gamblers.

History

In 1920 all forms of gambling were illegal in the United States. Today, governments sell lottery tickets and encourage casinos, video poker machines, and other electronic forms of gambling. The change from one extreme to the other has been incremental. Perhaps this is an example of the boiled frog syndrome--taken in small enough doses anything is tolerated, even if the end result is fatal.

Unfortunately, we appear not to be learning from our history, "Twice before in American history players could make legal bets in almost every state, but these waves of legal gambling came crashing down in scandal and ruin,"[7] according to gambling historians. The first American wave of gambling had its roots in the colonial period, which used lotteries to fund public projects. New York set up the first race track as early as 1666. By the 1820s the same movement that sought to clean up frontier lawlessness,

[7] Nelson Rose, "The Rise and Fall of the Third Wave: Gambling Will be Outlawed in Forty Years," *Gambling and Public Policy: International Perspectives, William Eadington and Juday Cornelius*, eds., Institute for the Study of Gambling and Commercial Gaming, Reno, Nevada, 1991.

alcohol, and slavery also attacked gambling. Starting in states like Massachusetts and New York, reformers eventually outlawed lotteries in all but two states by 1862. The second wave of gambling began after the Civil War with the expansion of the western frontier. Casinos were licensed in San Francisco; South Dakota had gambling in Deadwood; and lotteries re-appeared in many states. Scandals and increased public experience with the harmful effects again caused the public to sweep out gambling. By 1894 no state permitted the operation of lotteries. In fact, 35 states had constitutional prohibitions against them. From 1894 to 1965 no legal lotteries operated anywhere in the United States. As stated above, in 1920 all forms of gambling were illegal. The Depression of the 1930s led Nevada to re-introduce casino gambling and a number of states such as Kentucky and New York introduced racetracks. The third wave of gambling began in earnest as in earlier periods with the spread of lotteries in the 1970s and 80s, followed by other forms of gambling. If the past is a guide, gambling and its harmful effects will continue to grow unless the cycle is cut short by foresightful policy choices at the national level.

Summary

If the nation faced a problem equivalent in costs to an additional recession every decade, it would be large enough to warrant federal action. Gambling is that problem. A commission or task force is needed to recommend a coherent national policy to restrict or prohibit gambling based on objective numbers and research. The recommended actions should then be taken up by Congress and the President.

IMPLICATIONS OF CASINO GAMBLING AS AN ECONOMIC DEVELOPMENT STRATEGY

PREPARED BY:
THE FLORIDA DEPARTMENT OF COMMERCE
CHARLES DUSSEAU, SECRETARY

SEPTEMBER 19, 1994

A Perspective from

The Florida Department of Commerce

I. INTRODUCTION

The "Proposition for Limited Casinos" has successfully earned a position on the November 1994 ballot. If the voters of Florida approve it, it would authorize the establishment of a specified number of casinos in Duval, Escambia, Hillsborough, Lee, Orange, Palm Beach, Pinellas, Dade, and Broward counties; casinos at existing parimutuel facilities; and five riverboat casino facilities. Proponents claim the plan would provide Florida tourism, the state's largest industry, with a much-needed boost, which is particularly critical now as tourism in Florida has slipped below 1993 levels for several consecutive months.

The Florida Department of Commerce is the state agency charged with promoting tourism, economic development and international trade in Florida. The Department's mission in the context of each of those arenas is: "... to serve as an effective force in improving the quality of life of all Floridians by building an economy characterized by higher personal income, better employment opportunities and improved business access to domestic and international markets." In pursuit of this mission, the Department operates programs designed to encourage job-creating industrial investment in Florida, to strengthen the tourism industry, to promote expanded international trade, to support the survival and growth of small and minority businesses and to assist Florida's rural communities in succeeding in their own economic development efforts.

It is from the perspective of this mission and these programs that the current proposal for Limited Casino Gambling has been evaluated. The position of the Department is based on the anticipation of how gambling would most likely impact Florida's economic development efforts, specifically the state's tourism industry as well as other strategic economic development efforts.

II. EXECUTIVE SUMMARY

For the second time in less than 10 years, the voters of Florida will be going to the polls to decide the fate of casino gambling in the state. It is with this critical decision in mind that the Florida Department of Commerce has evaluated and formulated the following official position regarding the legalization of casino gambling in Florida. The Department's position is a result of careful examination of Florida's defined goals of economic development; analysis of the current status and potential needs of Florida's current tourism industry; and investigation of the current body of research assessing both the demonstrated and anticipated effects of legalized casino gambling.

The Florida Department of Commerce has determined that casino gambling would not be of economic benefit to the State of Florida. In addition, there is sufficient evidence to suggest that gambling would be a counter-productive economic development strategy that is unlikely to help, and instead may HARM the state's tourism industry and other economic development efforts.

The nature of Florida tourism and its markets is such that casino gambling would not attract significant numbers of new visitors. In fact, a reasonable concern exists that perceptions of the less desirable aspects of casino gambling might diminish Florida's favorable overall image for tourism and economic development. Instead of drawing additional economic activity to the state, casino gambling would bring about shifts in where and how discretionary income is spent within the state.

Proponents say casinos would boost tourism through incremental rises in the number of visitors, the length of their stays in Florida and reduction of Floridians' traveling out of state for casino gambling opportunities. Despite analysis of in-state and national casino research, the Department has been able to find no data to support these claims and substantial research and documentation that refutes them.

- MORE VISITORS
  Florida hosted more than 41 million visitors last year. The City of Las Vegas spends $33 million – more than twice as much as the state of Florida – to attract 23 million visitors, a little more than half of the 41 million who visit Florida. In addition, Florida currently enjoys 93 percent repeat visitation rate by our visitors.

- LONGER STAYS
  The average length of stay of a Florida visitor (12.5 nights in 1993) is four times that of a visitor to Las Vegas (3.1 nights). Despite myriad changes in economic conditions and tourism opportunities, length-of-stay figures for Florida visitors have remained remarkably stable for at least this past decade.

•INCREASING FLORIDA'S TOURISM APPEAL

Research conducted by a national research firm used by the gambling industry discovered that currently 85 percent of gamblers surveyed want a Florida vacation – despite the fact we have no land-based casinos.

In addition, there is the issue of market saturation and negative implications in regard to sustainability. There are currently 24 states that have operational or authorized casino gambling and by the year 2000, 95 percent of all Americans are expected to live within a 3-4 hour drive from a casino. The result of the proliferation of casino gambling around the country, is that the need for Florida to have casinos to attract tourists is significantly diminished.

•MORE TOURISM REVENUES

Florida tourism is a $32 billion business. By contrast, the casino gambling industry nationwide is $31 billion business. Mississippi collected $65 million in gambling taxes last year. Florida matches that in tax revenues from its visitors, without gambling, in less than two weeks.

The conclusion of most researchers is that casino gambling in Florida would not attract new economic activity, but instead would cause only shifts of economic activity within the state. One result is that the same discretionary dollars that currently support the existing tourism industry like attractions, lodging, souvenirs, and the like, are diverted to casinos.

III. THE NATURE OF FLORIDA'S TOURISM INDUSTRY

Florida's tourism industry has built an empire by promoting its natural attributes and family attractions. For more than 40 years, Florida has been one of the world's premier vacation destinations. Florida's initial appeal was rooted in the warm climate and abundance of beaches and waterways. The state's natural assets continue to provide the state with a unique advantage. Florida has 1,000 miles of recreational beaches, more than any other state in the nation. And, Florida is rated as having 12 of the nation's top 20 beaches. In addition to natural beauty, during the past two decades, the state has also evolved into being the undisputed attractions capital of the world – bringing in an estimated over 16.5 million visitors each year.

It is important to note that Florida's abundance of natural assets and family attractions have served to define the state's brand identity and is largely responsible for the state's unparalleled tourism success. The evidence is that no other tourism destination can match Florida's growth in raw number of visitors over the past 10 years. We have jumped from hosting 19.1 million in 1978 to over 41 million visitors last year.

Florida's tourism industry is at an all-time high. Last year the state hosted more than 41 million visitors – 1.2 percent more than 1992. Taxable sales revenues in the Tourism and Recreation categories exceeded $32 billion, a 3.6 percent increase – making tourism Florida's leading industry. In addition, tourism employment rose 4.6 percent.

Despite positive net growth last year, Florida's tourism industry IS facing unprecedented challenges today and will continue to in the future. Recent tourism research has identified three primary issues that are influencing travel to Florida in varying degrees. Those factors are: economic concerns, increased competition, and negative perceptions regarding visitor safety. The confluence of these primary factors and along with other miscellaneous issues in various markets is resulting in a slowing of tourism growth.

For the first seven months of 1994, total visitors in Florida exceeded the 25 million mark, representing a 3.5 percent decrease from the same period in 1993. This decline is the result of an erosion trend in some specific market segments, in particular, auto visitation. While the drop is not drastic, it has created considerable concern within the tourism industry.

However, it is important to keep a clear perspective on the scope of Florida tourism and the decline. A decline of a few percentage points, in the context of 41 million visitors, does not indicate Florida tourism is in dire straits. In fact, it would be unrealistic to expect to expect to continue to grow at such a pace indefinitely. Florida must strive to develop efficient, innovative and effective long-term strategies to maintain its number one position.

IV. ANALYSIS OF RESEARCH

The Florida Department of Commerce has conducted no primary research on the anticipated impact of casino gambling in Florida might have on the state. However, the Department of Commerce, Bureau of Economic Analysis, has analyzed a large portion of secondary data and other proprietary data on the subject. The bulk of the research resulting in pro-casino data appears to have been funded by industry interests. The industry-sponsored research focuses far more on benefits than negative impacts. In addition, these studies largely neglected to consider the impact of residents and visitors shifting current expenditure patterns into casinos rather than augmenting current expenditure patterns. This observation is reiterated by Professor Goodman of the University of Massachusetts in his extensive analysis of a two-year study on the economic implications of gambling.

Economists at the Florida Department of Commerce have reviewed studies prepared for two Florida casinos proposition-support groups and other related national data and have reached similar conclusions. Most available literature on the economic impact of the addition of casino gaming to local economies in the recent past can only evaluate the short-run impacts. Not surprisingly, the literature positions casinos in favorable terms. However, the limited, balanced research located on long-term effects indicates that the casino gambling industry sector creates "cannibalization" within the market and thereby results in net negative costs. In addition, the issue of market saturation and sustainability are not addressed in the pro-casino research. These same issues are explored as significant negative consequences in the more balanced body of research.

The research commissioned by Florida gambling proponents evaluates either the current environment for gambling in established areas, like Las Vegas, or the introduction of casino gaming to areas with minimal economic bases, like Tunica, Mississippi. These are unlike the Florida model which would involve adding casino gaming to a well-developed economy in the nation's fourth-largest state with a premier and mature pre-existing tourism industry and visitor base. Therefore, it is likely that the examples of marginal economic impact demonstrated from the addition of casinos in other markets would be significantly smaller in Florida.

The most balanced and objective research available seems to be the product of Professor Goodman. Following are some key findings from his study, "Legalized Gambling As A Strategy For Economic Development:"

• "There is a critical lack of objective knowledge. The research used by public officials to evaluate projects is often done by the gambling industry itself."

• "In general, in the...studies analyzed, ...economic benefits were exaggerated, while costs were understated."

• "As the states legalize and promote more gambling ventures, the number of people who gamble is increasing and the amount of personal income being spent on gambling is also rising. This is increasing the costs of dealing with gambling-related problems."

V. CASINO GAMBLING ENVIRONMENT

A. CANNIBILIATION

"Cannibalization" occurs when a business increases its customers at the expense of a competitive business which has a decrease in its customer base, rather than the industry seeing any overall expansion. All available theoretical and practical evidence indicates that small businesses in the tourism industry, particularly restaurants, suffer at the hands of casinos as clients seek these services at the casinos.

Small businesses in the Florida tourism industry, particularly restaurants, fear loss of business, as clients seek these services at casinos where they are offered at lower prices as an inducement to attract customers to the gambling. Florida tourism now is characterized by a typical traveling party interacting with many businesses, e.g., hotels, restaurants, attractions, and retailers. The nature of casino-resorts is to duplicate those services so that the consumer is persuaded to handle all such purchases on site. Food prices tend to be very attractive at casinos because the opportunity to gamble is always present. Where casinos have been introduced into an economy, stand-alone restaurants have suffered. Atlantic City is a vivid example of a significant loss (60%) of local restaurants when casinos opened.

B. MARKET SATURATION/SUSTAINABILITY

Twenty-four states now have operational or authorized casino gambling. It is estimated that by the year 2000, 95 percent of Americans will live within a 3-4 hour drive from a casino. There is evidence that this proliferation of gambling facilities is having some affect on Florida's tourism market. The result is, as potential tourists have casino gambling opportunities closer to home, long-distance travel for this purpose is likely to decrease as a tourism motivator.

Therefore, rather than attracting new economic activity into the state, casino gambling would generate a number of shifts of economic activity within the state, at least in the short-term. The other implied economic result is that with the number of destinations developing casino gambling facilities, the competition among them will increase and the novelty as an experience will decline. From an economic standpoint this will eventually encourage governments to provide regulatory, tax and promotional inducements to sustain their investment and the job base now dependent on casinos.

Another valid issue is that Florida also presents a contrast to the model of short-stay visitation to a new gaming destinations in the Southeast like Tunica, Mississippi. Tunica has the ability to draw from two very close and very well populated markets – Memphis and Little Rock. With the possible exception of North Florida (which competes with the Mississippi facilities), Florida does not have that type of population density just outside its borders. Anecdotal evidence from the North Florida market suggests that Mississippi casinos are having little if any effect on that region. Even as the state's tourism market has remained virtually flat, North Florida has enjoyed yet another good year – despite the recent flooding.

C. CASINO'S IMPACT ON ECONOMIC DEVELOPMENT

In terms of economic development, Florida is committed to diversifying its economy by adding higher paid, non-touristic employment opportunities, and by assisting small businesses. Two priorities in the FDC Agency Strategic Plan are:

"Expand the number and quality of Florida job opportunities...."

"Improve the capacity of small and minority businesses...."

These economic development goals will be harder to attain with casino gambling. The casino industry adds many "low-end" jobs and often discourages other businesses from locating nearby. "Big business" casino operations have caused small businesses, particularly restaurants, to suffer. This is in direct contrast to two of the Department's goals – increasing quality jobs and small business successes.

As property values near casinos become overinflated, it becomes more difficult for those newly employed in the casino industry to live nearby. In addition, the nature of job growth forecasted by gaming-related employment tends to be in the relatively lower paying jobs. This is diametrically opposed to the specified goal of the Department of Commerce and Enterprise Florida to effectively raise the standard of living for Floridians by encouraging the creation of jobs paying wages 15 percent above the statewide average. For 1993, that average was $23,160; 15 percent above that, $26,634. Even adjusting for tip income and Florida-Mississippi wage level differences, casino gambling would not appear to hold great potential for increasing overall earnings levels.

A recent survey of Mississippi dockside casinos conducted by the Mississippi Employment Security Commission found that hourly wages averaged $7.40 (excluding tips) among the 9,530 employees of seven responding establishments. Assuming a 40-hour week and a 2080-hour year, that translates to annual wages of $15,392. Occupationally, 71 percent of the workers were in service occupations, with the bulk of these in food and beverage service (24 percent) and personal services related directly to game operation (25 percent). The conclusion is that the nature of the employment and the wage levels of the casino gambling industry make the introduction of this industry to Florida's economic base an undesirable option.

In addition, there is evidence that the introduction of casino gambling may also detract from Florida's image as a desirable location for economic development. Communities have encountered difficulties in expanding their economies in the presence of gaming opportunities. Nevada attracted Citibank to build a credit card processing center in Las Vegas by creating a community and Zip Code of "The Lakes, NV" to avoid an association with Las Vegas and a more relaxed orientation toward money.

D. SOCIAL IMPLICATIONS

The impact of casinos on government is often thought of in narrow terms dealing with business regulation, gaming commissions, revenue/tax collections and increased crime control. There are also the concerns of increased demands on the state's physical infrastructure over each 24-hour period than at present because of casinos operating late at night. This means more use of roads, more use of electricity, and more continuous use of water and power.

On a larger and more abstract level, casino gambling also carries significant social well-being implications that stand to indirectly influence economic development efforts inasmuch as it could affect real and perceived quality of life standards in Florida. It is important to note that existing research paints a largely negative picture of the social effects of casino gambling. According to that research, heightened levels of crime are strongly associated with the introduction of casinos. The incidence of both organized crime and street crime tends to rise. This exposes residents and visitors alike to increased safety risks.

Since the fall of 1993, Florida has received some negative publicity about crimes against its visitors. Our research shows that visitors and potential visitors believe the crime rate against visitors in Florida is significantly higher than in most other destinations. Although that perception is not supported by the facts, it has caused serious problems nonetheless. At the very best, casinos would not help eliminate that image. At worst,they have the potential to aggravate it.

Another social well-being problem is the ability of easy access to casinos to bring out potential compulsive gamblers. Casino destinations have had to address this in their marketing practices. While some of these practices are designed to discourage the compulsive gambler, other conditions can have the opposite effect. The ease of obtaining cash advances and loans in casinos is one example. For example, in February 1994, H&R Block set up makeshift tax preparation offices in four Nevada casinos and offered gamblers same-day "refund-anticipation loans."

Some social welfare issues which affected Tunica, Mississippi, after casinos opened there are important to consider. Real estate prices, housing rental prices, DUI arrests, and the default rate on bills have all increased dramatically since the onset of casino gambling. Conversely, Tunica's pawn shop business is thriving.

VI. EFFECT OF CASINO GAMBLING ON FLORIDA TOURISM

Proponents say casinos would boost tourism through an increase in visitors and reduction of Floridians traveling out-of-state for casino gambling opportunities. However, the Yankelovich Travel Monitor said "being able to gamble" is a low motivator of tourism by Americans. Tunica, Mississippi, often referred to because of clear incremental tourism from casinos, has two major metro areas in nearby states to draw upon (Memphis and Little Rock). Florida does not have an equivalent.

Proponents feel that casino gambling would increase the length of stay of our visitors, but the average length of stay has been quite stable over a ten-year period of major changes in the Florida tourism product. The average length of stay of a Florida visitor in 1993 was 12.5 nights (42). The average length of stay of a visitor to Las Vegas in 1993 was 3.1 nights (35). In spite of the many challenges Florida tourism has faced over the past ten years, the length of stay has remained fairly stable. Among visitors arriving by air to Florida, from 1984 through 1993, length of stay averaged 9.0 nights with a standard deviation of 0.9. Among visitors arriving by auto to Florida, for the same period, average length of stay was 14.1 with a standard deviation of 1.7.

In addition, currently most Florida tourism activities are daytime options and casinos tend to be more popular at night. Subsequently, visits to casinos would most likely be accommodated into current itineraries of our travelers without resulting in any longer length of stay. Currently, the average length of stay of a Florida visitor is four times that of a visitor to Las Vegas.

A University of Minnesota survey released in April 1993 showed gambling to have no net effect on tourism. There was a slight trend toward Minnesotans staying in their own state rather than traveling for gambling. There was also only a 14 percent incidence level for Minnesotans staying overnight in a motel when they visited a casino.

The Department has worked with the state's business and government leadership to crystalize a vision for Florida's economic future and developing sound methods to achieve it. It involves quality jobs and higher earning levels for all Floridians. To reach these goals, Florida must attract and retain high-value-added industrial investment, strengthen its tourism and international sectors and encourage economic progress in its rural and inner-city areas. Casino gambling seems to have little relevance to these efforts.

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Increased Crime and Legalizing Gambling Operations: The Impact on the Socio-Economics of Business and Government

By John Warren Kindt*

Legalized gambling activities in various forms are being rapidly adopted by many states, but no state has a comprehensive developmental plan that includes the overall socio-economic costs of legalizing gambling. In this situation, states considering initiating or expanding legalized gambling activities must necessarily extrapolate from the best reports available that analyze those specialized costs associated with legalized gambling activities from a statewide perspective. Unlike most business activities, legalized gambling activities add three significant costs to government: (1) regulatory costs; (2) socio-economic costs occasioned by new compulsive gambling activities; and (3) costs to the criminal justice system. These three costs, and in particular, the increased costs to the criminal justice system, are reviewed from the strategic perspective of state governments. This article concludes that the flow of new tax revenues generated by increasing legalized gambling activities can theoretically stay ahead of increased costs to a given state's criminal justice system, but the increased costs overwhelm the benefits when all of the costs are considered.

"[G]ambling itself . . . is probably the biggest producer of money for the American La Cosa Nostra [that] there is."[1]

Critics of expanded legalized gambling activities argue that if the U.S. public has been satisfied with the progress in the "War on Drugs," that public is going to be ecstatic about the

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[1] James Moody, Chief of the Organized Crime Section, FBI, *as quoted in* Videotape/Transcript of "60 Minutes," Dec. 13, 1992 (CBS). For extensive lists of similar statements by authoritative officials in the U.S. criminal justice system, see Chicago Crime Comm'n, *Analysis of Key Issues Involved in the Proposed Chicago Casino Gambling Project* 9, 11–12 (1992) [hereinafter cited as Chicago Crime Comm'n]; Testimony of Robert R. Fuesel, Exec. Dir., Chicago Crime Comm'n, Before the Ill. Sen. Subcomm. on Gaming, June 8, 1993, at 1–4. See generally President's Commission on Organized Crime, *The Edge: Organized Crime, Business, and Labor Unions* (Mar. 1986); W. Roemer, Man Against the Mob (1989).

forthcoming "War on Gambling."[2] There are some obvious parallels.[3] Arguably, the war on drugs was not even necessary until the widespread use of illegal drugs during the 1960s when such use came under the rubric of social acceptability.[4] A recognized addictive activity similar to illegal drug use, gambling was not just becoming sociologically acceptable, but as of the 1980s, it was being "legalized"[5]—unlike harmful drugs. Sociolo-

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[2] See generally Ill. St. Police, Div. Crim. Investigation, Intelligence Bur., *How Casino Gambling Affects Law Enforcement* (Apr. 16, 1992) [hereinafter cited as Ill. St. Police Report]. The laundering of money by legalized gambling operations appears to be a common problem. During 1992, for example, "Atlantic City's casinos . . . [were] under investigation for laundering drug money." Roeser, "Chicago Casino Plan Gambles City Future," Wall St. J., Aug. 12, 1992, § A, at 10 [hereinafter cited as Roeser]. Less than two years after being initiated, the Illinois State Police Director, Terrance Gainor, reported that investigations were "being conducted into suspected laundering of illegal drug profits through the riverboats" in Illinois. Urbanek, "Probe Creating Fears for Riverboats' Image," Daily Herald (Arlington Heights, Ill.), Nov. 21, 1992, § 1, at 4; "Laundering on Riverboats," News-Sun (Waukegan, Ill.), Nov. 20, 1992, at 1.

For analyses by the Chicago Crime Commission opposing the introduction of land-based casino gambling to Chicago, see Report of the Chicago Crime Commission on Organized Crime in Chicago (J. Conlon, Pres. 1990). For analyses by the N.Y. Attorney General's office opposing the introduction of land-based casino gambling to New York State, see R. Abrams, Report of Attorney General Robert Abrams in Opposition to Legalized Casino Gambling in New York State (May 1981). For analyses of the impacts of land-based casino gambling on Atlantic City, New Jersey, see O'Brien & Flaherty, "Regulation of the Atlantic City Casino Industry and Attempts to Control Its Infiltration by Organized Crime," 16 Rutgers L.J. 721 (1985).

[3] For examples of the parallel costs of pathological gambling activities and other medical treatment costs (such as for alcoholics), see Politzer, Morrow, & Leavey, Report on the Societal Cost of Pathological Gambling and the Cost-Benefit/Effectiveness of Treatment (5th Nat'l Conf. on Gambling and Risk Taking 1981) [hereinafter cited as Politzer, Morrow, & Leavey]. "Studies demonstrate that there is a high degree of overlap among pathological gambling, alcoholism and drug addiction." Lesieur, "Female Pathological Gamblers and Crime," in *Gambling Behavior and Problem Gambling* 495, 497 (1993) [hereinafter cited as Gamblers and Crime].

[4] To transpose this "acceptability factor" to legal gambling as increasing illegal gambling activities, see U.S. Commission on the Rev. of the Nat'l Pol'y Toward Gambling, *Gambling in America* 49 (Gov't Printing Off. 1976) [hereinafter cited as U.S. Commission on Gambling]. For a review of the literature interfacing pathological gambling and drug addiction, see Gamblers and Crime, note 3 *supra*, at 497.

[5] For example, the Chicago Crime Commission opposed the 1992 proposal to build a $2-billion casino complex in Chicago.

> Those who have been involved in the successful investigation and prosecution of organized crime believe that the legalization of casino gambling would fuel a renaissance of organized crime. It is incorrect to see casino gambling as a way to beat organized crime at its game. Instead, legalized gambling creates the atmosphere in which organized crime [thrives]. . . . Also, the widespread acceptance of casino gambling will encourage people to try the other forms of gambling controlled by organized crime, because those forms of gambling do not provide records for the Internal Revenue Service and other authorities.

gists recognize that this "acceptability factor" combined with an "accessibility factor" will increase the number of compulsive gamblers in society.[6] The "legalization" of gambling activities means that society can anticipate that the number of compulsive gamblers will increase from .77 percent of the overall population[7] to between 1.5 and 5 percent of the population[8]—with a total of 10 percent of the population constituting problem economic gamblers.[9] Historical trends and conditioning factors indicate that the war on gambling will be the added sociological war of the 1990s—financed by society in general and by the taxpayers in particular.[10]

In 1976, the definitive U.S. Commission on the Review of the National Policy Toward Gambling[11] cautioned against the trends toward legalizing and expanding legalized gambling activities and anticipated the increased socio-economic costs and costs to the criminal justice system of ignoring these warnings.[12] Among other findings, the Commission concluded "[i]t is axiomatic that the two principal goals of legalized gambling—revenue raising and crime control—are incompatible."[13] Another conclusion was that gambling activities "contribute[d] more than any

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Press release of the Chicago Crime Commission, May 28, 1992.

[6] See, e.g., Politzer, Morrow, & Leavey, note 3 *supra*, at 2. See generally A. Lilienfeld & D. Lilienfeld, *Foundations of Epidemiology* (2d ed. 1980). For a summary (in the political context) of the academic consensus supporting these twin concepts of the "acceptability factor" and the "accessibility factor," see Better Gov't Assoc., *Staff White Paper: Casino Gambling in Chicago* 2 et seq. (1992) (copies available from Better Gov't Assoc., Chicago, Ill.) [hereinafter cited as Better Gov't Assoc. Report]; Wynn Resources, Alta. Lotteries & Gaming, *Gambling and Problem Gambling in Alberta* 17 (1994) [hereinafter cited as Alta. Gaming].

[7] The most authoritative baseline data available was reported in 1976 by the U.S. Commission on the Review of the National Policy Toward Gambling. U.S. Commission on Gambling, note 3 *supra*, at 73; see, e.g., Gamblers and Crime, note 3 *supra*, at 495 (.77 percent of U.S. adult population were probable compulsive gamblers.

[8] For a summary of the increases in compulsive gambling in different U.S. and worldwide jurisdictions, see, e.g., Alta. Gaming, note 6 *supra*, at 17-18. See also Meyer & Fabian, "Pathological Gambling and Criminal Behavior," in *Gambling Behavior and Problem Gambling* 517, 517-518 (1993) (statistics for Fed. Republic of Germany) [hereinafter cited as Meyer & Fabian].

[9] See, e.g., Alta. Gaming, note 6 *supra*, at 18 (table).

[10] See note 2 *supra* and accompanying text.

[11] U.S. Commission on Gambling, note 4 *supra*.

[12] See, e.g., *id.* at ix, 40-42, 49, 72-74.

[13] U.S. Commission on Gambling, note 4 *supra*, at 1.

other single enterprise to police corruption in . . . [U.S.] cities and towns and to the well-being of the Nation's criminals."[14] Furthermore, the Commission reported that there was "some evidence that the existence of gambling sanctioned, licensed, or run by the various states—and the attendant publicity—tends to increase citizen participation in *illegal* as well as legal gambling."[15] In 1988, this observation received more conclusive support from the New Jersey Governor's Advisory Commission on Gambling.[16] However, in the years since these Commissions, these *caveats* have slowly eroded from the public memory, and the aforementioned trends have apparently intensified.

Proponents of increased legalized gambling activities counter that these social negatives are more than offset by the increased tax revenues and new jobs created by legalizing gambling activities. Increased tax revenues and jobs are definitely created by the initial increases in legalized gambling activities.[17] However, critics argue that the increased social-welfare costs dwarf the benefits and that preexisting businesses are "economically cannibalized" by legalized gambling enterprises.[18] To investigate these claims, the Ford Foundation and the Aspen Institute funded a study by the Center for Economic Development at the University of Massachusetts.[19] This study analyzed fourteen major reports prepared to evaluate increased legalized gambling activities.[20] Only one report was considered balanced[21] and the reports advo-

[14] *Id.* at ix.

[15] *Id.* at 49 (emphasis added).

[16] The New Jersey Commission "heard from law enforcement officials in New Jersey who contend[ed] that legalized gaming has not only failed to curb illegal gambling but in fact has been conducive to its growth," and the Commission concluded that legalized gambling did not decrease the illegal gambling in New Jersey. *N.J. Governor's Adv. Comm'n on Gambling, Report and Recommendations* 19 (1988) [hereinafter cited as N.J. Adv. Comm'n].

[17] For specific examples of the "initial" positive impacts of new jobs and tax revenues concentrated in a localized area, see M. Madden, *Economic and Fiscal Impacts Associated With the First Year of Gaming: Deadwood, South Dakota* (1991). This report cautioned that only a short time frame was analyzed. *Id.* at 2-4. See generally B. Davis, *Gambling in America: A Growth Industry* 12-16 (1992).

[18] See, e.g., R. Goodman, *Legalized Gambling as a Strategy for Economic Development* 39-40, 51-56 (1994) (Ctr. Econ. Dev., U. Mass.) [hereinafter cited as Goodman].

[19] Goodman, note 18 *supra*.

[20] *Id.* at 16.

[21] *Id.* at 70.

cating increased legalized gambling activities were tagged as "often done by the industry itself"[22] and as "hiding the costs,"[23] including increased costs to the criminal justice system.[24]

This debate is far-reaching and beyond the scope of this discussion, but the gravamen of the present analysis is that as the University of Massachusetts report concluded "[t]here are no *state* gambling plans"[25] and "[t]he research used by public officials to evaluate projects is often done by the gambling industry itself."[26] Accordingly, public policy and legal policy dictate that a state considering utilizing legalized gambling activities as economic development should rely primarily on nonindustry studies that are statewide or regional analyses and that have a strategic perspective. In this context, increased costs to the criminal justice system that are occasioned by increased legalized gambling activities must necessarily rely on the most authoritative and current reports available and extrapolate within a statewide or regional population base. Such an analysis can frame the parameters for future debate and encourage more detailed studies. The present analysis focuses on only the potential for increased costs to a statewide criminal justice system as viewed in strategic policymaking. While other socio-economic cost-benefit issues should also be reviewed in state economic plans, these other issues are too broad for this analysis and are, therefore, not addressed.From the perspective of business activity, new businesses will tend not to locate or expand into those areas where crime is increasing at a rate greater than the national average.[27]

[22] *Id.* at 16.

[23] *Id.*

[24] *Id.*

[25] *Id.*

[26] *Id.*

[27] In business location models, the "community environment" appears to be the most important factor (or one of the most important factors) in the different decision-making analyses. "Increasing crime" would almost uniformly raise a "red flag" in these analyses. For historical background and an introduction to business decision making in general, see F. Rosenkranz, *An Introduction to Corporate Modeling* (Duke Univ. Press 1979). See generally J. Browning, *How to Select a Business Site* (1980); W. Kinnard & S. Messner, *Effective Business Relocation* (1970); D. Smith, *Industrial Location* (1981); J. Thompson, *Site Selection* (1982); A. Weber, *Theory of the Location of Industries* (C. Friedrich trans., Univ. Chicago Press 1937).

Businesses should note the trends evidenced in the FBI crime statistics from 1975 to 1992: U.S. Dep't Just., Fed. Bur. Investigation, *Crime in the United States: Uniform Crime Reports* (1975–1992) [hereinafter cited as FBI Reports (with relevant date)]. See also Las Vegas Metropolitan Police Dep't, Annual Statistical Report: Fiscal Year 1990–1991.

As a corollary, states with legalized gambling in general and locales with particular outlets for legalized gambling will be at high risk not only for failing to attract new businesses, but also for losing preexisting businesses.[28] Preexisting businesses in areas where crime is increasing will be tempted to downsize, expand elsewhere, or even move entirely to another location. States and locales encouraging the gambling philosophy could easily have crime rates that increase exponentially above the national average.[29] It is significant that strategic "business-oriented" reports have noted, for example, "the rate of increase in crime in Atlantic City [which] accelerated 150% (from a 5.4% to a 13.6% increase per year) after gambling was legalized."[30] Given the nationwide preoccupation of states to legalize more and "harder" forms of gambling, it can be argued that those states without legalized gambling will be at a significant strategic business-economic advantage over those states that legalize gambling.

In 1994, these socio-economic concerns were recognized and echoed by authoritative law enforcement officials; for example, Michigan Attorney General Frank Kelley has said:

> Many people try to argue that casinos bring positive results. They say that casinos mean more jobs—more money for the state—a different image. I would say to each of those statements that any positive impact would be so totally outweighed by the negatives that they should want no part of it.[31]

Instinctively, at least some law enforcement officials appear to be concerned with the projected increases in costs to the criminal justice system, as well as the impacts on the preexisting social

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[28] The exception to this corollary consists of those businesses providing cluster services for legalized gambling activities, because of course, these businesses will tend to locate in areas with legalized gambling activities.

[29] See note 27 *supra*. See also Ill. St. Police Report, note 2 *supra*, at 3–11. See generally, Better Gov't Assoc. Report, note 6 *supra*, at 76–126 (a thorough summary of crime-related issues).

[30] Cal. Governor's Off. Plan. & Research, *California and Nevada: Subsidy, Monopoly, and Competitive Effects of Legalized Gambling* ES-3 (Dec. 1992). Increased numbers of people entering the area contributed to this phenomenon, but from the perspective of pre-existing residents, businesses, and taxpayers, the gravamen is that social problems relating to crime will increase. *Id.*

[31] Speech by Frank Kelley, Mich. Att'y Gen. before the Int'l Conference on Gambling, Nashville, Tenn., Feb. 11, 1994, at 3 [hereinafter cited as Mich. Att'y Gen.]. For lists of similar statements by other authorities, see note 1 *supra*.

fabric that are occasioned by legalized gambling activities—particularly casinos.[32] The analysis by Attorney General Kelley's staff and the conclusions are typical:[33]

> According to [the] FBI figures, between 1977, when the first casino opened in Atlantic City, and 1986, just nine years later, the incidence of larceny per capita increased by four hundred and sixty-seven percent.[34] Incidence of all crime combined increased by [one] hundred and thirty-eight percent—and this figure includes all categories of violent crime, including rape and robbery.[35]
>
> When Detroit was considering a vote on casino gambling back in 1988, I shared those statistics with a study commission and pointed out that a one hundred percent increase in crime in Detroit would paint a picture of absolute chaos that could barely be imagined. And, that *any money brought into the city would quickly be spent on an expanded law enforcement effort to control the crime.*[36] (Emphasis added.)

As an expert with decades of experience, his conclusion was unequivocal. "I have been Michigan's Attorney General for more than thirty years, and there has never been an issue that has disturbed me any more than the proliferation of gambling in our state."[37] From the business perspective, any issue that concerns a state's chief legal officer to such an extent should necessarily concern businesses and business executives.

Delimitation of Costs

As in some other issue areas, it is sometimes difficult to calculate the increased "administrative costs" associated with legalized gambling activities. The data is preliminary in several regards, but some observations and conclusions can be made. With regard to the administrative costs of monitoring and regulat-

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[32] *Id.*

[33] *Id.*

[34] Compare FBI Reports 1977, note 27 *supra*, at 98 (Table 6), with FBI Reports 1986, note 27, *supra* at 88 (Table 6). In 1992, the larceny rates were down from 1986, but those rates still indicated approximately a 400 percent increase since 1977. FBI Reports 1992, note 27 *supra*, at 134 (Table 6).

[35] Compare FBI Reports 1977, note 27 *supra*, at 98 (Table 6), with FBI Reports 1986, note 27 *supra*, at 88 (Table 6). "Atlantic City's crime statistics again greatly overshadows [*sic*] all of the national level increases that were experienced in 1977 and 1990." Ill. St. Police Report, note 2 *supra*, at 5. Compare FBI Reports 1977, note 27 *supra*, at 98 (Table 6), with FBI Reports 1990, note 27 *supra*, at 50, 51 (Tables 1, 2).

[36] Mich. Att'y Gen., note 31 *supra*, at 3–4.

[37] *Id.* at 2.

ing casino gambling, states can profit by extrapolating from the costs experienced by similar gambling locales. In the absence of any comprehensive state plans relating to legalized gambling activities,[38] state policymakers are basically relegated to utilizing this type of approach—particularly when short decision-making time frames are involved.

Given these constraints, it should be noted that the administrative costs of regulating just the "casino gambling" in Atlantic City, New Jersey, for example, are approximately \$56 million to \$59 million per year.[39] These costs can be delimited in a variety of ways, e.g., as a function of "visits," or of local patrons vis-à-vis gambling tourists. From a state governmental perspective, however, these costs can be expressed as a function of the state budget. Since the 1991 fiscal year budget of New Jersey was 24.7 billion,[40] the calculation is as follows:

$$\$56 \text{ million} \div \$24.7 \text{ billion} = .23\%$$

Of course, this number appears small, but it looms larger when it is combined with the projected socio-economic costs to New Jersey and then compared to the state revenues actually generated by legalized gambling activities.[41]

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[38] Goodman, note 18 *supra*, at 16.

[39] St. N.J., Comprehensive Annual Financial Report 238 (1992) (\$56–\$57 million for casino regulatory costs); N.J. Casino Control Comm'n, 1992 Annual Report 23 (1992) (\$57 million for casino regulatory costs in 1992, \$62 million in 1991). To keep the time frames uniform and to accommodate "fiscal year" variations, the focus is on 1992 and 1991. Other time periods are given for purposes of comparison. N.J. Adv. Comm'n, *supra* note 16 *supra*, at 65 (\$66.4 million regulatory costs and 1,362 regulatory employees in 1986 for "all" gambling activities, and \$76.6 million regulatory costs in 1987); see N.J. St. Budget, FY 1986–1987; N.J. St. Budget, FY 1991–1992. See also, Roeser, note 2 *supra*, at 10 (\$59 million for casino regulatory costs in 1992). In 1989, the regulatory costs for Atlantic City were also estimated at \$85 million per year. Statement of William Thompson, Prof. Mg't & Pub. Admin., UNLV, before the Ill. Sen. Comm. regarding S.B. 572 on Riverboat Gambling, Sept. 27, 1989. See generally Lee & Chelius, "Government Regulation of Labor-Management Corruption: The Casino Industry Experience in New Jersey," 42 Indus. & Lab. Rel. Rev. 536 (1989); Ill. St. Police Report, note 2 *supra*.

[40] U.S. Bur. Census, U.S. Dep't Com., *Statistical Abstract of the United States 1993*, 300 (113th ed. 1993) (figures are for 1991) [hereinafter cited as U.S. Abstract 1993]; see *The World Almanac* 137 (1993). For uniformity and ease of reference for the general public, the *World Almanac* can provide basic numbers. Of course, actual state budgets provide more accurate calculations. See also N.J. Adv. Comm'n, note 16 *supra*.

[41] Except in Nevada and New Jersey, legalized gambling activities do not contribute over 2 percent of the revenues of any state budget. For a statement of this basic proposition, see *World Book Encyclopedia, 1994 World Book Year Book 398* [hereinafter cited as *1994 Year Book*]. Gambling taxes provide Nevada with

In a similar context, the Illinois State Police calculated that their law enforcement costs would increase by 50 percent, or $100 million per year,[42] if a 1992 proposal for a $2-billion casino complex was approved for Chicago. Governor James Edgar estimated that this amount would just match the state's realistic share of the projected new tax revenues from the casinos; that is, $100 million.[43] As a function of the state budget for fiscal year

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approximately 20 percent of its revenues. St. Nev., Comprehensive Annual Financial Report 8 (1992) (19.75 percent in 1992, 23 percent in 1991); see Nev. St. Gaming Control Bd., Nevada Gaming Abstract 1992, 1-1, 1-2. Contra *1994 Year Book*, *infra*, at 398 (40 percent). By comparison, New Jersey received between 3 and 7.2 percent from 1978 to 1989 with the more recent projections in the range of 6 percent. N.J. Adv. Comm'n, note 16 *supra*, at 48.

[42] Speech by Terrance W. Gainor, Dir. Ill. St. Police, at the Ann. IAODAPCA Luncheon, May 8, 1992, at 10 (for "police services alone") [hereinafter cited as Dir. Ill. St. Police]; Chicago Crime Comm'n, note 1 *supra*, at 21. The range of projected increases to the budget of the Illinois state police was between $42 million and $100 million, but since the Director frequently utilized the more cautious estimate of $100 million, this is the estimate utilized. Although delimited in budgetary terms, these estimates apparently parallel the $41 million to $100 million increased costs calculated by interfacing "the incidence of index crime and the subsequent cost to the criminal system to handle those crimes." Ill. Crim. Just. Info. Authority, Casino Gambing and Crime in Chicago 46 (1992) [hereinafter cited as Crim. Just. Info.]. These cost estimates did not include increased costs for (1) regulation; (2) victimization impact; (3) prosecution of organized crime; (4) additional facilities for system workload; or (5) "response to non-index crimes, such as DUI, fraud, extortion, embezzlement, prostitution, and drug offenses." Crim. Just. Info., *infra*, at 46 & 47. See also Ill. Crim. Just. Info. Authority, Riverboat Gambling and Crime in Illinois 2, 3 (1994) (referencing the $41 million to $100 million in costs as specifically related to "Chicago"). The lack of uniform categories of costs in many reports makes comparisons difficult.

Government policymakers frequently argue that the burden of proof should be on the legalized gambling interests to refute any cautious projections by state agencies—particularly law enforcement agencies. On the other hand, proponents of increased legalized gambling activities often argue that law enforcement bureaucracies tend to inflate the costs to the criminal justice system to increase their budgets.

Another common argument justifying increased legalized gambling activities is that persons gambling illegally will transfer their money into legalized gambling activities, but there is no documentation that this phenomenon occurs and there is more support for the proposition that increased "acceptability" via legalization increases the illegal gambling activities already in process. For a review of the literature discounting the proposition that increased legalized gambling activities will decrease illegal gambling activities, see Ill. St. Police Report, note 2 *supra*, at 10-11 (confirming the conclusion of the U.S. Commission on Gambling). See generally Fowler, Mangione, & Pratter, Nat'l Inst. L. Enforcement & Crim. Just., L. Enforcement Assistance admin., U.S. Dep't Justice, Gambling Law Enforcement in Major Cities (1978). See, e.g., N.J. Adv. Comm'n, note 16 *supra*, at 19. "The Commission has heard evidence that the impact of legalized gaming has reduced neither the magnitude nor the frequency of illegal gambling in New Jersey." N.J. Adv. Comm'n, note 16 *supra*, at 19.

[43] Interview with Ill. Gov. James Edgar, on "Crossfire," Cable News Network, Jan. 6, 1993.

1991, these increased state police costs would be:

$$\$100 \text{ million} \div \$25.1 \text{ billion}^{44} = .398\%$$

While the added tax revenues were also $100 million or .398 percent of the state budget, which appeared to be a breakeven proposition, there were other costs associated with legalized gambling activities that were not associated with traditional business activities. As calculated in a study sponsored by the proponents of the casino complex,[45] the "regulatory" costs were calculated at $65 million per year[46] and increased Chicago police and fire protection costs were $11.4 million per year.[47]

By comparison, the projected costs to the criminal justice system for a New Orleans casino, one-seventh to one-tenth the size of the proposed Chicago casinos, were $14 million per year, including increased police and corrections systems costs of $10.4 million, increased costs of $2.3 million for the district attorney's office, and increased costs to courts of $1.5 million.[48] The obvious temptation to Illinois agencies was to multiply this $14 million per year by the greater size of the proposed Chicago casino

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[44] St. Ill., Illinois State Budget: Fiscal Year 1991 ($25 billion); see U.S. Abstract 1993, note 40 *supra*, at 300; *The World Almanac* 137 (1993). See note 40 *supra*.

[45] See Chicago Gaming Commission, Economic and Other Impacts of a Proposed Gaming, Entertainment and Hotel Facility 263–266 (May 19, 1992) (report prepared by Deloitte & Touche, Chicago, Ill.) [hereinafter cited as Proposed Gaming Facility Report].

[46] Editorial, "Economically, casinos are a good bet," Chicago Tribune, May 24, 1992, § 4, at 2 [hereinafter cited as Economically]. "Deloitte & Touche also projects the loss of 2,300 jobs and $126 million in sales Downstate, $65 million in casino regulatory costs and $11.4 million in annual costs for police and fire protection." *Id.* at 2. For the actual estimates, see Proposed Gaming Facility Report, note 45 *supra*, at 234–245. For a comparison of the administrative costs of state lotteries, see DeBoer, "The Administrative Costs of State Lotteries," 38 Nat'l Tax J. 479 (1985).

[47] Proposed Gaming Facility Report, note 45 *supra*, at 236–241; see Economically, note 46 *supra*, at 2. The calculations are as follows:

$65 million ÷ $25.1 billion = .258%

$11.4 million ÷ $25.1 billion = .045%

See also Crim. Just. Info., note 42 *supra*, at 45; Chicago Crime Comm'n, note 1 *supra*, at 21.

[48] T. Ryan, P. Connor, & J. Speyrer, The Impact of Casino Gambling in New Orleans 46–47 (1990). These calculations were apparently analyzed and considered to be "balanced" and valid. Goodman, note 18 *supra*, at 85–87; Ill. St. Police Report, note 2 *supra*, at 9; Dir. Ill. St. Police, note 42 *supra*, at 9–10. These costs do not include many "indirect costs" to the criminal justice system. For analyses of other "criminal law" issues, see generally Gaines, "Criminal Law: Florida's Legal Lotteries," 9 U. Fla. L. rev. 93 (1956).

complex (using the industry's own system of commonly utilized square-foot multipliers), which would yield increased costs to the Illinois criminal justice system of between $98 million and $140 million. However, in an attempt to minimize any problems of counting similar costs twice because of the different methodologies utilized in different studies and in different states, the higher costs that would tend to occur when trying to transpose the New Orleans casino estimates to the larger Chicago casino complex were not included in this analysis—although the latter two categories of increased costs to the district attorney's office and the courts probably would not involve any significant overlap with the Illinois figures. These costs ranged somewhere from a base of $3.8 million to an upper range of $26.6 million to $38 million (if the industry's square-foot multipliers were used). Therefore, projecting an additional $3.8 million in costs to the court system of Illinois was probably extremely conservative, but was not added to the basic calculations in the analysis that follows. Similarly, it was difficult to determine where to add Governor James Edgar's increases for the new prisons that would be required at a cost of $15 million per prison per year, and these costs were not included.[49]

When the conservative Illinois costs are added together, the projected $500 million per year in estimated tax revenues[50] to be paid by the proposed 1992 Chicago casino complex pale in significance. The relatively minor amounts paid in taxes become more apparent when it is recognized that the $500 million is really a "projection" that (1) does not materialize until the tenth year, and only at $371 million;[51] (2) includes all taxes from "all" conceivable taxable sources;[52] and (3) involves a dispersion (to a

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[49] 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, 1993 [hereinafter cited as Gov. Edgar Press Release].

[50] Proposed Gaming Facility Report, note 45 *supra*, at 270–272. Editorial, "Daley, developers raise the stakes," Chicago Tribune, Mar. 26, 1992, § 1, at 28 ("$500 million in annual tax revenues") [hereinafter cited as Stakes]. Contra, Economically, note 46 *supra*, at 2 ("$327 million in taxes"). These two editorials in the ChicagoTribune during the same time frame demonstrate how from the public's perspective the economic "positives" fluctuate dramatically—in this instance between $327 million and $500 million in tax revenues.

[51] Proposed Gaming Facility Report, note 45 *supra*, at 270–271. Obviously, this amount can increase or decrease significantly depending on diverse assumptions.

[52] *Id.* The tax revenues include, for example, "direct, induced, and indirect" tax revenues from alcohol, automobile rental, corporate income tax ($28–42 million in tenth year), franchise taxes, fuel taxes, hotel occupancy, licenses, real property

large degree) of taxes to the different local and state governments. Illinois Governor James Edgar believed that the state of Illinois could only expect realistically to receive $100 million in new tax revenues, which would not compensate for the increased state police costs of $100 million plus the increased regulatory costs of $65 million.[53] Despite these constraints, the gambling proponents' own estimate of $500 million will be utilized in this example.[54]

Even if it is assumed that the $500 million is the most accurate number, the $500 million shrinks to $323.6 million when deducting for the increased costs to the Illinois state police of $100 million per year plus the increased local police and fire protection costs of $11.4 million per year plus the increased regulatory costs of $65 million per year. However, the largest deduction to the projected tax revenues consists of the increased socio-economic costs due to the increased numbers of compulsive gamblers that the Chicago casino complex would generate. These costs are conservatively calculated at $3.7 billion.[55]

Similar costs can be calculated by utilizing costs from socio-economic studies. Calculating the Chicago population and the surrounding Cook County population at 5.1 million,[56] the population base would be approximately 5 million. Since "hard" casino gambling would be moving into an area that had only the state lottery plus horse racing and off-track betting, the 5 million could be "conservatively" multiplied by .0073, which equals 36,500 compulsive gamblers.[57] This number of 36,500 compulsive gam-

transfer taxes, sales taxes ($34–48 million in tenth year), telecommunications, utilities, withholding taxes ($26–90 million in tenth year) for a subtotal of $97–212 million, not including the gaming tax. *Id.* The gaming tax at 7.7 percent as "preferred" by the proponents of the casino complex would add another $121–123 million, while a 10 percent tax would add $158–160 million for a grand total of $257–370 million (assuming the higher 10 percent gaming tax). *Id.*

[53] Interview with Ill. Gov. James Edgar, on "Crossfire," Cable News Network, Jan. 6, 1993.

[54] Proposed Gaming Facility Report, note 45 *supra*, at 270–272; Stakes, note 50 *supra*, at 28.

[55] Better Gov't Assoc. Report, note 6 *supra*, at 14, 16–17. See generally R. Custer & H. Milt, *When Luck Runs Out* (1985); H. Shaffer, S. Stein, B. Gambino, & T. Cummings, *Compulsive Gambling* (1989); Levitz, The Experimental Induction of Compulsive Gambling Behaviors (thesis on file at U. Ill., Champaign-Urbana, Ill. 1971).

[56] *The World Almanac* 432 (1993). See note 40 *supra*.

[57] Actually, an increase of .73 percent is probably much too conservative. An increase of 1–1.5 percent would be more probable. See e.g., Alta. Gaming, note 6 *supra*, at 17–18.

blers multiplied by $52,000 per year[58] yields an increased socio-economic cost of $1.9 billion.

Two additional subcategories of the socio-economic costs per year are "white-collar crime costs" of $4,123 per year[59] and "intermediate incarceration costs" of $21,000 per year.[60] Therefore, additional specific socio-economic costs related to compulsive gamblers interfacing with the criminal justice system would be:

> Increased "White-Collar Crime Costs" = $4,123/yr. × 36,500 = $150 million
>
> Increased "Intermediate Incarceration Costs" = $21,000/yr. × 36,500 = $766 million
>
> Increased "Long-Term Incarceration Costs" = $2,400/yr. × 36,500 = $87.6 million

The total costs of these three categories would be approximately $1 billion. The long-term incarceration costs, specifically $87.6 million per year, are explained in the following discussion.

According to the Compulsive Gambling Center, practically all compulsive gamblers commit crimes.[61] General averages indicate that 75 percent of compulsive gamblers are not caught or the charges are not pressed.[62] This latter instance is usually due to the fact that most compulsive gamblers commit their initial

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[58] Politzer, Morrow, & Leavey, note 3 *supra*, at 18–20, 20. The better "adjusted" number is $53,000 per year. See Better Gov't Assoc. Report, note 6 *supra*, at 14, 16–17. See also Md. Dep't Health & Mental Hygiene, Alcohol & Drug Abuse Admin., *Final Report: Task Force on Gambling Addiction in Maryland* 2, 59–61 (V. Lorenz & R. Politzer, co-chairs 1990) [hereinafter cited as Maryland Report].

[59] Politzer, Morrow, & Leavey, note 3 *supra*, at 8, 18–20.

[60] *Id.* at 9, 18–20.

[61] Interview with Dr. Valerie Lorenz, Exec. Dir., Compulsive Gambling Ctr., Inc., Baltimore, Md., Dec. 10, 1992 [hereinafter cited as Lorenz Interview]; Maryland Report, note 58 *supra*, at 28. For general discussions of the interface between compulsive gambling and resultant criminal behavior, see Brown, "Pathological Gambling and Associated Patterns of Crime: Comparisons With Alcohol and Other Drug Addictions," 3 J. Gambling Behav. 98 (1987); Lesieur, "Gambling, Pathological Gambling, and Crime," in *The Handbook of Pathological Gambling* (T. Galski ed. 1987). See generally J. Livingston, *Compulsive Gamblers: Observations on Action and Abstinence* (1974); Gamblers and Crime, note 3 *supra*, at 495.

[62] Lorenz Interview, note 61 *supra*; see Maryland Report, note 58 *supra*, at 28. "Research on the connection between pathological gambling and crime is still in its infancy." Gamblers and Crime, note 3 *supra*, at 496.

criminal activities against family members or close associates[63]—for example, stealing money out of a family member's purse or wallet, or selling or pawning property belonging to family members.[64]

The other 25 percent of compulsive gamblers usually find themselves in court and 60 percent of these, or 15 percent of the total number of compulsive gamblers, are convicted and must serve time in jail.[65] The general long-term average cost of incarceration for a healthy compulsive gambler is $25,000 per year, and for an elderly individual, $50,000 per year.[66] By comparison, the average Illinois cost of incarceration per prisoner was $16,000 per year.[67] Taking the most conservative cost of incarceration, the costs of incarcerating compulsive gamblers per year before gambling is legalized in a state are:

.0077 × (state population) = number of compulsive gamblers before legalization

.0077 × (state population) × 15% × $16,000/year = cost of incarcerating compulsive gamblers per year before gambling is legalized

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[63] Maryland Report, note 58 *supra*, at 28; see Gamblers and Crime, note 3 *supra*, at 496–497.

[64] Lorenz Interview, note 61 *supra*. For more detailed analyses, see, e.g., Lesieur, Compulsive Gambling: Documenting the Social and Economic Costs, Table 2, at 21 (1991), published in part as Lesieur, "Compulsive Gambling," Society, May–June 1992, at 42. See also Lesieur & Puig, "Insurance Problems and Pathological Gambling," 3 J. Gambling Behav. 123 (1987); Gamblers and Crime, note 3 *supra*, at 496–497; Meyer & Fabian, note 8 *supra*, at 518.

[65] Lorenz Interview, note 61 *supra*.

[66] *Id.* By comparison, in 1990 the states alone (i.e., excluding federal costs) incurred $23.5 billion in just "corrections" costs for an inmate popuation of 557,000 (1989 figure reported in 1990). Thus, the average cost to a state for each prisoner was approximately $42,300 per year. Off. Just. Programs, Bur. Just. Stat., U.S. Dep't Just., Sourcebook of Criminal Justice Statistics—1991, at 4 (Table 1.4) & 14 (Table 1.10) (1992) [hereinafter cited as Just. Stat. 1991]. These same numbers were reprinted in the 1992 edition. Off. Just. Programs, Bur. Just. Stat., U.S. Dep't Just., Sourcebook of Criminal Justice Statistics—1992, at 4 (Table 1.4) (1993) [hereinafter cited as Just. Stat. 1992].

[67] Ill. Dep't Corrections, Fiscal Year 1993: Annual Report 60, 62 (1994); Ill. Dep't Corrections, Fiscal Year 1992: Annual Report 56, 58 (1993). The average Illinois state cost of $16,000 per year per prisoner has remained relatively the same from 1990 to 1994. This analysis does not address the significant costs of incarceration in the "federal" prison system, which explains in part the higher estimates for compulsive gamblers.

$.015 \times$ (state population) $\rightarrow .05 \times$ (state population) = range of compulsive gamblers after gambling is legalized

$.015 \times$ (state population) $\times 15\% \times \$16{,}000$/year $\rightarrow$

$.05 \times$ (state population) $\times 15\% \times \$16{,}000$/year = range of costs of incarcerating compulsive gamblers per year once gambling is legalized.

As applied to the 1992 proposed Chicago casino complex, the calculations would consist of the previously calculated "increase" of 36,500 compulsive gamblers[68] multiplied by the "long-term incarceration costs" of $2,400 per year,[69] which equals "total long-term incarceration costs" of $87.6 million per year. To avoid confusion, it should be noted that the cost of $2,400 per year is expressed as a function of the total number of compulsive gamblers, whereas the cost of $16,000 per year is expressed as a function of only 15 percent of the total number of compulsive gamblers.

The state of Illinois calculated that the actual tax revenues from the 1992 proposed Chicago casino complex would be $82.5 million in the first year of operation, while the lost tax revenues from other legalized gambling organizations in Illinois would be $100 million, for a net loss of $17.5 million.[70] However, even if the larger projected tax revenues of the Chicago complex were presumed to be correct, the gravamen is that for theoretical tax revenues of $500 million (or more accurately, $257 million to $370 million), the following costs to the state of Illinois could be anticipated:

Increased Ill. State Police Costs[71]	$ 100 million
Increased Local Police and Fire Protection Costs[72]	11.4 million
Increased Regulatory Costs[73]	65 million
Increased White-Collar Crime Costs[74]	150 million

[68] See notes 56–58 *supra* and accompanying text.

[69] See notes 61–67 *supra* and accompanying text.

[70] Gov. Edgar Press Release, note 49 *supra*.

[71] See notes 42–44 *supra* and accompanying text.

[72] See note 47 *supra* and accompanying text.

[73] See notes 45–46 *supra* and accompanying text.

[74] See footnotes 58–61 *supra* and accompanying text.

Increased Intermediate Incarceration Costs[75]	766 million
Increased Long-Term Incarceration Costs[76]	87.6 million
	$1.18 billion

Of course, this $1.18 billion does not include the other socio-economic costs of $1.9 billion[77] (which is quite conservative when compared with the reasonable $3.7 billion calculated by the Better Government Association).[78]

To be extremely conservative, the last category of long-term incarcertion costs can range between $87.6 million and zero if it can be argued that somehow this category can be subsumed somewhat under intermediate incarceration costs. Similarly, the costs to the Illinois state police can range between $100 million and $42 million. Absent new data to the contrary, the other four categories seem to be fairly well established as solid estimates. Accordingly, the best estimates of increased costs to the criminal justice system with the introduction of legalized casino-style gambling in the major Illinois population base appear to range between $1.03 billion and $1.18 billion. It should be emphasized that these numbers were calculated by state agencies and academics in 1992—before significant or widespread riverboat gambling was in operation in Illinois, particularly in the Chicago area. Therefore, it can be argued that the influence of other legalized gambling activities on these calculations was minimal, and other states considering legalized gambling activities can extrapolate from these numbers and make some strategic calculations of increased costs to their criminal justice systems.

To express these costs to the Illinois criminal justice system (including regulatory costs) as a function of the entire population, the $1.03 billion to $1.18 billion can be divided by the taxpayer base that will have to support most of these costs; that is, the population of the state of Illinois of approximately 11 million.[79] This type of per capita calculation is regularly utilized in the

[75] *Id.*

[76] *Id.*

[77] See note 58 *supra* and accompanying text.

[78] See note 55 *supra* and accompanying text.

[79] *The World Almanac* 389 (1993) (Illinois population = 11.43 million).

statistics promulgated by the U.S. Justice Department.[80] Accordingly, the $1.03 billion to $1.18 billion divided by 11 million provides a range of $93 to $107 per person. These costs expressed as a funciton of each "new compulsive gambler" would be $28,200 to $32,300 per year.[81] The other socio-economic costs of $1.9 billion per year would translate into $173 per Illinois resident or $52,000 per new compulsive gambler.[82]

By comparison, the 1990 "preexisting costs" to the Illinois criminal justice system expressed as a cost per Illinois resident totaled $232.58 or specifically: (1) $125.08 police protection; (2) $26.44 courts; (3) $12.67 prosecution and legal services; (4) $3.34 public defense; (5) $63.72 corrections; and (6) $1.34 other justice activities.[83] In summary, each Illinois resident must contribute $232.58 for preexisting costs to the criminal justice system. This amount should be compared with the $93 to $107 per person increases projected by studies as necessary to accommodate increased legalized gambling activities (e.g., via a large Chicago casino complex). Therefore, increased large-scale legalized gambling activities could precipitate fairly immediate increases to the state criminal justice system of 40 to 50 percent.

Similarly for other states, some important strategic approximations of increased costs to the criminal justice system can be calculated by multiplying these new "added" costs of $93 per person (the most conservative cost) times the population of the state. Obviously, these numbers need to be refined for different demographics, but they provide the starting point for the calculations. However, the number of new (or anticipated) compulsive gamblers can be calculated with some certainty, and therefore, the cost of $28,200 per year per new compulsive gambler provides a base point for costs to the criminal justice system (including regulatory costs).

Of course, there is some error in these numbers, but as of

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[80] See, e.g., Just. Stat. 1992, note 66 *supra*, at 5 (Table 1.5); Just. Stat. 1991, note 66 *supra*, at 5 (Table 1.5).

[81] See notes 58, 71-76 *supra* and accompanying text. The calculation is $1.18 billion per year divided by 36,500 calculated new compulsive gamblers (a conservative estimate). Much higher costs have been calculated. See, e.g., Maryland Report, note 58 *supra*, at 2.

[82] See Politzer, Morrow, & Leavey, note 3 *supra*, at 8-9, 18-20.

[83] Just. Stat. 1991, note 66 *supra*, at 5 (Table 1.5). These same numbers were reprinted in the 1992 edition. Just. Stat. 1992, note 66 *supra*, at 5 (Table 1.5).

1992, these estimates appeared to be the best available. These numbers have much more "balanced" support from the academic authorities[84] and from the field research,[85] than the numbers usually referenced by the legalized gambling interests.[86]

It should be emphasized that as the Better Government Association of Chicago reported:

> We found that no one [that is, no expert] argues that casino gambling has positive societal effects, except for the *purported* secondary effects from the economic gains of more jobs and tax revenue. As a result, any debate over the societal effects of legalizing an additional form of gambling centers around the *extent* of the negative social impact. . . .[87]

This conclusion should be broader in its scope, because the negative societal impacts also affect business-economics, commerce, and legal and governmental policy. The costs that can be calculated fairly accurately—namely, the socio-economic costs, the criminal justice system costs, and the administrative costs to state governments—can be readily converted into economic costs affecting businesses and commerce in general. Accordingly, the "purported secondary effects from the economic gains of more jobs and tax revenue"[88] are, in fact, overwhelmed by the socio-economic costs and are illusory benefits akin to "fool's gold."[89]

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[84] See, e.g., Better Gov't Assoc. Report, note 6 *supra*, at 2–3.

[85] *Id.* at 121–123; see Goodman, note 18 *supra*, at 16, 39–46, 68–87.

[86] Better Gov't Assoc. Report, note 6 *supra*, at 124–126. See generally Goodman, note 18 *supra*.

[87] Better Gov't Assoc. Report, note 6 *supra*, at 2 (1st emphasis added and 2d emphasis original).

[88] Better Gov't Assoc. Report, note 6 *supra*, at 2.

[89] Reutter, "Economists: Allure of legalized gambling like that of fool's gold," Inside Ill., Jan. 18, 1992, at 7 (copies available from Univ. Ill. News Bur.). Furthermore, the "poor and desperate people of our states are those who are most likely to fall for the promise of the elusive pot of gold," which thus represents a "regressive tax on those who are least able to afford it." Mich. Att'y Gen., note 31, *supra*, at 2.

Winners and Losers: Politics, Casino Gambling, and Development in Atlantic City

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An analysis of the numbers involved in casino gambling and economic development in Atlantic City would suggest a prosperous city filled with satisfied, employed residents. Yet, in reality, Atlantic City presents a bizarre juxtaposition of glitzy, multimillion dollar casinos directly across the street from the worst of urban slums. Today, with more than $6 billion worth of assessed property, it is the richest American city in real estate value per capita, and the most popular American tourist destination (Baker, 1989). Casino gaming currently draws 33 million bettors a year to Atlantic City, which has a population of 37,000 (King, 1990). In "Las Vegas, they built a city to support the casinos. But in Atlantic City, they did it the other way around: they built the casinos to support the city." (Baker, 1989). The casinos have created 48,000 new jobs, more than the city's population (Painton, 1989). The benefits of this resurrection have been quite unevenly distributed, however, as many city residents are not better off than they were before gambling; the surrounding suburbs have done much better than the central city. Although New Jersey legalized gambling in 1977 as a "unique tool of urban development," suburbs like Galloway and Egg Harbor have prospered as more than four times as many casino workers live outside the city than inside (Drogan, 1989).

A narrow focus on these quantifiable tourist, tax base and employment figures would suggest that casino gambling in Atlantic City has been a major success, in part due to its continued monopoly on the east coast. How many other declining cities have turned their economy around to the degree of a 21-fold increase in the property tax base in just 14 years (Painton, 1989)? In these terms, casino gambling has stimulated one of the largest and quickest successes ever in the history of economic development.

Yet, this rosy picture is only one side of gambling in Atlantic City. The economic benefits have not spread beyond the casinos; the anticipated "multiplier effect" has not moved much beyond the core industry. Many local residents are still poor and unemployed, half of the population still receives public assistance, and city services continue to be substandard. Social problems, including increased crime and prostitution, are worse than ever. Since most people holding the better casino jobs live in Atlantic City suburbs, they contribute little directly to the city.

It seems paradoxical that the city with the greatest quantifiable economic development success in the nation nevertheless is perceived as a failure by most analysts, deterring many other areas from initiating legalized gambling (Dombrink and Thompson, 1990). Why did this happen? Can any policies turn it around? What does this tell us about comparative economic development, especially when a city pursues targets intensively one industry?

ATLANTIC CITY HISTORY AND POLITICAL BACKGROUND

To begin addressing these issues, we must provide a brief historical sketch of the city. The Atlantic City resort, officially incorporated in 1855, grew out of speculators' desires to develop their land holdings near the beach. With their efforts, in 1877, a railway began carrying carloads of working-class day trippers from Philadelphia to Atlantic City (Sullivan, 1989). The city's population expanded from 1,043 in 1870 to 46,150 by 1910 (Funnell, 1983). After the turn of the Century, Atlantic City was the most famous resort in the country. During the summer peak of 1925, 99 daily trains brought visitors to the 1000 hotels and rooming houses and 21 theaters (Demaris, 1986, p. 22). In addition to the access these trains provided to the large northeastern U.S. population, a large (mostly black) work force and aggressive advertising were essential to the city's successful development (Teski et al., 1983).

After the Second World War, the city declined greatly as the tourist trade increasingly moved south to Florida, a result of rising incomes of American vacationers and, later, lower airfares. Before legalized gambling Atlantic City exhibited all the symptoms of advanced urban decline; it was better described as a "South Bronx by the Sea" than the "Queen of the Coast." Unemployment was 13 percent in 1976 and the Central Business District had suffered a 12 percent employment decline since 1972 (Sternlieb and Hughes, 1983, p. 81). The population of 40,000 had no supermarket and this "entertainment capital" had no theaters and only one movie house which showed "adult" films.

To understand the city's experience with gambling, we must understand the political history of this seasonal resort in which most income was earned in a four or five month period. Atlantic City has no history of honest and competent executive management; the city and surrounding county, dominated by a powerful Republican machine, were led by a succession of three powerful political bosses for almost 30 years.

Louis Kuehnle was the first boss (from the 1880s to 1911), of whom the New York Sun said: "If you were to take all the power ever exercised by Boss Tweed, the Philadelphia Gang, the Pittsburgh Ring, Boss Ruef of San Francisco, and Tammany Hall, and concentrate it in one man, you would still fall a little short of Kuehnle's clutch on Atlantic City" (Demaris, 1986, p. 22). Kuehnle was put in jail in 1910 when the Republican gubernatorial candidate received more votes from Atlantic City than the total number of registered voters. A 1911 reform, from a 17 member city council to a five person city commission, failed to eliminate the power of the boss system.

Kuehnle was succeeded by Enoch "Knucky" Johnson, who ruled Atlantic County and City almost as completely as Kuehnle (from 1914 to 1941) until he, too, was jailed for corruption. His official positions as Atlantic County treasurer and secretary of the Atlantic County Republican Executive committee enabled Johnson to wield immense power, which he used to condone and encourage crime, corruption, patronage, and voter fraud (Sternlieb and Hughes, 1983, p. 32).

Finally, Johnson was followed by Frank "Hap" Farley, the boss of Atlantic City until 1971, who extended his power by serving as a state senator. Like his predecessors he, too, was involved in corruption and organized crime (Sternlieb and Hughes, 1983, p. 34). Ironically Farley's downfall stemmed in part from his success in attracting the 1964 Democratic Convention to Atlantic City and the resulting media attention to the city's poverty. Journalists who remembered the resort city fondly from their youth were shocked at the degree of decline. Theodore White called the city "the original Bay of Pigs." In 1971 county voters ended 59 years of Republican dominance by electing Joseph McGahn, a Democrat, as state senator. Before he was voted out of office, however, Farley reintroduced a statewide referendum to legalize gambling in Atlantic City (Sternlieb and Hughes, 1983, p. 38).

POLITICS AND GAMBLING

The change in city leadership did not end the idea of legalized gambling. The new Democratic team of Senator McGahn and Assemblyman Perskie fought to bring casinos to Atlantic City, touting increased tourism, economic development, and enhanced city and state revenues. Two state-wide referenda were held. The first, in 1974, aimed to legalize gambling state-wide but it was defeated by northern New Jersey voters, who feared the criminal influence of casinos (Sternlieb and Hughes, 1983, p. 45). Perskie, with the support of the Governor, then sponsored a bill for a new referendum only legalizing gambling in Atlantic City (Waggoner, 1976). In 1976 the State Legislature approved a bill which favored private rather than public ownership of the casinos and a state tax on casino revenues that would go towards defraying utility bills for the elderly. This referendum was passed by state voters largely due to the bolstered financial and organizational efforts of groups that stood to benefit from it (Sternlieb and Hughes, 1983, p. 53).

The opening of Resorts International as the first casino in 1978 was a resounding success, raising both expectations and the prices of Atlantic City real estate. By 1983, the "going rate in the business district of $ 33.98 per square foot was higher than land costs in downtown Manhattan" (Demaris, 1986, p. 371). As gambling revenue rolled in, the state collected 8 percent of the gross revenues, some 36,000 new jobs were created in the first six years, and observers were optimistic. Casinos began to shoulder a large share of the city tax burden; by 1982, the casinos' share of the total city property tax assessment was 54 percent, increasing to two-thirds by 1989.

With this successful start few noticed that the basic political infrastructure, both in city government and in new state-city redevelopment agencies, continued to resemble that of the corrupt machine era (only this time without leadership stability). Closer analysis revealed that gambling revenues alone would not bring paradise to Atlantic City. From 1977 to 1982, 20 percent of city's housing stock was demolished to make room for casinos, serious crimes increased 250 percent, and unemployment remained near 20 percent among blacks and Hispanics (Demaris, 1986, p. 370). The local economy became less diversified and much more dependent on this single industry; from 1970-1980, the service sector grew from 37 percent to 67 percent of total employment, driven by the casinos, while the manufacturing sector (forced out by rising land values) declined by 43 percent, far more than the national decline (Sternlieb and Hughes, 1983, pp. 82-84). **While some argued that these were short-term transition problems, unemployment among city residents remains at double-digit levels, twice the state average, after more than a decade of casino growth.**

Finally, in 1982 Atlantic City voters approved a change in political structure designed to lead to better representation for minorities and to make it less likely that remnants of the machine or newer casino-related corruption could dominate city government. A mayor-council (with nine members) government replaced the old commission system susceptible to machine influences and corruption.

Despite this structural change, the first mayoral election in 1982 pointed to continued political problems. Michael Matthews, a white commissioner, who had taken a stand against corruption by other commissioners, defeated James Usry, a black school superintendent, by only 359 votes. The election was racially divisive as elderly whites supported Matthews and the younger Black and Hispanic half of the population supported Usry. Usry charged election fraud and demanded a recall of Mayor Matthews, implicated by the FBI in a labor union bribery scandal linked to organized crime (Sardella, 1983). Usry won the 1984 recall election as Matthews was indicted and sent to jail. But by 1989, Usry and three city councilmen were arrested on charges of accepting contractor payoffs (Sullivan, 1989). In 1990, James Whelan, a white school teacher, defeated Usry in a close race that further escalated racial cleavages.

The charter change did not alter substantially the environment of corruption in local government from the machine era; as of 1990, four of the last seven Mayors of Atlantic City have been indicted. This has eroded the legitimacy of and prevented any consistency in the formulation of city redevelopment policy.

STATE AGENCY RESPONSES

City government has not been the only important institution slow to respond to developmental needs. The state authorities established to regulate gambling and encourage city redevelopment have not been successful despite the fact that casino tax revenues are important, though not critical, to the New Jersey treasury. The state formed the Casino Control Commission in 1977 to regulate the industry and keep out organized crime, but mostly it has been overpowered by the casinos. The state has required the casinos to pay between 1.25 percent and 2 percent of their revenues for city redevelopment projects, but it took nearly eight years to create an implementing agency, the Casino Reinvestment Development Authority (CRDA). Currently, at least four agencies (including the Atlantic City Housing Authority and the Urban Redevelopment Agency) focus on housing; they have been unable to coordinate their planning decisions due to political sensitivity and racial cleavages (Erlanger, 1988; Sternlieb and Hughes, 1983, pp. 121-22).

Through 1989, the CRDA had helped to build only 688 casino funded rental apartments, although it is starting to build 3000 new units in the depressed North-east Inlet area (Drogin, 1989). Some individual casinos have been allowed to use their CRDA monies to build smaller housing complexes than originally planned and others have been given the option of buying authority redevelopment bonds, rather than investing directly (Janson, 1987).

ATLANTIC CITY CASINO INDUSTRY IN 1990

Legalized casino gambling in Atlantic City is now an established industry. Fortunes have been made and lost, not only by individual gamblers but by firms and entrepreneurs that have invested in the city. Donald Trump has leveraged investments of nearly $2 billion in casino-hotels, and now controls 33 percent of the city's gaming capacity and 40 percent of the hotel rooms (King, 1990; Rudnitsky, 1989; Furlong, 1989). However, with a slower economy and excess capacity in 1990, Trump's expensive new Taj Mahal casino faced bankruptcy.

Trump's problems are only the most recent sign that casinos are becoming less profitable. In 1988, 7 of the 12 casinos lost money, after paying taxes and interest on junk bonds. As the number of casinos grew from 9 to 12 from 1983 to 1988, and gross winnings increased from about $1.75 billion to $2.75 billion, casinos' profit percentages dropped from 9.5 percent to about 0.6 percent (*Economist*, 1989, p. 56). Resorts International, the first big success in Atlantic City, faces bankruptcy after Merv Griffin defeated Trump in a costly takeover battle, and because of location and competition, a few casinos never succeeded (Economist, 1989, p. 56). Ironically, as Vogel (1989) notes about business power generally, the casino industry's precarious financial position may give it even more power over development decisions, as employee and government stakeholders and revenue recipients strive to keep the industry profitable.

We can identify three reasons for the lack of successful redevelopment for Atlantic City residents. First, the state and city agencies have not articulated or started to implement a coherent plan; jurisdictional battles, racial conflict, and the inertial "foot-dragging" power of the casinos led to a eight year hiatus before a workable agency for reinvestment of casino revenues was created. The city's own plans and policies, despite vast new resources, have not been managed competently. Second, legalized gambling spawned a greater scale of illegal activities and corruption, causing the city to spend much of its time and revenues combating unanticipated problems, validating Stone and Sanders' (1987, p. 7) observation, in a different way, that development often has hidden costs. Third, the casinos have proven to be self-contained empires with little "enlightened self-interest" in contributing to the city's improvement. The industry maintains that "the casinos' only responsibility was to come in, obey the laws and churn out money . . . it was not their job to make public policy. It's government's job to do what needs to be done" (Erlanger, 1988). Atlantic City's redevelopment has been stalled by continuing conflicts between casinos investing in the city and residents who want to use the city as their home (Logan and Molotch, 1987).

Concrete steps can be taken towards solving these problems. First, city and state agencies should try to foster some diversification of the local economy away from complete reliance on day-trippers, especially into related tourist activities like over-night conventions, but also into wholesale and retail trade, transportation, and communications. Second, to end policy fragmentation, all the redevelopment agencies should be merged and brought under an agency supported, and perhaps even dominated, by the state—an authority that makes redevelopment policies and invests CRDA funds. For this to happen, State government must play a more active role, at least until the city can prove itself capable of managing redevelopment.

LARGER IMPLICATIONS

What does "the Atlantic City story" tell us about the comparative politics of local economic development? One clear conclusion is that suburbs will benefit from urban economic development even if the project or industry is located in the central city. The original intent of gambling was to redevelop Atlantic City, not to expand and develop new towns in the region. In addition to drawing resources away from the city, suburban growth around Atlantic City has increased environmental problems in a fragile coastal ecosystem. Given the nature of settlement and political choices in America today, with a growing plurality of people living in suburbs, partly this trend was inevitable. But lack of adequate Atlantic City housing, loss of land to speculation, and casino-related crime have exacerbated this more general phenomenon.

Voters statewide in New Jersey approved gambling, the state legislature wrote many of the rules, and the state is in effect a revenue-receiving partner in the gaming industry, but the burden of revitalization has remained on this small city. During the 1980s, Atlantic City was hurt by the lack of gubernatorial leadership which never favored gambling (Janson, 1988). It is very difficult for a city without a history of a strong political infrastructure to manage such rapid change.

Stimulation of the potential spill over benefits from gambling creates a vital need for city and state cooperation. Interestingly, the direct economic impacts of casino development, in terms of employment and size of the industry, were largely anticipated, although the multiplier effect has been much lower than expected (Economic Research Associates, 1977; Nauss, 1980; Hamer, 1982). A former head of the city chamber of commerce stated: "what we didn't read right was the gambler comes into town...has dinner....is entertained...and then goes home." Partly this may just be the nature of the gaming industry when it is located close enough to a large population base that can go home at the end of the day. Multipliers related to tourism are higher in Las Vegas (Hamer, 1982), where gamblers stay for more than one day.

For development to succeed in more than narrow terms and to benefit most city residents, the political infrastructure is as important as the economic infrastructure. Atlantic City's political history shows that a competent, stable regime was not in place when gambling came to town and one has yet to emerge. While we cannot state conclusively that such a regime necessarily would do better, all evidence points to the need for coherent administrative policies. Rapid economic development and a vast expansion in the local tax base cannot by themselves improve endemic city problems or mask the failures of divided and inept administrations. The failure of vast casino revenues to improve the lives of the local residents suggests that Peterson's (1981) notion of a unitary city interest in economic growth is more stylized fiction than accurate prediction.

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ANALYSIS OF KEY ISSUES
INVOLVED IN THE
PROPOSED CHICAGO CASINO GAMBLING PROJECT

Prepared by

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November 19, 1992

INTRODUCTION

This analysis, prepared by the Chicago Crime Commission's Casino Gambling Committee, is not intended to be an exhaustive treatise on all aspects of the proposed Chicago casino project. Rather, we have (i) analyzed what the Crime Commission considers to be four key topics by comparing representations of the casino proponents with information obtained by the Crime Commission, and (ii) set forth certain conclusions in regard thereto. The four topics addressed in this report are Employment, Organized Crime, Ambient Crime and Revenue Cost estimates.

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TOPIC 1

JOBS

ISSUE 1: NUMBER OF JOBS WHICH WILL BE CREATED BY PROPOSED CASINO GAMBLING COMPLEX.

A. PROPONENTS' REPRESENTATIONS:

1. In a number of full page newspaper advertisements, written materials, and oral presentations, the casino proponents have claimed, based on a report by Arthur Andersen and Company, that 66,000 permanent jobs will be created by the project: 18,000 at the casino complex and 48,000 off-site as a result of economic spin-off effects. This report also purportedly concludes that 37,500 direct and indirect jobs will be created during the construction phase.[1] The Arthur Andersen report has not been released by the casino operators, despite requests to do so by the Chicago Crime Commission.

2. The casino proponents, in an earlier estimate, claimed that between 15,000 and 20,000 permanent jobs would be created within the gambling complex and an additional 20,000 to 25,000 jobs generated indirectly. This would total between 35,000 and 45,000 new permanent jobs.[2]

3. The City of Chicago Gaming Commission appointed by Mayor Daley, based on a study by Deloitte & Touche, estimates that approximately 12,000 new jobs will be created at the gambling complex and that there would be a net increase of approximately 38,000 jobs in Illinois.[3]

B. FACTS:

1. In 1988, 12 casino-hotels employed approximately 40,500 individuals in Atlantic City.[4] This would equal an average of slightly under 3,400 employees per casino. Assuming 4 casinos will be contained within the Chicago Gambling Complex and the average number of employees per casino is equivalent to Atlantic City, approximately 13,600 persons would be employed at the casinos.

2. A survey of the hotel/casinos in Las Vegas determined that Las Vegas had 2,852,534 square feet of casino space in 1990. 115,400 people were employed in the casino Hotel gambling industry in Las Vegas in 1990.[5] The Deloitte & Touche report estimates that 500,000 square feet of the complex will be devoted to gambling.[6] This would be approximately 1/6 of the space dedicated to gambling in Las Vegas. One-sixth of the 115,400 employees of Las Vegas is approximately 19,000 employees. Similarly, based upon the square footage and employee figures for Las Vegas noted above, the number of employees in casino-related industries in Las Vegas approximated .03 per square foot of gambling area. Applying this equation to the Chicago Casino

Project encompassing 500,000 square feet, one could conclude that the Chicago casino complex would employ 15,000.

3. In 1989, 11 casinos in Atlantic City employing 41,000 people were reported to have a secondary employment impact of 28,376 jobs.[7] Assuming the Chicago Gambling Complex would have 1/3 of the employees of Atlantic City (13,000), the secondary employment, based on the Atlantic City ratio would be less than 10,000 jobs. This would mean the total increase in jobs as a result of the casinos (using conservative, but realistic, figures) would be 22,000 to 25,000 jobs. One might argue that comparison to Atlantic City is not appropriate because Chicago is a different, more vibrant community However, what is being measured is what secondary employment will be generated by an identical form of gambling. Atlantic City was practically a dead city before the casinos and the hugh crowds attracted by the casinos should have shown what additional employment is generated by casinos.

4. Using a "modeling" methodology similar to that used by Deloitte & Touche, Dr. Timothy Ryan, University of New Orleans, estimates the casino project will generate 15,717 direct jobs and 11,104 secondary employment jobs.[8] This would mean a total of 27,057 new jobs as a result of the proposed casino.

5. Dr. Ryan also calculated the impact on employment as a result of diversion of spending from other Chicago area businesses to casinos. According to Dr. Ryan, this diversion of spending would cause the loss of 12,544 non-casino jobs in the Chicago area.[9] Thus, the total <u>net jobs</u> created by the proposed casino complex would be 14,277, according to Dr. Ryan's analysis.

6. The proposed casinos will need trained gaming professionals, including dealers, managers and many others. Experts familiar with the gaming industry point out that there is only a limited number of qualified people for these positions.[10] There is only so much talent available.[11] States without casino gambling have virtually no labor pool with the necessary gaming experience.[12] Indeed, one casino operator has predicted: "If a major metropolitan area legalizes casinos, you'll see another mass exodus of Nevada and Atlantic City executives."[13]

7. Governor Jim Edgar predicts that a substantial number of the 21,000 jobs in the horse racing industry as well as the 3,500 jobs related to riverboat gambling will be lost as a result of land-based casino gambling.[14]

C. <u>CONCLUSIONS</u>

Based upon available information, it appears that the most likely number of permanent jobs created at the Casino complex would be between 12,000 and 15,000. The indirect employment would probably be between 10,000 and 13,000 jobs. This would mean between 22,000 and 28,000 additional permanent jobs. If Dr. Ryan's net loss hypothesis is applied, a reasonable estimate of permanent net job increase would be between 15,000 and 20,000 at most. This is less than 1/3 the number estimated by the casino proponents.

When one also considers the potential for many of the significant proposed jobs to be filled by out-of-state residents and the negative impact on other gambling businesses in Illinois (only a portion of which was apparently considered by Dr. Ryan), the net job increase as a result of the casinos may be even less.

Nevertheless, the proposed casinos will create a number of new jobs, albeit at the low end of the wage scale.

ISSUE 2: QUALITY OF JOBS

A. PROPONENTS' REPRESENTATIONS

1. The estimate of the number of jobs at the casino complex is expressed in terms of "FTE", which means full-time equivalent employees.[15] Thus, the actual number of full-time employees would be less than the figures presented.

2. It is represented by Deloitte and Touche that the average salary of the employees at the casino complex will be $30,285.[16] No data or factual predicate is set forth supporting this figure.

B. FACTS

1. It must be recognized that the average salary figure presented for the project may consist of a few large salaries at the top that would mask a large number of employees at the very low end of the wage scale.

2. In Atlantic City, 65% of the total number of employees make less than $25,000 a year and almost 80% make less than $30,000 a year.[17]

3. It has been estimated that 1/3 of all casino jobs in Atlantic City fall into the $5,000 to $10,000 range.[18]

4. In Las Vegas, the average income in 1991 for casino employees was $18,349. A beginning craps dealer will make $7,718 annually and an advanced blackjack dealer will make $10,598. A boxtender (the highest paying casino floor occupation) will make between $26,496 and $37,593. Six out of nine of the most common categories of casino employees make less than $7.00 an hour.[19]

5. The Chicago Coalition for the Homeless opposes the building of land-based casinos, in part because low wages perpetuate the problems of homelessness in Chicago; half the homeless population is employed, but do not earn enough to pay rent. The Coalition estimates that in order to rent a two bedroom apartment for a family, a person must make at least $10.66 @ hour.[20]

C. CONCLUSIONS

The Mayor's Commission on Gaming's estimate that the average salary of a Chicago casino worker will be $30,000 is not indicative of what most employees will be paid based on salaries in Nevada and Atlantic City.

ISSUE 3: MINORITY AND CHICAGO RESIDENT EMPLOYMENT

A. PROPONENTS' REPRESENTATIONS

1. The proposal by the casino interests has not set forth any real guidelines or means of regulation of affirmative action programs.

2. The Mayor's Gaming Commission recommends that existing city requirements for minority hiring be applied.[21]

3. The Mayor's Gaming Commission also recommends that the proposed operators and vendors "commit themselves to a pro-active and on-going outreach effort" in regards to minority hiring.[22]

4. Mayor Daley reportedly has promised that 7,000 jobs at the casino complex will be held by CHA residents.[23]

B. FACTS

1. The New Jersey Casino Control Commission requires 45% female and 20% minority representation at all levels of the casino work force.[24]

2. Although the gaming industry as a whole in Atlantic City met the overall 20% minority representation requirement, this percentage was heavily weighted in the low end jobs where minorities made up 71% of unskilled laborers and 52% of the service workers such as cleaners, cooks, guards, porters, etc.[25] The affirmative action goal of 20% was met in only 4 of 9 job titles.[26]

3. In Las Vegas, sixteen major hotel/casinos were sued in 1971 by the U.S. Department of Justice for various discriminatory practices. The complaint alleged that over 90% of the African-American workers employed in the industry were limited in and segregated to the lowest paying jobs. A consent decree signed in 1971 by the defendants required a 12.5% African-American representation in all categories. To date, this requirement has not yet been met.[27]

4. Less than 20% of the Atlantic City casino employees are residents of Atlantic City.[28]

5. Under the regulatory scheme in New Jersey, licensing for a managerial or executive level job requires a 67-page application and a $500 non-refundable deposit. A $30 an hour fee for a Division of Gaming Enforcement investigation is also charged. Lower level casino job applicants must have proven gaming experience or be a graduate of an approved gambling school.[29]

C. CONCLUSIONS

1. The casino industry has a weak record in terms of minority hiring.

2. No enforceable commitment to minority hiring has been given by the casino operators.

3. The experience in Atlantic City, as well as the necessity of gaming experience for many casino jobs, suggests that many of the proposed jobs will be filled by non-minorities from outside the City of Chicago.

TOPIC 2

ORGANIZED CRIME

ISSUE 1: POTENTIAL OF ORGANIZED CRIME INFLUENCE AND CRIMINAL ACTIVITY BY CASINOS

A. PROPONENTS' REPRESENTATIONS

1. Threat of organized crime influence is merely "Hollywood imagery".[30]

2. Each of the three proposed casino operators are publicly traded companies and have outstanding reputations for complying with casino gaming regulations in Nevada and New Jersey.[31]

3. The Mayor's Commission concluded that with sufficient expenditures, strict regulations and vigilant police work, organized crime can be controlled.[32]

B. FACTS

1. In 1983, Caesars Hotel Casino in Atlantic City paid the largest fine ever assessed as of that date against a casino for deliberately violating gaming regulations.[33] In 1985, New Jersey casino regulators ordered Caesars Hotel Casino closed for a day as punishment for helping a compulsive gambler lose money he had embezzled. Fines ranging from $3,000 to $10,000 were imposed on six former employees of the casino. The sanctions stemmed from Caesars' involvement with a compulsive gambler who pleaded guilty in November 1983 in a Toronto court to charges of embezzling more than $10,000,000 from the Canadian Imperial Bank of Commerce. The embezzlement occurred when the gambler transferred bank funds to the casino, where he lost most of the money.[34]

2. In March, 1992, two high-level Sands Hotel Casino employees were called before a federal grand jury investigating an alleged extortion attempt against a woman who owed the casino $500,000 in gambling debts. Allegedly, the two officials threatened the woman in her Newport Beach, California home by telling her she would be dead if she refused to pay the $500,000 gambling debt.[35]

3. A Japanese businessman and gambler who owed $5,000,000 in gambling debts at the Las Vegas Hilton and $4,000,000 to Trump Plaza Hotel in Atlantic City, was found stabbed to death in his home on January 3, 1992. Casino executives in the United States reportedly suggested that the victim may have borrowed money from a Japanese crime syndicate and was unable to pay off the debt.[36]

4. In 1983, New Jersey state law enforcement authorities told the State Gambling Commission of Investigation that a random sampling of casino

records revealed the names of 25 mobsters who obtained $1.2 million in credit in 1982. According to the testimony, various members and associates of the New York and Philadelphia crime families were given "easy access" to gaming tables from which they are supposed to be banned. The same 25 members or associates of organized crime also received $72,000 in complimentary services in the year 1982. Vincent J. Bonafede, a reputed associate of the Gambino organized crime family, was reported to have received a total of $202,500 from five casinos, including Caesars. A New Jersey state police officer also testified that an organized crime figure deposited over $504,000 at an Atlantic City casino and that such activity appeared to be a method of "laundering" money.[37]

5. In January, 1992, a 15-count indictment naming ten individuals was returned by a grand jury in San Diego, California. This indictment alleged a conspiracy to infiltrate a legal Indian gaming operation on the Rincon Reservation in San Diego, California. Among the individuals indicted in this case were John DiFronzo, alleged current leader of the Chicago mob's day-to-day operations; Sam Carlisi; Donald Angelini, reportedly the mob's top odds maker and west coast power; and several others.[38]

6. In October, 1990 a Federal Grand Jury returned an indictment charging six individuals with criminal violations in regard to their operation of Bingo World, Inc., Brooklyn Park, Maryland. Dominick Peter Cortina, Donald John Angelini, and Sam Frank Urbana, alleged members of the Chicago Organized Crime family were among those indicted. These individuals were charged with skimming profits from the bingo hall as well as utilizing Bingo World to launder funds obtained from illegal activities.[39]

7. During United State Senate hearings in 1989, witnesses from the FBI, the California Attorney General's Office and a federally protected witness related that organized crime had control of 12 of 90 Indian bingo operations throughout the country. According to these witnesses, organized crime maintained an interest in these bingo operations through the use of management companies which are employed by the Indian tribes to oversee and run the bingo games.[40]

8. Former New Jersey Attorney General John Degnan stated in 1981, three years after gambling was legalized in New Jersey, that "anybody who goes in to gambling should recognize, particularly in an urban center, that organized crime will be attracted to it like sharks to a bloated body."[41]

9. United States Attorney for the Northern District of Illinois, Fred Foreman, stated that, in his opinion, organized crime will try to infiltrate the operation of the proposed casinos and engage in labor racketeering and public corruption.[42]

10. Former attorneys in charge of the Chicago Strike Force Against Organized Crime, whose collective experience spans thirty years, all concluded that organized crime will attempt to infiltrate the proposed casinos at all levels.[43]

11. Caesar's World's previous owners, brothers Clifford and Stewart Perlman, were suspected of having connections with organized crime figure Meyer Lansky. The Perlman's sold their stock in 1981 when the New Jersey Regulatory Authorities made it a condition of renewing the company's gambling license. [44]

12. Hilton Hotels was denied a gaming license by New Jersey authorities in 1985 because of ties, which have since been severed, with reputed mob lawyer Sidney Korshak. Hilton was granted a license in New Jersey in 1991.[45]

13. Today, law enforcement experts agree that as long as regulations similar to that existing in New Jersey are used and enforced at new casino sites, organized crime may be prevented from owning and managing casinos.[46] No link has been shown between organized crime and the ownership of existing New Jersey casinos.

C. CONCLUSIONS

1. Given the history of casino gambling in this country, there is little doubt that organized crime will attempt to infiltrate casino gambling.

2. The threat of organized crime is not merely "Hollywood imagery," but is a very real threat as evidenced by recent indictments and convictions of organized crime figures in connection with various aspects of gambling, including casino type gambling.

3. The lack of organized crime involvement in ownership of casinos at the present time in New Jersey can only be attributed to stringent regulatory and law enforcement efforts and the existence of publicly held corporations as the current licensees.

4. The casino industry generally, and Caesars and Hilton, specifically, have been the subject of criticism for past mob ties.

ISSUE 2: ORGANIZED CRIME'S IMPACT ON CASINO OPERATIONS AND ANCILLARY BUSINESSES.

A. PROPONENTS REPRESENTATIVES

1. Law enforcement and the gaming industry have been very effective in preventing mob infiltration of the vending and ancillary services which are necessary for the success of casino gaming operations.[47]

B. FACTS

1. Gary Shapiro, until recently the attorney in charge of the Chicago Strike Force Against Organized Crime, stated that organized crime interests "don't have to come in the front door, they often come in the back through ancillary services....Not only is legalized gambling a 'cash cow', it is also irresistible to organized crime."[48]

2. Former Atlantic City Police Chief William Ten-Brink was quoted as saying that organized crime interests "are attempting to infiltrate businesses in the city. Offers have been made to businessman to buy out their restaurants or set up partnerships. They involve bars, restaurants, vending machines, wholesale distributorships, their usual stock and trade."[49]

3. Angelo Bruno, identified by law enforcement authorities as a member of organized crime, stated in the New York Times magazine on February 5, 1978, "I don't want to own [Atlantic City] casinos, I just want to service them."

4. The President's Commission on organized crime concluded that organized crime in America is entrenched in the marketplace. It owns and operates legitimate businesses, and in some areas of the country, it controls segments of entire industries. Throughout the economy, organized crime distorts the cost of doing business through theft, extortion, bribery, price fixing, and restraint of trade.[50]

5. New Jersey law enforcement officials believe that organized crime has infiltrated legitimate businesses such as those which provide the casinos with ancillary services including limousines, linen, meat, and vending machines according to newspaper reports.[51]

6. Reportedly the leader of the Philadelphia organized crime family was a "salesman" for a cigarette vending machine operation in Atlantic City as well as an owner of an Atlantic City bar and restaurant. Organized crime family members were also allegedly involved with various construction companies involved with the construction of the casinos.[52]

7. At a recent seminar conducted by the New Jersey Division of Gambling Enforcement, New Jersey State Police officials alleged that organized crime is involved in slot machine manufacturing, gambling supplies, and other casino supply distribution businesses. According to these officials, direct links were found between the Philadelphia organized crime family and 9 construction companies, 5 travel entities, 1 real estate entity, and 1 food servicing company. Links between other organized crime groups and travel, janitorial and alcohol related businesses were also discovered between 1980 and 1991. In each of these instances, licenses were denied to these entities.

8. The head of the Philadelphia organized crime family allegedly owned constructions companies which handled millions of dollars worth of Atlantic City casino construction contracts. [53]

9. Organized crime has used casinos in Las Vegas as a means of laundering organized crime profits. One organized crime family allegedly laundered millions of dollars from illegal drug sales through Caesars Palace in Las Vegas in 1980.[54]

10. IRS reportedly has recently uncovered over 11,000 possible violations of the Federal money laundering laws by New Jersey casinos. [55]

11. In 1983, Lt. Colonel Justine J. Dintino, Executive Officer of the New Jersey State Police, reportedly stated that gambling chips distributed on credit at New Jersey casinos have been improperly cashed in at the casinos and the money used for a variety of organized crime pursuits.[56]

C. <u>CONCLUSIONS</u>

1. Efforts to prevent mob infiltration of casino operations and ancillary services will be an ongoing battle.

2. Preventing the use by organized crime of casinos to launder money and precluding organized crime members from receiving income through businesses are continuing problems.

ISSUE 3: CORRUPTION OF UNION AND GOVERNMENTAL OFFICIALS IN CONNECTION WITH CASINO GAMBLING.

A. PROPONENTS' POSITION

1. To suggest that Illinois just cannot handle casino gambling [in connection with governmental corruption] is both "insulting and absurd."[57]

B. FACTS

1. Atlantic City Mayor Michael J. Matthews was convicted in 1985 of extortion. Matthews was alleged to have had close dealings with the Scarfo organized crime family.[58]

2. In July 1989, Atlantic City Mayor James L. Usry, along with 13 other political leaders and executives, were charged with influence peddling, corruption and official misconduct.[59]

3. A 1991 Department of Justice report, which indexed all corruption convictions of public officials by judicial district, ranked Northern Illinois (Chicago) Number 1 in the total number of convictions with a grand total of 357 in the last 5 years. Half of the City's electrical and health inspectors, 2/3 of its sewer inspectors, 61 judges and other Cook County Circuit Court employees had been convicted between 1985 and 1987 of some form of government corruption. 74% of all Chicago corruption cases between 1970 and 1987 implicated licensing, zoning, inspection and regulatory officers.[60]

4. Most recently, FBI operation Gambat implicated various Chicago officials including state legislators, a judge and local politicians in extortion and bribery schemes.

5. In 1984, the United States Senate Permanent Subcommittee on Investigations found, after a 3 year investigation, that organized crime interests, particularly those of the Chicago mob, had substantially influenced the affairs of the Hotel Employees and Restaurant Employees International Union. The Permanent Subcommittee on Investigations concluded that both Atlantic City Local 54 and Local 226 of Las Vegas were controlled by organized crime and that these two locals were thoroughly intertwined with the casino industry and thus subject to the constant pressure of infiltration by organized crime interests.[61]

6. The President's Commission on Organized Crime determined that the Hotel Employees and Restaurant Employees International Union was one of four international unions most frequently associated with organized crime and it endorsed the findings of the Permanent Subcommittee on Investigations.[62]

7. In December 1990, the U.S. Justice Department brought a civil action seeking to place Local 54 of the Hotel Employees and Restaurant Employees International Union under trusteeship alleging that the local had been dominated and controlled by the Bruno/Scarfo family of organized crime. According to the complaint, a series of meetings were held in Atlantic City in 1977 or early 1978 which were attended by Ed Hanley, Angelo Bruno, Alan Dorfman, and others to discuss the control of the unions in Atlantic City. On April 12, 1991 a Consent Decree was entered in which certain officers of Local 54 resigned their offices. As part of the Consent Decree, a Court appointed monitor had exclusive control over union finances. Edward T. Hanley, International Union President, agreed that during the monitoring period, he would isolate himself from Local 54 and was also prohibited from any action involving Local 54 without the monitor's permission.[63]

8. Edward T. Hanley, Sr., is reported to have played a "pivotal role" in orchestrating the proposed casino gambling complex in Chicago.[64]

C. CONCLUSIONS

1. The potential for public and union corruption, given the high incidence of this activity in Atlantic City and our own experience in Chicago is quite high.

2. History of other gambling operations indicate that these casinos have been exploited by organized crime through corrupt union and government influence.

TOPIC 3

AMBIENT CRIME

ISSUE 1: INCREASE IN STREET CRIME

A. PROPONENTS' REPRESENTATIONS

1. Any increase in the incidence of street crime in Chicago as a result of the casino gambling project would be merely a result of increased tourism rather than gambling activity.[65]

2. The increase in crime in Atlantic City following the introduction of casino gambling cannot be used as a valid indicator that casino gambling causes an increase in street crime because the crime index for Las Vegas has dropped significantly.[66]

B. FACTS

1. The crime rate in Atlantic City increased dramatically after the introduction of Casino Gambling. In 1978 the overall crime index was 5738. By 1980 it had doubled and ultimately rose to 15430 in 1983. The overall crime index has remained at roughly this level since 1983.[67]

2. In Atlantic City, street crime ran so rampant and prostitution became so wide-spread that the Chief of Police, in despair of curbing it, recommended that prostitution be legalized.[68]

3. Atlantic City had the highest crime rate in the nation in 1990.[69]

4. William Jahoda, the former Mafia overseer of gambling in Chicago has warned, "[C]onverging [on Chicago]. . . will next be every pimp, burglar, drifter, car thief, booster, arsonist, counterfeiter, whore, dope dealer, con man, hi-jacker, extortionist and worse. . ."[70]

5. In 1978, 95% of those people arrested in Atlantic City for street crime had been visitors.[71] In 1980, areas of Atlantic City which experienced higher crime rates were twice as wealthy as other localities. These wealthy areas spent 40% more on police protection and suffered up to 530% more crime than other localities. One study concluded that "These levels are higher than they would have been in the absence of casinos. Thus, the statistical results suggest that casinos might have 'brought' significantly more crime than the population increase warranted." [72]

6. Atlantic City Newspapers lamented the increased crime rate associated with the casinos: "Street thugs - drawn to the people and the money -saturate the avenues leading to the casinos and the public parking areas."[73] "People are getting mugged almost as soon as they get off the bus at the Atlantic City Bus Terminal. Many of those who make it safely through the terminal become victims of crime on their way to the casinos.[74]

7. Although Las Vegas currently is 82nd out of 250 cities in terms of its crime rate, during the early 1980's Las Vegas had the highest crime rate ratio in the country. In 1981, the Las Vegas area reportedly had 10,000 prostitutes - one out of every nine women between the ages of 15 and 39.[75]

8. The reduction in Las Vegas' crime rate is attributable to extremely aggressive police tactics which have led to charges of brutality and increased strife between the minority community and the police department.[76]

9. By 1990, Las Vegas had 63,354 people incarcerated in regional correctional facilities.[77] With a total permanent population of 640,846, Las Vegas' incarcerated population was 1/10 of the total population, which gave Las Vegas one of the nation's highest incarceration rates.[78]

C. CONCLUSIONS

Regardless of the proponents' protestations to the contrary, it is inescapable that the creation of casinos would result in increased street crime.

ISSUE 2: LEGAL GAMBLING GENERATES MORE ILLEGAL GAMBLING AND RELATED CRIMES.

A. PROPONENTS' REPRESENTATIONS

1. Although no specific reference to this issue by the proponents of Casino gambling as been found, the general attitude and statements made by them downplaying potential increases in street crime and the problem of organized crime would suggest that the proponents do not believe this issue presents a problem.

B. FACTS

1. William Jahoda (former overseer of mob gambling) has stated that, "During my career, there always existed one solid constant - any new form or expansion of legal gambling always increased our [organized crime's] client base."[79]

2. Gary Shapiro, former attorney in charge of the Chicago Strike Force, has stated that Jahoda is "an expert on gambling; as knowledgeable as anyone I've ever met. They (Jahoda and Robert Cooley) believe that legalized gambling will impact illegal gambling; and I believe them."[80]

3. Robert Walsh, Assistant Special Agent in charge of the Chicago Division of the FBI has concluded that, "gambling generates new gambling; the more accepted it becomes, the more all forms of gambling benefit. . .Organized crime is continuously involved in gambling. . ."[81]

4. Organized Crime's traditional business of loan sharking, drug sales, prostitution, illegal numbers and sports betting has reportedly multiplied since the casinos opened in Atlantic City.[82]

5. Jeffrey Blitz, Atlantic County prosecutor claimed that legalized gambling had increased the size and profitability of the mob's gambling ventures.[83]

6. Former New Jersey attorney General John Deegan claimed in 1980 that since the advent of casinos, street crime, bookmaking and loansharking had increased and he believed organized crime was responsible.[84]

C. CONCLUSIONS

It is evident that illegal gambling and its by product, loan sharking, will increase with the introduction of casino gambling in Chicago.

TOPIC 4

REVENUE/COST ESTIMATES

REVENUE/COST ESTIMATES

A. PROPONENTS' REPRESENTATIONS

1. Deloitte and Touche estimate that in their first year of operation, the proposed casinos will generate $1.1 billion in Casino Revenue.[85]

2. Deloitte and Touche also estimates that in 1997, the City of Chicago will receive $108 million in revenue exclusive of any gaming tax revenue and the state, $126 million.[86]

3. At a 10% taxing level, annual gaming tax revenue will be approximately 100 million.[87]

4. Increased police costs, including provision for an additional 140 police officers is estimated to be approximately $10 million by 1997.[88]

5. The Mayor's Commission on gaming estimates that over $500 million in new tax revenues will accrue annually to state and local governments.[89]

B. FACTS

1. Atlantic City's casinos generated $3.164 billion in Revenues in 1989.[90] From that revenue, approximately $459.4 million in City, County and State taxes as well as fees and reinvestment requirements were paid by the casinos.[91]

2. Atlantic City Casinos, with almost three times the revenues of that projected for the Chicago casinos generated almost 50 million dollars <u>less</u> in taxes than is projected for the Chicago complex. Although New Jersey has an 8% gaming tax, the Casinos also paid $54.8 million in fees for operating the regulatory agencies. Since this cost would be deducted from Illinois state revenues under the current proposal, the 2% differential in Gaming tax does not make a significant change in the comparative tax picture. Even if there are substantial differences in tax rates between Illinois and New Jersey, it is not likely to explain the threefold comparative difference that exist between New Jersey tax revenue and projected Illinois tax revenues.

3. Although the Mayor's Commission estimates $108 million in revenue to Chicago in 1997, the City would have expanded over $200 million in operational, equipment and infrastructure costs[92]. Even though these are improvements that will last for a number of years, the City would not recoup these costs from taxes until at least 1999.

4. At 140 additional officers, only 45 officers per shift (not taking into account vacation and weekends) would be available at any given time to handle law enforcement duties involving a projected 2.548 billion visitors annually.

5. Terrence Gainer, Director, Illinois State Police, estimates law enforcement costs to approach $100 million.[93]

6. The Illinois Criminal Justice Information Authority estimates that the annual increase in law enforcement costs at the City, County and State levels will most likely range between $41 million and $99.7 million.[94]

C. CONCLUSIONS

1. The tax revenues projected by the proponents of the Complex appear to be overestimated; and

2. Police and other law enforcement costs appear to be underestimated.

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U.S. NATIONAL SECURITY AND THE STRATEGIC ECONOMIC BASE: THE BUSINESS/ECONOMIC IMPACTS OF THE LEGALIZATION OF GAMBLING ACTIVITIES

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U.S. NATIONAL SECURITY AND THE STRATEGIC ECONOMIC BASE: THE BUSINESS/ECONOMIC IMPACTS OF THE LEGALIZATION OF GAMBLING ACTIVITIES

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I. INTRODUCTION

ACCORDING to Nobel Prize winning economist Paul Samuelson,[1] it is basic economics that:

> [Gambling] involves simply *sterile transfers of money or goods* between individuals, creating no new money or goods. Although it creates no output, gambling does nevertheless absorb time and resources. When pursued beyond the limits of recreation, where the main purpose after all is to "kill" time, gambling subtracts from the national income.[2]

Similarly, from a political science/economic viewpoint, Professor Jack Van Der Slik has summarized these basic principles echoing much of the academic community: "[State-sponsored gambling] produces no product, no new wealth, and so it makes no genuine contribution to economic development."[3]

Government leaders of the United States are also beginning to raise some concerns. For example, in 1992, U.S. Senator Paul Simon of Illinois—a state which has rapidly legalized various gambling activities—read into the *Congressional Record* an article written by an authoritative economics professor.[4] According to Senator Simon, the article confirmed his own instinct that "Communities and States and the Nation should be careful when

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1. Paul Samuelson won the Nobel Prize in Economic Science in 1970.

2. PAUL A. SAMUELSON, ECONOMICS 425 (10th ed. 1976).

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4. 138 CONG. REC. S187 (daily ed. Jan. 22, 1992) (reprinted article by Economies Professor Earl Grinols, *Gambling Doesn't Pay; It Costs. . . Betting Parlors Siphon Off More Money From Communities than They Generate*, ST. LOUIS POST-DISPATCH, Nov. 12, 1991, at C3).

they look for easy revenue cures that may do more damage than they realize."[5] Based upon these concerns, in 1993, Senator Simon introduced to the Senate the Gambling Impact Study Commission Act[6] which was designed to "conduct a thorough study of all matters relating to the impact of gambling on States, political subdivisions of States, and Native American tribes,"[7] and to explore "possible alternative sources of revenue."[8]

Similarly, on September 21, 1994, Congressman John J. LaFalce, the Chair of the House Committee on Small Business, held a hearing on the socio-economic impacts of the trend toward legalized gambling activities.[9] At the hearing, the committee received testimony from various experts, all of whom criticized the impacts legalized gambling activities inflict upon social-welfare budgets,[10] the criminal justice system,[11] small businesses[12] and the United States economic base.[13] Among other conclusions presented, legalized gambling—as a strategy for economic development—was thoroughly discredited.[14] Indeed, at the start of the hearing, Congressman LaFalce expressed his own concerns for the issue,[15] and expressed a need for a national policy.[16] However, despite these expressed concerns, legalized gambling activities continue to spread across the nation.[17]

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5. *Id.* (statement of Sen. Paul Simon).

6. S. 1720, 103d Cong., 1st Sess. (1993).

7. *Id.* § 4(a)(1).

8. *Id.* § 4(a)(2)(B).

9. *See generally The National Impact of Casino Gambling Proliferation: Hearings Before the House Comm. on Small Business*, 103d Cong., 2d Sess. 1-32 (1994) [hereinafter *Cong. Hearing*].

10. *See, e.g., Cong. Hearing, supra* note 9, at 82-86 (statement of Valerie C. Lorenz, Ph.D., Compulsive Gambling Ctr). The only generally positive testimony was by a local administrator from Tunica, Mississippi who focused on the initial economic flash in the local economy and not on the regional economy. *Id.* at 50-55 (testimony of Webster C. Franklin, Tunica County, Mississippi). In contrast, the "expert testimony" was quite negative. *E.g., id.* at 42-49, 56-70, 71-76, 82-88.

11. *See Cong. Hearing, supra* note 9, at 14-18 (testimony of Jeffry L. Bloomberg, State's Atty, Lawrence County, S.D.).

12. *See Cong. Hearing, supra* note 9, at 33-35 (statement of Congressman Richard H. Baker).

13. *See Cong. Hearing, supra* note 9, at 4-8 (testimony of Professor Robert Goodman, University of Massachusetts).

14. *See Cong. Hearing, supra* note 9, at 57, 76, 81, 86, 88, 100-01, 105-06.

15. *Cong. Hearing, supra* note 9, at 1-2 (introductory statement of Congressman John J. LaFalce).

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17. *See, e.g.*, Terry Ganey & Mark Schlinkmann, *Hancock II Out: Slot Games In*, ST. LOUIS POST-DISPATCH, Nov. 9, 1994, at A6. [hereinafter *Slot Games In*] ("After three tries, full-blown riverboat gambling in Missouri became a reality as voters approved the 'games of chance' amendment 54 to 46 percent."). Multiple re-votes are commonly utilized as a strategy by

With the legalization of various types of gambling activities sweeping the United States and much of the international community, the issue is whether this trend constitutes an economic boom, a harmless recreational pastime, or an actual threat to the strategic economic base of the industrialized world, and in particular, of the United States.[18] Business-economic history indicates that the legalization of gambling activities precipitates a classic "boom and bust" economic cycle.[19] Accordingly, this Article concludes that because widespread legalized gambling activities represent such a threat to the strategic U.S. economic base and to stability of expectations,[20] Congress should seriously consider federal legislation to re-criminalize or severely limit practically all types of legalized gambling activity. As an interim measure, Congress should consider withholding federal funds from those states intent on experimenting with legalized gambling activities, for individual states should not be allowed to engage in a type of economic secession[21] which threatens the nation's

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legalized gambling proponents to wear-down and out-spend their opponents. *See id.; see also infra* note 24 (giving examples of multiple re-votes in different states, as recorded in the congressional hearing on Sept. 21, 1994).

18. *See generally*, John W. Kindt, *The Economic Impacts of Legalized Gambling Activities*, 43 DRAKE L. REV. 53 (1994) [hereinafter *Economic Impacts*].

19. *See Cong. Hearing, supra* note 9, at 77 (statement of Professor John W. Kindt, University of Illinois).

20. This particular Article is summary in scope, but it was conceived within the penumbra of the McDougal/Lasswell model for decision-making. In the areas of legal and government policy, which subsume strategic socio-economic and business concerns, the classic decision-making models were formulated by the post legal realists, in particular, Professor Myres McDougal and Professor Harold Lasswell who postulated a conceptual framework for legal decision-making in a landmark article directed toward legal educators and law professors. Harold D. Lasswell & Myres S. McDougal, *Legal Education and Public Policy: Professional Training in the Public Interest*, 52 YALE L.J. 203 (1943); *see also* Harold D. Lasswell & Myres S. McDougal, *Criteria for a Theory about Law*, 44 S. CALIF. L. REV. 362 (1971); Myres S. McDougal, *Jurisprudence for a Free Society*, 1 GA. L. REV. 1 (1966); John W. Kindt, *An Analysis Of Legal Education And Business Education Within The Context Of A J.D./MBA Program*, 31 J. LEGAL EDUC. 512, 517-18 (1981); John W. Kindt, *An Analysis Of Legal Education And Business Education Within The Context Of A J.D./MBA Programme*, 13 LAW TEACHER 12, 14-16 (1979). The decision-making concepts which McDougal and Lasswell introduced were later expanded to include international law and U.S. domestic law, as these areas interfaced with "policy-oriented jurisprudence." *See* John N. Moore, *Prolegomenon to the Jurisprudence of Myres McDougal and Harold Lasswell*, 54 VA. L. REV. 662 (1968); *The Lasswell-McDougal Enterprise: Toward a World Public Order of Human Dignity*, 14 VA. J. INT'L L. 535 (1974).

21. *See* ROBERT GOODMAN, LEGALIZED GAMBLING AS A STRATEGY FOR ECONOMIC DEVELOPMENT (Ctr. Econ. Development, U. Mass.-Amherst (1994)) [hereinafter CED REPORT]. This U.S. gambling study provides an authoritative analysis of the strategic economic costs of utilizing legalized gambling activities as a strategy for economic development:

> Gambling has grown in an ad hoc "copy cat" manner as states follow each others' leads, responding to revenue shortfalls and the fear that neighboring states or Indian tribes will

entire economic base.[22]

The strategic economic threat to the United States is immediate and should be addressed quickly before newly developing constituencies in the legalized gambling industry become widespread enough to dictate economic policy.[23] For example, the legalized gambling industry drafted a state constitutional referendum in Florida which aimed to "mandate" the introduction of casino-style gambling activities—even into communities which voted unanimously against such activities.[24] It is thereby not surprising that testimony presented

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> siphon off their gambling dollars. . . . Once gambling ventures are legalized and governments become dependent on their revenues, the future form and spread of gambling within a state becomes extremely difficult to control.

Id. at 16.

22. *Cong. Hearing, supra* note 9, at 10 (oral testimony of Economics Professor Earl L. Grinols, University of Illinois). According to Professor Grinols, the threat exists because of the fact that:

> State representatives have no incentive to view gambling in terms of its overall effect on the country. To [states] it is a way to raise tax money—hopefully from people of neighboring States who will take their problems back home—even though the social costs for an additional dollar of tax raised through gambling is in the range of $3.50 per dollar raised, compared to only $1.45 for raising taxes the old fashioned way, by raising taxes.

Id.

23. For an authoritative analysis supporting this recommendation, see CED REPORT, *supra* note 21, at 18. Many policymakers are concerned that legalized gambling interests have large budgets to support efforts to legalize various forms of gambling throughout the United States. For example, New Jersey has restrictions prohibiting political contributions from casinos. *Id.* By comparison, in 1990 Illinois lifted its ban on contributions from racetracks and had no limitations on political contributions by interests promoting legalized gambling. All such contributions were legal. Between January 1, 1993 and April 10, 1994, the Chicago Sun-Times reported that Illinois Governor James "Edgar and state legislators . . . [had] received at least $674,772 from gambling interests," not including "tens of thousands of dollars in donations from lawyers, lobbyists and consultants who are representing gambling clients." Mark Brown & Ray Long, *Gambling: A Political Jackpot: New Funding Powerhouse Aids 2 in 3 Legislators*, CHI. SUN TIMES, Apr. 10, 1994, at 1A, 16A.

24. *See* Martin Dyckman, *Misleading the Public*, ST. PETERSBURG TIMES, Nov. 1, 1994, at A13. Proposition 8 on the Florida ballot for November 8, 1994, would have initially allowed 47 casinos in Florida. The public relations tactics of the proponents for legalized casinos were criticized in the press for misrepresenting the effect and impact of Proposition 8. *Id.* For example, during the week of November 1, 1994, a commercial supporting legalized casinos in Florida ran with the identifier of a former "Chief Justice, Florida State Supreme Court (Ret.)" and read as follows:

> This is the State Constitution. As a chief justice of the Florida Supreme Court, I worked to uphold it. . . . When I wrote Proposition 8, Limited Casinos, I made sure that strict limits on the number of casinos were put right here. That means politicians won't have the authority to change or weaken the limits. Only you can put the limits in the Constitution by voting yes on limited casinos. And only a vote by you can change those limits. With Limited Casinos, you have the final say.

Dyckman, *supra*, at A13. According to one critical account in the press, "[t]he effect of the

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at the 1994 congressional hearing indicated that in the future franchised legalized gambling parlors may be as widespread as the fast-food hamburger chains are today.[25]

Thus, the gravamen of the 1994 hearing was that U.S. policymakers should heed the wake-up call to develop a national policy on increased legalized

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commercial—whether intended or not—[was] . . . to wrap . . . [the former chief justice's] sleazy new clients in his old judicial robes." *Id.* The account further noted that voters could easily take the justice's statement to mean that there could be slot machines on every street corner unless they voted *for* Proposition 8:

> The fact is that casino gambling is not only against existing Florida law but, in the opinion of Attorney General Bob Butterworth, against the present Constitution as well. The present limit on casinos is zero, 0, none. If voters fall for . . . [the former chief justice's] line, the new limit will be 47. That is a far cry from 0.
>
> What's more, 30 of those casinos are reserved, forever, for the existing horse tracks, dog tracks and jai alai plants. Another, on Miami Beach, as well described by my colleague Jeanny Deam last weekend, is reserved for a millionaire German carpetbagger . . . , who maneuvered Roberts into a corner. These people would have a perpetual monopoly on 31 of the 47 licenses, and for . . . [the former chief justice] to cast that as a virtue in his scheme is for him to take the voters as blubbering fools. Finally, local voters who might not want casinos in their neighborhoods will have *NO SAY* if . . . [the former chief justice's] ingenious proposition is approved statewide.

Id.

Legalized gambling proponents reportedly hired firms to get this referendum question on the ballot at a cost of $2 to $3 per signature. *See, e.g., Casinos Group to Ante Up $5-Million for TV Ads*, ST. PETERSBURG TIMES, Jun. 28, 1994, at B4. The chairman of the casino drive reportedly said that "the proliferation of ballot initiatives has inflated the cost of professional petition peddlers to $2.25 a signature." *Id.* Placing Proposition 8 on the ballot required 429,428 certified signatures at a cost of approximately $3 million. *Id.*

The public relations budget for convincing the voters to approve this referendum question on November 8, 1994, was apparently $16.5 million—significantly more than the combined budgets of the two gubernatorial candidates, Jeb Bush and Governor Lawton Chiles. Louis Lavelle, *Voters Deal Loss to Casinos: Gambling Backers Lose Despite $16.5 Million Campaign*, TAMPA TRIBUNE, Nov. 9, 1994, at 1, 5 [hereinafter *$16.5 Million Campaign*]; *Casinos Gamble, and Lose, Again*, FLORIDA SUN, at A1, A6 ($16.7 million raised by casino proponents and $1.6 million raised by opponents).

Similar scenarios and multiple re-votes have occurred in other states:

> The proposal for casino gambling in Chicago has been defeated three times in Illinois, but the prognosis is that it will be brought up again and again until the gambling promoters succeed. . . . In spite of millions of dollars in gambling advertising, Missourians voted down a change to their constitution in April [1994] to allow games of chance, but the question is being put back on the ballot this fall, 6 months later. The phenomenon of staging multiple revotes [if gambling is defeated] is a scenario being played out in Detroit, Iowa and other places. . . . Is this good Government?

Cong. Hearing, supra note 9, at 10 (oral testimony of Economics Professor Earl L. Grinols, University of Illinois).

25. *See Cong. Hearing, supra* note 9, at 9-10 (oral testimony of Economics Professor Earl L. Grinols, University of Illinois).

gambling activities.[26] Furthermore, the potential economic drain which the advent of legalized gambling activities has on the pre-existing economy is so large that states should be prohibited from questionable exemptions *de jure* of legalized gambling activities from common antitrust principles. At a minimum, a "foresightful national policy should be developed to counteract the false short term incentives for states to individually introduce gambling to their common long term harm."[27] A review of the strategic U.S. economy and the business-economic impacts of widespread legalized gambling activities supports these recommendations.

II. THE STRATEGIC U.S. ECONOMIC BASE AND THE BUSINESS/ECONOMIC IMPACTS OF THE LEGALIZATION OF GAMBLING ACTIVITIES

In 1974, sixty-one percent of the U.S. public participated in legalized gambling activities;[28] at that time, the total legal wager was only $17.3 billion.[29] By 1993, however, the U.S. public legally wagered $394.3 billion,[30] approximately $150 billion more than the U.S. Defense Budget.[31] That year, the total U.S. consumer dollars "won" by legalized gambling operators as generated revenues amounted to $34.7 billion,[32] including $12.8 billion in gross revenues to the state lotteries.[33] In other words, the consumer dollars drained from pre-existing businesses and redirected toward—or "won" by—legalized gambling operators increased by 2,100% since 1974.[34]

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26. *Cong. Hearing, supra* note 9, at 13 (statement of Hearing Chairman LaFalce, stating that "there is a crying need for a national policy.").

27. *Cong. Hearing, supra* note 9, at 11 (written testimony by Econimics Professor Earl L. Grinols, University of Illinois).

28. Henry R. Lesieur, *Compulsive Gambling*, SOCIETY, May/June, 1992, at 43, [hereinafter *Compulsive Gambling*].

29. U.S. COMMISSION ON THE REV. OF THE NAT'L POL'Y TOWARD GAMBLING, GAMBLING IN AMERICA, 63-64 (U.S. Gov't Printing Off. 1976) [hereinafter COMM'N ON GAMBLING].

30. Eugene M. Christiansen, *Handle up 17.12% to $394B; Revenue Up 14.2% to $34.7B*, INT'L GAMING & WAGERING BUS., Aug. 5, 1994, at 14, 15 [hereinafter *Handle Up*].

31. OFF. MGM'T & BUDGET, BUDGET OF THE UNITED STATES GOVERNMENT: FISCAL YEAR 1994 apps. 5 & 6 (budget authority is $250.7 billion, outlay is $265.2 billion for 1994).

32. *Handle Up, supra* note 30, at 19 (table 2).

33. *Id.* By comparison, worldwide lottery "sales" in 1993 were $83.7 billion. *Lottery Sales Worldwide Top $83.7B In '93*, INT'L GAMING & WAGERING BUS., May 5, 1994, at 1, 30. The United States was first in lottery "sales" with $25.3 billion followed by Germany ($9.7 billion), Japan ($6.3 billion), Spain ($5.5 billion), France ($5.5 billion), and Canada ($3.7 billion). *Id.* at 30.

34. This presumes that the average percent (approximately 9%) of the amount legally wagered in 1974 or $1.57 billion was "won." In 1993, the amount "won" was $34.7 billion (a 14.2% increase from 1992). *Handle Up, supra* note 30, at 14, 19, table 2. Therefore the increase from 1974 to 1993 was approximately 2,100%. Of course, these numbers are not

If this trend continues throughout the United States, within a short period of time, these numbers—high as they are—could easily begin to increase exponentially. In addition, it has been estimated that the net economic effect could be equivalent to an additional recession every eight to fifteen years.[35] If this phenomenon were to combine with a regular cyclical recession, the U.S. economy could face double jeopardy.

In addition, a brief consideration of other U.S. economic data lends support to the suggestion noted earlier by economist Paul Samuelson that "gambling subtracts from the national income."[36] Specifically, in 1992, the most recent year for which statistics are available, the U.S. national income was reported at $4,837 billion[37] whereas the gross legal wager was $330 billion[38] and the gross revenues retained by the gambling industry were $29.9 billion.[39] Significantly, while the gross legal wager and gross industry revenues increased 8.4%[40] and 12%,[41] respectively, over the figures reported in 1991, the 1992 national income increased only 6.4% over the prior year.[42] Initially, these relative increases in the 1992 gambling totals may appear small when compared to the U.S. national income. However, they are actually quite significant; in fact, the gambling figures increased in proportional significance to the national income in 1992 because the U.S. gambling industry is presently growing more rapidly than any other industry in the United States.[43]

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adjusted for inflation.

35. *See Cong. Hearing*, *supra* note 9, at 73 (written testimony of Economics Professor Earl L. Grinols, University of Illinois).

36. SAMUELSON, *supra* note 2, at 425. Since 65% or more of the "gambling dollar" is wagered by 10% of the public, this market segment is theoretically wagering "beyond the limits of recreation" and would ostensibly constitute a fairly direct subtraction from the national income. For a preliminary analysis of the issues involving the percentages of the public who will gamble and how much, see *Economic Impacts*, *supra* note 18, at 60-61, 73-75, 77.

37. BUR. ECON. ANALYSIS, U.S. DEP'T COMMERCE, SURVEY OF CURRENT BUSINESS, Jan. 1994, at 11 (1994) (table 1.14). That year, the gross domestic product was reported at $6,038 billion, and the gross national product was $6,046 billion. *Id.* at 10 (table 1.9).

38. Eugene M. Christiansen, *The 1992 Gross Annual Wager of the U.S. Part I: Handle*, INT'L GAMING & WAGERING BUS., July-Aug. 1993, at 12, [hereinafter *Wager Part I*]. This figure amounts to seven percent of the U.S. national income.

39. Eugene M. Christiansen, *The 1992 Gross Annual Wager of the U.S. Part II: Revenue*, INT'L GAMING & WAGERING BUS., Aug.-Sept. 1993, at 12, [hereinafter *Wager Part II*]. This figure amounts to .63% of the U.S. national income.

40. *Wager Part I*, *supra* note 38, at 12.

41. *Wager Part II*, *supra* note 39, at 12.

42. The U.S. national income in 1991 was $4,544 billion. BUR. ECON. ANALYSIS, U.S. DEP'T COMMERCE, SURVEY OF CURRENT BUSINESS, Jan. 1993, at 10 (table 1.14). In 1992, it increased by 6.4% to $4,837 billion. BUR. ECON. ANALYSIS, *supra* note 37, at 11 (table 1.14).

43. Richard Griffin, *Feeding Fans' Greed Could Save the Game*, TOR. STAR, Mar. 5, 1995, at B1.

Furthermore, although gambling has just begun to expand in earnest, its sales already equal approximately two and one-half percent of Gross Domestic Product.[44]

In any event, macro-economic theories and concomitant economic formulae do not address this growing phenomenon. With the policy changes in the former Soviet Union and elsewhere, the strategic U.S. economic base will also change rapidly in the next few years, and the U.S. Bureau of Economic Analysis (and its economic "multipliers"),[45] as well as other economic agencies will need to keep pace. Furthermore, U.S. policymakers should query whether an economy which is becoming so heavily influenced and dependent on legalized gambling activities—which involve "creating no new money or goods"[46]—is similar to the oil-dependent U.S. economy of the early 1970s, which was vulnerable to the 1973-74 Arab Oil Embargo.[47]

From a historical economic perspective, the "boom and bust" economic cycles created by legalized gambling activities appear throughout economic history, but the two most relevant and most recent occurred in the United States during the nineteenth century.[48] At the beginning of the 1800's, the United States had already interfaced its economic base with the gambling philosophy—primarily via lotteries.[49] While scandals provided a focus for gambling opponents,[50] these opponents had their positions bolstered by the socio-economic negatives which necessarily accompany legalized gambling activities. In most historical scenarios, these business/economic negatives were reflected in a decrease in the quality of life which translated into a loss of net jobs, the creation of large social problems, and the necessary increase in various taxes to address these problems.[51]

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44. *Cong. Hearing*, *supra* note 9, at 73 (written testimony of Economics Professor Earl L. Grinols, University of Illinois).

45. As of 1994, for example, the U.S. Bureau of Economic Analysis had no economic multipliers for the legalized gambling/riverboat industry. The CED Report indicated that the multipliers for legalized gambling activities are negative. CED REPORT, *supra* note 21, at 49-50; *see Cong. Hearing*, *supra* note 9, at 81 (statement of Professor John W. Kindt, University of Illinois).

46. Samuelson, *supra* note 2, at 424.

47. *See* John W. Kindt, *Investment Interdependence as a Potential Response by the United States to Future Arab Oil Embargoes*, 7 AUSTRAL. Y.B. INT'L L. 279 (1982).

48. For a summary of the historical background involving the cyclical legalization and re-criminalization of gambling in the United States, see I. Nelson Rose, *The Impact Of American Laws On Foreign Legal Gambling*, 8 N.Y.L. SCH. J. INT'L & COMP. L. 129, 159-66 (1986) [hereinafter *Legal Gambling*].

49. *Id.* at 159.

50. *Id.* at 155, 159-63.

51. *See generally Economic Impacts*, *supra* note 18. The basic negative impacts do not change, although historical and demographical differences can provide for multiple variations.

Accordingly, most legalized gambling activities were re-criminalized in the 1820's and 1830's.[52] After the American Civil War, gambling activities once again became fashionable and followed the expanding frontier.[53] However, the same socio-economic problems occurred, and with recurring scandals as catalysts, virtually all gambling activities were re-criminalized by 1910.

The United States is now in a new, "third" wave of legalized gambling activities.[54] Cynics would argue that if the United States wished to improve its economic position relative to the rest of the world, it should re-criminalize practically all legalized gambling activities in the United States, but encourage U.S. companies to conduct their gambling activities in international markets.[55] While the ethical questions of pursuing this latter option are beyond the scope of this analysis, widespread legalized gambling activities are nevertheless theoretically crippling the national economy.

In the 1800's, the strategic economic/military consequences were less destructive and less absolute; but in the modern world, the United States and its allies cannot afford to experiment with their strategic economies by elevating legalized gambling activities to the level where a strategic economic "boom and bust" cycle[56] or a classic "speculative economic bubble"[57] could occur.[58] Unfortunately, because of the gambling industry and the vagaries of the U.S. legal system[59] which protects the scope and speed with which the political constituencies supporting the legalized gambling industry develop,[60] such experiments may already be so far advanced that they are beyond the control of U.S. policymakers.

Due to several large socio-economic negatives which are associated with legalized gambling activities but which neither occur in nor accompany other types of industries, it can be concluded that there are substantial business/economic reasons to believe that widespread (and even localized) legalized gambling activities are inherently recessionary in nature. These negatives include: modest increases in infrastructure costs,[61] relatively high

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52. *Legal Gambling*, *supra* note 48, at 159.

53. *Id.* at 159-60.

54. *Id.* at 160-64.

55. For a comparison of worldwide lottery sales, see *supra* note 33.

56. CED REPORT, *supra* note 21, at 18.

57. For example, the 1929 U.S. stock market scenario presents such a bubble. *See* PAUL A. SAMUELSON & WILLIAM D. NORDHAUS, ECONOMICS 204 (14th ed. 1992) ("Speculative Bubbles"); SAMUELSON, *supra* note 2, at 424-25. *See also Cong. Hearing*, *supra* note 9, at 71-73 (written testimony of Economics Professor Earl L. Grinols, University of Illinois).

58. *See* Steven D. Gold, *It's Not a Miracle, It's a Mirage*, ST. LEGIS., Feb. 1994, at 28.

59. *See generally* I. NELSON ROSE, GAMBLING AND THE LAW (1986).

60. CED REPORT, *supra* note 21, at 18.

61. *See id.* at 16; *Economic Impacts*, *supra* note 18, at 72; *Cong. Hearing*, *supra* note 9, at 46 (testimony of Jeffry L. Bloomberg, States Atty, Lawrence Co., S.D.).

increases in regulatory costs,[62] large costs to the criminal justice system,[63] and social-welfare and business-economic costs in the billions of dollars.[64] These business/economic costs can easily translate into recessionary pressures[65] and lost jobs from the rest of the economy;[66] significantly, these costs do not generally accompany other industries. Furthermore, the net creation of jobs claimed by the legalized gambling industry is at best a breakeven proposition,[67] and the evidence suggests that net job losses can easily occur[68]—primarily because "consumer dollars" are drained from the rest of the economy.[69] The literature frequently refers to this process as "ca-

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62. *See* CED REPORT, *supra* note 21, at 16; *Economic Impacts, supra* note 18, at 72; *Cong. Hearing, supra* note 9, at 46 (testimony of Jeffry L. Bloomberg, States Atty, Lawrence Co., S.D.).

63. *See, e.g.*, CED REPORT, *supra* note 21, at 16; *Economic Impacts, supra* note 18, at 72; *Cong. Hearing, supra* note 9, at 46 (Jeffry L. Bloomberg, States Atty, Lawrence Co., S.D.).

64. *See, e.g.*, MD. DEP'T HEALTH & MENTAL HYGIENE, ALCOHOL & DRUG ABUSE ADMIN., TASK FORCE ON GAMBLING ADDICTION IN MARYLAND (1990) (Valerie C. Lorenz & Robert M. Politzer, co-chairs 1990) [hereinafter cited as MARYLAND REPORT]. For example, "[p]athological gamblers cost Maryland and its citizens about $1.5 billion annually in lost work productivity and embezzled, stolen or otherwise abused dollars." *Id.* at 2. "The total cumulative indebtedness of Maryland's pathological gamblers exceeds $4 billion." *Id.* Furthermore, untreated pathological gambling activities affects thousands of lives and costs Maryland billions of dollars. *Id. See also Cong. Hearing, supra* note 9, at 83 (statement of Valerie C. Lorenz, Ph.D., Compulsive Gambling Ctr.).

65. *See, e.g., Cong. Hearing, supra* note 9, at 10 (oral testimony of Economics Professor Earl L. Grinols, University of Illinois) ("[T]he social costs for an additional dollar of tax raised through gambling is in the range of $3.50 per dollar raised, compared to only $1.45 for raising taxes the old fashioned way, by raising taxes.").

66. *See, e.g., Cong. Hearing, supra* note 9, at 34 (statement of Congressman Richard H. Baker).

67. According to a two-year study by Professor Robert Goodman at the University of Massachusetts, "[c]asinos 'suck money out of the local economy' away from existing movie theatres, car dealerships, clothing shops and sports arenas." James Popkin & Katia Hetler, *America's Gambling Craze*, U.S. NEWS & WORLD REP., Mar. 14, 1994, at 42-43, 46. *See also* CED REPORT, *supra* note 21, at 51-55.

68. Grinols, *Bluff Or Winning Hand? Riverboat Gambling And Regional Employment And Unemployment*, 51 ILL. BUS. REV., Spring 1994, at 8-11 (indicating Illinois riverboats have not created a net increase in employment and may even have cost net jobs). Since gambling activities take jobs from the rest of the economy, the creation of jobs is an illusory claim. This principle is so basic that it is in the WORLD BOOK ENCYCLOPEDIA. WORLD BOOK YEAR BOOK 398 (1994) ("The employment increases resulting from most gambling operations are illusory."). *See also Cong. Hearing, supra* note 9, at 71 (written testimony of Economics Professor Earl L. Grinols, University of Illinois).

69. This business/economic principle is another principle which is so basic that it is in the WORLD BOOK ENCYCLOPEDIA. WORLD BOOK YEAR BOOK 398-400 (1994). *See supra* note 68 and accompanying text; CED REPORT, *supra* note 21, at 49-50.

nnibalization"[70] of the pre-existing economy—including the pre-existing "tourist" economy.[71] For example, a report from the Governor's Office in California reflected this transfer of dollars and its effect on the regional economy:

> In the midst of continued (and justified) concern over the emigration of businesses and productive taxpayers out of California, another, long-standing migration has been overlooked. That is the migration of *dollars* out of California to the casinos of Nevada. . . .
>
> Gambling by Californians pumps nearly $3.8 billion per year into Nevada, and probably adds about $8.8 billion—and 196,000 jobs—to the Nevada economy, counting the secondary employment it generates. This is a direct transfer of income and wealth from California to Nevada every year.[72]

As of 1993, not one of the fifty states had a plan concerning the statewide development of various legalized gambling activities.[73] The only baseline study was a 1976 federal report by the U.S. Commission on the Review of the National Policy Toward Gambling, entitled *Gambling in America*.[74] This 1976 report was apparently prompted by the proposed economic development of Atlantic City, New Jersey, via the legalization of land-based casino gambling. Considering that in general the Atlantic City economy has significantly worsened since 1976,[75] serious questions should be raised about extending this experiment nationwide.

Because some demographics can easily allow the initial profit margins of many legalized gambling activities to be extremely large,[76] it should be

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70. CED REPORT, *supra* note 21, at 51; *Cong. Hearing, supra* note 9, at 87-88 (statement of Congressman Frank R. Wolf). *See also Cong. Hearing*, *supra* note 9, at 34 (statement of Congressman Richard H. Baker); *Cong. Hearing, supra* note 9, at 57 (statement of Professor Robert Goodman, Hampshire C.)

71. *See, e.g.*, Press Release, Florida Dep't Com., Sept. 19, 1994 (summarizing the 1994 report by the Fla. Dep't Com.) ("A consistent result of the introduction of casino gambling has been the cannibalization of pre-existing tourism industry."). FLA. DEP'T COM., IMPLICATIONS OF CASINO GAMBLING AS AN ECONOMIC DEVELOPMENT STRATEGY (1994) [hereinafter cited as FLA. DEP'T COM. REPORT].

72. CAL. GOV'S OFF. PLAN & RESEARCH, CALIFORNIA AND NEVADA: SUBSIDY, MONOPOLY, AND COMPETITIVE EFFECTS OF LEGALIZED GAMBLING ES-1 (1992).

73. CED REPORT, *supra* note 21, at 16. In 1994, however, the Florida Department of Commerce issued a report which indicated that legalized casino-style gambling would "cannibalize" the pre-existing Florida economy. FLA. DEP'T COM. REPORT, *supra* note 71, at 5.

74. COMM'N ON GAMBLING, *supra* note 29.

75. *See generally* GEORGE STERNLIEB & JAMES W. HUGHES, THE ATLANTIC CITY GAMBLE 95-110 (1983).

76. For example, the largest hotel in the United States, the Excalibur in Las Vegas, "stunned market analysts by announcing it had already paid off. . .[its] mortgage from operating revenues" in less than two years. James Coates, *Vegas' Tip to Chicago: Casino Is Family Fun*, CHI. TRIB., Apr. 10, 1992, §1, at 1, 10. *See, e.g.*, Mary Ellen Podmolik, *Empress Investors Win Big*, CHI.

anticipated that major U.S. corporations are not only pursuing opportunities in the realm of legalized gambling activities, but also divesting themselves of their traditional business lines in some instances:[77]

> As growing numbers of people work in the gambling industry, and come to be economically dependent on it, new pro-gambling constituencies will develop to protect these jobs. This will make gambling ventures difficult for government to curtail or terminate.[78]

State and local governments are already utilizing taxpayer dollars to subsidize, and even maintain, some legalized gambling operations. This trend is projected to intensify and create new economic problems:

> A major result of market saturation has been a tendency towards more lax government gambling regulation and public subsidies to help competing private gambling operations survive. There are likely to be serious economic and social costs to communities as the result of this boom and bust type of development.[79]

Furthermore, state and local governments have been enticed by the initial tax revenues without considering the social and economic consequences:

> Funding specific state programs with gambling revenues has tended to make them gambling-dependent. It has also tended to make those groups who benefit from them part of pro-gambling political constituencies.[80]

In this context, the main benefits allegedly generated by increased legalized gambling activities include not only new tax revenues, but also new jobs and positive economic development. The potential profit margins are so large that companies will invest millions of dollars to encourage the legalization of gambling activities in various states.[81] In 1994, for example, at least $16.5 million was spent in a losing campaign to bring casino gambling to Florida,[82] and at least $15 million was spent during two years on campaigns (including $8 million in the 1994 winning campaign) to bring video gambling terminals to Missouri.[83] In 1992, approximately $5 million[84] was spent by

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SUN TIMES, Apr. 28, 1994, at 5 (almost 300% return on investment within 6 months for the Empress riverboat in Illinois).

77. *See generally* DAVID JOHNSTON, TEMPLES OF CHANCE: HOW AMERICA INC. BOUGHT OUT MURDER INC. TO WIN CONTROL OF THE CASINO BUSINESS (1992).

78. CED REPORT, *supra* note 21, at 18.

79. *Id.*

80. *Id.*

81. *See, e.g., $16.5 Million Campaign, supra* note 24.

82. *Id.*

83. *Slot Games In, supra* note 17, at 6 ($15 million spent within two years by riverboat gambling proponents).

84. *See, e.g.,* Patrick T. Reardon & Rick Pearson, *Casino Firms Say Patience Tapped Out,* CHI. TRIB., Dec. 4, 1992, §2, at 1, 7 ($5 million). *See also* Stephen F. Simurda, *When Gambling*

three companies to promote the possibility of a $2 billion casino complex in Chicago.[85] However, skeptical economists emphasize that "any" influx of money to a community will create the appearance of economic development, and the socio-economic costs should not be overlooked.[86]

Several studies by the gambling industry allegedly bolster the claims of economic benefits, and to examine these claims the Ford Foundation and the Aspen Institute funded a comprehensive 1994 report by the Center for Economic Development at the University of Massachusetts, which was entitled *Legalized Gambling as a Strategy for Economic Development* (CED Report).[87] The CED Report analyzed fourteen industry studies, and in general, was highly critical of them.[88] Emphasizing that no state had a comprehensive development plan which analyzed legalizing gambling activities,[89] the CED Report concluded that "hiding the costs"[90] was apparently widespread and that legalizing gambling activities acted as economic "cannibalism"[91] on the pre-existing economy and on other businesses.[92]

In the social-welfare context, legalized gambling is widely-accepted as constituting a regressive tax on the poor.[93] In other words, governmental policies directed toward "legalizing" and encouraging gambling activities make poor people poorer and intensify many pre-existing social-welfare problems.[94] These socio-economic negatives are calculated to be extremely costly, and they parallel the negatives associated with alcohol and drug addiction.[95] Substantial changes and, in many instances, unpredictable consequences can be anticipated throughout the insurance industry (i.e., increased fraud in the

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Comes To Town, COLUM. JOURNALISM REV., Jan.-Feb. 1994, at 36, 36 ($2 million spent to promote approval of a casino in Connecticut) [hereinafter cited as COLUM. JOURNALISM REV.].

85. For a positive analysis of the Chicago proposal, see CHICAGO GAMING COMM'N, ECONOMIC AND OTHER IMPACTS OF A PROPOSED GAMING, ENTERTAINMENT AND HOTEL FACILITY (May 19, 1992). *Contra*, BETTER GOV'T ASSOC., STAFF WHITE PAPER: CASINO GAMBLING IN CHICAGO (1992) (a comprehensive and well-documented report) [hereinafter cited as BETTER GOV'T ASSOC. REPORT].

86. *See generally* BETTER GOV'T ASSOC. REPORT, *supra* note 85 (introductory statements by BGA President William Lear and Exec. Dir. Terrence Brunner).

87. CED REPORT, *supra* note 21.

88. *Id.* at 16-19.

89. *Id.* at 16.

90. *Id.*

91. *Id.* at 18, 39, 51. *See also* Gold, *supra* note 58, at 30.

92. Gold, *supra* note 58, at 30.

93. *See, e.g.*, CHARLES T. CLOTFELTER & PHILIP J. COOK, SELLING HOPE (Nat'l Bur. Econ. Research, Harvard Univ. Press 1989).

94. *See Economic Impacts*, *supra* note 18, at 61-70.

95. *See* Durand F. Jacobs, *Illegal and Undocumented: A Review of Teenage Gambling and the Plight of Children of Problem Gamblers in America*, in COMPULSIVE GAMBLING: THEORY, RESEARCH, AND PRACTICE 249, 252 (Howard J. Shaffer et al. eds., 1989).

billions of dollars),[96] the banking industry (i.e., extended credit losses)[97] and the general business community, including, for example, increased personnel costs,[98] lost work productivity,[99] and bankruptcies.[100]

In the national media, the cost/benefit debate involving increased legalized gambling has been growing in scope. As this trend continues, a 1994 article in the Columbia Journalism Review cautions the news media to "flat out ask [experts, academics, and even other reporters] if they make money off the industry."[101]

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96. *Compulsive Gambling*, *supra* note 28, at 45 (In 1992, insurance fraud due to legalized gambling activities was estimated at $1.3 billion.); *see also* Henry R. Lesieur & Kenneth Puig, *Insurance Problems and Pathological Gambling*, J. GAMBLING BEHAV., Summer 1987, at 123.

97. One interesting trend consists of legalized gaming establishments extending credit to customers. Having just been authorized in 1991, the Illinois riverboats during 1993 were already legally extending $115 million in credit. Toby Eckert, *Riverboats Give Gamblers $115 Million in Credit in '93*, PEORIA J. STAR, Apr. 17, 1994, at A1.

98. Many of these increased personnel costs can be directly attributed to calculable increases in compulsive gamblers caused by the legalization of gambling activities. "Average" compulsive gamblers are those compulsive gamblers in the intermediate stage of gambling addiction. By comparison, the larger social costs are reflected in those compulsive gamblers who are in the later stages of gambling addiction and have "bottomed-out." ROBERT M. POLITZER ET AL., REPORT ON THE SOCIETAL COST OF PATHOLOGICAL GAMBLING AND THE COST-BENEFIT/EFFECTIVENESS OF TREATMENT at 9, 10 (1981). *See also* MARYLAND REPORT, *supra* note 64, at 2, 59-61. It should be noted that virtually all of these estimates are based on male subjects as recorded in the MARYLAND REPORT. When adjusted for inflation as of 1992, the $52,000 per year cost for each compulsive gambler increases to $53,000 per year. BETTER GOV'T ASSOC. REPORT, *supra* note 85, at 14.

"Abused dollars" are defined as: "[e]stimates of the average annual amount obtained legally and/or illegally by the pathological gambler which otherwise would have been used by the pathological gambler, his family, or his victims for other essential purposes. These abused dollars include earned income put at risk in gambling, borrowed and/or illegally obtained dollars put at risk in gambling, borrowed and/or illegally obtained dollars spent on basic needs and/or provided to the family which otherwise would have been used for gambling, and borrowed and/or illegally obtained dollars for the partial payment of gambling related debts." POLITZER ET AL., *supra*, at 9, *as cited in* BETTER GOV'T ASSOC. REPORT, *supra* note 85, at 15.

99. "Lost work productivity" equates to the sociological concept of "lost productivity" and is defined as "[e]stimates of percent of time *not* engaged in the production of goods and services for which the individual was employed, multiplied by the average gross annual salary." POLITZER ET AL., *supra* note 98, at 8 (emphasis in original), *as cited in* BETTER GOV'T ASSOC. REPORT, *supra* note 85, at 15. Characteristic problems of the compulsive gambler include "inattention to work," pursuant to the American Psychiatric Association's DIAGNOSTIC AND STATISTICAL MANUAL OF MENTAL DISORDERS 324 (3d ed. rev. 1987) [hereinafter DSM-III].

100. Significant increases in bankruptcies occurred in South Dakota after the advent of legalized gambling activities, particularly casino gambling and video lottery terminals (VLTs) in 1989. *See* Todd Nelson, *S.D. Bankruptcies Down 5 Percent: Judge: Gambling Caused Most Cases*, ARGUS LEADER, Jan. 15, 1993, at 1.

101. COLUM. JOURNALISM REV., *supra* note 84, at 37-38.

Instinctively, several prestigious U.S. business groups have responded to these concerns. For example, in September of 1993, the eighty-five member Greater Washington, D.C. Board of Trade unanimously rejected the Mayor's proposal to bring casino-style gambling to Washington, D.C.[102]

The gravamen of much of this debate is that state governments, by legalizing gambling activities, are creating large socio-economic problems which did not previously exist. It is well-established that by "legalizing" gambling activities (the "acceptability factor") and making those activities available to the public (the "accessibility factor"), state governments are creating a new population of addicted gamblers—a recognized addictive activity pursuant to the American Psychiatric Association (APA),[103] with parallels to alcohol and drug addictions.[104] From a baseline of .77%,[105] the percentage of the adult population who are compulsive gamblers can easily rise to between 1.5 and 5% once gambling is legalized.[106] The percentage of teens who become compulsive gamblers generally ranges between four and six percent, but this range appears to be increasing.[107]

It is significant that compulsive gambling will probably hover at approximately .77% of the population[108] no matter what ethicists and

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102. Liz Spayd & Yolanda Woodlee, *Trade Board Rejects D.C. Casino Plan*, WASH. POST, Sept. 25, 1993, at A1.

103. DSM-III, *supra* note 99, § 312.31 (Pathological Gambling).

104. *See* Jacobs, *supra* note 95, at 252.

105. COMM'N ON GAMBLING, *supra* note 29, at 73.

106. For a table showing prevalence rates of problem and probable pathological gamblers at between 1.7 and 6.9% for adults, see ALTA. LOTTERIES AND GAMING, GAMBLING AND PROBLEM GAMBLING IN ALBERTA at 18 (1994) (Native Americans in one study equaled 14.5%).

107. *Id.* (showing prevalence rates between 3.6 and 12.4% for teenagers); BETTER GOV'T ASSOC. REPORT, *supra* note 85, at 30 (between 4 and 15% of high-schoolers are "problem gamblers"—not to be confused with "compulsive gamblers" which are subsumed in the category of "problem gamblers"). For analyses of compulsive and problem gambling among teenagers, see Jacobs, *supra* note 95, at 252 (reporting five studies). *See also* Robert Ladauceur & Chantel Mireault, *Gambling Behaviors Among High School Students in the Quebec Area*, 4 J. GAMBLING BEHAV. 3 (1988); Henry R. Lesieur & Robert Klein, *Pathological Gambling Among High School Students*, 12 ADDICTIVE BEHAV. 129 (1987). *See generally* Michael L. Frank, *Underage Gambling in Atlantic City Casinos*, 67 PSYCHOL. REP. 907 (1990). Clinical Professor of Psychiatry Durand Jacobs of the Loma Linda University Medical School sets the overall percentage of teenage compulsive gamblers at 4 to 6%.

108. COMM'N ON GAMBLING, *supra* note 29, at 73. This study apparently provides the most authoritative historical baseline in this as well as other gambling-related issue areas. It should be noted that there are considerable definitional debates regarding what constitutes a "compulsive or pathological gambler," a "probable compulsive gambler," and a "potential compulsive gambler." The South Oaks Gambling Screen (SOGS) appears to be the most generally accepted current mechanism for delimiting these categories. Henry R. Lesieur & Sheila B. Blume, *The South Oaks Gambling Screen (the SOGs): A New Instrument for the Identification of Pathological Gamblers*, 144 AM. J. PSYCHIATRY 1184 (1987).

governments do to eradicate or solve this problem. However, the interesting statistic is that once state governments *legalize* gambling—once gambling receives the *imprimatur* of government and becomes not only "sociologically acceptable" but also is advertised as such—the number of compulsive gamblers will increase from .77% to between 1.5 and 5% of the population. Thus, in a state with a population of 10 million, the number of compulsive gamblers would increase from 77,000 to between 150,000 and 500,000. There is some debate about how fast this increase will occur, but it will definitely occur. For example, in South Dakota[109]—which had no legalized gambling per se before the state lottery in 1987, but which initiated more legalized gambling in October 1989 via land-based casinos and video-lottery terminals (VLT's)—the best data strongly suggests that an additional one percent of the population (approximately 7,000 people)[110] became "addicted" within two years. These numbers include the adolescent population, which is already reflecting twice the addiction rate of the adult population.

The social, business, economic and governmental costs of this phenomenon are potentially catastrophic. The average socio-economic cost per compulsive gambler per year has been calculated at $53,000.[111] Therefore, by "legalizing" land-based casino gambling and VLT's, the South Dakota legislature has created, within two years, an additional $371 million per year in economic and social costs to its citizens. The negative numbers generated by this phenomenon are so large that they demand to be checked and rechecked, but even if they are smaller by half,[112] the negative numbers are significant enough to predict major problems for U.S. society, business and government.

III. CONCLUSION

Throughout the twentieth century, the U.S. economy has operated within a type of pristine economic environment uncontaminated by widespread legalized gambling. However, because pro-gambling philosophies are spreading rapidly throughout the United States, and the governmental infatuation with legalized gambling is so pervasive, the impacts of legalized gambling will soon be felt throughout the local, state and federal governmental systems—regardless of whether a particular state has or has not legalized a

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109. South Dakota has a population of 700,000 people. U.S. BUR. CENSUS (1993).

110. *Economic Impacts*, *supra* note 18, at 74.

111. *See* BETTER GOV'T ASSOC. REPORT, *supra* note 85, at 14 ($53,000/yr. is adjusted for inflation in 1992 dollars) (*citing to* POLITZER ET AL., *supra* note 98). By 1994 the range of cost estimates began to fluctuate between $13,200 and $53,000, with most estimates beginning to group around $13,200 to $35,000. *See Cong. Hearing*, *supra* note 9, at 80 n.12 (statement of Professor John W. Kindt, University of Illinois) (citing studies).

112. *See supra* note 111 and accompanying text.

particular form of gambling. Academic disciplines will change and the standard economic formulas will have to be modified to accommodate the economic impacts of the gambling industry. Education will suffer both philosophically and fiscally as educational budgets are redirected toward addressing the increasing social-welfare costs.

The criminal justice system will incur not only increased costs, but the types of crimes will change to redress new forms of misconduct like gamblers unfairly beating the odds or "cheating" the legalized gambling operations. Financial institutions and banks will experience rapid and perhaps de-stabilizing impacts as pre-existing assets and large proportions of fixed consumer assets are diverted into legalized gambling activities. Bad debts and increased insurance fraud are projected to increase significantly.[113]

If the gambling trends of the 1990's continue, the negative impacts of gambling activities will prolong recessionary trends and slow recoveries in local, state and national economies. The economic history of the United States has indicated that the U.S. public has intermittently flirted with gambling and repeatedly rejected it as economically and sociologically unworkable. Legislators who forget this economic history and promote legalized gambling are subject to being criticized as mere mechanics.[114] Those who forget the economic lessons of history are condemned to relive them.[115]

If the U.S. public liked the "War on Crime" and the "War on Drugs," the public will be enthralled with the forthcoming "War on Gambling."[116] The tragedy is that unlike the first two "wars" on social ills, the "War on Gambling" can still be avoided—simply by not decriminalizing or otherwise legalizing gambling activities. In other words, it will take affirmative government action to magnify a minor social ill into a major socio-economic problem.

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113. *See supra* notes 96-97 and accompanying text.

114. This statement is a paraphrase of "[a] lawyer without history or literature is a mechanic. . . ." Guy Mannering, *as quoted in* J. BARTLETT, FAMILIAR QUOTATIONS 520 (14th ed. 1968).

115. *Id.* at 507. While this phrase has been paraphrased by many authors, it probably originated with historian Georg Hegel.

116. *See* John W. Kindt, *Increased Crime and Legalized Gambling Operations: The Impact on the Socio-Economics of Business and Government*, 43 CRIM. L. BULL. 538, 538-39 (1994). For an authoritative 1994 reaffirmation of the principle that increased crime accompanies legalizing gambling activities, see FLA. DEP'T L. ENFORCEMENT, THE *QUESTION* OF CASINOS IN FLORIDA: INCREASED CRIME: IS IT WORTH THE GAMBLE? (1994).

> As this report reflects, it has been clearly demonstrated in other jurisdictions that a significant *increase in crime* and its consequences accompanies casino gambling. FDLE joins a large number of other criminal justice entities in *opposition to any form of legalized casino gambling*.

Id. at 2. *See also* COMM'N ON GAMBLING, *supra* note 29, at 1; N.J. REPORT AND RECOMMENDATIONS OF THE GOVERNOR'S ADVISORY COMM'N ON GAMBLING 19 (1988).

Governmental officials are increasingly being enticed to accept and then impose upon the public those discredited economic philosophies which claim that gambling activities increase jobs, foster economic development, and generate new tax revenues—all without raising taxes on the electorate. In reality, the regional and strategic impacts of legalized gambling almost invariably result in a net loss of jobs, increased taxes, and a negative economic spiral which is inherently recessionary.

In 1988, the national societal costs of alcohol abuse were calculated at $120 billion, and the costs of other substance abuse were calculated at $60 billion.[117] By comparison, the national societal costs for compulsive gambling were calculated at $80 billion and were found to be increasing rapidly;[118] however, unlike alcohol and substance abuse, the costs of compulsive gambling are less obvious because the abused substance is money,[119] and some of these costs translate into lost work productivity.

In practically all disciplines, the strategic negatives associated with gambling activities are so large that the conclusions in this analysis might seem somewhat alarmist. The strategic figures, however, appear to constitute the best evidence available within those parameters which academic authority can establish at this juncture in business-economic history. As confirmed by the 1994 CED Report,[120] the Florida Department of Commerce Report,[121] and the 1994 congressional hearing,[122] the gambling adherents have little solid data or authority supporting their statements about the many alleged social benefits of legalized gambling activities.[123]

Regardless of these considerations, it appears to be widely-accepted that U.S. economic strength constitutes a *sine qua non* of worldwide economic stability. Any industry which has a growth rate as substantial as that of the legalized gambling industry and which has the potential to cannibalize the pre-existing economy with a potential negative multiplier effect[124] needs to be closely examined. At a minimum, a national commission to investigate the economic claims of the industry is necessary. In the interim, prudent strategic national policy necessitates that there be a federal moratorium on any increases in the various forms of legalized gambling activities or increases in its geographical expansion.

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117. MARYLAND REPORT, *supra* note 64, at 60.
118. *Id.* at 59.
119. *See id.* at 20-28.
120. CED REPORT, *supra* note 21, at 16-19.
121. FLA. DEP'T COM. REPORT, *supra* note 71, at 2, 5-6.
122. *See* CONG. HEARING, *supra* note 9 *passim.*
123. BETTER GOV'T ASSOC. REPORT, *supra* note 85, at 2-21.
124. See *supra* notes 45, 90-92 and accompanying text.