Center of the American Experiment

Turning Back to Go Forward:

Why Gambling Doesn't Pay, But Costs

Earl L. Grinols

Earl L. Grinols, former Senior Economist with the Council of Economic Advisers, has taught at a number of institutions including MIT, Cornell University, University of Chicago, and the University of Illinois. Currently he is Distinguished Professor of Economics at Baylor University. Dr. Grinols was born in Bemidji, Minnesota and grew up in St. Paul where he attended the University of Minnesota, and, always a Minnesotan—as Garrison Keillor reminds us—doing outstanding things, completed a BA in mathematics and a BS in economics simultaneously and was graduated from both with highest honors. He earned his Ph.D. from MIT. Dr. Grinols was one of the first academicians to recommend to Congress in 1994 that it establish a national commission to study the impact of casino gambling. The National Gambling Impact Study Commission was formed in 1996. Annette Meeks, CEO of the Center of the American Experiment, was honored to participate in the appointment of the members from the House of Representatives to that very commission. The Commission recommended a moratorium on gambling expansion. Dr. Grinols continued gambling research and released with Cambridge University Press in 2004, a comprehensive book on the subject, entitled, Gambling in America: Costs and Benefits.

Thank you. It is a pleasure to be here. I appreciate very much the chance to speak.

We recognize Christopher Columbus today because he seemed to have a better understanding of his world than those around him at the time did. That better understanding caused him to decide that he had to sail *west* to go *east*. There is something about the irony of that that has caught my attention. I would like to reference

Columbus as a kind of theme for my remarks today: Are there sometimes situations where you have to turn *back* to go *forward*?

Imagine that there is a newly developed drug to solve certain medical problems. Other drugs exist for the same problem and the new drug's use is successful for most people. It seems to serve the purpose well, but as time passes, experience reveals that, for one or two percent of the users, the drug has devastatingly harmful consequences. For another two or three percent of users, it has harmful consequences. The company wants continued licensing and the state is considering complying if the promoter will share the profits. Recent experience in the case of Vioxx was that less than 3/1000^{ths} of 1 percent of the users were found to suffer harmful cardiac events as a result of the use of Vioxx. That is fewer than 5,600 individuals per year. Yet, Merck voluntarily removed the drug from the market last September 30, 2004. Or consider Giftco, Inc. of Vernon Hills, Illinois, whose Winnie the Pooh plates and their utensils could suffer a broken tine. After one incident of choking, in which the child was unhurt, Giftco voluntarily withdrew the entire product from the market.

But we're not talking about Winnie the Pooh utensils or drugs. My real purpose here today is to discuss what we have learned about casino-level, class III-level gambling and give you some information, which I hope will be helpful in the public debate in Minnesota and in other parts of the country.

I can summarize the information very easily in three statements: They are that casino money comes from the wrong place; it comes from the wrong people; and it comes at the wrong price. Let me elaborate. First, note that the type of gambling that has expanded to the rest of the nation since 1990 is represented in casinos of convenience for nearby residents. In Illinois, research conducted in the middle 1990's found that more than 75 percent of casino revenues came from individuals living fewer than 35 miles away, and if you add an additional ring, maybe 35 to 75 miles, you include the great bulk of the revenue—well into the mid 90's percent of the total. Figure 1 displays this information.[1]

These numbers are probably understatements for today, because at the time this study was done, there were fewer alternative casino gambling opportunities for

residents in the area surrounding Illinois, and the evidence that we have is that people don't drive past a casino to get to another one. This is not the case for certain destination resort casinos locations such as Las Vegas, perhaps Atlantic City and Foxwoods in Connecticut.

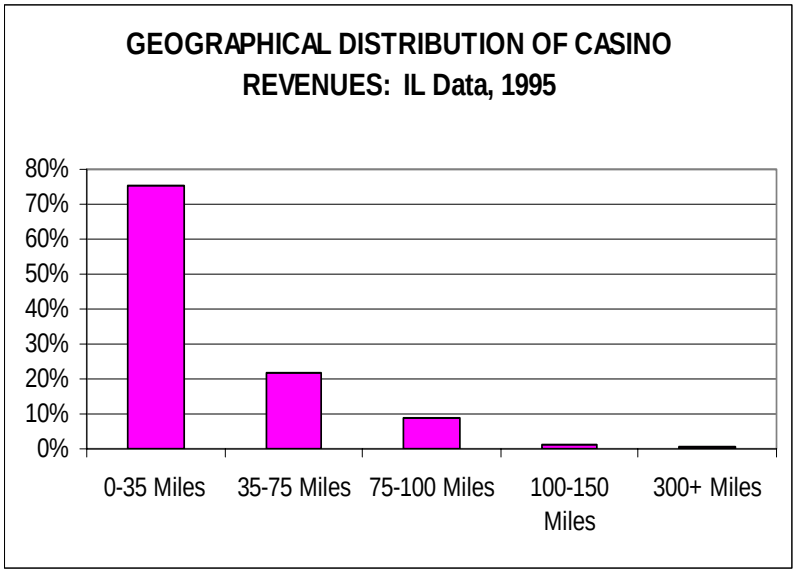

FIGURE 1: Casinos of convenience predominantly serve nearby residents.

We also know that in the period of casino expansion to the rest of the country in the 1990s, Las Vegas experienced an absolute boom. If you teach a population to gamble that didn't gamble before, a certain percent inevitably want to go to the big-time and that means going to Las Vegas. In Lake Wobegon everybody can be above average, but for the nation as a whole, all of the states that have introduced casinos cannot be getting rich by attracting an above-average amount of each other's money. If Las Vegas is benefiting at the expense of the rest of the country, it must indeed be at the expense of the rest of the country. Numbers being what they are, the dollar flows must work a certain way.

If we say that casino revenues come primarily from neighboring residents or locals—in the state of Minnesota, the likelihood is that the share is above 96 percent—this means that the revenue must be coming *out of* other businesses. At my hotel door this morning was a copy of *USAToday.* In the Life section I saw a piece on "Destinations and Diversions" that talks about American Indian casinos in New Mexico. I want to give

you some information that just happens to be from New Mexico. “Diversions” is a good word choice, because it is the neighboring businesses and areas that are losing money. You can’t have two or three hundred million dollars going into casinos without that two or three hundred million dollars coming out of some alternate use.

The New Mexico Taxation and Revenue Department did a study in the late 1990s, investigating a drop-off in the taxable gross revenues that occurred at the time of the expansion of the casinos in that state. The deviation from trend resulted in, by their estimates, about $45 million of failed growth—growth in revenues that should have occurred but didn’t—that seemed to be tied to the expansion of Indian casinos in the state. They produced a lot of charts and graphs. Figures 3 and 6 from their study are reproduced below as our Figure 2, showing the deviation of taxable gross receipts from the best fit trend in 1994-95, the period when casinos began operation.[2]

Eating establishments and certain other types of establishments, for example, are well known to suffer losses if they are close to casinos. This is consistent with my own studies. In Illinois, I got the locations of the ten riverboat casinos that exist in that state, drew five-mile, ten-mile and 30-mile rings around them, and compiled the sales tax data for those rings that the state collected on a quarterly basis in what is called “kind-of-business” tax receipts.3 There were ten classifications of these receipts. We found that there is no single classification of spending that people use to fund their gambling. People don’t say, “I was going to save this money for a refrigerator, but I think instead that I’ll take the refrigerator money and spend it at the casino.” Rather, we found that casino spending comes from a range of alternatives. Miscellaneous retail and wholesale sales were down as a result of higher casino revenues, as were general merchandise sales. There was no single category of spending that rose as a result, save one. We learned that money that went into the casinos was coming out of the rings closer in and we found that if you are a gas station or filling station close to the casino, then, probably, your revenues would rise. So people fill their gas tanks in connection with their gambling! My coauthor and I wondered, did we really have to do this much statistical work to figure that out? At least it told us that the data that we had was good enough to distinguish these kinds of impacts and give us some confidence that what we were finding was accurate.

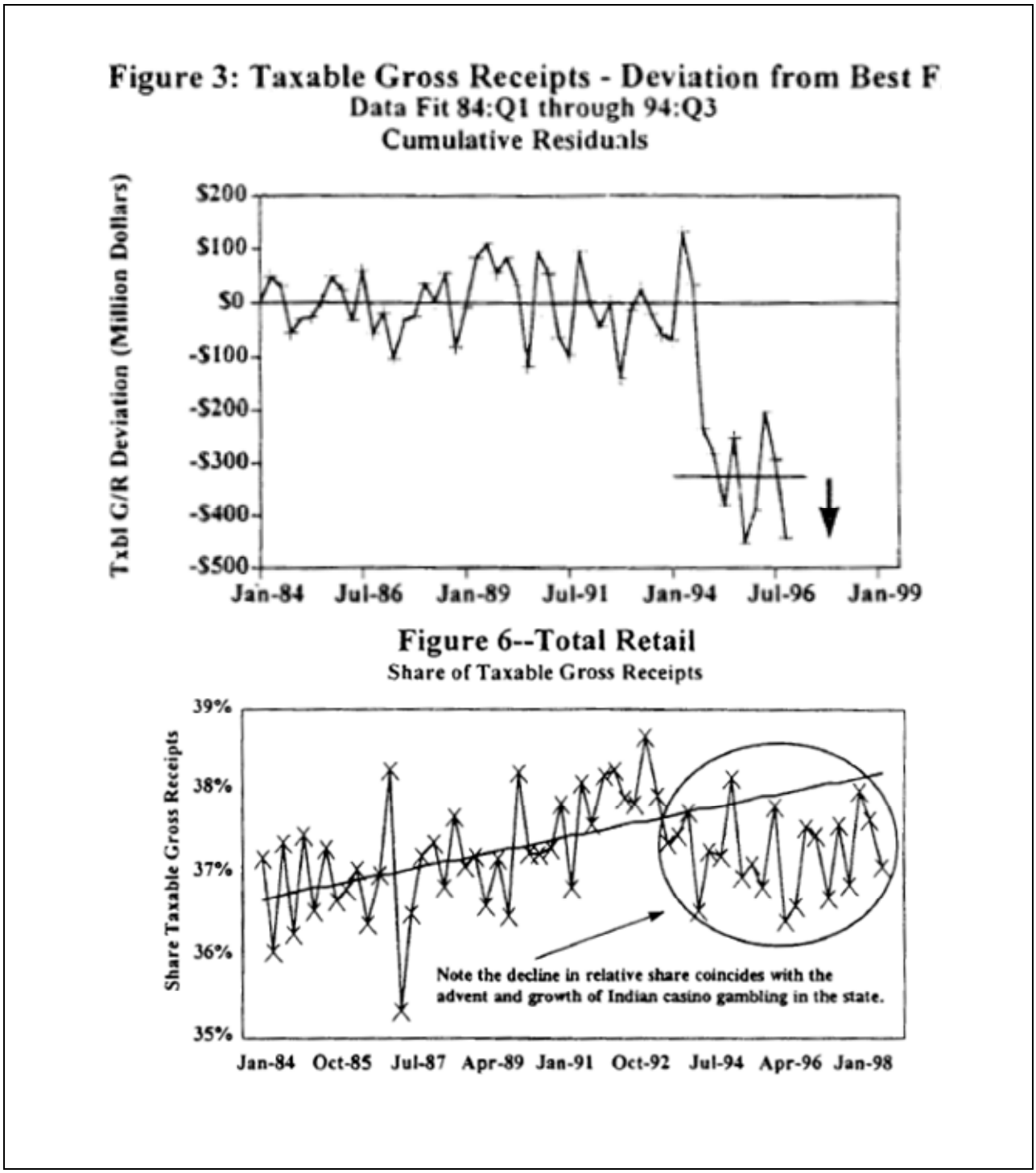

FIGURE 2: Casino take money from other uses and reduce taxes from other sources.

New Mexico was cautious in its conclusions. The state experienced $175 million of unexplained drop-off in tax revenues from other taxable sources and concluded that some of that had to be laid at the doorstep of the casinos. The study reported that New

Mexico was collecting $39 million in direct taxes from the casinos, but attributed to the casinos the loss of growth in revenues of $45 million. Pairing these numbers implied the obvious interpretation that there was not a fully well thought through deal made when the casinos were allowed into the state.

In addition to coming from the wrong place, gambling revenues come from the wrong people. If you go to a typical person and ask, Have you gambled in the past year? 30 percent will say, No, they haven't. This is true, even in Las Vegas, which probably has the most gambling opportunities available of any place in the country. If you ask a different question, Have you gambled ever in your life?, you will get a higher percentage. Most of us have gambled somewhere at some time, but how many of us have gambled in the last 12-month period? Answering no is a pretty good indication that we're not really much into gambling. An additional 60 percent might enjoy gambling once in a while. It is a way to spend an evening. Such individuals might plan on losing a certain amount of money, taking in a meal perhaps, but they are not going to be in the casinos on a weekly basis or a daily basis, and they're certainly not going to be there at 2:00 am and at their lunchtime at noon. With respect to the remaining 10 percent, we know that they account for about 80 percent of the revenues. In the case of Minnesota casinos—this information is from a study done at the University of Minnesota in the 1990's—the top 1 percent of wagerers were accounting for 50 percent of the money collected by the casinos.[4] A recent study from Pennsylvania just this year found that the top 1.1 percent was responsible for 39 percent of the slot machine activity and the top 8.7 percent accounted for 85 percent.[5] This is a very skewed distribution that shows that, yes, people like gambling, but it is a very tiny percent of the population that likes gambling a lot.

In fact, the problem is a worse than these numbers reveal. To make this point, I'd like to tell just one story. This comes from a former student of mine. His name is Ricardo Gazelle. He now works in Washington at the InterAmerican Development Bank, but at the time, he was at his first job at the University of Nevada-Las Vegas. While there, he decided that he might as well do bit of research on gambling. He began

to investigate and attended some of the Gamblers Anonymous group meetings in the area. He told me that in one of the meetings a woman stood up, and following the format, gave her first name and began to explain her story. She said that she decided she had a gambling problem when she found herself buying extra-absorbent sweatpants so that she could ignore the call of nature, up to two times, without having to leave the gambling table. It was then that she asked, "What am I doing? I have a problem. I need to deal with this." These types of stories are not difficult to find, and you have to consider that the people who have gotten caught up in gambling pathology say that the addiction is every bit as strong as drug addiction or any other kind of addiction. We are not talking about minor problems for those people who have problems. We will return to this shortly.

While looking at data in the middle 1990s, I found some interesting facts. As far as I know, I am the first person to have noticed what I am about to explain. Before I do, however, I would like to make a little footnote at this point in my remarks. Gambling at the Class III (casino) level has been legal in Nevada since 1931. Yet there is virtually no research of any kind that is citable that came out of Nevada through the 1990s, and there is still not a lot coming, that documents the social costs of gambling. Even the first study of pathological gambling of which I am aware to find out how many problem and pathological gamblers there were in Nevada, was done just a few years ago. Now back to the interesting facts: The evidence that I had was twofold. First, I learned that the average adult living within 35 miles of a casino lost about $200 per year. This was industry data for Atlantic City. At the same time, I was learning of research on people who were problem gamblers who said they were losing as much as four, five, or six thousand dollars a year. In the case of Australia, for example, the evidence there was that problem gamblers were losing seven thousand dollars a year to gambling, measured in US dollars. So I put the numbers together. If 100 adults lose $20,000 annually to casinos, and there are a couple of pathological gamblers in the total who are each losing $3,000, $4,000 or $5,000, it doesn't take very much to figure out that pathological gamblers are supplying a sizable percentage of casino revenues. These numbers have to work this way. I put together the available figures at the time and the estimate that I first provided was that 1/3rd to 1/2 of casino revenues come from problem

and pathological gamblers.[6] Since that time, other studies have appeared with confirming numbers and these ranges no longer seem unusual. The share from problem and pathological gamblers, of course, depends upon the type of gambling. Casinos take in more of their revenues from problem and pathological gamblers than do lotteries, for example.

As expected, the industry reaction was negative. I was at a state-run symposium on gambling in an eastern state where there was a gambling industry executive on one side of me, a gambling industry consultant on the other side, and various state officials further down the panel table. I reported this information and also reported the Minnesota figure about the top 1 percent supplying 50 percent of the wagers. Afterward, the gambling industry executive next to me dismissively pronounced that what I said couldn't possibly be true because pathological gamblers didn't have enough money to supply that large a fraction of casino industry revenues. Well, you've heard the numbers. It seems to me perfectly possible for an average pathological gambler to lose $5,000 or even $6,000 a year when the average adult is losing $200.

The most recent study on this topic of which I'm aware happens to be from Ontario. The researchers used diaries where gamblers kept track of their winnings and losings.[7] Figure 3 reproduces Table 17 from their study.

Table 17. Proportion of Revenue Derived from Problem Gamblers as a Function of Type of Gambling

	Winsorized Data	Trimmed Data	Only people reporting losses
Gaming Machines	62%	58%	61%
Lottery, Instant Win Tickets, & Sports Select	19%	20%	17%
Casino Table Games	30%	0%	35%
Bingo and Raffles	17%	22%	28%
Horse Racing	38%	69%	52%

FIGURE 3: Casino revenues come heavily from problem and pathological gamblers.

If you look at the top line relating to gaming machines (slot machines), you find that no matter how the authors trim their data or adjust it by taking off the highest winners and the lowest winners, 60 percent of the revenues of slot machines come from problem and pathological gamblers. To confirm our earlier calculation, let's do the math one more time. If 80 percent of casino revenues come from slot machines,[8] and 60 percent of that is coming from problem and pathological gamblers, 6x8 is 48, implying that 48 percent of casino revenues typically come from problem and pathological gamblers. Once again, the most recent study of which I'm aware, using the best methodology of which I'm aware, confirms the original range of one-third to a half.

In addition to casino revenues coming from the wrong place and from the wrong people, they come at the wrong price. To introduce the costs of casino gambling I would like to begin with another story. After I gave testimony, this time in Rhode Island, one of the finance committee members turned to me and said, "Professor Grinols, you have reported to us negative consequences of gambling, but I've been to Las Vegas and it looked like a perfectly fine city to me. I didn't see anything to be alarmed about." I asked him in reply, "What did you expect to see?" Indeed, introducing casinos to your community does not mean that it is going to look like a war zone when you walk down the street. You are not going to witness people being mugged as you pass by the shop fronts.

Nevertheless, his question prompted me to take a closer look at Nevada. Nevada's economy is 60 percent dependent on gambling. If there is any place on earth in which gambling's social consequences ought to be evident, then they ought to be evident in Nevada. So, let's look at Nevada. Before doing so, however, consider the type of casino consequences we do know. The first example happens to be from Illinois. Figure 4 shows the title to a newspaper account of a woman who gambled away mortgage money using monthly house payments, and ended up exhausting the

Woman's suicide tied to gambling

FIGURE 4: Gambling social costs are serious and often hidden.

children's college savings. The story reports that her husband was notified by the local sheriff that he had to come home to meet the sheriff there because his house was being foreclosed. The sheriff, arriving at the house, discovered a suicide note. The husband also arrived to learn that the wife was dead in their car in the local parking lot of the nearby shopping area. This was the first moment that the husband knew there was a problem present. The problem was hidden even to him.

The second example is a man from Iowa. The article is titled, "GAMBLED TO DEATH. *A Des Moines-area man didn't have a gambling problem until he started playing the slots at Prairie Meadows. His suicide leaves his family with grief and questions.*" His story is similar to many others: an accountant gets into gambling-related problems, and ends up committing suicide.

It is important to recognize that casino social costs do not come just at the expense of the gambler. The teenaged girl shown in Figure 5 had to discover on the day of her graduation from high school that her mother had committed suicide over her slot machine habits. She reports hesitating to open her mother's bedroom door for fear of

Gambling debt, despair drive mother to suicide

On her last day of high school in 1995, Lisa Van Beek learned the ultimate cost of video gambling.

In a moment of breathless terror, she stood trembling before a closed bedroom door in her

into treatment.

"I was thoroughly scared," she admits now as she sits in a booth at Ella's Diner on Marion Road in Sioux Falls, where she works as a waitress. "Scared of what I was going to find."

FIGURE 5: Gambling Social Costs Affect Those Who Do not Gamble.

what she would find. This case happens to be from South Dakota.

Last month, March of 2005, the attorney general of New Hampshire testified about an addicted gambler, Uno Kim, who entered the home of two elderly Manchester, New Hampshire, residents, strangled them to death for $36,000, after which he immediately drove to the Mohican Sun casino and gambled it away. Gambling money was the motive for that crime.

We also have the case of the woman from Chicago who suffocated her 7-month-old infant for $200,000 of insurance money for her gambling habit. She was convicted and is now in prison, serving a 21-year sentence.

In Connecticut, the accountant from the town of Stonington admitted to stealing $257,000. The tax collectors for both Ledyard and Sprague, stole $400,000 between them.

Such stories are easy to find. In my book, I put 21 pages of half-paragraph examples of crimes that I easily collected covering a few years of time. I have been criticized for that by a reviewer, who said Professor Grinols should not have done this because he demonstrates bias thereby. However, the reason I included examples was to answer questions like the one I received in Rhode Island. Numbers do not convince unless the hearer knows what they mean.

And the numbers for Las Vegas are not good. Collected here are some of the social statistics for Nevada in recent years, many of which apply for the period when Nevada was the only state that had casinos. Of course, Nevada does not top the list for every harmful social statistic, and neither does it stay in the same position on a list every year, but the following figures provide food for thought.

- 1st in suicide, double national average.
- 1st in gambling addictions.
- 1st in divorce.
- 1st in women killed by men.
- 1st in child death by abuse 1978-88.
- 1st in deaths per vehicle mile driven, 1991.
- 1st in per capita bankruptcy rate 1998.
- Most dangerous place to live.
- Most bankruptcies per capita.
- Highest dropout rate for public high schools.
- Lowest percentage of graduates who go on to college.
- Second for worst credit scores, 2005.
- 3rd for children abused or neglected.
- 3rd in abortions.
- 4th in rape.

- 4th in out of wedlock births.
- 4th in alcohol related deaths.
- 5th for lawsuits.

FIGURE 6: Nevada's Social Statistics are not good

Prominent on the list is Nevada's first-in-suicide rate, more than double the national average. Not surprisingly, it is first in gambling addiction rate. It is first in women killed by men. It is first in divorce, first in child death by abuse, first in deaths per vehicle mile driven, first in per capita bankruptcy rate. It's the most dangerous place to live. It has the highest crime rate. Highest dropout rates for public high schools, and the list continues. Just yesterday (31 March 2005) *USAToday* reported that Nevada had the second worst credit scores among states.

Figure 6 is not proof that Nevada's social climate is due to gambling, but it is grand jury level evidence that there might be some connection. What do the studies and the more careful attempts to prove causality show? If you go to the literature and try to find out what the harmful consequences of gambling are, you learn that there are at least nine classifications:

1. crime (apprehension & increased police costs, adjudication including criminal & civil justice costs, incarceration and supervision costs),
2. business costs and employment costs (lost productivity on the job, lost time and unemployment—if an employee becomes a pathological gambler, is fired, and another person is hired and trained, there are business costs created),
3. bankruptcy,
4. suicide,
5. illness,
6. social service costs (therapy/treatment costs, unemployment & social services including welfare and food stamps),
7. government direct regulatory costs,
8. family costs (such as divorce and separation), and
9. abused dollars.

The term “abused dollars” refers to money obtained under false pretenses by the gambler but because it is taken from a family member or relative is not reported as a crime. An example would be the Wisconsin man who took out over 20 credit cards in his father’s name and ran up $170,000 in debt at the casinos. If you use these classifications to produce as much as possible an exhaustive and mutually exclusive list of social costs, collect original studies that have examined one or more of them, make adjustments for representativeness of the samples studied, and allow for the fact that other causes contribute to these social problems in addition to gambling, you can construct the estimate of the social cost to society of one additional pathological gambler or one additional problem gambler. Combining this information with the number of additional individuals of each type due to casinos generates a total social cost number which, when divided by the number of adults in the area of interest, produces a social cost number per adult that can be compared to a comparable measure of the benefits of gambling. In my book, I take a good bit of space to explain what the benefits of gambling are.

The social costs of problem and pathological gambling are about $219 per adult annually in an area that has had casino gambling present for a sufficient number of years for gambling pathology to develop—probably 3 or 4 years is sufficient—whereas the social benefits are about $46 per adult annually. Gambling fails a cost/benefit test and the failure is not by a close margin. If you want to use the numbers differently by saying that a state such as Minnesota already has gambling social costs, you would want to know what the *additional* social costs would be. In that case, the cost figures are different because you are restricting attention to the *additions*. Numbers vary, but for an area that has initial access to casino gambling but at a distance, additional social costs might be $143 per adult as I show in my book. Even then, gambling fails a cost-benefit test by a factor of 3 to 1.

How should you interpret a conclusion of this type? One way would be to compare it to the lost output of a recession in the economy. President Reagan used to say that a recession is when your neighbor loses his job; a depression is when *you* lose your job. Figure 7 displays quarterly national output for the period of the

1990-91 recession. The height of the gray bars is quarterly output. The darker area above the bars is the lost output due to the recession.

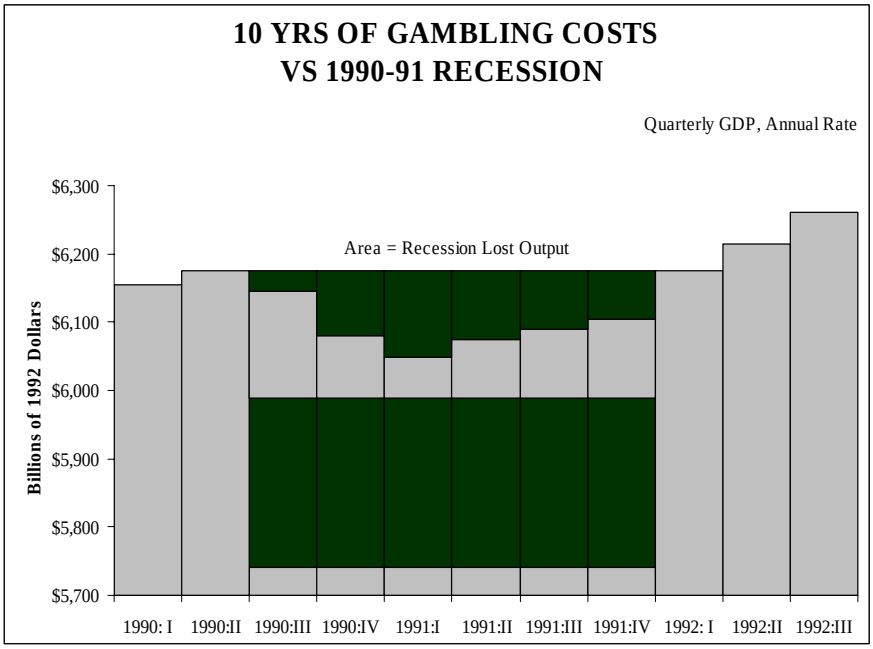

FIGURE 7: Casino Social Costs are Comparable Nationally to the Lost Output of an Additional 1990-91 Recession Every 7 or 8 Years

If you compare to that a midrange estimate of the social costs of gambling on a nationwide basis over a ten-year span of time and plot this as the lower black area, you find that they are roughly comparable in size. The social costs of gambling in society are equivalent to the lost output of an additional recession of the 1990-91 type every seven or eight years. We would survive having an additional recession in the economy that frequently. We could probably have two or three additional recessions and life would go on. The point, however, is why have these social costs when you do not need to?

Were you to introduce gambling to a room of 100 adults, and from that you developed one pathological gambler in the group of 100 and created one problem gambler in that group of 100, the group would have to pay $14,526—that is a mid range number—in social costs. That is not the amount of money the group would gamble, that

is the cost that the group would impose on themselves by having the gambling in their midst.

I would like to leave my area of expertise in economics for a moment to make a political recommendation in light of the numbers just presented: Why doesn't the state commission three separate groups to work independently, using methodology from available state-of-the-art studies—I think one of the best studies of costs is contained in the Tim Ryan study from the University of Louisiana—to determine what the social costs are of gambling in Minnesota?[9] At the deadline, they can come together to compare their results and the state can put together a list of policy options for itself. If the numbers that I have presented are not convincing or there are any remaining doubts—I do think we have seen enough studies since the middle 1990s to lead me to believe that new research not going to find anything much different—you would have new original research to consult. Following this advice would not take much time and it would lead to a better, informed decision.

Because the Mall of America is important to Minnesota, I couldn't resist providing you with the following information. In my travels around the country, I have found that the gambling industry and its representatives tend to draw lines in the sand. When you cross one line in the sand, they simply draw another line in the sand. The first line in the sand was the assertion that the expansion of gambling does not increase the number of problem and pathological gamblers. According to the industry, they're already out there, and gambling expansion doesn't do anything to add to them. That line in the sand has been crossed. The National Gambling Impact Study Commission has pretty much demolished that argument. Another line in the sand was the claim that problem and pathological gamblers could not possibly account for a third to half of casino revenues. Most of the research has been pretty consistent on that issue. That line in the sand, too, has been demolished. A third line in the sand which was drawn is the claim that casinos do not cause crime, visitors cause crime, and casinos cause visitors. It occurred to me that the casino industry might be wrong about this too. A casino visitor might be different than the other kinds of visitors. To check, I gathered data on the three biggest tourist attractions in America. They happen to be the Mall of America in Bloomington, Minnesota, which has on the order of 38 million visitors a

year; Disneyworld in Orlando, Florida, which has somewhat fewer visitors per year; and Branson, Missouri, which is known for country and western music, and gets 6 million visitors a year. Branson, Missouri, by far, gets the most visitors per resident, over twelve hundred per resident. 6 million visitors per year, by the way, is as many visitors as the entire state of Hawaii has in a year's time and Branson is a town of several thousand. You can imagine that Branson, Missouri ought to be the most crime-ridden spot on earth if visitors cause crime. Figure 8 shows the number of

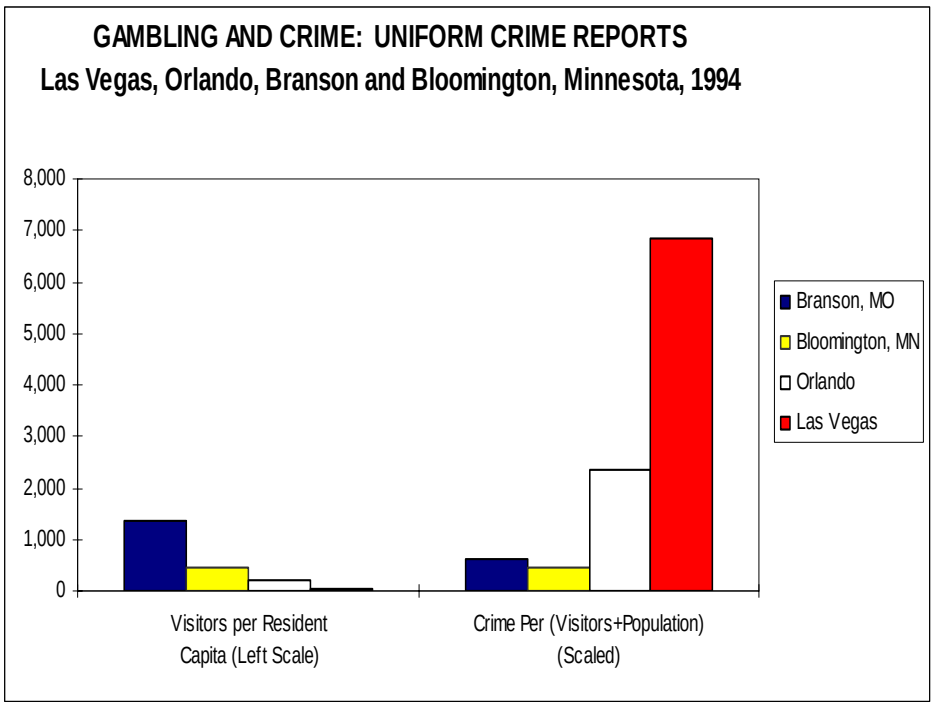

FIGURE 8: Las Vegas receives only 3% of the visitors that Branson, MO does, but has 11.4 times its crime. It has 15.7 times the crime of Bloomington, Minnesota (Mall of America) which also receives more visitors.

visitors per resident (left scale) using the leftmost set of bars. Displayed are (left to right) Branson, Bloomington, and Orlando, followed by Las Vegas, which has the fewest visitors per resident. The right-hand set of bars displays the number of crimes per resident-plus-visitors, which is how the gambling industry says they want you to compute crime. Their preference is that you dilute the crime rate by the number of visitors plus residents. The figure shows the difference in the crime order of magnitude.

The crime rate in Las Vegas is 1,040 percent higher than in Branson, Missouri, and it's 15.7 times higher than Bloomington, Minnesota. Shoppers and people going to hear semi-retired performers don't seem to be responsible for as much crime as people who visit casinos.

In my own study of crime[10], I also did the following. I discovered that the National Park Service collects data on visitors to the national parks. Golden Gate Park in San Francisco, for example, gets 14 million visitors a year. Park County, Wyoming, which contains Yellowstone Park, gets 3 to 4 million visitors a year. Many locations are in tiny, sparsely populated counties. And so I put this information into my data set of every county in the United States, all the crime rates for FBI Index I crimes, demographic variables, income variables, and information about when casinos first entered the counties that had casinos. I included leads and the lags and, in short, did everything that you're supposed to do to figure out how much of the crime is due to the presence of the casino and how much is due to the visitors that I had information on. I found that national park visitors appear to be associated with reduced crime levels and in the cases that are statistically significant on the positive side are economically insignificant. In other words, comparing orders of magnitude shows that park visitors don't cause crime at anywhere near the rate which appears to be associated with casinos. In my mind, the visitor line in the sand has also been crossed. I'm not sure what line in the sand the casino industry will settle on next, but I'm sure they will find one.

If things are as bad as the ratios say that they are, you might ask, Why does this activity persist and why is there such constant pressure for casino expansion everywhere? The answer comes from my 7th grade shop class instructor. He said that when someone is using the band saw, no one else must stand within the yellow line that was painted on the floor. The reason was that if you are helping your friend push the wood through the band saw, he could cut your finger entirely off and he wouldn't feel a thing. If he is cutting his own finger off, he might notice before the job is finished. A similar situation applies to casinos. The people who are getting the benefits from casinos are not the people who are suffering the costs. There is a separation of those making decisions and that, in a nutshell, explains why there is such continued pressure for expansion. And there will continue to be such pressure, until the separation of

decision-making is solved in some fashion. It is the government's job to do collectively for us what we as citizens would do if we each had the time and opportunity to act. There is a reason for collective action. That is what government is for. Markets are great at handling what markets handle and voluntary non-governmental organizations are good at doing certain other kinds of things that groups of people can voluntarily get together to do. But there are some things that collective action requires a government to do. Fundamentally, casino gambling is a problem that government must properly solve, because the citizens cannot and the private organizations cannot.

I was in Springfield, Illinois within the past month. A very courageous young representative there named John Bradley decided that he'd had enough of Illinois's experiments with casinos. He came to the conclusion that it was time to shut down the whole operation. He said, "Our state has become reliant on an industry that, rather than a boon, has actually been a drain on our resources. It's time that we have the courage to recognize that gambling is a failure and that we must end this 15-year social experiment that's done far more harm than good. People of this state were sold a bill of goods when the Legislature approved casinos, and it's time we cut our losses and cash out." His bill was voted out of committee and the surprising thing, to me, was that after all of the members of the committee heard my testimony, others' testimony, and the representatives' testimony, they said, "Yeah, you're probably right. We think the information you're giving us is basically right." They voted 8 to 1 to send it to the floor of the House. The representative would have been happy to get—and thought he was only going to get—five votes, just enough to get it out of committee. Instead he got it out 8 to 1, and the one vote against was from a person who had a casino in her district and felt constrained for that reason. I'm told that the bill has a very good chance of being passed in the Illinois House, but that they may play the usual games in the Senate and the prospects there may not be as good. We'll see what happens down there, but to return to my original point:

You are on a road trip and you suddenly discover halfway down the road that it is not taking you where you want to go. One suggestion would be to say, My goodness, we need to increase our speed and just keep going down this road because we'll be going faster. Or, you might think that a better solution is to stop, turn around, find the right

road, and get onto the right road. So, maybe sometimes you do have to turn back to go forward. Thank you.

Following his speech, Professor Grinols took questions from his American Experiment audience.

MEEKS: Thank you, Professor. Just a quick question to start it off: Has any state repealed slot machines once they have been introduced?

GRINOLS: The only state of which I'm aware that has ever, in this modern cycle of gambling expansion, reversed course is the state of South Carolina and that was because the Supreme Court found that slot machines had entered the state illegally in the first place. There is an interesting story associated with this. I end my book with this information. In Hoary County, South Carolina, which is Myrtle Beach, the rate of Gamblers Anonymous hotline calls was running at around 200 a month, and the number of Gamblers Anonymous groups in the state was 32. When the order came to shut down the slot machines on July 1, in one day every slot machine in the state simply, Bang, stopped operating. Six months later, the number of hotline calls had dropped to zero, the number of Gamblers Anonymous groups had dropped to 11, and instead of having 35 and 40 people at those meetings, the number dropped in many of these meetings to one or two. Gambling is a reversible social experiment. After all, we successfully banned Class III gambling for most of the country for most of the 20th century. This is not like Prohibition, where we tried to ban alcohol and—everybody seems to agree—it didn't work. Alcohol, by the way, has social costs that are higher than the social costs of gambling and yet we continue to permit alcohol. It would be interesting to see what a cost/benefit analysis would say in this case also. But the short answer is No, no state has yet reversed it legislatively.

MEEKS: Thank you. Jim Van Houten?

VAN HOUTEN: Professor Grinols, it seems to me that the public policy issue is, number one, can the state really prohibit a sovereign tribe from having gambling. The federal courts seem to have ruled some things that make some in state government doubt that that's really possible. I don't know about the perceptions in Minnesota, but

that seems to be the national view. And the second question, related to that, would be, If you really can't stop the tribes from having gambling, isn't there a public policy problem with having just one racial group have an exclusive on this kind of thing?

GRINOLS: The purpose of the Indian Gaming Regulatory Act of 1988 was to provide states with a tool to control the spread of gambling. It was meant to be a limiting piece of legislation, rather than what it turned out to be, which was the reverse. The act actually expanded gambling by American Indian tribes across the country. The law, as it has been explained to me by all experts that I've talked to, says that if a state has a certain level of gambling available or in operation anywhere in the state, then the American Indian tribes in that state must also be allowed the same level of gambling. A state that has banned casino gambling can ban American Indian tribes from having casino gambling, but you can't have Class III gambling someplace else in Minnesota and deny it to the Indian tribes. Your second question had to do with…

VAN HOUTEN: Exclusivity for a cultural group.

GRINOLS: Yes. Well, I think it is unfortunate that gambling has, because of the Indian Gaming Regulatory Act, become tied up with Indian tribes. I think we all want to be sympathetic with every racial group. We want to help American Indians like we want to help every racial group to advance. The fact of the matter is that it is a racist policy. It says that if you're an American Indian tribe, you can have a casino, but if you're not an American Indian tribe, if you're from the Norwegian tribe, say, you can't have a casino. By definition, it is a racist policy. The thing that I would add is that even patents in this country, which serve to encourage innovation and new creations, grant monopoly rights to the inventors for a 20-year period of time. But that's it. We don't give people monopoly licenses in perpetuity and there are social reasons this is so. Here is the problem that the state has, that every state has: If gambling really is a good thing—that is, let's say I'm wrong; let's say everything I've told you is bogus and incorrect, and that gambling is really a good thing--then why does the state limit it? Why doesn't Minnesota allow any person in the state who has the ability to meet the qualification terms have a casino? You could have casinos in America, across the state of Minnesota, wherever, as prolifically as you have hamburger stands. But if gambling is a bad thing and it has more social costs than social good, then why is the state

standing halfway between the two extremes? The logic doesn't work. The obvious solution is to decide which of those two extremes you think is right and set your policy accordingly.

MEEKS: Thank you. John La Plante?

La Plante: I have two questions. One, can you explain what is Class III gambling? And then second, is it possible economically, is it feasible to have gross receipts taxes high enough to compensate for the social costs?

GRINOLS: The Indian Gaming Regulatory Act defines Class I, Class II and Class III. Class I consists of traditional games of chance for little value. Class II is essentially bingo, and Class III is blackjack, roulette, card games, slot machines, games that we normally associate with casinos.

The economic response to an industry that produces externalities, which gambling does, would be to allow the activity to continue, but cause the promoters to see in their calculations the amount of damage that their activity causes. You should tax the casino, by this line of reasoning, an amount equal to the extent of the social damage that they inflict on somebody else out there. Here's how the numbers work out in broad terms. In the National Gambling Impact Study Commission's commissioned research, one of the reports said that an average adult would be losing somewhere between $400 and $600. Those numbers seem a little high but let's use $500. The social costs of problem and pathological gambling are $219 per adult. That's a mid range. The full range goes up as high as $289. Using this number, the revenues per adult should be taxed at a rate of $289 to 500 or 58 percent, and that should be the starting point because it covers damages but does not yet contribute positively to tax needs of the commonwealth. You then tell anybody who wants to have a casino that they are going to pay this tax—that's an average tax rate on gross revenues, by the way—but if they can still survive and make a profit, that is fine; if they cannot and go out of business, that's also fine. With proper policy in place, the state need not worry about how much or how little of the activity there is.

MEEKS: Tom Prichard gets the next question.

PRICHARD: Yes, Professor, a couple questions. One argument is that if we eliminated gambling in our state, we would lose the "benefits," because people will go to

other states to gamble. How do you respond to that? And, also, what is the impact of gambling on reservations? I mean, the argument for keeping them or allowing casinos to still be on Indian reservations is that it helps them do economic development, but what are the costs for those groups that we don't often hear about?

GRINOLS: Those are good questions. The first question is that if Minnesota eliminates its gambling and South Dakota and Iowa and Wisconsin don't, how many Minnesotans are going to be traveling over to those states to gamble? Some of Minnesota's money will be bleeding into the neighboring states. There is certainly truth in that position. Here is the answer, though. By putting gambling right in the home base of your major population centers, you will be experiencing social costs which, as I have tried to explain, appear to be very high. While it is true that you may be experiencing a little revenue loss to the neighboring states, we also know that people don't tend to travel that hugely far to gamble. If I'm living in St. Paul, I'm not going to be driving to Eau Claire or wherever the nearest casino is very often to gamble. So if you work the numbers and if you balance it out, you are still better off to shut down, even if the neighboring states don't. In addition, there is a small probability that some of those neighboring states may be thinking the same thing, and together we can return to the previous social compact, which used to say, We in our state won't have gambling if you in your state won't have it and then we'll all be better off. When one breaks rank, however, it starts a race to the bottom in which everyone is worrying about getting everybody else's money. The numbers suggest that it is worthwhile to see if the process can be reversed.

FOLLOW-UP QUESTION: [INAUDIBLE—OFF MIC]

GRINOLS: I have less information on that, but what I can tell you is that there is nothing special about being an American Indian or having a casino on your reservation that protects you from suffering the same kinds of problems that other places suffer. Many of the tribes report that their youth are having problems with gambling, that there are the same problems as elsewhere. It's just that if you put yourself in the role of casino owner, the profits are such that for the sake of making a ton of money as the owner of a casino, you are willing to suffer social costs and say it's still worthwhile.

MEEKS: Thank you. John Spry, from the University of St. Thomas.

SPRY: Were people trying to evaluate what you've been saying versus claims of advocates of expanded gambling? What type of external review or peer review has your work and the work you cite been through? And for some of these claims and counterclaims about the casino industry, that there is a small percentage of revenue from pathological gamblers, what type of external review have those claims been through?

GRINOLS: My crime study, which I cited, is still currently under review. You understand that in academics, things move at the pace of a glacier. This paper is at the *Review of Economics and Statistics*, which is one of the blue ribbon journals. It's in its second revision. I'm hoping to hear that they'll finally print it so that whoever wants to shoot at it can shoot at it, but, yes, our work has been submitted for review. [EDITOR'S NOTE: This paper has since been accepted for publication and is forthcoming. It is listed in the references below.] Some of the other research is published in regular academic journals. There is—as I am sure people in this room are aware—an attempt in the casino industry to do what I call shadow research. David Phillips of the University of California-San Diego discovered that the visitors to Las Vegas and the visitors to Atlantic City seemed to be committing suicide at rates higher than visitors to other comparable cities, and published a peer reviewed journal article which made that point. The gambling industry makes no bones about the fact that they hired many researchers from California Universities to produce another study, which, not surprisingly, challenged some of the methodology and challenged the conclusions. What you have here is an industry with a lot of money. In most states casinos enter, they quickly become the largest lobbying presence, by far. Why not use money to challenge research that's harmful to your industry? That's pretty much what the tobacco industry did with respect to smoking. There was a lot of research that linked smoking and cancer. The tobacco industry didn't tell researchers what to say. But they did fund a lot of them and those researchers criticized the methodology of studies that made claims harmful to the industry. In a sense, that is another line in the sand, that none of the research that says harmful things about the casino industry is valid. But I don't think that claim is going to hold any water, ultimately.

MEEKS: That will have to be it for the questions. Thank you very much, Dr. Grinols. [Noise to rear of podium.] I think that was the gambling industry behind you! Thank you very much for a great presentation.

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[4] Smith, Frederick and William J. Craig (1992).
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