The Business-Economic Impacts of Licensed Casino Gambling in West Virginia: Short-Term Gain but Long-Term Pain

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There is an imperative need for a new national commission to review gambling activities throughout the United States because few states have prepared comprehensive cost/benefit analyses of the social and economic impacts of encouraging more licensed gambling activities—particularly casino-style gambling. West Virginia, in particular, has not prepared such a report.

In the national elections held on November 7, 1995, over 75 percent of the communities considering casino-style gambling voted against it. For example, even though casino riverboats would have provided some short-term economic gains to Floyd and Clark counties in Indiana (at the expense of the Louisville economy), both of them were good "economic neighbors" and rejected riverboat gambling by even greater vote margins than they had rejected the riverboats in a previous election. Significantly, the voters residing in the state capitol of Missouri, Jefferson City, reconsidered the riverboat gambling which had been approved previously in 1992, and in the 1995 election rejected it by a considerable margin (*News Leader* 1995). *The Wall Street Journal* reported that in Louisiana "the industry has been embroiled in virtual nonstop scandal ... and its much-touted economic payoff, especially in terms of job creation, has fallen far short of promises" (Wartzman 1995).

All of the states surrounding West Virginia have recently considered riverboat casinos and rejected them because of the socioeconomic negatives associated with casino-style gambling. These types of gambling activities appear to be disfavored by the public where state policymakers and the electorate are given the time and the opportunity to examine the costs and benefits of casino-style gambling. Even so, a national commission is needed to analyze the new multifaceted issues involving the proliferation of licensed gambling activities. Otherwise, the public is often relegated to relying on industry-generated reports and promotional pieces.

The last national commission that analyzed gambling activities was in 1975-1976 (U.S. Commission 1976). The need for new analyses is highlighted by new video technologies which the industry is promoting to provide gambling video terminals in each U.S. household, as well as gambling via the Internet. Various forms of gambling have already been initiated or are proposed for U.S. airlines, railroad cars (casinos), blimps, and over 20 casino ships (conducting gambling "trips to nowhere" and including a leased Soviet aircraft carrier for Florida's casino gamblers). Once riverboat casinos, in particular, are legalized by a state legislature, even greater political pressures develop to authorize numerous, unanticipated varieties of gambling. Increasingly, states and communities are being forced to choose if they wish to be based on a gambling economy (like Nevada and Atlantic City) or on a nongambling economy (like Hawaii and Tennessee).

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The Economic Development Argument Exposed

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 jobs initially created are evident, the industry has been criticized for inflating the positive economic impacts and trivializing or ignoring the negative impacts (Goodman 1994). 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 the state as a whole (such as West Virginia) and to different regions of the United States (California Governor's Office 1992; Kindt 1995). In 1994, all of the various experts who testified before the U.S. House of Representatives Committee on Small Business criticized the impacts that casino-style gambling activities inflict upon the criminal justice system, the social welfare system, small businesses, and the economy (Congressional Hearing 1994). Utilizing legalized gambling activities as a strategy for economic development was thoroughly discredited during the hearing.

Florida is the only state which has conducted a comprehensive statewide analysis of the impacts of legalized gambling activities. Its report concurred with the congressional hearing's conclusions (Florida Budgeting Office 1994).

Since some issue areas have not received widespread public attention in West Virginia, this analysis highlights some of the neglected issue areas as they relate to tax revenues, social-welfare costs, education, and job creation.

Economic Cycles and Gambling's Impact on Tax Revenues

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 more importantly, 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, (4) increased crime and (5) large social-welfare costs for society in general and government agencies in particular. For example, two studies of the riverboat casinos in Illinois concluded that for every one job created by the riverboats, most of the surrounding communities probably lost one or more jobs from pre-existing businesses (Grinols 1994; Grinols and Omorov 1995).

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 been calculated (Politzer, Morrow and Leavey 1981; Better Government Association 1992; Florida Budget Office 1994). 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 (Illinois Governor's Office 1992). Accordingly, several state legislators (e.g., in 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 case of casinos, New Jersey already has such prohibitions, but other states have neglected to enact similar prohibitions. Political scientists have raised concerns that the newly developing constituencies in the licensed gambling industry are becoming so widespread that the industry can dictate economic, social, and tax policies. For example, the industry drafted a state constitutional referendum in Florida which would have mandated the introduction of casinos into communities—even if a particular community voted unanimously against a casino (Dyckman 1994). The industry spent approximately $3 million to get the Florida referendum on the ballot and $16.5 million to campaign for the casinos—more than the combined gubernatorial campaigns of Governor Lawton Chiles and his challenger Jeb Bush (Lavelle 1994). In these contexts, an 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" (Simurda 1994).

Social Welfare Costs

Legalized gambling activities act as a regressive tax on the poor (Clotfelter and Cook 1989). 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 socioeconomic groups tend to gamble proportionately greater amounts of their overall income and marketing efforts, particularly by state lotteries, have allegedly been directed at these target groups.

In a specific example involving casinos, a 1995 Wisconsin report concluded that "[w]ithout considering the social costs of compulsive gambling, the 'rest-of-the-state' areas lose—or, transfer in—$223.94 million to the local gaming areas. Considering the lowest estimated social costs of problem gambling, the rest of ... [Wisconsin] loses $318.61 million to gambling" (Thompson, Gazel, and Rickman 1995). This report also concluded that without casino gambling, many local citizens would have increased participation in other "outside" activities. "More than 10% of the locals would spend more on groceries if it were not for the casino, while nearly one-fourth would spend more on clothes. Thirty-seven percent said that their savings had been reduced since the casino had opened ..." (Thompson, Gazel, and Rickman 1995).

From the business perspective, businesses are not naive. For example, "in 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. (emphasis added, Spayd and Woodlee 1993). 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 there. South Dakota basically had 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 personal bankruptcies among South Dakota residents (whereas this cause was virtually nonexistent in 1989) (Nelson 1993). More subtly, traditional businesses in communities which initiate legalized gambling activities can anticipate increased personnel costs due to increased job absenteeism and declining productivity (Kindt 1994a). The best blue-collar and white-collar workers, the Type-A personalities, are the most likely to become pathological gamblers (Kindt 1994b). 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.

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 (Kindt 1994b). In the context of the healthcare debate, the spectre of these unanticipated costs can raise further concerns to businesses already being asked to bear certain health care costs.

Education 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 (Better Government Association 1992; Clotfelter and Cook 1989). Adherence to a philosophy of making a living via gambling activities not only abrogates the perceived need for an education, but also reinforces economically unproductive activities (and is statistically impossible since the "house" always wins eventually). 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.

The Pathological Gambler Problem

States which embrace legalized gambling activities can expect enormous socioeconomic costs and a decline 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 addictive behavior pursuant to the American Psychiatric Association (Clotfelter and Cook 1989; Better Government Association 1992). Each newly-created pathological gambler has been calculated to cost society from $13,200 to $52,000 per year (Maryland Department of Health 1990; Better Government Association 1994). 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 number of pathological gamblers (Goodman 1994; Politzer, Morrow and Leavey 1981; Better Government Association 1992; Maryland Department of Health 1990). The baseline of pathological gamblers as part of the population begins at .77 percent as reported by the 1976 U.S. Commission on Gambling (U.S. Commission 1976). Since gambling has been legalized and made accessible in several states, the range has increased to 1.5 to 5 percent in those states (Alberta Lotteries and Gambling 1994). This phenomenon was specifically confirmed by a 1995 study which concluded that the lifetime probable pathological and problem gamblers in Iowa increased from 1.7 percent of the public in 1989 to 5.4 percent in 1995 (Iowa Department of Human Services 1995; Petroski 1995). Similarly, a limited study of Native Americans revealed a rate for lifetime probable pathological and problem gamblers of 14.5 percent in casino areas (Alberta Lotteries and Gambling 1994). These developments translate into increases in socioeconomic costs which must be addressed and absorbed primarily by taxpayers, but also by businesses, charities, social-welfare organizations and governmental units.

Negative Impact on Job Creation

On a regional level, the combined ranges of these various socioeconomic costs are so large that they tend to dwarf the localized economic positives (California Governor's Office 1992). These drains on society could easily translate into a net loss of jobs on a statewide or regional level. Furthermore, it can be argued that the combined economic positives and negatives result in a net negative economic multiplier (Goodman 1994; Teske and Sur 1991). 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 socioeconomic 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.

Conclusion

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" (Van Der Slik 1990). Business-economic history supports this proposition. The recriminalization of gambling activities occurred 100 years ago after a brief gambling boom following the Civil War. Most state legislatures utilized constitutional provisions to recriminalize gambling, because lawmakers wanted to make it as difficult as possible for future generations to experiment with the classic "boom and bust" cycles and the concomitant socioeconomic negatives occasioned by legalized gambling activities. To paraphrase Georg Hegel's common quote, "those who forget the lessons of economic history are condemned to relive them" (Bartlett 1968).

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It should be noted that the industry-generated article responding to Professor John Kindt's article in the Spring 1996 edition of the West Virginia University Public Affairs Reporter contained no footnotes and no documentation substantiating the points made by the industry's representative, while Professor Kindt's article was heavily footnoted and documented.