

## Chapter 8

# Overview of Part I

This first part of the book comprises three chapters (2–4) that provide a basic theoretical discussion of the relationship between casino gambling and economic growth. The remaining chapters review the empirical literature and provide empirical analyses of various casino impacts. As a group, these chapters provide a fairly comprehensive examination of the potential economic benefits of casinos.

My view of the casino industry is that it generally functions the same as any other entertainment industry. It provides a service that people are willing to pay for, similar to movie theaters, professional sports teams, and amusement parks. Admittedly, many observers have a bias against casinos and gambling in general, because they view the activity as being immoral. Objections are also raised on economic grounds, for example, the claim that the industry merely “cannibalizes” other industries, so that there is no net economic benefit from casinos. I view such arguments as being remarkably naïve at best, and at worst intentionally myopic.

In the first few chapters I discuss how the casino industry can lead to economic growth, simply because it represents economic activity. Building a casino requires a capital investment and labor. Such transactions benefit the parties to the transactions, of course. The operation of a casino also requires labor. Presumably workers who take a job at a casino see that as their best option in the labor market—otherwise they would work somewhere else. Empirical evidence (Cotti 2008) suggests that casinos have a positive impact on the labor market, although the net impact is probably not as large as is claimed by the casino industry.

Perhaps the most important economic benefit of casinos is one that has rarely been mentioned in public debate. It is the benefit that consumers receive from having the casinos as an option for them to spend their money. Since people “vote with their dollars,” casino revenues indicate that the product pleases people. As simple as this is, this benefit is often ignored in debate, even by the casino companies themselves. Although I provide a conceptual discussion of the issue, I do not provide original empirical estimates of these benefits. Others have, however.

Casino critics are correct in arguing that what matters is the *net impact* on the economy. The industry reports employment, wages paid, and taxes paid as if those

amounts represent the real benefits the industry contributes to the economy. What is important, instead, are the net effects. How much more employment is there in a region with a casino than there would otherwise have been? Some other industry may have expanded if the casino industry did not. Such net effects are difficult to study empirically because it is not known “what would otherwise have been” (the counterfactual). Nevertheless, since casinos provide a service for which people willingly pay, it generates economic benefits.

In the remaining chapters of Part I, empirical evidence was presented. I believe that our work on economic growth to be some of the only empirical work that attempts to statistically test for such casino effects. Finally, we provide the most comprehensive analysis to date on the tax impacts of casinos at a state-level. The empirical work in this first part of the book use data from 1985 to 2010, mainly.

Overall, I believe that the empirical evidence shows that casinos are net contributors to their host economies. There is fairly convincing evidence that casinos have a positive effect on economic growth at the state level, that they have a positive impact on employment and wages at a county-level. Finally, although tax revenues are touted as one of the major benefits of legalizing casinos, we find no evidence that casinos actually cause a net increase in tax revenues at the state level. Of course, this does not mean that host cities or counties do not benefit from casino taxes. That issue has not been tested yet. But it is somewhat surprising that we are unable to find any tax benefits from the introduction of casinos. Nevertheless, there are certainly political benefits from legalizing casinos, since it enables policymakers to perhaps delay other unpopular decisions, such as raising other taxes or cutting spending.

## 8.1 A Look Ahead

Now that we have outlined some of the major economic benefits from the casino industry, in Parts II and III we turn to some of the negative consequences of problem gambling behavior and of the casino industry. Part II examines individual behaviors associated with gambling behaviors. In particular, we examine crime, drunk driving, binge drinking, drug use, and hiring prostitutes, as these behaviors relate to gambling behavior. We also look at gambling and ADHD symptoms.

Part III looks at the “social costs of gambling,” including crime, gambling as an unproductive activity, and the “substitution effect” of casinos on other businesses (commercial businesses and other gambling industries).