Southern Economic Journal 2007, 73(3), 830–832

Book Review

Gambling in America

By Earl Grinols.

Cambridge, UK: Cambridge University Press, 2004. *Pp. 232. $45.00.* ISBN 0521830133.

Professor Grinols has been involved in the casino gambling debate in the United States since the early 1990s. Even before much empirical data were available, Grinols was a staunch opponent of legalized casinos. His recent book, which discusses casino gambling only, builds on his previous publications and continues his antigambling tradition.

In the introductory chapters, Grinols provides a history of gambling in the United States, noting that most states had constitutional bans on gambling in 1900. Only 100 years later, the ban on gambling has been reversed in most states. Grinols discusses the development of the casino industry, the politics behind it (chapter 3), and notes that the industry would be ordinary were it not for the fact that casino gambling, particularly by problem or pathological gamblers, may cause externalities.

Beginning in chapter 4, Grinols discusses various economic aspects of the casino industry. Since gambling began spreading in the United States outside of Nevada and New Jersey (1991–present), there have been a variety of "economic impact studies." Grinols correctly notes that many of these have been seriously flawed. The studies, which are frequently funded by the casino industry, often argue that the number of jobs provided by the casino industry is a proxy for the economic benefits of casinos. (Tax revenue is the other major selling point for politicians considering legalizing casinos.) Grinols correctly points out that more jobs do not necessarily imply that economic development follows. In many cases, the new casino jobs may just "cannibalize" other jobs in the community. The effect of new casinos on labor markets is an issue that has not received adequate attention in the literature.

Grinols makes the argument that casinos act like "restaurants" and do not attract outside dollars to the community. As a result, casinos cannibalize other industries. Furthermore, if the casino's corporate headquarters is outside the community, this money leaves the local economy, thus providing no economic benefit to the community. If instead, casinos acted like "factories," where outsiders came and spent their money, and the money remained in the local economy, there could be an economic growth effect from casinos, like in Las Vegas. This argument is reminiscent of mercantilism, which focuses on the inflow of money. Obviously, tourism can play an important part of an economy, but exports are not necessary for economic development to occur.

In chapter 5, Grinols develops a formal cost-benefit model of gambling. Items included on the benefits side of the ledger include net increase in profits measured across all businesses, net increase in taxes measured across all taxpayers, consumer surplus, distance consumer surplus, capital gains to consumers induced by the activity, and gains from relaxation or elimination of nonprice constraints on consumer choices (p. 97). Only the item "real resources consumed to deal with harmful externalities" appears on the cost side.

Grinols simply drops consumer surplus from the analysis, and explains "a reasonable first approximation is that the net effect of a casino on capital gains and consumer surplus considerations is small. If firm and household prices are invariant to the amount of gambling..., capital gains on endowments and consumer surplus drop out" (p. 107). This treatment of consumer surplus seems odd. Grinols argues that the only benefit from having new casinos in a state is a "distance consumer surplus;" because the gambler does not have to travel as far to a casino, their costs of consumption are lower. Should not the first casino in Mississippi, for example, be treated as a new product or "brand" of entertainment in that market? There is an entire literature (e.g., Lancaster, Hausman, Scherer) on the effects of increased variety for consumers. Certainly there are benefits to having Amazon.com, other than the fact that consumers do not have to drive as far to buy things. Increased product variety is beneficial, but Grinols completely ignores this.

It is also unclear why Grinols thinks casinos do not create any significant traditional consumer surplus. Casinos are often coupled with other products, usually restaurants and hotels. To the extent these put downward pressure on prices in the restaurant and hotel markets, consumer surplus would be created by a new casino. Even on the casino games themselves, there is price competition. For example, casinos will advertise that their slots pay-out a greater percentage, or that craps players can bet 10× odds rather than the standard 2× odds. Such competition could result in potentially significant consumer surplus.

The chapter on social costs has very serious problems. Although Grinols addresses most of the standard social cost issues that have been examined in the literature (e.g., crime, employment and productivity losses, bankruptcy, suicide, social services costs, and regulatory costs), he completely ignores the tremendous level of controversy surrounding the handling of these issues. He goes on to summarize the findings of several cost-benefit studies that were performed during the 1990s, and estimates the annual cost to society per pathological gambler to be $10,330 (p. 171). This estimate is seriously flawed because it is composed mostly of wealth transfers or costs to the individual gamblers. Indeed, the studies relied on by Grinols have been criticized in the literature, and their credibility has been questioned (Walker 2003).[1] The National Research Council (1999, p. 185) explains:

> In most of the impact analyses of gambling and pathological and problem gambling, the methods used are so inadequate as to invalidate the conclusions. Researchers in this area have struggled with the absence of systematic data that could inform their analysis and consequently have substituted assumptions for the missing data. The assumptions adopted for specific studies were rarely examined or tested to ensure they were appropriate for the specific research being conducted. There is always the risk that such assumptions and resulting estimates may reflect the bias of the analyst rather than the best-informed judgment. Critical estimates have been frequently taken from one study and haphazardly applied in different circumstances.

Grinols simply ignores the controversy over social cost studies in the literature.

Finally, the social cost chapter includes a full twenty pages of examples of newspaper clips of the personal and economic damage caused by casino gambling. Similar antigambling stories and statements are peppered throughout the book. Rarely does Grinols hint that there is a legitimate argument that casinos may create a net benefit, for example, by providing jobs, price competition, "variety benefits" to consumers, or economic development. Indeed, Grinols

[1] For example, in an updated version of one of the studies cited by Grinols, the authors write, "Gaming establishments need many supplies. Many of these are purchased from sources outside of the area. This is money lost. So, too, are profits that go to outside owners" (Thompson and Quinn 2000, p. 4). They go on to estimate a social cost to South Carolina in the amount of $46 million because of the purchase of video gaming machines from out-of-state manufacturers (pp. 10–11). This clearly illustrates confusion about the win-win nature of market transactions (even transactions with casinos). If Grinols' cost estimate is based on studies such as this one, clearly it should be taken with a healthy skepticism.

ignores any literature that might suggest such benefits. Even though Grinols indicates that he has no moral objection to gambling (p. 11), the reader may suspect that he sees casino gambling as a "merit bad."

Overall, Grinols underestimates the potential consumer benefits from casinos. His reliance on flawed studies to estimate social costs results in an overestimation of the social costs of gambling. Unfortunately, the reader who is not already familiar with the "economics of gambling" literature will be left with an incomplete picture of the debate. Grinols generally does not cite the relevant economics literature in justifying his methodology, nor does he make any reference to gambling research that does not agree with his conclusions. As a result, it is important for the reader interested in alternative perspectives on the economics of gambling to seek resources *not* cited by Grinols. All things considered, *Gambling in America* is probably a book worth reading—if you are interested in an antigambling perspective on casinos in the United States.

Douglas M. Walker
Georgia College

References

National Research Council. 1999. *Pathological gambling: A critical review*. Washington, DC: National Academy Press. Accessed 26 July 2006. Available at http://www.nap.edu/books/0309065712/html/index.html.

Thompson, W., and F. Quinn. 2000. The video gaming machines of South Carolina: Disappearing soon? Good riddance or bad news? A socio-economic analysis. Paper presented at the 11th International Conference on Gambling and Risk-Taking. Las Vegas, NV (14 June 2000).

Walker, Douglas M. 2003. Methodological issues in the social cost of gambling studies. *Journal of Gambling Studies* 19(2):149–84.