CHAPTER 2

DEFINITION OF BENEFITS AND COSTS

INTRODUCTION

This chapter presents the costs and benefits that were included in the overall analysis. The focus of this study is to quantify as many of the costs and benefits as possible. However, there are some costs and benefits that are impossible or difficult to quantify but are important. Those costs and benefits that could be quantified are discussed in the report. Since non-quantifiable costs and benefits cannot be included, readers must understand that it is impossible to reach a simple conclusion that "gambling is good for the State" or "gambling is bad for the State."

BENEFITS

Almost all benefits derived from gambling are economic, such as new spending, new jobs, new income, and new tax revenues. Specifically, the benefits identified in this study included:

1. Net new direct spending in the State due to gambling. When any new industry or business enters a state and is successful, new dollar spending will be created in that state. That new spending is a very important part of the benefits of the introduction of the industry or business. Great care must be taken, however, to determine if that spending is really **new** to the state or is existing spending that is **diverted** from some existing industry or business.

   Some examples should help illustrate the problems in this determination. Consider the construction of a new convention center in an area that had none. Once the center is completed, national trade shows and conventions can be held in the area. In this case, the new convention center brings new spending into the area without displacing any existing spending. On the other hand, consider the building of a new Wal-Mart or other retail outlet in an area. Generally, the existence of a new retail outlet does not create new spending. In fact, if the retail outlet is popular, it will draw business away from other existing retail outlets.

   There are three important points to keep in mind with respect to this analysis. First, in the real world, there are seldom examples of either polar case mentioned in the examples. In most cases, the introduction of a new industry or business into an area creates some new spending and diverts some spending from existing businesses. Second, the amount of new spending introduced into an area by a new industry or business may differ in the short run as opposed to the long run. In the Wal-Mart example in the short run, the economy may support both the new and the existing retailers. During this period, there could be new spending in the area as the owners of the firms subsidize lower sales by having overlapping staff and facilities. In the long run, it is likely that either the national or the local firm will reduce staff or facilities and spending in the area will decrease. Finally, from an economic point of view, the "Wal-Mart" effect is not necessarily an undesirable effect. If Wal-Mart does drive the local retailers out of the market, it is because the consumers prefer Wal-Mart; and, hence, the region is better off than before. The same thing can be said of gambling. Even if all of the spending related to gambling came from within the community (this is not likely), it does not mean that gambling is bad for that reason alone.

One of the most challenging parts of this research was to identify the net new spending created by the various gambling activities. The research team employed several different methodologies to identify net new spending as opposed to diverted spending. First, in interviews with local residents and casino patrons from Louisiana, questions were asked to determine the sources of their gambling funds. Second, econometric analysis was used to determine the net effect of the introduction of gambling in an area by analyzing data on total employment, sales tax revenues, and the like.

2. Net spending by local residents diverted from out-of-state gambling to Louisiana gambling destinations. When calculating the net impact of gambling on the Louisiana economy, it is important to consider that Louisiana gambling venues may keep people and dollars in the State. Gambling is a reality in the United States. There are countless opportunities, some very nearby, to gamble. If no legalized gambling were available in Louisiana, dollars would still leave the State. Thus, to some extent, offering gambling in Louisiana keeps dollars in the State. This is a net benefit of gambling. Louisiana residents were asked questions during the casino intercept and resident surveys to measure this phenomenon.

3. Net new jobs created (or jobs saved) by gambling. Based on an analysis similar to the one discussed in point 1, gambling can also create net new jobs in a community. There is generally a direct relationship between the amount of net new spending in an area due to some activity and the net new jobs created by that activity. The creation of net new jobs by gambling is measured by the same instruments that net new spending is measured.

4. Net new income created (or saved) by gambling. Based on an analysis similar to the one discussed in point 1, gambling can also create net new income in a community. There is generally a direct relationship between the amount of net new employment in an area due to some activity and the net new income created by that activity. The creation of net new income by gambling is measured by the same instruments that net new spending is measured.

5. Net new state and local tax revenues created (or saved) by gambling. Whenever a new economic activity creates new spending and creates new jobs in an area, new tax revenues are created for state and local governments. Some of these new tax revenues are direct taxes – taxes levied on the activity itself. Other new tax revenues are created by the indirect benefits of the new activity, such as the income created by the activity. In the case of gambling, the direct taxes are high compared to other industries. Thus, since the gambling industry is more heavily taxed than most other industries, one dollar spent at a casino instead of in another industry yields higher revenues to the government. In this study, direct tax revenues were obtained from the government agencies. The indirect tax revenues were estimated by the use of various economic models that will be explained as part of each individual section in this report.

6. Net new visitors attracted to the State by gambling. One important aspect of the gambling industry is the possibility that the industry can attract new visitors to the State. In addition to providing a source of net new spending directly in the gambling industry, new visitors can create additional spending in other industries of the State's economy (such as the hotel or restaurant industries). New visitors can also create other ancillary benefits, such as hotel and other related developments. The number of new visitors attracted to the State's gambling venues was measured by the intercept surveys at the casinos, by the license plate survey, and by econometric analysis of riverboat gambling and video poker revenues.

7. Other benefits. There are other benefits that can be identified but are not as easily quantified as points 1 through 6. These benefits could include providing jobs for otherwise unemployed or underemployed people (measured by the casino employee survey) or participation by casinos as "good corporate citizens" in an area as revealed in the survey of residents. As well, there are certain non-economic benefits such as improved entertainment opportunities, enhanced local infrastructure, etc. that are not included in the present study because of problems of quantification.

COSTS

A perennial problem in gambling benefit/cost studies is defining costs. Benefits are, in general, easily identifiable and quantifiable; but costs are difficult to identify and to quantify. The fact that costs are not easily quantifiable does not mean that they are not important. In this study, the research team made every effort to identify and quantify the costs of gambling. Cases in which the costs are not quantifiable but are significant were identified. These two types of costs included:

1. Increased government spending on regulating the gambling industry, enforcing gambling laws, and providing other extraordinary governmental services to the industry. In the United States, the gambling industry is heavily regulated. A state government, therefore, must spend part of the revenues it receives from the industry to regulate the industry. As a result, not all of the government revenues derived from the industry are net spendable revenues for the State. Data on government expenditures to regulate the industry were provided by the Louisiana Gaming Control Board, Louisiana State Police, Louisiana Attorney General's Office, Louisiana State Racing Commission, and the Louisiana Lottery Corporation.

2. Increased crime rates and related costs such as police and other criminal justice system expenditures. The introduction of gambling into a community has often been touted as the cause of an increase in the crime rate in that community. There are two potential sources of this increased crime. The first source is what can be referred to as "crimes of opportunity." These are crimes committed against casino patrons. Gamblers are believed to present an easy target to criminals; and, thus, burglary, theft and other property crimes increase in and around casino locations. The second source is crimes committed by addicted gamblers who steal or embezzle to pay for gambling losses. The "crimes of opportunity" costs were measured by an econometric analysis of cross-section data for the 64 parishes of Louisiana (see Appendix I). The magnitude of the gambling problems in Louisiana was measured by the gambling prevalence study. The Louisiana gambling prevalence and Gamblers Anonymous/Treatment studies measured the number and types of crimes associated with problem gambling behavior.

3. Increased personal and small business bankruptcies and related personal and government costs. One of the possible costs of problem gambling behavior is a misuse of credit related to gambling debts. Misuse of credit can lead to personal bankruptcy. The relationship between gambling and bankruptcy was measured by two studies. First, a bankruptcy study is included as a separate study within this research (see Appendix J). This study employed a macro analysis to determine the extent of the relationship between bankruptcy and gambling. Second, the relationship between gambling and personal bankruptcy was measured by the gambling prevalence and Gamblers Anonymous/Treatment studies to determine the number and types of negative outcomes, including personal bankruptcy, associated with addictive gambling behavior.

4. Increased costs to business due to employee theft, employee absenteeism and reduction in worker productivity. Many people argue that gambling problems causes significant work-related problems, including employee theft, employee absenteeism and reduction in worker productivity. The existence of any such problems was measured by the gambling prevalence, GA/Treatment, and business surveys. The objective was to determine the number and types of negative outcomes associated with addictive gambling behavior.

5. Increased social costs due to gambling. Social costs could include family problems, personal depression, and suicide. Many people believe that persons with gambling problems exhibit significant interpersonal and family problems, including personal depression and suicide. The gambling prevalence and GA/Treatment studies measured the existence of such problems. In addition to determining the number and types of negative outcomes associated with addictive gambling behavior, treatment costs to attempt to alleviate addictive gambling behavior were also estimated.