Are Gaming Taxes Right for Miami-Dade County and the State of Florida?

By Hector Cantu and Carlos Castellano

"(Gambling) involves simply sterile transfers of money or goods between individuals, creating no new money or goods. Although it creates no output, gambling does nevertheless absorb time and resources. When pursued beyond the limits of recreation, where the main purpose after all is to kill time, gambling subtracts from the national income." Noble Laureate Paul Samuelson.

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This workshop and topic were prompted by the current budget crisis of Miami-Dade County government. It has been suggested by some members of the SEDC that there is an easy fix to the county's budget woes – resort style Casino Gambling, with its promise of:

- Generating positive net tax revenue for the county.
- Alleviating unemployment
- Promoting social and economic development.

Is Casino Gambling a Sure Bet?

One widely quoted study on the economic impact of Casino Gambling was conducted by Adam Rose and Associates (1998), and sponsored by the National Gambling Impact Study Commission *(NGISC).*

Several important findings here suggest that Casino Gambling may actually have a ***net negative impact*** in South Florida based on the spending substitution effect, the degree of market saturation, the current income elasticity of gambling demand, and hidden social costs.

- **With respect to the spending substitution effect** (displacement, cannibalization), a survey of the literature produced many conflicting results. For example, one study suggested that casinos in Atlantic City had a neutral or only slightly positive impact while others indicate a significant or highly positive impact. Interestingly, and relevant here, is the Florida study by Pable (1996) which concluded that in the case of a casino disrupting an already healthy tourist base, the spending substitution effect generates a negative overall impact. The same was concluded in a study of US economy as a whole (Goodman, 1994).

- With respect to **market saturation:** This same report also indicated Casino Gambling would have a net negative impact in the event of **market saturation**. The experts quoted here projected that casino gambling in the US could grow by another 10 + % over the next decade before the market was saturated. That was back in 1998. According to statistics from the American Gaming Association, the casino industry appears to have already reached its saturation point. (Consider the casino entities operating in Florida alone, ready!) Not surprisingly, small, midsize, and even some large casino operations have closed their doors and shed employees.

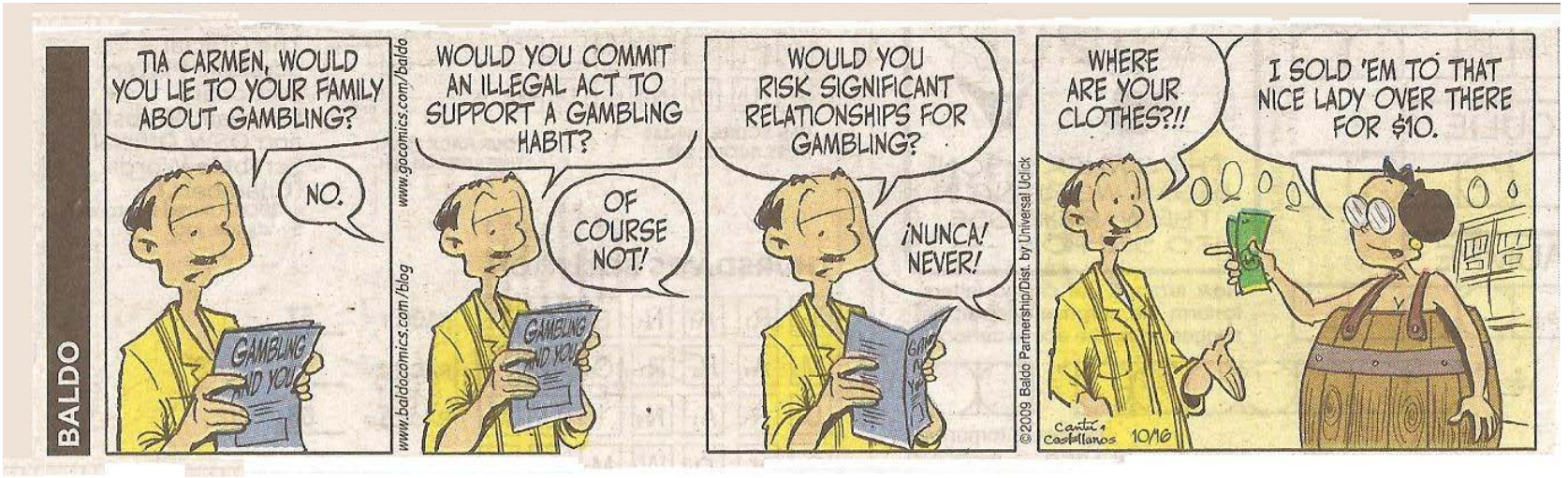
- The largest casinos in the USA recognized the signs of a saturated market in stagnant and/or slumping casino revenues (a trend which began even before the onset of the “great” recession) and have already invested heavily in Macao and Singapore to tap into the new and growing Asian market.

- Consequently, the Sand's Venetian Macau is now the largest casino resort in the world, and Macau is poised to unseat Las Vegas as the Gambling Capital of the World.

- Update: Casino operators in China-ruled Macau have been hit hard by the financial crisis, a supply glut, heightened competition amid the gaming boom, and visa restrictions on Chinese visitors that have dragged on the market. Operating income fell 39 percent in the final quarter in 2008 for the Sands Macau casino and dropped 13 percent at the Venetian Macau. Employee layoffs at the Sands were estimated at about 11,000.

With respect to **income elasticity of gambling demand:** The Rose study (1998) concluded that this statistic was about 1.5. This means that people's spending on gambling goes up 1.5% for every 1% increase in their income, on average. The reverse is also true. For every 1% decrease in income, spending on gambling falls by 1.5%. Reliance on gaming tax revenues with an income elasticity of this magnitude is extremely volatile and not a stable source of revenue during recessions and economic downturns.

And finally, with respect to the **social costs of gambling**, including those associated with problem and pathological gamblers, an interesting study by Grinols and Mustard (2001), using a taxonomy of costs, concluded that when the correctly defined components of the social costs and social benefits are analyzed, the costs associated with casinos are at least 1.9 times greater than the benefits (using the minimum estimated value of costs and the maximum estimated value of benefits).



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The Cost Taxonomy includes:

- Crime
- Business and Employment Costs
- Bankruptcy
- Suicide
- Illness
- Social Service Costs
- Government Social Regulatory Costs
- Family costs
- Abused Dollars

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Conclusion

The evidence provided here suggests that expanding Casino gambling in Miami Dade County now is ***NOT*** a sure bet, and one that may have long run consequences that have not been identified and explored.

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KEY DETERMINANTS OF GAMBLING IMPACTS

Study	Study Area	Substitution Effect	Recapture	Profile of Patrons[a]
Leven (1998)	Missouri	75% substitution rate[b]	53%	higher inc, better educ, older
WEFA (1997)	Connecticut	75% substitution rate[b]	--	higher inc, white
Gazel (1995)	Illinois	83% of patrons residents	--	more retired, poor, minority
	Las Vegas	15% of patrons residents	--	--
	Atlantic City	<15% of patrons residents	--	--
Blais (1995)	Connecticut	100% substitution rate[b]	--	--
Deloitte (1995)	Michigan	100% substitution rate[b]	45%	--
KPMG (1995)	Windsor, ONT	21% of patrons residents	--	--
MD DFS (95)	Maryland	--[c]	25%	representative tourists
Andersen (1995)	Maryland	70% substitution rate[d]	30%	lower income, younger[c]
Hunter (1995)	Maryland	35% substitution rate[d]	24%	--
Deloitte (1992)	Chicago	58% of patrons residents	--	--
MN Gaming (1993)	Minnesota	80% of patrons residents	--	--
Thompson (1995)	Wisconsin	85% of patrons residents[e]	--	lower income, elderly, female
Murray (1993)	Wisconsin	83% of patrons residents	--	--
Gazel (1996)	Wisconsin	--	50%	--
Univ. Assocs. (1992)	Michigan	37% of patrons residents	--	--
Thompson (1996)	Illinois	--	30%	--
Nat'l Comm'n (76)	U.S.	--	--	higher inc, better educ, male
Harrah's (1996)	U.S.	--	--	higher income, better educated
Chicago BGA (96)	Illinois	--	--	higher income, better educated

[a] In comparison to residents unless otherwise noted.

[b] Measured in terms of a shift in resident spending in terms of existing regional goods and services.

[c] Erroneously measured only in terms of tourists in general rather than base population.

[d] Measured in terms of percentage of total spending by casino customers.

[e] Also 30% of patrons said casino gambling changed their spending on other types of leisure activities.

CLASSIFICATION OF OVERALL ECONOMIC IMPACTS OF CASINO GAMBLING[a]

Study	Study Area	Findings	Key Influence
Overall Negative			
Goodman (1994)	U.S.	poor econ development strategy	high substitution, social costs
Pable (1996)	Florida	casinos not a good strategy	inconsistent w/ estab tourism
Neutral to Slightly Positive			
Gabe (1996)	Minnesota	no increase in regional PCI	rural area, & no. of businesses
Pernicario (1995)	Atlantic City	slight increase in econ activity	ltd local input, commuting labor
Grinols (1996)	IL Counties	6 of 8 casinos no impact on employ	high effects, revenue leakage
San Antonio 1994)	San Antonio	marginally positive net benefits	selective interp of experience
Gazel (1995)	Wisconsin	multipliers net to nearly 1.0	huge offset effects
Blois (1995)	Connecticut	multipliers net to slightly less than 1.0	huge offset effects
Thompson (1995)	Illinois	multipliers net to slightly less than 1.0	huge offset effects
Significantly Positive			
CBEF (1995)	Colorado	61 casinos generate 6,700 new jobs	no negative effects
Leven (1998)	Missouri	11 casinos generate 12,000 new jobs	large substitution effects
WEFA (1997)	Connecticut	gambling an economic engine	no social costs; large sub effect
Harner (1995)	New Jersey	essential to economic development	no negative effects
May & Co (1995)	Vicksburg, MS	3 of 4 businesses helped by gaming	no negative effects
Clapp (1993)	Connecticut	1 casino generates 20,000 new jobs	no negative effects
Lake (1996)	Wisconsin	small casinos generate 791 new jobs	no negative effects
Hewings (1996)	Illinois	10 casinos generate 17,000 new jobs	no negative effects
Turner (1995)	Atlantic City	casinos have good investment potential	no negative effects
MD DFS (1995)	Maryland	1 metro cas generates 6,000 new jobs	huge mult; small sub effect
Highly Positive			
Coopers (1997)	8 states	gambling a fast growing source of jobs	actual indus growth; no negs
Andersen (1996)	U.S.	cas better job creators than other indus	no negative effects
Slusher (1991)	Atlantic City	casinos generate 69,300 new jobs	no negative effects
Deloitte (1995)	Michigan	5 casinos generate 17,000 new jobs	low sub, high recap; high mult
KPMG (1995)	Windsor, ONT	1 casino generates 7,200 new jobs	high mult; est no negatives
IL E&FC (1992)	IL Counties	10 casinos generate 10,741 new jobs	high mult; no negatives
Anderson (1995)	Maryland	6 casinos generate 62,000 new jobs	high sub; low recap; mult high
Hunter (1995)	Maryland	1 casino generates 12,300 new jobs	huge mult; small sub effect

Annual Social Costs per Pathological Gambler

	MD Pelletier *et al.* (1981) ($)	FL Exec. Office of Gov (1994) ($)	WI Thompson *et al.* (1996) ($)	CT Thompson *et al.* (1998) ($)	SD SD Leg. Research Council 1998–1999 ($)	LA Ryan *et al.* (1999) ($)	US Gerstein *et al.* (1999) ($)	SC Thompson and Quinn (1999) ($)	Row averages for studies 1994–1999 ($)
Crime									
Apprehension and increased police costs			44	71	1000	53		116	257
Adjudication (criminal and civil justice costs)	1788		1234	994	37	649		476	676
Incarceration and supervision costs	2828	15 221	758	889	382	690		461	3065
Business and employment costs	11 265								
Lost productivity on job								1082	1082
Lost time and unemployment			2717	3436		5936	320	2156	2913
Bankruptcy			515					118	316
Suicide									
Illness							700		700
Social service costs									
Therapy/treatment costs			437	114	75	396	30	83	189
Unemployment and other soc. svc. (incl. welfare and food stamps)			606	971	549	60	145	318	442
Government direct regulatory costs									
Family costs									
Divorce, separation								111	111
Abused dollars	14 354		3802	9519	240	3175		2436	3834
									13 586