Diminishing or Negating the Multiplier Effect: The Transfer of Consumer Dollars to Legalized Gambling: Should a Negative Socio-Economic "Crime Multiplier" Be Included in Gambling Cost/Benefit Analyses?

John Warren Kindt
DIMINISHING OR NEGATING THE MULTIPLIER EFFECT: THE TRANSFER OF CONSUMER DOLLARS TO LEGALIZED GAMBLING: SHOULD A NEGATIVE SOCIO-ECONOMIC "CRIME MULTIPLIER" BE INCLUDED IN GAMBLING COST/Benefit ANALYSES?

John Warren Kindt*

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INTRODUCTION

This analysis reviews whether the logical extension of the socio-economic costs caused by pathological gambling should include a negative socio-economic (i.e., “crime”) multiplier in gambling cost/benefit analyses. Traditional economic theory posits that normal consumer spending benefits the economy by more than just the amount spent, as that money is reinvested in the economy. Arguably however, consumer dollars diverted into gambling dollars have a diminished economic multiplier effect. The contention is that added to this diminished economic multiplier, there should be a socio-economic “crime” multiplier—due to the unique socio-economic costs inherent in state-sanctioned gambling activities. During the 1990s, socio-economic experts directed academic attention to the new addicted gamblers,
new bankruptcies, and new crime that occurred in the United States during the 1980s and 1990s when state governments decriminalized organized gambling activities. The starting point for such cost analyses can be found in the tables and accompanying footnotes in the article The Costs of Addicted Gamblers: Should the States Initiate Mega-Lawsuits Similar to the Tobacco Cases? (Mega-Lawsuits). These costs will be summarized at the end of this analysis, but first there are two preliminary questions that should be reviewed:

1. When consumer dollars are transferred into decriminalized gambling activities is the normal economic multiplier effect diminished?

2. When consumer dollars are transferred into decriminalized gambling activities could the economic multiplier effect be not only diminished, but also an overall “negative” economic multiplier?

By the 1990s there were authoritative pronouncements substantiating both of these propositions. In either instance, the question was then: Should the economic multiplier have added to it a socio-economic crime multiplier to reflect the socio-economic costs of decriminalized organized gambling?

I. DELIMITATION OF PROBLEMS

A. Bizarre Economic Multipliers Claimed by the United States Gambling Industry: The Lack of Industry Credibility

In 1992, the Illinois Economic and Fiscal Policy Commission appeared to struggle with the multiplier issue in its study of gambling in Illinois and implied that there were problems with calculating potential economic activity when legalized gambling activities were involved. In the economic multiplier context, the legalized gambling industry has made bizarre claims, such as claiming a multiplier of “4” several times during a 1997 National Press

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Foundation Conference. In another example, a multiplier of "5" to "6" was claimed by gambling interests in a 1997 advertisement in the *St. Louis Post-Dispatch* that attempted to publicize the "Employment Opportunities" that gambling allegedly created. These outrageous claims of "gambling multipliers" were twice as large as the average multipliers the Bureau of Economic Analysis (BEA) reported as being between "2" and "3."

B. Legalized Gambling as Diminishing or Negating the Multiplier Effect of "Consumer Dollars"

While the spending of consumer dollars in an economy constitutes a positive economic multiplier effect (usually between "2" and "3" in most scenarios), during the 1990s academics postulated that the multiplier effect was less when those same consumer dollars were spent in decriminalized gambling activities—thus, constituting a net drain on an economy. In 1991, academics even theorized that legalized gambling activities, such as casino activities, might constitute a negative economic "multiplier effect." The potential negative multiplier effect associated with legalized gambling


4. See Casino Industry Advertisement, Employment Opportunities, St. Louis Post-Dispatch, Jan. 19, 1997, at 17G.


activities received new emphasis in a 1994 University of Massachusetts report, as well as in United States Congressional Hearings before the United States House Subcommittee on Small Business.

In the context of the "diminished multiplier effect," it was reported in 1993 on the floor of Congress that the multiplier effect for Atlantic City's experience with casinos was low. A couple of years earlier in 1991, co-authors Paul Teske of the Southern University of New York and Bela Sur of the University of Nebraska had reported that the multiplier effect of the casinos in Atlantic City not only was less than what was anticipated, but also was limited to the area around the casinos' enclave, which operated to the overall detriment of the regional economy.

The economic benefits have not spread beyond the casinos; the anticipated "multiplier effect" has not moved much beyond the core industry. Many local residents are still poor and unemployed, half of the population still receives public assistance, and city services continue to be substandard. Social problems, including increased crime and prostitution, are worse than ever. Since most people holding the better casino jobs live in Atlantic City suburbs, they contribute little directly to the city.

Without considering the socio-taxpayer costs that accompany decriminalized gambling (but which do not accompany consumer industries), the economic drain itself can be demonstrated by a sample scenario. By 2002 pro-gambling interests, such as the Osage Tribe, were publicly admitting a negative regional cash flow to be caused by the tribe's proposed Kansas casino. Specifically, it was evident that the planned "casino would drain $37 million to $46 million from the surrounding 50 mile radius region annually, obviously a serious detrimental economic impact." This scenario was analyzed at a June 2002 meeting of the National Council of Legislators.


10. See Teske & Sur, supra note 6, at 136; see also Gambling A Loser, supra note 9, at H6500, H6501.

11. Gambling A Loser, supra note 9, at H6501 (quoting Teske & Sur, supra note 6, at 130).

12. Glenn O. Thompson, Economic Impact of Convenience Casinos on Surrounding Communities, Remarks at the Summer Meeting of the National Council of Legislators from Gaming States 3 (June 1, 2002) [hereinafter Thompson to Legislators from Gaming States] (on file with author).
from Gaming States. By utilizing “revenue and payroll data from the tribe’s press release,” the following cash flow data was [sic] developed for the two revenue estimates, $75 million and $100 million, discussed in the press release:

**Economic impact of Osage tribe casino on surrounding 50 mile radius region**

<table>
<thead>
<tr>
<th>Money into casino ($ M annually)</th>
<th>Low ($ M)</th>
<th>High ($ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from within region (85%)</td>
<td>$64</td>
<td>85</td>
</tr>
<tr>
<td>Revenue from outside region (15%)</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total cash into casino (net revenue after prizes)</strong></td>
<td><strong>$75</strong></td>
<td><strong>$100</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Money out of casino ($ M annually)</th>
<th>Low ($ M)</th>
<th>High ($ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll (Assume 100% remains within region)</td>
<td>$16</td>
<td>$24</td>
</tr>
<tr>
<td>Other expense spent within region (15% of revenue)</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Money that leaves region</td>
<td>48</td>
<td>61</td>
</tr>
<tr>
<td><strong>Total cash out of casino</strong></td>
<td><strong>$75</strong></td>
<td><strong>$100</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region net cash flow ($ M annually)</th>
<th>Low ($ M)</th>
<th>High ($ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash into region</td>
<td>$11</td>
<td>$15</td>
</tr>
<tr>
<td>Cash out of region</td>
<td>(48)</td>
<td>(61)</td>
</tr>
<tr>
<td><strong>Net cash flow</strong></td>
<td><strong>($37)</strong></td>
<td><strong>($46)</strong></td>
</tr>
</tbody>
</table>

This type of casino scenario involved bringing “convenience gambling” to the local population base, which means that the gambling would be conveniently accessible to the public. The analysis also demonstrated that for the state’s regional community to break-even economically, the gambling activities had to attract approximately 50 percent more new tourists (not pre-existing tourists) from out-of-state. This problem was one reason why the 1996-1999 National Gambling Impact Study Commission (NGISC or 1999 United States Gambling Commission) unanimously recommended the recriminalization of

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13. See id.
15. Thompson to Legislators from Gaming States, supra note 12, at 3.
"convenience gambling." The exceptions were Las Vegas (80 to 90 percent out-of-state tourists), Atlantic City (approximately 50 to 60 percent out-of-state tourists), and Windsor, Ontario (70 to 80 percent out-of-country United States tourists and which did not involve "convenience gambling"). However, even these gambling communities still constituted strategic economic drains on the overall United States economy.

In the application of BEA methodologies to gambling activities, the most comprehensive and insightful study was a leading edge 1994 report co-authored by a large team of Florida government economists and titled *Casinos In Florida: An Analysis of the Economic and Social Impacts* (Florida Governor's Report). The methodology utilized by the Florida Governor's Report, as headed by Dr. Subbasis Das, was delimited as follows:

The cornerstone of this approach is the estimation of the amount of net new spending in Florida by casino visitors. First, the number of casino visits and amount of per capita spending will be estimated separately. The next step will be the determination of the proportion of casino expenditures substituted from current expenditures on other entertainment choices. The substituted expenditures will be deducted to obtain the actual new spending. The total direct impact of casinos can then be obtained by multiplying the per capita new spending due to casinos by the number of casino visitors. The direct impact will be multiplied by RIMS II output, employment, and earnings multipliers to obtain the total economic impact in terms of output, jobs, and income.

Into the 21st century, the Florida Governor's Report remained a consistent model for economists examining the interface between BEA methodologies and legalized gambling activities.

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19. *See generally infra notes 30-32 and accompanying text.*


22. For explanations of the RIMS system, see *CLARIFICATION OF GOALS infra Part II.*

23. *FLA. GOV. REPORT, supra note 21, at 25.*
C. Legalized Gambling as Creating a Negative Socio-Economic “Crime Multiplier” for Cost/Benefit Analyses

Not only was there the question of whether there should be less of a multiplier for legalized gambling activities, such as casinos, but also there was the question of whether there should be a socio-economic “crime multiplier.” In a definitive “before and after” study of all relevant United States casinos in their feeder markets called *Casinos and Crime*, Professor Earl Grinols, Professor David Mustard, and Cynthia Dilley highlighted these issues. First, *Casinos and Crime* indicated that casinos could “raise crime by harming economic development.”Casinos could be criticized “for draining the local economy, attracting unsavory clients, and for outgrowths like prostitution and illegal gambling-related activities.” Second, casinos could “increase crime by lowering the information costs and increasing the potential benefits of illegal activity.” Third, crime could “increase because casinos attract visitors who may commit and be victims of crime.” Finally, criminal activities could “increase through problem and pathological gamblers.”

Paralleled to earlier economic reports done in 1995 and 1996 by Professor William Thompson, Ricardo Gazel, and Dan Rickman, an analysis in 2000 of video gambling in South Dakota summarized Professor Thompson’s interpretation of a negative socio-economic “crime” multiplier in legalized gambling scenarios. First, Professor Thompson calculated the “social costs” per South Dakota adult from legalized video gambling, as the following chart indicates:

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25. *Id.* at 5.
26. *Id.*
27. *Id.*
28. *Id.*
29. *Id.*
Social Costs
(Cost per adult in South Dakota)

Crime (Deloitte & Touche) $ 54
Treatment (Deloitte & Touche) $ 16
Divorce $ 1
Civil Cases (Bankruptcy) $ 3
Productivity $ 31
Theft (e.g., Embezzlement) $ 10
Bad Debt $ 5

[Approximately] $120

For 2000, the total calculated social costs were approximately $120 per South Dakota adult. When $120 was multiplied by the population base of 525,000 adults, the total costs were $63 million. Then utilizing the State of South Dakota’s own calculations, Professor Thompson summarized the economic costs.

Economic Costs

<table>
<thead>
<tr>
<th></th>
<th>$ In</th>
<th>$ Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locals</td>
<td>$190 million</td>
<td>$171 million</td>
</tr>
<tr>
<td>Profits Out 20%</td>
<td>$ 19 million</td>
<td></td>
</tr>
<tr>
<td>Machine Costs</td>
<td>$ 4 million</td>
<td></td>
</tr>
<tr>
<td>Employment Taxes</td>
<td>$ 2 million</td>
<td></td>
</tr>
<tr>
<td>Regulation Costs</td>
<td>$ 19 million</td>
<td></td>
</tr>
<tr>
<td>Excess Profit Tax</td>
<td></td>
<td>($216 million)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>($28,000)</td>
</tr>
</tbody>
</table>

Total Benefit/Cost (per machine) $23,750

Thus, Professor Thompson calculated the economic benefit to South Dakota as a net economic loss of $26 million (or $4,250 per machine). Adding the social costs of $63 million to the net economic loss of $26 million equaled a total loss of $89 million per year. Interestingly, Professor Thompson then applied a multiplier of “2” to this total by calculating that dollars circulated

33. Thompson Analysis, supra note 32.
35. Id. at 126-35.
36. See generally id. at 126-43.
37. See Thompson Analysis, supra note 32.
38. See id.
39. See id.
40. See id.
41. See id.
42. See id.
twice before leaving the economy—resulting in a net annual loss of $178 million (or $22,250 per machine) to the South Dakota economy. While this analysis was a basic summary, the gravamen was that Professor Thompson was calculating a combined socio-economic multiplier of “2” as part of a normal cost/benefit analysis of legalized gambling activities.

II. CLARIFICATION OF GOALS

A. A Summary of the Regional Industrial Multiplier System (RIMS)

In the economic era following World War II, United States economists recognized that the federal government needed to provide resources for “[e]ffective planning for public- and private-sector projects and programs at the State and local levels,” and that this goal required “a systematic analysis of the economic impacts of the projects and programs on affected regions.” The systematic analysis of economic impacts also needed to “account for the interindustry relationships within regions because these relationships largely determine how regional economies are likely to respond to project and program changes.” Accordingly, during the 1970’s, the Bureau of Economic Analysis (BEA) developed a method for estimating regional I-O [Input-Output] multipliers known as RIMS (Regional Industrial Multiplier System). Historical BEA analyses of each United States industry resulted in an I-O table that showed “the distribution of the inputs purchased and the outputs sold.” For example, a

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43. See Thompson Analysis, supra note 32. In a similar cost/benefit analysis for a proposed Native American casino for Beloit, Wisconsin in 1999-2000, Professor Thompson calculated the total net socio-economic loss to the state at $7,182,887, and with a multiplier of “2” the net loss was $14,365,774. Beloit itself would experience concentrations of the socio-economic costs. William Thompson, Economic and Social Costs of Beloit Casino: A Local Region Analysis (2000) (on file with author).

44. RIMS 1997, supra note 5, at 1.
45. Id.
46. Id.
47. Id.
48. Id.
49. Id.
B. Standard RIMS Analyses Are Inapplicable to Total Gambling Impacts: RIMS Equals Only Half the Formula

1. RIMS Equals Only Half of the Gambling Formula: Socio-Economic Costs Must Be Included

The main problem with applying RIMS analyses to the economic impacts of gambling activities is that legalized gambling is uniquely inapplicable to RIMS. In gambling, RIMS analysis equals only half of the formula. In the standard categories of the RIMS system, there is no “gambling” category, no “gambling multiplier” per se, and no RIMS history of legalized gambling (since gambling was criminalized for almost a century). Accordingly, RIMS analysts tend to group gambling dollars under some type of entertainment, but “gambling dollars” are unique—and are definitely not “consumer dollars.”50 Although traditional economists may feel uncomfortable analyzing gambling activities with RIMS, the unique socio-economic costs inherent in gambling dollars must be addressed and included in any regional analysis. The tables in Mega-Lawsuits provide a beginning for formulaic analyses involving how much of a socio-economic “crime multiplier” should be utilized.51

2. RIMS Analyses and the Case of Illinois Casinos


50. See generally Kindt, Market Saturation, supra note 17.
53. See Brunner, supra note 52.
54. See id.
55. See id.
The 1998 analysis was prepared by the Regional Economics Applications Laboratory (REAL), a research branch of the University of Illinois, and it indicated that there were positive economic impacts attributable to the influx of dollars accompanying casino gambling. The report stated that “[t]he riverboat casino industry generated, directly and indirectly, more than 17,000 jobs, $1.27 billion in goods and services, $778 million in income and $330 million in taxes in 1995.” Furthermore, the “riverboats created more than 6,500 jobs in such areas as agriculture and mining, manufacturing, trade and finance.” Educated to the shortcomings of RIMS analyses when applied to legalized gambling, Geoffrey J.D. Hewings, the project director for this report, said that he did not factor in the negative effects that came from introducing casino riverboats, such as the increased crime or the increased numbers of gambling addicts. Like traditional economic analyses of non-gambling activities, Hewings indicated that REAL’s role was “basically to look at one side of this, and then it’s up to others to look at the [negative effects].” The report also revealed that Illinois residents annually lost about $40 more per person than the average national losses per person.

The Illinois press noted the shortcomings of RIMS in the REAL 1998 Report analysis when applied to legalized gambling.

Absent from the group’s report, drawn up for the Illinois Gaming Board, [was] the economic impact of dollars spent on a floating casino that could have been spent elsewhere and the social costs of problem gamblers.

And, one of the more sobering statistics buried on the last two pages of the report is that gamblers in Illinois lose 24 percent more on average thanbettors in states with legalized gambling.

Furthermore, the Illinois press was detailing some of the problems in studies of legalized gambling activities as they interfaced with consumer-oriented RIMS analysis.

No one has come up with a satisfactory figure for estimating how much money gambling may divert from other consumer spending. But one gambling expert said problem gamblers are draining $1.1 billion a year from Illinois because of the ills they

58. Id.
59. Id.
60. See id.
61. Id.
62. See id.
64. Id.
65. See id.
cause, ranging from crimes to social maladies to bankruptcies and beyond. These are shortcomings fully acknowledged by the study’s project director, Geoffrey J.D. Hewings.  

According to Professor Robert Goodman at the University of Massachusetts, pro-gambling lobbyists were causing confusion among some experts unfamiliar with gambling’s unique economic nuances.

“If you don’t look at either the substitution effect (of casino wagers that would have been spent elsewhere) or the impact of additional public problems, you’re not getting useful information,” said Robert Goodman, director of the U.S. Gambling Research Institute in Amherst, Mass., and author of the book, “The Luck Business: The Devastating Consequences and Broken Promises of America’s Gambling Explosion.”

Except for not addressing the socio-economic costs, the REAL 1998 Report revealed that “[e]ach dollar expended by the casino operations generated an additional $0.72 worth of activity elsewhere in the state’s economy” (that is, a dollar multiplier effect of “1.72”). By comparison, most consumer dollars would have generated a dollar multiplier effect of “2” to “3.” Therefore, a “consumer dollar” could have up to a 100 percent greater multiplier effect than a gambling dollar. Furthermore, “[e]ach job created by the casino industry generate[d] another 0.70 jobs in the economy” (that is, a job multiplier of “1.7”). However, the geographic scope was limited and more in-depth “regional” analyses indicated that approximately one job was being lost for every one job created. The lost Illinois jobs from the regional “feeder markets” during relatively the same time periods were revealed in the 1995 Congressional hearings before the United States House of Representatives Judiciary Committee. An analysis of a 2000 Deloitte and Touche report on South Dakota revealed that the video gambling machines were draining consumer dollars away from consumer businesses and costing a net loss of 640 jobs on an adult population base of approximately 525,000. Furthermore, a 2000 report from Australia, the most saturated gambling

66. Id.
67. See id.
69. REAL 1998 REPORT, supra note 56, at 2.
70. Id.
72. See id.
country in the world, revealed that for every three video gambling machines (which technically created zero casino jobs), two net consumer jobs were lost from the surrounding "feeder market." 74

Finally, the REAL 1998 Report indicated that "[e]ach dollar of direct income provided to employees in the casino industry generate[d] about $1.5 of additional income" 75 (that is, a multiplier effect of "2.5"). However, a "consumer dollar" multiplier effect would be similar; that is, between "2" and "3." Furthermore, throughout the 1990s between 80 to 90 percent of casino revenues were generated by automation—video gambling "machines"—whose revenues did not require employees with concomitant job salaries, health benefits, uniforms, retirement benefits, vacations, and other benefits that would be required in the consumer jobs economy. 76

While there were equivocations and exceptions to each of these observations, an in-depth review of those considerations is beyond the scope of the present analysis. These observations were highlighted for future academic discussion.

III. HISTORICAL BACKGROUND

A. No Economic Reports Indicate that Legalized Gambling is a Valid Strategy for Economic Development

Throughout the 20th century, there was not a single economic report indicating that legalized gambling constituted a valid model for economic development on a strategic or regional basis. 77 During the 1990s and early 21st century, pro-gambling interests produced or financed many so-called "studies" that indicated local communities would benefit, but literally all of the studies were invalid in their scope 78 and were often just exercises in public relations for pro-gambling interests. 79 Typically, the studies financed by

75. REAL 1998 REPORT, supra note 56, at 2.
78. See, e.g., GOODMAN, supra note 7, at exec. summary (analyzing fourteen reports).
79. See id. at 68.
pro-gambling interests were invalid “Benefit/Benefit” studies and not Cost/Benefit studies.

By 1997, studies financed by the gambling industry were readily admitting that they were “Benefit/Benefit” studies and not Cost/Benefit studies. For example, the 1998 Missouri study financed by Civic Progress did not analyze or even consider the socio-economic costs, and the 1996 and 1997 Arthur Andersen studies were of pre-selected industry positives. Each Arthur Andersen study specifically stated: “this study makes no attempt to analyze the socioeconomic effects of . . . gaming.” In addition, the communities selected for the Arthur Andersen (Micro) study would be expected to yield positive local impacts. By comparison, an analysis of the Kansas City economy indicated that the casinos were probably draining a net $50 million per year from the area, but these losses were masked by the size of the Kansas City economy.

B. Academic and Economic Reports Not Financed by Pro-Gambling Interests Uniformly Report that Legalized Gambling Does Not Constitute Valid Economic Development Strategy

One valid example of a cost/benefit analysis of gambling was a 1995 study of the socio-economic impacts of Native American casinos in

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81. See, e.g., GOODMAN, supra note 7, at exec. summary, 68.

82. See Charles Leven et al., The Economic Impact of Gaming in Missouri 73 (1998) (commissioned by Civic Progress) [hereinafter Civic Progress Report].

83. See supra note 80 and accompanying text.

84. See, e.g., Professor William Eadington, Remarks at the 10th International Conference on Gambling and Risk Taking (May 31-June 4, 1997) (on file with author).

85. ANDERSEN MACRO STUDY, supra note 80, at 1; see also ANDERSEN MACRO STUDY, EXEC. SUMMARY, supra note 80, at 1; ANDERSEN MICRO STUDY, supra note 80, at 8. All of these reports were commissioned by the American Gaming Association and included the disclaimer: “[T]his study makes no attempt to analyze the socioeconomic effects of . . . gaming.”

86. See ANDERSEN MICRO STUDY, supra note 80, at 8.

87. See Eadington, supra note 84.

88. See id.
Wisconsin. The "feeder markets" for the casinos, the results indicated that gambling patrons were spending 10 percent less on food and 25 percent less on clothing, and 37 percent had depleted their savings in order to gamble. The net cost/benefit of the legalized gambling was that Wisconsin was in a lose-lose socio-economic scenario due to local casinos. The in-house or "secret" studies of pro-gambling interests apparently support these economic principles, including the economic "cannibalization" and new "feeder markets" created by new legalized gambling facilities.

IV. TRENDS AND CONDITIONING FACTORS

A. Legally Buy Any Opposition: The Primary Tactic of Gambling Interests

1. The Strategic National Problem of Corrupted United States Decision-Making

With the exception of governments, the gambling industry probably historically had more liquid monetary assets than any other organization. Gambling is an activity predicated on monetary liquidity. Since illegal gambling, as well as state-sponsored governmental organized gambling were primarily just transfers of wealth, the entire monetary asset base of any economy was theoretically subject to transfer to the gambling's owners/operators. Even the political and lobbying power of the defense industry, which alarmed President Dwight D. Eisenhower during the 1950s and which prompted his precautionary speech involving the "military industrial complex," could be paralleled by the liquid assets available to gambling's owners/operators. In his Farewell Address, President Eisenhower cautioned:

In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist. We must

89. See, e.g., THOMPSON ET AL., WIS. POL'TY RES. INST., supra note 30.
90. See id. at 25.
91. See id. at 42.
93. See id.
never let the weight of this combination endanger our liberties or democratic processes.95

By comparison, the 2002 Economic Stimulus Package,96 designed to respond to the terrorist destruction of the World Trade Center, did not include any significant tax credits in its $100 billion program for consumer-oriented businesses such as a proposed $2 to $3 billion for the United States auto industry.97 However, the gambling lobbyists slipped into the Stimulus bill a $40-billion tax write-off for slot machines98 to benefit gambling companies, and they almost received a tax write-off totaling $133 billion.99 This amount would have equated to approximately one-third of the total United States defense budget.100

Economic historical trends demonstrate that decriminalized gambling interests will eventually dominate, destabilize, and destroy their host governments.101

2. The Regional Problem of Corrupted State Decision-Making

If the proposed gambling facility constituted an economic loss to a state or even if there were regulatory improprieties, the solution of the pro-gambling interests was often legally to persuade the decision-makers via enormous financial incentives.102 For example, in Illinois during 2002


99. See id.


"Emerald Casino officials . . . offered $300 million to the state as part of a push to persuade Illinois regulators to approve a casino in Rosemont," even though in 2001 it had been reported that the Illinois Gaming Board had "declared the company unfit to operate a casino in Illinois." The Emerald officials appealed that decision while simultaneously "seeking the board’s approval of a $615 million buyout by MGM Mirage Inc. of Las Vegas." Both the appeal and the buyout proposal eventually failed during 2002, but the $300 million offer to the state of Illinois demonstrated the true value of a $25,000 casino license in Illinois. The national press complained that aides to Illinois Governor George Ryan were "lecturing the supposedly independent members of the Illinois Gaming Board" on the benefits of an approval. The governor’s aides argued that the "state budget sure could use its cut of a deal that would bail out Emerald shareholders." However, the Chicago Tribune editorialized that "[Governor] Ryan has no business trying to influence the Gaming Board—especially when serious charges against Emerald officials are on the table."

B. The Monopoly Export Economics of Decriminalized United States Gambling Activities

Historical economics indicated that state-sanctioned or "decriminalized" gambling activities created a monopoly export economy. The appearance of new net jobs, higher tax revenues, and other benefits would generally be created for the gambling community by tourists from other communities. However, the economic and social problems of gambling remained hidden, and of course, pro-gambling interests had large financial incentives not to reveal the socio-economic problems that decades of licensed gambling activities in Nevada and Atlantic City had exposed.

For Nevada, and later Atlantic City, gambling provided what experts termed a monopoly export economy—the popular conception of gambling as a model for economic development in which new jobs, higher tax revenues, and other economic benefits are created for a local economy by tourists from other locations. This model offered the added benefit of hiding the economic and social problems of

103.  *Casino Offers $300 Million to State*, supra note 102.
104.  *Id.*
105.  *Id.*
107.  *Id.*
108.  *Id.*
110.  *See id.*
gambling—including bankruptcies, gambling addiction and crime—which tourists simply took home with them.\footnote{111}

In 1996 these concepts were apparent to United States Representatives, such as John LaFalce (D-N.Y.) and Frank Wolf (R-Va.), who eventually co-sponsored the legislation that finally established the 1999 National Gambling Impact Study Commission.

As United States gambling spread, it became more publicly apparent that the monopoly export economic model was not a valid strategy for economic development.\footnote{112} The original casinos that brought the illusion of net benefits and economic growth in 1994 were going bankrupt by 1996,\footnote{113} which meant that they continually had to focus on increasing the geographic scope of the gambling as well as the \textit{speed} of the gambling to increase the flow of gambling dollars.\footnote{114}

\begin{footnotesize}
\begin{itemize}
\item \textit{Id.} at H1678. Throughout the 1990s multiple sources reported increasing percentages of pathological ("addicted") and problem gamblers in the United States population base as gambling was legalized in various jurisdictions. For early tables categorizing pathological and problem gambling studies, see John Warren Kindt, \textit{The Economic Impacts of Legalized Gambling Activities}, 43 \textit{Drake L. Rev.} 51, 89, tbl.2 (1994); \textit{Alta. Lotteries & Gaming, Gambling and Problem Gambling in Alberta} 18 (Jan. 1994). However, it was 2003 before there was a significant study forthcoming from Nevada, and it reported that there were 20,000 to 40,000 pathological gamblers in the southern part of the state alone, which according to conservative estimates costs Nevada $300-$900 million per year. See R. Keith Schwer et al., \textit{Beyond the Limits of Recreation: Social Costs of Gambling in Southern Nevada} (2003) (on file with author); Rod Smith, \textit{Problem Gambling's Social Costs High, Report Says}, \textit{Las Vegas Rev.-J.}, Feb. 13, 2003, \url{http://reviewjournal.com/lvrj_home/2003/Feb-13-Thu-2003/news/20669247.html}.

Significantly, in 2003 Nevada Governor Kenny Guinn's speech on the "State of the State" revealed:

For years, our economy has depended almost exclusively on tourism and gaming, rather than by exporting goods and services. Three out of every four of our tax dollars are collected from sales and gaming taxes; taxes vulnerable to swings in the economy. Implicit in this tax strategy was a belief that the revenues from gaming and tourism could keep pace with our growing and diverse population. Unfortunately, this [tax] strategy has failed. . . . [T]he lesson from the last 20 years is clear; our revenue system is broken because it has relied on regressive and unstable taxes [largely from gambling operations].

Nevada Governor Kenny Guinn, \textit{State of the State, Address to Nevada} (Jan. 20, 2003), \url{http://www.nga.org/governors/1,1169,C_SPEECH&D_4953,00.html} \[hereinafter Nev. Governor's Address to the State\]. The Nevada Governor then intimated that taxes would have to increase to address a $1 billion shortfall that was projected to continue to increase. \textit{See id.}

\item \textit{See supra} note 77 and accompanying text.\footnote{112}
\item \textit{See Statement of Rep. LaFalce, supra} note 109, at H1678.\footnote{113}
\item \textit{See, e.g., U.S. and International Costs, supra} note 1.\footnote{114}
\end{itemize}
\end{footnotesize}
As gambling has spread across the United States, and even to locations on our border with Canada, it has become clear that this model of gambling as economic development is no longer effective. States and localities now compete with Indian reservations, with other States and with other countries to lure potential gamblers or, at minimum, to keep their own gambling revenues at home. Casinos that were touted as bringing jobs and economic enrichment to communities in 1994 are now going bankrupt.\textsuperscript{115}

As delimited by the United States gambling industry itself, the proper foci for cost/benefit analyses were the 35-mile and 100-mile “feeder markets” around the gambling facilities.\textsuperscript{116} When these “feeder markets” were extrapolated throughout regional United States economies, they created what the gambling industry referred to as “convenience gambling.”\textsuperscript{117} In convenience gambling scenarios, discretionary spending and nondiscretionary “addicted gambling” dollars were transferred from other forms of consumer expenditures into the convenient gambling facilities.\textsuperscript{118} Local competing businesses were thereby losing revenue.\textsuperscript{119} In other words, economic loss, rather than economic growth, was occurring in many communities with gambling establishments.\textsuperscript{120} This process of gambling activities “cannibalizing” the consumer economy was recognized in the 1996 United States Congressional debates:\textsuperscript{121}

What we now have is an economic model of gambling that the casino industry itself refers to as “convenience” gambling. Rather than confining gambling to specific locations for purposes of economic development, gambling is made readily available to all potential customers. In a convenience gambling economy, discretionary spending is diverted from other forms of entertainment and consumer expenditures to casinos and other gambling establishments. Restaurants, hotels, and other competing local businesses lose revenues and fail. Scarce resources are diverted to the least productive local activities and economic wealth becomes concentrated in fewer and fewer hands. In short, rather than the economic panacea promised by

\textsuperscript{115} Statement of Rep. LaFalce, \textit{supra} note 109, at H1678.
\textsuperscript{116} See, \textit{e.g.}, \textit{HARRAH’S CASINOS, HARRAH’S SURVEY OF CASINO ENTERTAINMENT 20-21} (1996).
\textsuperscript{117} See \textit{generally} \textit{NGISC FINAL REPORT, supra} note 18, at 3-18 (recommendation 3.6), 7-10, 7-11.
\textsuperscript{118} See \textit{id}.
\textsuperscript{119} See \textit{id}.
\textsuperscript{120} See \textit{id}.
\textsuperscript{121} See \textit{ANDERSEN MACRO STUDY, supra} note 80. The Arthur Andersen Macro Study financed by the American Gaming Association lobbying group was designed in part to discredit economic experts who indicated that legalized gambling activities “cannibalized” the consumer economy. Paradoxically, the American Gaming Association/Andersen Macro Study was itself discredited, particularly after the demise of the Arthur Andersen Company in 2001 and 2002 due to scandals involving the company’s reporting practices. See \textit{id}. 
gambling promoters, the opposite of economic development appears to be occurring in many communities.\textsuperscript{122}

These conclusions were largely confirmed by the 1999 United States Gambling Commission in its \textit{Final Report},\textsuperscript{123} and accompanying \textit{Executive Summary}.\textsuperscript{124} In fact, even the pro-industry Commissioners on the NGISC joined with the entire Commission to recommend unanimously that convenience gambling activities be recriminalized,\textsuperscript{125} and that there be a moratorium on the expansion of United States gambling.\textsuperscript{126}

C. The United States Government Trend Toward Creating New Addicted Gamblers and the Business Interface

1. Pavlovian Marketing: Hooking New Addicted Gamblers?

In 2000, Psychology Professor Calvin Claus summarized the basic psychological principles causing pathological (\textit{i.e.}, “addicted”) gambling.\textsuperscript{127} Since World War II, research psychologists in the area of Behavior Analysis had been researching the processes involved in shaping human and animal behavior,\textsuperscript{128} but little of that research information about shaping and consequences was understood by the public.\textsuperscript{129} Professor Claus categorically rejected the statements of pro-gambling lobbyists,\textsuperscript{130} such as Frank Fahrenkopf of the American Gaming Association (AGA), who argued that the lobbyists knew the “science.”\textsuperscript{131} Instead, Professor Claus enumerated the scientific principles involved as “beyond controversy,”\textsuperscript{132} and cited to the basic textbook \textit{Schedules of Reinforcement} by famed Harvard Psychology Professor B. F. "314"

\begin{footnotes}
\footnotetext{122} Statement of Rep. LaFalce, \textit{supra} note 109, at H1678. \\
\footnotetext{123} See NGISC \textit{FINAL REPORT}, \textit{supra} note 18, at 2-4, 2-5. \\
\footnotetext{124} See NGISC \textit{EXECUTIVE SUMMARY}, \textit{supra} note 18, at 30. \\
\footnotetext{125} See id. (recommendation 3.6). \\
\footnotetext{126} See NGISC \textit{FINAL REPORT}, \textit{supra} note 18, at introduction by Commission Chair Kay C. James. \\
\footnotetext{127} See Professor Emeritus Calvin K. Claus, Gambling Behavior: Enticement then Addiction, Presentation Before the Illinois Gaming Board (May 3, 2000) [hereinafter Professor Claus] (on file with author). \\
\footnotetext{128} See id. \\
\footnotetext{129} See id. \\
\footnotetext{130} See id. \\
\footnotetext{131} See Frank Fahrenkopf, Compulsive Gambling, Presentation Before the Illinois Gaming Board (May 3, 2000). \\
\footnotetext{132} See Professor Claus, \textit{supra} note 127.}

The Pavlovian aspects of gambling were summarized as "[p]igeon, rat or human, gambling is addictive." Each of these actions was "aimed at a particular name, number, color or picture," and the consequence, one of the crucial elements, was either "win or loss." The second vital condition was the pattern, schedule or sequence of wins compared to the number of tries or moves. If the ratio of tries to wins was an uncertainty, then the system was "known as a variable ratio schedule of reinforcement." This ratio could be demonstrated in psychological laboratories throughout academia, and it was also "characteristic of all gambling situations." These principles led to the "concept of [gambling] addiction," as the variable schedule of reinforcement would operate to produce an addiction to gambling in a percentage of the public.

These principles were beyond dispute. In 1977, after the first United States lottery in New Hampshire and while Atlantic City was in the process of legalizing casinos, Harvard Psychology Professor B. F. Skinner utilized his international renown, and in the New York Times he satirized the arguments.

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135. Id.
136. See id.
137. See Professor Claus, supra note 127.
138. Id.
139. See id.
140. Id.
141. Id.
142. Id.
143. Professor Claus, supra note 127.
144. See id.
of pro-gambling interests. 145 Professor Skinner began with the psychological basics, “[p]eople are not born gamblers. They become gamblers when exposed to certain sequences of lucky hits.” 146 Then he asked satirically, “Why should our schools not be used to expose everyone to such sequences?” 147 The progression would be a system of lotteries from kindergarten to high school to hook students on them. 148 According to Skinner, the odds should grow as the children grew older until they found “the standard lottery with its meager odds irresistible.” 149 Since the schools would bear the administrative expenses, Skinner opined that “the entire operation will be much more profitable than the regular lottery.” 150 The result would be graduates who continued to play the lottery for the rest of their lives, 151 and Skinner noted that this system would “create vast numbers of young people who come on the market each year as dedicated (should we care if psychiatrists call them pathological?) gamblers.” 152 As was already the tax scenario in Nevada, Professor Skinner sardonically noted that “by the end of five years I estimate that sales taxes can be abolished and that after 25 years (and we must look ahead!) there will be absolutely no need for state income taxes.” 153 Mocking the arguments of gambling lobbyists, 154 Skinner was “looking forward to the day when the support of our Government—in city, state and nation—will be entirely voluntary.” 155 While “[e]conomists will point out that money spent for lottery tickets will not be spent for goods and services and that business will suffer” 156 Skinner satirically concluded that “the loss will be more than offset by the absence of taxes and by the money won.” 157

146. Id.
149. Id.
150. Id.
151. See id.
152. Id.
153. Id.
155. Id.
156. Id.
157. Id.
In this context, the severely addictive nature of legalized gambling was highlighted by a 1998 case in which a mother addicted to gambling\textsuperscript{158} allegedly killed one and perhaps two of her children in separate instances to collect $200,000 in insurance funds so she could continue to gamble.\textsuperscript{159} The mother in this case was convicted and imprisoned.

2. Creating New Addicted Gamblers and the Business Interface

From a social-justice perspective it is well-established that “[p]oor and working people spend a disproportionate share of their incomes on gambling.”\textsuperscript{160} Accordingly, tax revenues based on gambling come “disproportionately from lower income residents, causing a regressive form of taxation.”\textsuperscript{161} Furthermore, it appears that problematic gambling behaviors are greatest among the poor and minorities.\textsuperscript{162} Interestingly, in 1993 a “Gallup survey revealed that 66 percent of New Jersey residents agree that gambling encourages people who can least afford it to spend money gambling, and 57 percent agree that it can make compulsive [i.e., pathological] gamblers out of people who would not participate in illegal gambling.”\textsuperscript{163}

In addition, entrepreneurs in businesses such as restaurants, entertainment, tourism, and others are concerned with the “cannibalization” of their consumer dollars by the gambling industry.\textsuperscript{164} In the 1994 United States Congressional hearings, it was highlighted that decriminalized


\textsuperscript{159} See id. Apparently disturbed by the concept of pathological gambling being delimited as an “addiction,” pro-gambling interests have supported re-evaluations, as exemplified by a meeting held December 8-10, 2002, at the Las Vegas Mirage Hotel-Casino. The conference titled “Rethinking Addiction: How Gambling and Other Behavioral Addictions are Changing the Concept and Treatment of Alcohol and Substance Use Disorders” was sponsored by three organizations largely-funded by pro-gambling interests: (1) the National Center for Responsible Gaming (NCRG), (2) the Nevada Council on Problem Gambling, and (3) the Institute for Research on Pathological Gambling and Related Disorders, Harvard Medical School’s Division on Addictions. See Conference, Rethinking Addiction: How Gambling and Other Behavioral Addictions Are Changing the Concept and Treatment of Alcohol and Substance Use Disorders, Dec. 8-10, 2002.

\textsuperscript{160} F.L.A. GOV. REPORT, supra note 21, at 69.

\textsuperscript{161} Id.

\textsuperscript{162} See id.

\textsuperscript{163} Id. (citation omitted). See generally, Laura Parker, Gambler Says Casino Played Him, USA TODAY, Feb. 21, 2003, at A3.

gambling activities did “not necessarily stimulate demand for entertainment, it merely shift[ed] disposable income from one expenditure to casinos.”

Testimony at the hearings indicated that such “cost shifting [did] not stimulate other sectors of the economy and may even be a net loss [negative multiplier].” It was summarized that “as gambling increases, expenditures for clothing, recreation services, business services, new cars and service stations will decline.”

V. POLICY ALTERNATIVES AND RECOMMENDATIONS

A. All Economic Analyses Should Include a Socio-Economic “Crime Multiplier” Interfaced with the New Addicted Gamblers, New Bankruptcies, and New Crime Associated with Decriminalized Organized Gambling

In 1998, a Missouri study calculated that the multiplier effect of legalized gambling casinos in Missouri was approximately “1.7.”

If those same dollars had been spent in the regular consumer economy, the anticipated multiplier effect would have been between “2” and “3.” This study seemed to confirm the concerns of economists that legalized gambling activities constituted a net drain on the consumer economy. In testimony before the National Gambling Impact Study Commission on May 20, 1998, one of the economists conducting this study highlighted some of these concerns—including the fact that traditional economic studies did not account for the projected increases in new pathological gamblers, new bankruptcies, and new crime occasioned by the spread and government endorsement of legalized gambling activities. Despite the references by the gambling industry to the contrary, the traditional RIMS multipliers and the appropriate categories contained therein established by the BEA did not include any specific categories relating to “legalized gambling activities.” Accordingly, economists often tried to categorize gambling activities under entertainment or some other tangential category contained in the RIMS analyses.

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165.  Id.
166.  Id.
167.  Id.  See also Congressional Gambling Hearing 1995, supra note 8.
168.  See Civic Progress Report, supra note 82.
169.  See id.
171.  For the specific categories, see RIMS 1997, supra note 5.
172.  See id.
legalized gambling activities constituted a relatively new phenomenon of the 20th century, the traditional United States economic analyses did not include legalized gambling activities as economic development activities.\textsuperscript{173} They were also not included as a specific category in the RIMS analysis methodology.\textsuperscript{174} This led to the question of whether legalized gambling activities should be included via a new category. There would probably be significant economic resistance from academia to such a proposal, because a new category for legalized gambling activities would technically disrupt the organizational system for RIMS as utilized for several years.\textsuperscript{175}

This scenario also leads to the question of whether legalized gambling activities should be marginalized by a socio-economic “crime multiplier” due to the new pathological gamblers, new bankruptcies, and new crime associated with the advent of legalized gambling activities in a non-gambling economy. The socio-economic negatives were highlighted in the 1999 National Gambling Impact Study Commission, \textit{Final Report}.\textsuperscript{176}

B. The 1999 United States Gambling Commission’s Unanimous Recommendation for a Moratorium on the Spread of Any Type of Gambling Anywhere in the United States Should Be Implemented\textsuperscript{177}

In 1999 the \textit{Final Report} of the United States Gambling Commission unanimously recommended a moratorium on the spread of any type of gambling anywhere in the United States.\textsuperscript{178} However, after the terrorist attacks on the World Trade Center on September 11, 2001, the United States pro-gambling interests maneuvered 26 proposals for increased gambling onto ballot initiatives for 2002.\textsuperscript{179} Promoting increased United States gambling as a solution to the economic problems occasioned by the World Trade Center attacks constituted an insincere public relations tactic by the United States gambling industry—considering the numerous authoritative reports

\textsuperscript{173} See \textit{id.}.
\textsuperscript{174} See \textit{id.}.
\textsuperscript{175} See generally \textit{id.}.
\textsuperscript{176} See generally, NGISC \textit{Final Report}, supra note 18.
\textsuperscript{177} See \textit{id}. at introduction by Commission Chair Kay C. James.
\textsuperscript{178} See \textit{id.}
concluding that state-sponsored gambling is inimical to the stability of the United States economy.\textsuperscript{180}

As properly-conducted cost/benefit studies of statewide impacts demonstrated throughout the 1990s,\textsuperscript{181} decriminalized gambling activities cannibalized the consumer economy.\textsuperscript{182} For example, Illinois studies paralleled the moratorium recommendation of the 1999 United States Gambling Commission. In Illinois it was recommended in 1996 that the "number of licenses for riverboat casinos should not be expanded."\textsuperscript{183} After analyzing the Illinois cost/benefit studies, a 1996 study by William Thompson and Ricardo Gazel concluded that there "should be no additional casino gambling if that gambling is made generally accessible to the public at-large" as riverboat gambling is.\textsuperscript{184} Their study also suggested that "[c]asinos should be required to have disincentives for local gamblers and lower income gamblers"\textsuperscript{185} such as "mandatory parking fees, higher mandatory admission fees that may not be waived, and dress codes during peak seasons."\textsuperscript{186} Importantly, it was concluded that "[c]asinos should eliminate the use of money machines."\textsuperscript{187} Furthermore, it was apparent that Illinois "should fund a comprehensive study of crime incidence in casino counties and other counties before and after the introduction of casinos and seek to assess the costs (or removal of costs) of crime because of casinos."\textsuperscript{188} While the state of Illinois never funded such a study, Casinos and Crime\textsuperscript{189} in 1999 did perform the "before and after" crime analysis for each United States casino county and

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\item[181.] See supra notes 20, 52-75 and accompanying text.
\item[182.] See supra notes 20, 52-75 and accompanying text.
\item[183.] Thompson & Gazel, supra note 31, at 11.
\item[184.] \textit{Id.} at 11.
\item[185.] \textit{Id.} at 13.
\item[186.] \textit{Id.}
\item[187.] \textit{Id.}
\item[188.] \textit{Id.} at 14.
\item[189.] See Grinols et al., \textit{Casinos and Crime}, supra note 24, at 29.
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\textsuperscript{184} Id. at 11.

\textsuperscript{185} Id. at 13.

\textsuperscript{186} Id.

\textsuperscript{187} Id.

\textsuperscript{188} Id. at 14.

\textsuperscript{189} See Grinols et al., \textit{Casinos and Crime}, \textit{supra} note 24, at 29.
wrote in his suicide note: "There is nothing more destructive to life than gambling. I wonder why there are government agencies to fight drugs and not gambling."

A few days ago I stopped at a service station and a shabbily dressed man in the line ahead of me pulled out a tattered billfold and carefully emptied its contents of $31 for lottery tickets.

... The industry's large contributions to political candidates is their insurance, their protection money. Often it is not as subtle as campaign contributions, but crude, simply bribery. 205

These types of socio-economic consequences dictate the inclusion of a socio-economic "crime multiplier" in any cost/benefit analyses of gambling activities.
Appendix: Business Economics of Licensed Organized Gambling

BEFORE
Non-Gambling Economy

AFTER
Gambling Economy

Speed of Gambling

Marijuana of Gambling

- Dog & Horse Tracks
- Lotteries

Bingo
- Off-Track Betting

Casinos, Video Machines, Internet (illegal)

Crack Cocaine of Gambling

More Pathological Gamblers
(Caused By)

More Legalization
(Acceptability Factor)

Spread of Gambling
(Accessibility Factor)

10% Less Food
25% Less Clothes
37% Less Savings

1 Mile
CASINO

New Job = $1
New Tax Rev. = $1

Lost Jobs = -1
Taxpayer Social Cost = $3
Crime = +50-100%
Business & Personal Bankruptcies = +18-42%
Drive-by Business = -65%

100 Miles
Feeder Market


3. See supra note 1.

4. See supra note 2.


10. See supra note 9.

11. For the adolescent population, Dr. Durand Jacobs of the Loma Linda University Medical School was reporting 4% to 6%. See DURAND F. JACOBS, ILLEGAL AND UNDOCUMENTED: A REVIEW OF TEENAGE GAMBLING AND THE PIGHT OF CHILDREN OF PROBLEM GAMBLERS IN AMERICA, in COMPULSIVE GAMBLING: THEORY, RESEARCH, AND PRACTICE 249 (Howard J. Shaffer et al. eds., 1989).