



# PUBLIC POLICY ADVISOR

## GAMBLING: GOOD PUBLIC POLICY?

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### Introduction

This paper considers the economic implications and social concerns associated with state-sponsored gambling. The effects of legalized gambling on crime, employment, tourism, and state revenue are assessed while more personal ethical and moral issues are not. Public Sector Consultants concludes that while it can add to state revenue and diversify the revenue base, gambling's negative side effects--crime, regressivity, and harm to other economic development--outweigh its benefits.

Legalized gambling is big business. About 148 million Americans will pay out a total of approximately \$187 billion on various forms of legalized gambling in 1987. Twice as many people are likely to attend horse races this year as are likely to purchase tickets for all of the season's major league baseball games, and total state lottery wagers for all states that have lotteries are expected to increase by at least 50 percent.

State-sponsored lotteries (along with bingo, perceived to be the least "soiled" type of gambling) are clearly popular; they are also controversial. Many citizens object on moral grounds to gambling, state-sponsored or private; others believe gambling by low-income people pulls scarce funds from necessities such as food and clothing. Still others believe gambling creates an environment conducive to criminal behavior. But many politicians and many citizens look upon legalized gambling as a less painful way of raising government revenue than income, property, sales, and other taxes. Although it has its opponents, lotteries have come to be seen as an important source of new state revenues and have spread rapidly among the states. Those states that have not yet instituted such forms of legalized gambling as lotteries may be pressured into doing so by the presence of lotteries in adjacent states.

As shown in Exhibit 1, a substantial increase in legalized gambling has occurred from 1977 to 1985, particularly in state-sponsored lotteries and off-track betting (OTB) facilities.<sup>2</sup> Nine state-sponsored lotteries and 21 OTB systems began during that eight-year period; other forms of legalized gambling expanded at a somewhat slower rate. A Gallup poll conducted in 1984 indicated that more than half of all Americans favor a national lottery.<sup>3</sup>

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<sup>1</sup>Calculations by Public Sector Consultants.

<sup>2</sup>Off-track betting is wagering performed at a facility away from a dog or horse racing track.

<sup>3</sup>Dennis Farney, "More States Bet on Lotteries to Increase Revenue as  
(Footnote Continued)

## EXHIBIT 1

## STATE LEGALIZED GAMBLING BY GAME, 1977 AND 1985

State	Lotteries		Numbers		Sports Betting		Off-track Betting		Horse Racing		Dog Racing		Casinos		Bingo		Card Rooms		
	1977	1985	1977	1985	1977	1985	1977	1985	1977	1985	1977	1985	1977	1985	1977	1985	1977	1985	
Alabama									N		0	0				0			
Alaska															0	0		0	
Arizona		0					0		0	0	0	0			0	0			
Arkansas									0	0	0	0							
California		0		N			0		0	0					0	0	0	0	
Colorado		0					0		0	0	0	0			0	0			
Connecticut	0	0	0	0			0	0	N	N	0	0			0	0			
Delaware	0	0		0	N	N	0	0	0	0					0	0			
Florida							0		0	0	0	0			0	0			
Georgia															0	0			
Hawaii																			
Idaho							0		0	0						0			
Illinois	0	0		0			0		0	0					0	0			
Indiana									N										
Iowa		0								N		0			0	0	0	0	
Kansas																0	0		
Kentucky							0		0	0						0			
Louisiana							0		0	0					0	0			
Maine	0	0		0					0	0					0	0			
Maryland	0	0	0	0			0		0	0					0	0		0	
Massachusetts	0	0	0	0			0		0	0	0	0			0	0			
MICHIGAN	0	0	0	0			0		0	0					0	0			
Minnesota							0			0					0	0			
Mississippi																			
Missouri		0		N						N						0			
Montana					0	0			0	0					0	0	0	0	
Nebraska		N							0	0					0	0			
Nevada					0	0	0	0	0	0	0		0	0	0	0		0	
New Hampshire	0	0	0	0			0		0	0	0	0			0	0			
New Jersey	0	0	0	0			0		0	0			N	0	0	0			
New Mexico							0		0	0					0	0			
New York	0	0		0			0	0	0	0					0	0			
North Carolina															0	0			
North Dakota															0	0		0	
Ohio	0	0		0			0		0	0					0	0			
Oklahoma							0			0					0	0			
Oregon		0							0	0	0	0			0	0		0	
Pennsylvania	0	0	0	0			0		0	0					0	0			
Rhode Island	0	0	0	0					0	N	0	0			0	0			
South Carolina															0	0			
South Dakota							N		0	0	0	0			0	0			
Tennessee															0	0			
Texas																0			
Utah																			
Vermont	N	0		0					0	N		0			0	0			
Virginia															0	0			
Washington		0		0			0		0	0					0	0	0	0	
West Virginia		0		N			0		0	0		0			0	0			
Wisconsin															0	0			
Wyoming									0	0					0	0			
TOTAL	0	13	22	8	15	2	2	3	24	30	30	12	14	1	2	38	45	5	9

0 = Legal and operated.

N = Legal but currently not operating

SOURCE: The Council of State Governments and the Research Department of Gaming and Wagering Business magazine.

To understand why so many citizens support legalized gambling, as well as the objections raised by its opponents, and to determine whether state-sponsored gambling is good public policy, one must understand who gambles, why they do it, and what social effects are produced by the pursuit of that activity. Although additional factors are involved in assessing the economic effect of state-sponsored gambling, they cannot be considered apart from these initial questions.

#### Who Gambles and Why

Studies show that men gamble 13 percent more often than women and Caucasians gamble 10 percent more often than non-Caucasians.<sup>4</sup> Single individuals tend to gamble 8 percent more often than those who are married and, surprisingly, unemployed persons gamble only 2 percent less than employed persons. One's probability of gambling increases with one's level of income and formal education, but decreases with one's age.<sup>5</sup>

Perhaps a more interesting question than who gambles is why a person does so when the odds of winning the lottery are one in 2.4 million, making a one dollar ticket practically worthless. It has been shown, however, that under certain assumptions such gambling is rational.<sup>6</sup> In a seminal 1948 article, Friedman and Savage showed that for low-income persons, the small chance of winning<sup>7</sup> a large sum of money can outweigh the monetary loss of the cost of a ticket. The authors argue that although the chances of winning a lottery are so small that the potential for monetary reward is less than the price of a ticket, purchasing a ticket may be rational behavior for people with little wealth, though irrational behavior for people with greater wealth, because winning the jackpot would increase the well-being of the former much more than it would the latter. In Michigan, the introduction of \$1 million-plus lottery jackpots was, in part, driven by a desire to attract middle- and upper-income wage earners, for whom the purse of \$500 or \$1,000 seemed hardly worth the bother.

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(Footnote Continued)

Popularity of this 'Painless Taxation' Grows," Wall Street Journal, February 7, 1986, p. 36.

<sup>4</sup>Most comprehensive gambling studies were performed in the late 1970s, but observation suggests that the results of these studies still apply in 1987.

<sup>5</sup>Maureen Kallick and Daniel Suits, "Gambling in the United States," Economic Outlook USA 3 (Summer 1976): 47, or U.S. Commission on the Review of the National Policy Toward Gambling, Gambling in America (Washington, D.C.: U.S. Government Printing Office, 1976), pp. 59-61.

<sup>6</sup>"The Economic Case Against State-Run Gambling," Business Week, August 4, 1975, p. 68; Arthur Gruen, "An Inquiry into the Economics of Race Track Gambling," Journal of Political Economy, vol. 84, no. 1 (1976), p. 177.

<sup>7</sup>M. Friedman and L.J. Savage, "The Utility Analysis of Choices Involving Risk," Journal of Political Economy, vol. 56, no. 4 (1948).

The question of rationality may not be strictly relevant, however, since entertainment heads the list of reasons people gamble. As economist Daniel Suits notes, "For most gamblers . . . the purpose of gambling is not to get rich, but to 'have fun,' to 'experience excitement,' or to have 'something to look forward to.'"<sup>8</sup> Still, the second most common motive for gambling is the hope of winning money,<sup>9</sup> although the average gambler is aware of the small chance of winning and does not, therefore, gamble solely for monetary reward. A third, and potentially destructive, reason for gambling is compulsion. Compulsive gamblers find gambling irresistible and are compelled to engage in the activity, often to their own detriment. Approximately 2.4 million Americans, or 1 percent of the U.S. population, are compulsive gamblers, and 5.6 million Americans, or 2.3 percent of the population, have the potential for becoming compulsive gamblers.<sup>10</sup>

### Social Concerns

State-sponsored gambling is often attacked as a violation of widely held social values. Antigambling groups generally cite three concerns as the basis for their opposition: crime, compulsive gambling, and unethical government activity.

The relationship between gambling and crime is unclear. Antigambling advocates suggest that legalized gambling creates an environment conducive to crime,<sup>11</sup> but some believe that legalized gambling may compete with illegal gambling and thereby reduce the activity of organized crime. A 1974 national commission report on gambling stated that "a substantial--perhaps major--share of [illegal] gambling is controlled by persons only slightly, if at all, connected with organized crime,"<sup>12</sup> implying that legalization of gambling would have little effect on organized crime. Other research supports the argument that legalization of gambling has not and will not cut down on organized crime.<sup>13</sup>

Another concern of opponents of legalized gambling is compulsive gambling. The compulsion to gamble can lead to financial insolvency, embezzlement, forgery, job loss, and, in extreme cases, suicide.<sup>14</sup> Eugene Christiansen, an expert on legalized gambling, argues: "Gambling can hurt

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<sup>8</sup>Daniel Suits, "The Elasticity of Demand for Gambling," Quarterly Journal of Economics, February 1979, p. 155.

<sup>9</sup>U.S. Commission. Gambling in America, p. 112.

<sup>10</sup>Estimate based upon Kallick and Suits, "Gambling in the United States," p. 49.

<sup>11</sup>Ovid Demaris, "Why Casino Gambling Is a Bad Bet," Parade Magazine, May 11, 1986, p. 12.

<sup>12</sup>"The Economic Case," p. 76.

<sup>13</sup>Ibid.

<sup>14</sup>Kallick and Suits, "Gambling in the United States," p. 49.

people. It's like alcohol. I wouldn't want to see government funding its programs by making and purveying alcohol."<sup>15</sup> Some voters respond that the number of compulsive and potentially compulsive gamblers is small and the revenue benefits of legalized gambling are worth their social cost.

Many opponents of state-supported gambling also raise the question of whether gambling is a proper activity for government. Gambling supporters point to the difference between state-authorized gambling, as in Michigan's horse racing industry, and state-promoted gambling, as in the Michigan Lottery.<sup>16</sup> They believe that authorization of state gambling is ethically neutral because it merely offers the opportunity for gambling, while allowing each person the option of participating depending on his or her ethical beliefs. Those opposed to state involvement in gambling believe that even authorization is wrong because it<sup>17</sup> allows for undesirable effects on the poor and may damage family structures.

The economic effects of legalized gambling cannot be assessed apart from the social questions posed. Michigan residents appear to be concerned about both the social effects and the economic benefits of state-sponsored gambling according to a 1986 poll of Detroit residents on a plan to establish casino gambling on Belle Isle, a small island in the Detroit River. Of those polled, the 56 percent who opposed the plan overwhelmingly cited personal ethical objections and the potential for crime as grounds for their opposition. Of those in favor of it<sup>18</sup>, 72 percent cited economic benefits as the primary reason for their support.

#### Economic Analysis

Five criteria must be considered when determining whether forms of legalized gambling such as casinos are indeed economically desirable: regressivity, revenue potential, crime, employment, and tourism. Public Sector Consultants has evaluated eight forms of gambling in<sup>19</sup> terms of these five criteria and then ranked them in order of desirability. The rankings reflect social and economic factors and exclude more personal ethical considerations. (See Exhibit 2.)

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<sup>15</sup> Farney, "More States Bet," p. 36.

<sup>16</sup> Curtis J. Sitomer, "State Lotteries: Big Gamble," Christian Science Monitor, March 19, 1987.

<sup>17</sup> James Holley, "Detroit Must Fight the Fever" in "Casino Gambling: Ace in the Hole or the Devil's Work?" Detroit News, July 20, 1986, p. 23A.

<sup>18</sup> David Kushma, "Poll: Detroiters Still Oppose Casinos," Detroit Free Press, June 8, 1986, p. 1A.

<sup>19</sup> The eight forms of gambling studied here are bingo, casinos, dog racing, horse racing, numbers games (such as Michigan's Daily Three and Daily Four games), lotteries, off-track betting, sports books (bets placed with betting agents on point spreads in final scores of popular sporting events), and sports cards (similar to sports books, but bets are usually made on odds of winning rather than on point spreads).

## EXHIBIT 2

## SUMMARY OF 1987 ECONOMIC GAMBLING EFFECTS, BY FORM

Type of Gambling	Regressivity	Revenue Potential <sup>a</sup> (\$ Billions)	Gambling Induced Increases in		
			Crime Level <sup>b</sup>	Employment <sup>b</sup>	Tourism <sup>b</sup>
Bingo	-.30	\$.340	0	0	0
Casinos	.26	17.345	+++	+++	+++
Lotteries	-.31	7.865	0	+	0
Numbers Games	-.44	6.428	+	+	0
Off-track Betting	-.07	.932	+	++	+
Horse Racing	-.17	1.230	++	++	++
Sports Books	.29	7.648	++	+	0
Sports Cards	-.40	2.651	+	+	0

SOURCES: Maureen Kallick and Daniel Suits, "Gambling in the United States," Economic Outlook USA 3 (Summer 1976); Daniel Suits, "Gambling Taxes: Regressivity and Revenue Potential," National Tax Journal 30 (March 1977); and U.S. Commission on the Review of the National Policy Toward Gambling, Gambling in American (Washington, D.C.: U.S. Government Printing Office, 1976).

<sup>a</sup>Estimated 1987 revenue from national legalization and operation.

<sup>b</sup>0 = No increase  
 + = Relatively small increase  
 ++ = Moderate increase  
 +++ = Relatively large increase

#### Regressivity

Regressivity analysis is generally used to assess the economic effect of a tax. The method may also be applied, however, to other sources of state revenue such as gambling. Regressivity analysis applied to gambling identifies how a gambling cost burden is distributed across income classes and is established by determining the ratio of a person's gambling expenditure to his or her income. If gambling wagers comprise a smaller percentage of income for the poor than for the wealthy, then the poor bear a relatively light gambling burden, and the form of gambling is seen as progressive. If gambling wagers comprise a larger percentage of income for the poor than for the wealthy, the form of gambling is seen as regressive. It is easy to see that if both a wealthy person and poor person buy \$10 worth of lottery tickets, the poor person will have spent a larger percentage of his or her income than the wealthy person, indicating that lottery gambling is a regressive method of generating revenue.

Access affects regressivity. Nevada casino gambling is considered to be progressive because of the considerable distance most people must travel to

gamble there.<sup>20</sup> Because of the high cost of travel, most people gambling in a Nevada casino have above-average incomes. Specialization also affects the regressivity of a gambling form. If high- and middle-income gamblers specialize in a particular form of gambling, it will necessarily be more progressive than a form of gambling in which low-income gamblers specialize. Survey data suggest that over half of all gamblers specialize in a particular gambling form.<sup>21</sup> Much of the regressivity of a particular form of gambling may be explained by specialization of low-income gamblers.

A regressivity index for eight popular legal forms of gambling is shown in column one of Exhibit 2. A negative index indicates regressivity, and a positive index indicates progressivity. For purposes of comparison, the U.S. Individual Income Tax regressivity index is .19.<sup>22</sup> Numbers games, sports cards, lotteries, and bingo are very regressive methods of raising revenue, and horse racing and off-track betting (OTB) are less regressive. Casinos and sports books are more progressive revenue sources.

### Revenue Potential

Compared to taxation, legalized gambling is an inefficient method of generating state revenue. It costs an average of 30 cents to raise a dollar of lottery revenue; it costs an average of 2 cents to raise a dollar of state tax revenue.<sup>23</sup> The revenue potential of different forms of gambling varies, however, with three factors: intensity of public demand, cost of operation, and percentage of wagered revenue taken by state government.

The intensity of public demand for a form of gambling may be expressed as price "elasticity." If the public will gamble less as the price of gambling increases or prize money decreases, price elasticity is said to be high. Conversely, when gamblers do not reduce their participation much as the price of gambling increases or prize money decreases,<sup>24</sup> price elasticity is low. Gambling forms with low price elasticity are those that have faithful groups of gamblers and, consequently, much revenue potential.

Cost of operation and percentage of revenue taken by state government are also factors in revenue potential. Clearly, high operating costs tend to reduce revenue. Whereas enlarging the state's percentage of wagered revenue may appear initially to increase revenue, it may actually decrease state

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<sup>20</sup>Daniel B. Suits, "Gambling Taxes: Regressivity and Revenue Potential," National Tax Journal, vol. 30, no. 1 (March 1977), p. 20.

<sup>21</sup>Kallick and Suits, "Gambling in the United States," p. 47.

<sup>22</sup>Suits, "Gambling Taxes," p. 27.

<sup>23</sup>"The Economic Case," p. 68.

<sup>24</sup>The elasticity factor has very limited application to the compulsive gambler. A compulsive gambler's price elasticity will be infinitely small because he or she will not gamble less no matter of how high the price rises or how low the prize falls.

revenue if it results in higher prices or lower prizes, which discourage participation. The extent of that effect depends on elasticity of demand.

Column two of Exhibit 2 shows 1987 revenue potential estimates for various gambling forms. Casinos have the highest revenue potential and are followed at some distance by lotteries, sports books, and numbers games. Gambling forms with little revenue potential include sports cards, horse racing, OTB, and bingo.

### Crime

Crime not only damages the social integrity of a community but also retards economic growth and diminishes a community's revenue base. The total effect of gambling on crime can be assessed in terms of attractiveness and displacement effects. Some types of gambling appear to attract crime, whereas other types of gambling may displace crime by functioning as a substitute for illegal gambling.

As shown in column three of Exhibit 2, casino gambling may cause a significant increase in crime because it attracts crime and does not displace criminal gambling. Horse racing and sports books also carry a considerable potential for crime. Because numbers games, OTB, sports cards, lotteries, and bingo games do not attract crime and in some instances actually displace criminal activity, these forms of gambling carry the lowest potential for crime.

### Employment

Net job creation is another factor to be considered in assessing the economic effect of gambling. Net job creation is the sum of the jobs arising directly within the gambling industry and the jobs arising indirectly as a result of the industry's presence, less the number of jobs indirectly lost as a result of the gambling industry's introduction. Legalization of Michigan greyhound racing, for example, would directly increase greyhound racetrack employment and indirectly increase employment in businesses close to the racetracks, but it could also decrease employment in existing gambling industries such as horse racing. Gambling may also deter other economic development as quality of life factors are important to many business owners in deciding where to locate.

Column four of Exhibit 2 shows the net job creation effect of the various forms of gambling. Casinos create the most new jobs, followed in order by OTB, horse racing, lotteries, numbers games, sports cards and books, and bingo. Net job creation is likely to range from as low as 20 to 30 jobs for bingo to as high as 40,000 to 50,000 for a large casino establishment.<sup>25</sup>

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<sup>25</sup>This does not take into account the number of jobs that may be lost if businesses move away from or decide not to locate in a casino area because of deterioration of the environment.



## Tourism

The amount of tourism likely to result from the legalization of any given form of gambling depends on three factors: the number of states that provide substitutes for the game, the geographic proximity of those states, and the existing illegal substitutes for that game. The tourism measurements in column five of Exhibit 2 were determined by estimating each of these three tourism factors for the eight forms of gambling. The results indicate that casino gambling has the greatest potential for tourism. Horse racing and OTB (primarily on horse racing) also attract tourists, but the other forms of gambling generate virtually no tourism.

## Policy Implications

A state's choice of which form of gambling to legalize is influenced by the importance to the state of each of the five economic effects listed in Exhibit 2. Weighting each of these equally for each form of gambling yields the state desirability ranking found in the first column of Exhibit 3. Casino gambling is the most desirable form according to this equal-weight method.

However, if state officials are more concerned with crime effects than with other effects and choose to weight them more heavily, then column two indicates the state's desirability ranking. A state-authorized lottery is now the preferred form of gambling, and casino gambling has fallen from first to last place in the ranking. The four most desirable forms of gambling under this weighting scheme correspond to the four forms most frequently legalized and operated in the period from 1977 to 1985 as shown in Exhibit 1. This suggests that state officials have been particularly concerned with crime effects when initiating legalized gambling.

Placing more weight on revenue potential produces the desirability ranking in the last column of Exhibit 3. This ranking is significantly different from the results of Exhibit 1, which suggest that states do not look exclusively at revenue potential when considering alternate forms of gambling.

## Michigan's Gambling Experience

Michigan currently authorizes five forms of legalized gambling: the lottery, numbers games, bingo, horse racing at eight tracks, and off-track betting at one Michigan race track. The Michigan Lottery and its associated numbers games, which got under way in 1972, are operated and promoted by the State, while bingo, horse racing, and OTB are privately operated with state authorization and supervision. Total state revenue from gambling has increased since 1973, mostly due to the success of the lottery. (See Exhibit 4.)

The Michigan Lottery's award-winning advertising campaigns and innovative new games have resulted in ticket sales and revenues that have risen steadily for 15 years. Total lottery and numbers games sales in 1986 exceeded \$1 billion, of which 40.6 percent or \$415 million was paid to the state school aid fund.<sup>26</sup> Although this contribution to education may appear large, it

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<sup>26</sup> Michigan Bureau of State Lottery, 1985 Report of the Michigan Lottery, p. 9.

## EXHIBIT 3

DESIRABILITY RANKING OF STATE LEGALIZED  
GAMBLING ALTERNATIVES

<u>Equal Weighting of Economic Characteristics</u>	<u>Greater Weight on Crime Prevention</u>	<u>Greater Weight on Revenue Potential</u>
1. Casinos	1. Lottery	1. Casinos
2. Horse Racing	2. Bingo	2. Lotteries
3. Off-track Betting	3. Off-track Betting	3. Sports Books
4. Sports Books	4. Numbers	4. Numbers
5. Lotteries	5. Sports Cards	5. Sports Cards
6. Numbers	6. Horse Racing	6. Horse Racing
7. Bingo	7. Sports Books	7. Off-track Betting
8. Sports Cards	8. Casinos	8. Bingo

SOURCE: Public Sector Consultants, Inc.

NOTE: Alternatives are ranked in descending order of desirability from 1 (most desirable) through 8 (least desirable).

## EXHIBIT 4

STATE GAMBLING REVENUE  
(in thousands of dollars)

<u>Year</u>	<u>Numbers Games and Lottery</u>	<u>Charitable Games</u>	<u>Horse Racing</u>	<u>Total</u>
1973	\$ 38,000	\$ 147	\$26,483	\$ 64,630
1981	214,000	492	24,837	239,329
1986	415,000	1,843	21,275	438,118

represents only 6 percent of total 1985 K-12 state expenditures. The current lottery contribution to the school aid fund is more than five times its 1980-81 level, but general fund appropriations to the school aid fund have dropped over this same period. The net result is that lottery revenues are indirectly funding other state programs. This indirect funding also<sup>27</sup> occurs in other states in which lottery revenues are earmarked for education.

Exhibit 5 provides some comparisons between Michigan and the 17 states (including the District of Columbia) that operate a state lottery. The average per capita gross revenue in Michigan in 1985 was \$90.83, ranking the state eighth. Although Michigan has had good increases in sales in recent years, most other states have done better. The large increases in many of the states are due to the introduction of new games, such as the Lotto.

The lottery is not a major revenue source in most states. In Michigan, the lottery provided 3.2 percent of state own-source revenue in 1985; lotteries provided 4.5 percent or more of state own-source revenue in Maryland (4.7%), Pennsylvania (4.6%), and Illinois (4.5%). Column three in Exhibit 5 shows net proceeds as a share of gross proceeds. (Net proceeds are gross proceeds less prizes and administrative expenses.) Michigan at 43.5 percent is virtually on the U.S. average of 43.4 percent. The return to the state is generally higher in the large states than in the small states as economies of scale reduce administrative costs. For the nine largest lotteries, administrative expenses as a share of gross revenue averaged 3.8 percent in 1985; in Michigan administrative expenses are 4.8 percent of revenue.

Michigan horse racing began in 1933 with a total attendance of only 101,227, yielding state revenues of \$123,783 that year. Horse racing has since grown into a sport that attracts over two million annual spectators and yields \$24 million in annual state revenue.<sup>28</sup> Year-round betting exists at seven Michigan racetracks where races are run by quarterhorses, pacers, thoroughbreds, and trotters. Additional horse race betting has been allowed at the Allegan County Fair since 1985. Approximately 6 percent of total horse racing wagers are paid to the State, with 32 percent of this revenue going to the general fund.

While state horse racing revenues have steadily increased since racing's inception in 1933, these revenues were still only .2 percent of total state own-source revenue in 1985.<sup>29</sup> Moreover, state racing revenue as a percentage of total state own-source revenue has fallen 78 percent since 1970.

Off-tracking betting is allowed at only one Michigan horse racing track and only on races held outside the state. Originated in 1986, OTB has had little time to generate revenue. Intrastate OTB, like the extensive system operating in New York, raises more revenue than the limited form of interstate OTB in place in Michigan.

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<sup>27</sup> Francis J. Flaherty, "Going for Broke, The Lottery Craze Makes for Lots of Losers," Progressive, March 1986, p. 33.

<sup>28</sup> Michigan Office of Racing Commissioner, 1985 Annual Report.

<sup>29</sup> Own-source revenue is money raised by state governments and does not include intergovernmental transfers.

## EXHIBIT 5

## A COMPARISON OF STATE LOTTERY REVENUES, FY 1985

<u>State</u>	<u>Percentage Change in Gross Revenue, 1980-85</u>	<u>Gross Revenue Per Capita, 1985</u>	<u>Net Proceeds as Percent of Gross Revenue, 1985</u>	<u>Net Proceeds as Percent of Total State Own-source General Revenue, 1985</u>
Arizona	NA	\$ 22.87	31.3%	0.6%
Colorado	NA	30.62	29.2	0.9
Connecticut	150.9%	102.71	53.2	2.8
Delaware	123.3	57.07	39.2	1.1
Illinois	1,134.5	97.39	45.8	4.5
Maine	136.7	12.17	31.0	0.3
Maryland	75.6	148.84	40.3	4.7
Massachusetts	236.9	111.39	36.7	3.0
MICHIGAN	69.2	90.83	43.5	3.2
New Hampshire	67.8	15.16	27.8	0.6
New Jersey	163.4	115.62	44.4	3.7
New York	539.2	65.71	49.0	2.3
Ohio	1,311.5	75.15	41.7	3.0
Pennsylvania	520.4	101.92	47.3	4.6
Rhode Island	37.7	47.49	38.7	1.3
Vermont	68.9	9.22	18.4	0.1
Washington	NA	35.96	29.7	0.9
Washington, D.C.	NA	168.48	34.2	1.9
U.S. Average	383.5% <sup>a</sup>	\$ 72.7	43.4%	NA

SOURCE: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federation, 1987 Edition, M-151, Washington, D.C., June 1987.

<sup>a</sup>Excludes states where lotteries started after 1980.

Public Act 382 of 1972 legalized bingo in Michigan. The act permits charitable organizations to operate bingo games and keep the proceeds. In 1985, approximately 2,100 organizations regularly<sup>30</sup> used bingo funding and 5,500 organizations occasionally used bingo funding. Total 1985 bingo revenue exceeded \$248 million, and \$170 million was disbursed in prize money. Noncharitable organizations such as Michigan's Indian tribes also use bingo gambling as a revenue source.

#### Detroit's Belle Isle Casino Plan

On April 10, 1985, a private developer introduced a plan to build twelve casino hotels with a total of 1,200 rooms on Belle Isle, an 84-acre island in the Detroit River.<sup>31</sup> The \$400 million plan called for construction of the twelve hotels, two marinas with a total of 1,030 boat slips, an observation tower with a restaurant, an 18-hole golf course, and a monorail system. The most current revision of the Belle Isle plan calls for a "casino mall" at one end of the island, six hotels with a total of 3,000 rooms at the island's<sup>32</sup> other end, and the option of other recreation and entertainment facilities. Since the plan's introduction, it has attracted considerable opposition from the public and community organizations.<sup>33</sup> Detroit Mayor Coleman Young promised to appoint a citizen's commission to study the plan; the commission has not yet been appointed.

Anticasino advocates often compare Detroit to Atlantic City, New Jersey, when discussing casino gambling's potential effects. They claim that casino gambling has caused the following problems in Atlantic City:

Regressivity. Gambling revenue is coming primarily from poor and lower-middle-class senior citizens.<sup>34</sup> Although often progressive, casino gambling has also been shown to be regressive in an "everything legal" gambling environment such as exists in Atlantic City."<sup>35</sup>

Revenue Potential. Casino gambling contributed only 1.8 percent of total own-source revenue in the State of New Jersey in 1984. There has been very little casino revenue growth in recent years, since fewer new casinos open each year.<sup>36</sup>

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<sup>30</sup>Charitable Gaming Division of the Michigan Bureau of State Lottery.

<sup>31</sup>Rick Ratliff and Michael Wagner, "Developer Welcomes Drawing of Battle Lines," Detroit Free Press, April 11, 1985, p. 1A ff.

<sup>32</sup>David A. Markiewicz, "Casino Supporters Still Waiting for City to Act," Detroit News, April 10, 1987, p. 1B.

<sup>33</sup>"Casino Idea a Loser with Metro Detroiters," Detroit News, April 1, 1987, p. 12A.

<sup>34</sup>Demaris, "Why Casino Gambling," p. 14.

<sup>35</sup>Kallick and Suits, "Gambling in the United States," p. 49.

<sup>36</sup>Demaris, "Why Casino Gambling," p. 14.

Crime. Prostitution and drug abuse have increased dramatically,<sup>37</sup> and according to FBI figures, violent crimes increased by 81 percent in 1984 alone.<sup>38</sup>

Employment. Few of the promised jobs for local residents have materialized,<sup>39</sup> and most of the jobs that have been created are in low-paying service industries.

Tourism. Casino gambling has attracted many tourists, but the Atlantic City beyond the boardwalk where the casinos are located has experienced less tourism and attention from visitors.<sup>40</sup>

Supporters of the Belle Isle casino plan claim that Atlantic City's experience is not indicative of Detroit's potential experience. They claim that in contrast to precasino Atlantic City, Detroit has a strong economic base, a relatively highly skilled work force, and numerous manufacturing industries.<sup>41</sup> In presenting their case, advocates advance the following arguments for the Belle Isle plan:

Regressivity. The majority of the casino gambling activity will come from tourism, and the large traveling distances will make the gambling progressive.

Revenue Potential. The originally proposed project would generate \$140 million in annual state taxes and \$88 million in annual city taxes,<sup>42</sup> assuming an 8 percent casino gaming tax. The revised plan would generate somewhat less revenue.

Crime. Since the casino establishment would be built on Belle Isle, the "development would minimally impact [crime in] neighborhoods and the central business district."<sup>43</sup>

Employment. The plan would create approximately 50,000 jobs, many in the City of Detroit.<sup>44</sup>

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<sup>37</sup> Ibid., p. 12.

<sup>38</sup> Holley, "Detroit Must Fight," p. 23A.

<sup>39</sup> George Weeks, "Casino Bids Losing Hand Across Nation," Detroit News, April 1, 1985, p. A3.

<sup>40</sup> Demaris, "Why Casino Gambling," p. 13.

<sup>41</sup> William P. Weidner, "Atlantic City Is on a Roll" in "Casino Gambling: Ace in the Hole or the Devil's Work?", Detroit News, July 20, 1986, p. 23A.

<sup>42</sup> Ratliff and Wagner, "Developer Welcomes," p. 15A.

<sup>43</sup> Meehan, "Casino Gaming Could Boost," p. 12.

<sup>44</sup> Ibid., and Ratliff and Wagner, "Developer Welcomes," p. 15A.

Tourism. Casino gambling would make Detroit a worldwide tourist attraction.<sup>45</sup>

Belle Isle promoters have suggested that Detroit officials should consider casino gambling "until such a time as an alternative proposal comes forward that could generate the kind of new revenues, employment, and excitement that Detroit so badly needs."<sup>46</sup> Economist Sam Rosen suggests, however, that "if the state needs revenue, then let's have a broad-based, efficient tax, and not gimmicks."<sup>47</sup> Compared to gambling, a tax has the following advantages; it would

- generate new revenues and employment, especially if tax proceeds were used for commercial development,
- be a progressive revenue source for Michigan residents,
- raise more revenue with less waste and inefficiency than casino gambling,
- not increase crime, and
- infringe little on the public's social values and ethical beliefs.

Admittedly, however, a new tax or a tax increase would not be as popular or exciting as the Belle Isle plan; and tax increases may make Michigan less attractive to businesses.

Casino gambling would undoubtedly provide a stimulus to the Detroit economy, although based on the Atlantic City experience, its benefits may be overrated. As a state revenue source, casino gambling is likely to be considerably less productive than the state lottery, although it could be an important revenue source for Detroit and Wayne County. There are two major negatives associated with casino gambling. First, its introduction would likely lead to increased crime levels in the Detroit area. Second, casinos attract many low- and moderate-income persons who would be risking their limited incomes; many of these persons would come from inner-city Detroit.

On balance the negative aspects of casino gambling are likely to outweigh its benefits.

### Conclusion

The economic and social effects of gambling are important issues for states that are considering sponsoring forms of gambling.

If there is a shortfall in state revenue, a state can choose from three alternatives: raising taxes, cutting expenditures, or introducing a new revenue source such as gambling. If policymakers choose not to cut expenditures, they should compare the economic consequences of raising state revenue by state-sponsored gambling with the economic consequences of raising the same amount of revenue by other means. Gambling may create new jobs and stimulate tourism. State-sponsored gambling would also help diversify a

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<sup>45</sup>Meehan, "Casino Gaming Could Boost," p. 12.

<sup>46</sup>Ibid., p. 10.

<sup>47</sup>"The Economic Case," p. 68.

state's tax system, making that state less vulnerable to unexpected losses from other revenue sources. On the other hand, other revenue sources, such as a broad-based state income tax, while very unpopular, are more progressive and have much greater revenue and growth potential than most forms of gambling and do not increase crime. Although it often appears attractive as a state or local revenue source, gambling generally has poor growth potential. The Michigan Lottery has experienced rapid growth since its inception, but it may be reaching a saturation point as evidenced by weaker than anticipated sales this year. Casino gambling offers a little better long-term growth potential, but its negative aspects may outweigh this advantage.

Policymakers must also consider the social costs of gambling. Many citizens believe gambling to be unethical and government sponsorship improper. Those morally or religiously opposed to gambling may be offended by state-sponsored gambling. These concerns, as well as the possible increases in crime and ruinous compulsive behavior often attributed to gambling, must also be considered.