The Impact of Permitted Gambling on States

By William R. Eadington

For the past four decades, states have turned to legalization of various forms of gambling to generate tax revenues or to stimulate economic or tourism development. Legal gaming industries generated more than $92 billion in gaming revenues in 2007, with about two-thirds of that coming from commercial or tribal casinos. By 2009, lotteries had become nearly ubiquitous in the United States, and casinos are within a few hours drive of virtually every American. Internet gambling, however, is presently prohibited by federal law, and certain forms of gambling, such as sports wagering, are generally prohibited outside Nevada.

The 2007–2009 recession and the financial crisis of 2008 have negatively affected both gaming and tax revenues, as well as the survivability of major private sector gaming companies. Other public policies, such as smoking bans, have also had adverse impacts on gaming revenues in many jurisdictions, and ongoing concerns over the social costs associated with problem and pathological gambling have slowed legalization and liberalization efforts in many states. Nonetheless, the financial difficulties that prevail in 2009 will likely push efforts to expand permitted gambling to the forefront in many jurisdictions.

Gambling in America

In 2007, commercial and government-owned gaming and wagering enterprises in the United States generated gross revenues of more than $92 billion, representing the total amount of money spent on gaming by customers, or alternatively the total net losses of all players to legal gaming operators. This represented approximately 0.8 percent of aggregate personal income in the United States for that year. In comparison, in 1982, when Americans spent about $10.2 billion on legal gambling activities, gambling losses were less than 0.4 percent of aggregate personal income. In the past three decades, commercial gaming has been a significant growth industry, one of the largest created primarily by legislative actions, ballot initiatives or court interpretations that have extended legal gambling's franchise both geographically and in terms of what products and services its purveyors can legally offer to the public.

Casino gaming makes up the largest sector of legal gaming offerings in the United States, constituting roughly two-thirds of total gaming revenues, nearly $60 billion in 2007. Of this amount, more than three-quarters is generated by slot machines and other electronic gaming devices, the most popular instrument for gambling in America. The American commercial casino industry is composed of private sector casinos, both land-based and riverboat, as well as racetrack casinos, each legal in more than a dozen states (with some overlap). Furthermore, about 230 distinct tribes operated more than 425 government-owned Indian casinos in 28 states in 2007.[1] Tribal casinos generated more than 40 percent of all gaming revenues for casinos in 2007. Traditional lottery games—Lotto, scratch tickets and numbers games—authorized in 42 states and the District of Columbia generated total sales of about $40 billion in 2008, and retained gross revenues of about $21 billion after payment of prizes. Gaming devices located outside casinos, including video lottery terminals (in states such as Oregon and South Dakota) and video poker (in Montana, New Mexico and Louisiana) added another $5 billion in gaming revenues. Other sectors of legal gambling—such as horse racing, dog racing, legal bookmaking, charitable gambling, bingo and card rooms—together account for well under 10 percent of all the gaming revenues generated in the United States. Table A summarizes the revenues by sector for American gaming in 2006 and 2007.[2]

State Revenues from Gambling

In terms of contributions to the various states, legal gambling industries paid taxes or otherwise contributed approximately $25 billion to state governments in 2007. The largest share came from lotteries (excluding video lottery terminals at racetrack casinos) at about $15 billion.[3] Lotteries have characteristics of natural monopolies and are explicitly authorized for the purpose of generating revenues for state governments. Casinos, which typically have been authorized more for economic or tourism development than for their fiscal contribution capabilities, or as a means to save the racing industry from economic disintegration, paid approximately $7.5 billion in taxes in 2007. Since tribal casinos are

Table A
Gross Gaming Revenues by Sector, 2007

	2006 ($millions)	2007 ($millions)	Dollar change ($)	Percent change (%)
Pari-Mutuels				
Horse Totals	$3,235.3	$3,180.9	$(54.4)	-1.70%
Greyhound Total	322.6	298.3	(24.3)	-7.50
Jai Alai Total	21.6	20.8	(0.8)	-3.70
Total Pari-Mutuels	**3,579.5**	**3,500.0**	**(79.5)**	**-2.20**
Lotteries				
Video Lotteries	3,592.8	3,726.3	133.5	3.70
Traditional Games	21,038.6	21,053.7	15.1	0.10
Total Lotteries	**24,631.4**	**24,780.0**	**148.6**	**0.60**
Casinos				
Nevada/NJ Slot Machines	12,109.7	11,915.3	(194.4)	-1.60
Nevada/NJ Table Games	5,408.6	5,854.5	445.9	8.20
Deepwater Cruise Ships	324.7	333.4	8.7	2.70
Cruises-to-nowhere	495.5	528.7	33.2	6.70
Riverboats	11,739.0	11,777.1	38.1	0.30
Other Land-Based Casinos	2,175.3	2,209.0	33.7	1.50
Other Commercial Gambling	84.6	84.0	(0.6)	0.70
Non-Casino Devices	1,775.2	1,704.8	(70.4)	-4.00
Total Casinos	**34,112.6**	**34,406.9**	**294.3**	**0.90**
Legal Bookmaking				
Sports Books	191.5	168.4	(23.1)	-12.10
Horse Books	(0.5)	0.4	0.9	-180.40
Total Bookmaking	**191.0**	**168.8**	**(22.2)**	**-11.60**
Card Rooms	**1,103.5**	**1,180.3**	**76.8**	**7.00**
Charitable Bingo	**783.8**	**770.0**	**13.8**	**-1.80**
Charitable Games	**1,452.9**	**1,450.0**	**2.9**	**-0.20**
Indian Reservations				
Class II	2,883.7	3,171.4	287.6	10.00
Class III	22,192.1	22,844.7	652.7	2.90
Total Indian Reservations	**25,075.8**	**26,016.1**	**940.3**	**3.70**
Grand Total	**90,930.5**	**92,272.1**	**1,341.6**	**1.50**

Source: Christiansen Capital Advisors, LLC.

government owned, states do not have the ability to tax them. In a number of states, including Arizona, California, Connecticut, Michigan, New Mexico and Wisconsin, however, tribes share their revenues with the states in exchange for something of "significant economic value," typically in the form of some degree of exclusivity with respect to offering gambling services in that jurisdiction. For example, the two tribal casinos in Connecticut—Foxwood's and Mohegan Sun—contributed more than $400 million to the state in fiscal year 2008 as part of the compact agreements entered into between the tribes and the state in the 1990s. Table B summarizes the tax contribution of casinos and race track casinos to states.[4]

Legal and Illegal Gambling

The dimensions of illegal gambling in America remain difficult to determine, though it is clear that certain segments of the market are likely substantial. "Amusement with prize" gaming machines or other types of gaming devices can be found in many parts of the country, typically in bars and taverns or service clubs, and are often used for gambling purposes. In some states, governors have cited their presence as a reason to legalize gaming devices outside casinos, a direction that has had only limited acceptance to date within the United States. Sports betting in America is illegal in all states except Nevada, but the ongoing popularity of collegiate and professional sports, especially football and basketball, suggests a vibrant illegal market for such wagering continues. The passage of the Unlawful Internet Gambling Enforcement Act of 2006 (Public Law 109-347) clarified the legal status of Internet gaming companies and companies that facilitate financial transfers involving Internet gambling. Despite the new law, however, Internet gambling within the United States is still estimated as a $5.7 billion activity.[5]

Over most of its history, legalization of casino gaming by states has generally been encouraged by

Table B
Taxes Paid by Commercial Casinos and Racetrack Casinos, 2007

2007 Commercial Casino Tax Revenues (in millions)

Colorado	$115.4
Illinois	833.9
Indiana	842.0
Iowa	314.8
Louisiana	559.2
Michigan	365.6
Mississippi	350.4
Missouri	417.3
Nevada	1,034.0
New Jersey	474.7
South Dakota	14.9
Total	**$5,322.2 billion**

2007 Racetrack Casino Tax Revenues (in millions)

Delaware	$216.6
Florida	101.2
Iowa	109.9
Louisiana	68.2
Maine	20.6
New Mexico	63.6
New York	449.9
Oklahoma	10.2
Pennsylvania*	461.1
Rhode Island	283.6
West Virginia	439.9
Total	**$2,224.8 billion**

Source: American Gaming Association, State regulatory body reports.
*Includes one resort casino without racing.

harsh economic circumstances. Nevada's legislature authorized casinos as an economic measure during the Great Depression in 1931. New Jersey voters authorized casinos for Atlantic City in 1976 as a means to save the dying seaside resort. Riverboat and mining town casino jurisdictions were legalized in eight states by initiative processes or legislative action between 1989 to 1993 in response to the slumping and recession of the national economy, declining local or regional economic conditions, or cross-border competition for gaming customers. Michigan voters authorized three casinos in Detroit in 1996, motivated both by the promise of urban renewal that casinos might bring and cross-border competition from a Canadian casino in the neighboring city of Windsor. In recent years, there have been more and more casinos or "hybrid casinos"—either racetrack casinos or slots-only casinos—authorized with the intent of either contributing to state coffers as in Pennsylvania, saving the horse racing industry as in Iowa, Delaware, Pennsylvania and Maine, keeping gaming spending within state borders rather than losing it to neighboring states as in Pennsylvania and Maryland, or contributing to economic and tourist development objectives as in Kansas.

Legalization of lotteries, on the other hand, has been driven by a combination of desire for state revenues and cross-border competition. The bulk of legalization by states occurred in the 1970s and 1980s, but in the past two decades, a number of states, mainly in the South, have authorized lotteries. As of 2009, only seven sparsely populated states have not legalized the lottery.

States have become increasingly aware of the economic rents that can be captured through legalization of casinos and casino-style gaming, and have developed strategies that better allow them to capture economic rents either through high tax rates or competitive bidding processes in the allocation of exclusive casino licenses. The negative economic conditions that have emerged in the U.S. and global economies since 2007, however, have led to some disappointing results of legalization implementation, as the experiences in Kansas in 2008 and Maryland in early 2009 attest.

The primary constraint to further legalization of gambling is typically related to concerns over social costs resulting from the unintended negative consequences associated with problem and pathological gambling that might be incurred with more liberal permitted gaming. Estimates of problem and pathological gambling typically range from 1 percent to 5 percent of the adult population, though there is still only limited research available regarding causality, correlations with legal status of gambling, and the mitigation effects of possible safeguards such as wagering limits, prohibition of credit or bans on advertising.[6] Furthermore, opponents of legal gambling have been relatively effective in keeping problem gambling as the primary argument against further legalization or liberalization, even if their true motives are religious or aesthetic.[7]

Current Economic Conditions and the Gaming Industries

The effects of the economic recession that began in December 2007 on the gaming industries and on state tax revenues they generate have become increasingly pronounced. Between 2006 and 2007, gross gaming revenues grew only 1.5 percent, from $90.9 billion to $92.3 billion. Among the largest gaming jurisdictions, Nevada gaming revenues increased only 1.8 percent between 2006 and 2007, and then declined 9.7 percent between 2007 and 2008. Atlantic City experienced gaming revenue declines of 5.7 percent between 2006 and 2007, and an additional 7.6 percent between 2007 and 2008. Tribal gaming facilities in the United States, which had grown more rapidly than any other gaming sector since the early 1990s, slowed to only 3.7 percent growth in revenues from 2006 to 2007, with strong indications that the sector as a whole experienced negative growth between 2007 and 2008.

The other significant result of the 2007–2009 recession on the gaming sector has been the near-collapse of many of the major casino companies in the United States. Like the financial sector and the automobile industry, gaming companies rapidly found themselves in desperate economic straits, but without much likelihood of government sponsored bailouts. Between October 2007 and February 2009, the market values of the major publicly traded American casino companies—MGM, Las Vegas Sands, Wynn and Boyd—had lost between 85 percent and 98 percent of their market value, with concerns that some or most may ultimately be forced into bankruptcy. All these companies encountered severe difficulties due to debt that had been incurred as a result of expansion projects started under more promising circumstances. For example, in 2005 MGM undertook the largest private sector development project in U.S. history with the roughly $10 billion CityCenter project in Las Vegas, scheduled to open in late 2009. Las Vegas Sands, owner of the Venetian, was developing a $12 billion multi-casino hotel project in Macau when the credit crisis and slowdown in business intervened. Other major casino companies, Harrah's and Station Casinos, had similar over-leveraging and debt burden problems that arose from private equity buyouts completed in 2007 and 2008.

Smoking Bans and Casinos, and Lottery Privatization

Partial and complete smoking bans have also adversely affected casino gaming revenues in recent years. As part of a much broader public policy trend, smoking bans have been applied to casinos in a number of jurisdictions over the past decade, and it is likely such bans will continue to proliferate. The impacts of smoking bans on casino revenues have been consistent and dramatic, often bringing about declines in the range of 10 percent to 20 percent over the first two years following adoption.[8] Because of the mounting evidence of negative health effects associated with secondhand smoke, as well as potential liability issues related to workers who are exposed to tobacco smoke in the workplace, the pressure to extend smoking bans to all casinos is likely to continue.

Finally, it is worth noting the attempts of some states to capitalize future income streams from their lotteries by privatizing lotteries and selling them to private sector entities. Such privatization has been successful in Greece, which sold its lottery to OPAP, SA, and in Australia, which sold to TabCorp, with the result of generating immediate payoffs for governments in search of revenue, and providing a vehicle for private sector growth and development. One U.S. study suggested that states considering privatization in 2007—including Texas, Illinois, Indiana and New Jersey—could expect between $3 billion and $13 billion from selling their lotteries, based on the experience of the Greek company OPAP, SA.[9] Of course, this was before the financial markets collapsed in 2008. Whether such endeavors would be attractive in a post-financial crisis environment is difficult to project.

In summary, the challenging fiscal and economic conditions that prevail in the aftermath of the financial collapse of 2008 and the related recession will likely once again focus the attention of many states on the potential financial benefits that might be derived by further legalization or liberalization of gambling within their borders or over the Internet. Unlike earlier situations, however, the incremental revenues that states might realize by further legalization of gambling may be limited because of the current availability of popular gambling, especially casino-style gaming. Exceptions might be found among the major states that still prohibit casinos, such as Massachusetts, Ohio and Texas.

Notes

[1] Alan Meister, *Indian Gaming Industry Report, 2008–2009*, Casino City Press, (2008).

[2] Table A can be found in Eugene Martin Christiansen, "The 2007 Gross Annual Wager of the United States," *Insight: The Journal of the North American Gambling Industry*, Vol. 6, No. 10, (2009).

[3] Lucy Dadayan, Nino Giguashvili, and Robert B. Ward, "From a Bonanza to a Blue Chip? Gambling Revenue to the States," Rockefeller Institute, (June 2008).

[4] American Gaming Association Web page and state gaming regulatory body Web pages.

[5] Christiansen, op. cit., 7.

[6] See, for example, Blaszczynski, A., Ladouceur, R., Nower, L., and Shaffer, H.J., "Informed choice and gambling: Principles for consumer protection," *Journal of Gambling Business and Economics*, 2(1), (2008) 103–18.

[7] See, for example, William R. Eadington (2004), "Comment on 'The costs of addicted gamblers: Should the states initiate mega-lawsuits similar to the tobacco cases?'" in *Managerial and Decision Economics*, Vol. 25, (2004) 191–96.

[8] Richard Thalheimer and Mukhtar M. Ali, "The Demand for Casino Gaming with Special Reference to the Effect of a Smoking Ban," *Economic Inquiry*, 46(2), (2008) 273–82; and Michael R. Pakko, "Smoke-free law did affect revenue from gaming in Delaware," Working Paper 2005-028B, Federal Reserve Bank of St. Louis, (2005).

[9] Eugene Martin Christiansen, "What Are Lotteries Worth?," *Insight: The Journal of the North American Gambling Industry*, Vol. 5, No. 2 (2007); and "How Well Do Privatized Lotteries Perform?," *Insight: The Journal of the North American Gambling Industry*, Vol. 5, No. 10, (2007).

About the Author

William R. Eadington is professor of economics and director of the Institute for the Study of Gambling and Commercial Gaming at the University of Nevada, Reno. He is an internationally recognized authority on the legalization and regulation of commercial gambling, and has written extensively on issues relating to the economic and social impacts of gaming since the 1970s.

Two gambling issues â€” establishing a state lottery and allowing the Poarch Band of Creek Indians to have casinos â€” did not gain traction in the abbreviated legislative session, according to the Associated Press. Alaska. CASINOS: There are no casinos in Alaska.Â The casino is located in the southwest corner of the state on the Southern Ute Indian Reservation in Ignacio. It is believed to be the first Native American sportsbook. In its first month, Colorado sportsbooks saw bettors place $25.5 million in wagers, according to an email from the gaming control commission. Casino gambling is not the only type of gambling that exists, nor is it the only kind of gambling addressed by state laws. There are many different ways to gamble. The most common subject of regulation is wagering on contests, such as horse racing. Pari-mutuel wagering is a betting pool in which those who bet on competitors finishing in the top three (3) positions share the total amount bet, less a percentage for the management. Horse racing, dog racing, or betting on sporting events are those most frequently and specifically banned. However, regulation of regional events is common.Â In Florida, there are a number of legal gambling activities that appeal specifically to the state's large number of retired citizens, such as: Penny-ante games with winnings not exceeding $10. Poker. The impact that gambling has on crime is particularly complex and the results are mixed. Theoretically, the introduction of legal gambling should influence crime rates in one of several ways. One way is by decreasing the rate of illegal gambling, which tends to be a fairly reliable effect.Â When excluding heavy and/or problem gamblers from the analysis, there is relatively little difference in subjective well-being between gamblers and non-gamblers or between occasional gamblers and more frequent gamblers. In general, the most consistent economic impacts across all forms of gambling tends to be increased government revenue, increased public services, increased regulatory costs (a relatively minor expense), and either positive or negative impacts on non-gambling businesses. Assessing the impact of betting around the world. play. How does Supreme Court decision affect gambling landscape? (6:43).Â Betting ads permitted on team kits/stadiums? Yes. What issues have resulted from sports gambling in Ghana?Â It depends what state you are in. Forms of gambling are selectively allowed through horse racing, lotteries and casino gambling. Each state in the country has separate legislations on gambling. In some states, gambling is an offence and in others lotteries are banned. Year legal gambling was established: There is an 1867 British law called the Public Gambling Act which had stated, "nothing in this Act shall apply to games of mere skill wherever played" and it is from there that amendments and variations around the law operate. impacts of gambling generally consist of a long list of mostly. negative impacts that are often attributed to disordered gam-. blers. These negative social effects may include bankruptcy, crime, personal health issues, and family problems such as. divorce, among other problems. Economic Impacts.Â mutuel gambling may have social and economic impacts on society. This article is part of the Topical Collection on Gambling. *Douglas M. Walker. WalkerD@cofc.edu. Russell S. Sobel. Russell.Sobel@citadel.edu. 1. Department of Economics, School of Business, College of.