

CHAPTER 6
CONCLUSIONS

Based on the analysis presented in this study, it is clear that the overall measurable benefit/cost ratio for the three forms of gambling studied in this report in the State of Louisiana is positive. In order to reach that conclusion, the following definitions must be made. The costs of gambling are defined to include the regulatory costs to the state government and the measurable external or social costs that are generated by problem gamblers. The benefits of gambling are defined to equal the new dollars generated by the gambling industry to pay for the costs. Thus, the benefits of gambling are equal to the new earnings created for Louisiana residents by the industry plus the new direct state and local tax revenues generated by the industry. New earnings and new tax revenues are the measure of the annual increase in the wealth of Louisiana's citizens created by the gambling industry. The reason why only direct tax revenues are included in the benefits is that indirect tax revenues are paid out of earnings and their inclusion would constitute double counting since we are already counting 100% of new earnings in the benefit calculation. Table 6-1 presents a summary of the benefit/cost figures.

TABLE 6-1
1998 GAMBLING BENEFIT/COST ANALYSIS
(DOLLAR FIGURES IN MILLIONS)

<u>Category</u>	<u>Amount</u>
<u>BENEFITS:</u>	
New Earnings	\$660.36
New Direct Tax Revenues	\$447.12
TOTAL BENEFITS	\$1,107.48
<u>COSTS:</u>	
Regulatory Costs	\$50.02
Measurable Social Costs	\$481.45
TOTAL COSTS	\$531.47
<u>BENEFIT/COST RATIO</u>	<u>2.08</u>

Source: Tables 4-15, 4-16, 4-17, 4-18, 4-21, 4-23, 5-1, 5-5, 5-6 and text.

Thus, the net benefit created by gambling in the State is \$1,107.48 million.

The net costs are \$531.47 million. The benefit/costs ratio is slightly above 2. In addition, gambling has created **39,082** new jobs in the Louisiana economy. Thus, purely on the basis of measurable economic costs and benefits, the benefits outweigh the costs. However, the unmeasurable costs and benefits should be considered by anyone making a public or private decision about the overall impact of gambling. It is inappropriate for the authors to make a decision about how the unmeasurable costs and benefits might change the analysis since this implies value judgements. Businesses and citizens of Louisiana, however, seem to have made this judgment themselves. The resident and business surveys included in this report (See Chapter 3) indicate a clear negative view of the gambling industry statewide. It is also clear from this report that the **measurable**

economic benefits are greater than the **measurable** economic costs. It is quite likely that residents and businesses are putting their own value judgements on the **unmeasurable** costs and coming to the conclusion in their minds that the **real** benefits are less than the real costs.

It is very important to make several points about the implications of the benefit/cost analysis made in this study.

1. First, the costs and benefits that are presented in this report are for 1998. There is every reason to believe that these costs and benefits may change over time. The gambling industry in the State of Louisiana is still relatively young, starting in earnest in 1993 or 1994. As the industry matures, we believe that the benefits may decrease and the costs will likely increase, thus changing the overall benefit/cost ratio. It is certainly possible that the results could even switch and costs may outweigh benefits at some point in time.

The benefits derived from the local population could decrease due to the fact that the rate of diversion is likely to increase over time. As discussed earlier, the relatively low diversion rate is caused by the fact that local people can spend new dollars on gambling without reducing other consumption by drawing down existing savings, borrowing, reducing non-local consumption, or by spending “new” income created by a growing economy. Most of these things will tend to diminish over time. Savings are finite; one can spend out of existing savings only for a finite period of time. The amount of money a person can borrow without getting into financial trouble is also limited; and, eventually, prolonged borrowing will result in bankruptcy, loss of credit, or default.

Finally, the Louisiana economy will not continue to grow at the rate that it grew from 1994 to 1997 indefinitely. The growth rate of the Louisiana economy during that period was above the long-term trend. We are already seeing a slowdown in the Louisiana economy as oil and natural gas prices have come down. In order to continue increased gambling spending as the rate of growth of the economy slows, consumers must make more difficult financial decisions and diversion may increase. These factors may be offset by the introduction of several new casinos into the State's economy – Harrah's land-based casino in New Orleans and up to two additional riverboat licenses. In addition, 33 of the State's parishes have voted to make video poker illegal when the current contracts expire, beginning in 1999. The effect of this on the benefits and costs of video poker are uncertain. For these reasons, the benefits of gambling may change over time.

The costs will tend to increase over time. The primary reason for this is that most of the costs are due to problem gamblers. It is clear from the psychiatry literature that addictive problems with any activity – drugs, alcohol, or gambling – do not develop overnight. On average, it takes ten years to develop full symptoms of addictive

behavior. Thus, as the gambling industry matures in the State, the number of problem gamblers will increase and the costs of the gambling industry will also increase. There is evidence from the prevalence survey conducted for this report that this phenomenon may already be underway. When comparing the 1995 prevalence study to the 1998 study, the Level 2 problem gamblers are losing nearly twice as much in 1998 as they were in 1995. The Level 2 problem gamblers are those that are in a transitional state – they could become a Level 3 pathological gambler or fall back to become a non-problem gambler. If many become pathological gamblers, the social costs of gambling will increase substantially. If they transition to a non-problem gambler, social costs overall will decrease. The evidence that, on average, the problem gamblers are losing much more indicates that many are on their way to Level 3 status.

2. The lion's share of the net new spending created by gambling in the State is created by visitor spending at the Lake Charles and Shreveport riverboat casinos. Clearly, most of this spending comes from Texas residents. If Texas legalizes casino gambling or allows for the introduction of Indian reservation casinos, much of this visitor spending could be eliminated. Without the visitor spending, the benefit/cost analysis would reverse and gambling could become a net negative industry in the State.
3. Policy makers should consider carefully the source of the economic benefits derived from gambling. In 1998, according to the Louisiana Prevalence Study conducted for this study, 29.9% of all Louisiana spending on riverboat casinos comes from problem and pathological gamblers. Likewise, 42.3% of all Louisiana spending on Indian reservation casinos comes from problem and pathological gamblers. For video poker, the proportion is 27.2%. The total percentage spent on gambling by disordered gamblers has remained approximately the same – 25.3% compared to 25.1% even though the prevalence of disordered gamblers has decreased in 1998. **The most significant difference is the dramatic increase in the proportion of spending coming from Level 2 gamblers (from 11.2% to 15.5%) to rates that exceed the gambling proportion of Level 3 gamblers in 1998 (9.6%). The increased spending of Level 2 Louisiana gamblers in 1998 could signal an increase in the severity of disordered gambling by this group as a whole, and may argue for increased social costs for this group of gamblers. The increased spending could also chronicle the progression of an addictive disease in this group of gamblers.**
4. The costs and benefits presented in this report are those that existed in 1998. Once the industry has reached maturity, adding additional casinos or other gambling opportunities will not necessarily increase the benefits or costs proportionately, especially benefits. There is a certain size market for any good or service in a particular location. After maturity, increasing a new retail outlet in that market will not increase the size of the market, it will just spread out the spending. Thus, **if the casino industry has reached maturity, adding new casinos will not increase the size of the market or the new spending related to the casino industry in the State.** Given the data presented in Chapter 1 of this report, there is some reason to believe that the industry may be reaching maturity.

5. Finally, it seems that, from a purely economic point of view, repealing the gambling laws would not result in increased net benefits for the State. Given all the alternatives to the State's legalized forms of gambling – out-of-state gambling, Internet gambling, 1-800 sports betting, illegal games, and so forth – a repeal of the gambling laws would eliminate the benefits of gambling while not reduce the costs significantly. It is akin to the old saying, “Once the genie is out of the bottle, you can't put it back in.” This does not mean that it is irrational to advocate the repeal of gambling laws, just that the repeal should not be done for measurable economic reasons.

In sum, the quantifiable benefits of gambling in Louisiana exceeded the quantifiable costs by a ratio of 2 to 1 in 1998. Although the attitudes of citizens and businesses do not reflect this very positive impact, opinions are distinctly more positive in areas that benefit directly from out-of-state riverboat gambling customers than in other areas around the State. Caution must be used in extrapolating the results into the future or in answering policy questions not specifically addressed by this study. In light of the many potential changes over time, continued monitoring of the benefits and costs of the gambling industry in Louisiana is strongly advised.