SHOULD HAWAII LEGALIZE GAMBLING?

FACTS AND ISSUES

A STUDY BY THE LEAGUE OF WOMEN VOTERS OF HAWAII
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June, 1997
QUESTION: Can legalized gambling benefit the State of Hawaii?

RATIONALE FOR STUDY

In a period of declining revenues and pressing social needs, many Hawaii residents are coming to believe that legalized gambling offers a needed source of income. Over the years, bills legalizing various forms of gambling have appeared before the Legislature with increasing frequency. In 1997, more than thirty such bills were introduced. One that survived the House Judiciary and Finance Committees only to die from lack of support before reaching the floor, was recommitted immediately to the House Finance Committee, thereby allowing its reconsideration in the 1998 session. Proponents will continue to bring gambling to the fore.

Because the question of whether to legalize gambling continues to be raised, and because—in some scenarios—the question may come to a public vote, every Hawaii resident needs to be prepared to make informed decisions. Unfortunately, emotionally-colored arguments and partial information often predominate in such situations. We need to examine pro’s and con’s which are based on fact rather than on unsupported allegation. We also need to place much information presented as fact in context, assessing sources and conditions under which studies were conducted and statistics derived.

SCOPE OF STUDY

This study begins by presenting general information that should be factored into any decision regarding gambling. From there, the study sets forth arguments for and against legalizing some form of gambling in Hawaii.

The experience of various government entities on the Mainland provides some basis for judgment; trends across the country merit attention. Nevertheless, even as we examine gambling on the Mainland, we recognize Hawaii’s unique characteristics.

This study focuses on the economic and social implications of legalization, rather than on the moral. It does, however, touch on the ethical considerations of government action. It also looks at some of the forces which could place a future Hawaii government in a far different position vis à vis the gambling issue than the one it holds today.

ORIENTATION FOR STUDY

TYPES OF LEGAL GAMBLING: There exist six sections of the legal gambling economy, with new ones planned for the future.

(1) State lotteries and instant games (whereby a player puts money in a machine, then receives a card showing whether he has won).

(2) Casino-style gambling, including shipboard and Native American casinos.
(3) Pari-mutuel racing and sport gambling.

(4) Non-profits, including bingo and “Las Vegas Nights” sponsored by churches, veterans’ groups, etc.

(5) Native American high-stakes bingo.

(6) “Mini Casinos,” created through the use of keno machines, video lottery terminals (VLT’s), slot machines and pull-tab machines in bars, convenience stores and at race tracks.

In 1995, the gambling industry initiated trial runs with interactive cable TV gambling. Gambling from the home on the Internet and by telephone are possibilities.

Presently, none of these forms of gambling is legal in Hawaii. The only legal gambling is social gambling, in which the house does not take a cut.

MAJOR QUESTIONS: In his United States Gambling Study, Robert Goodman provides an overview worth careful consideration in Hawaii. He says that “many governmental functions in legalized gambling are a radical departure from government’s traditional role in economic development and pose critical policy questions.” Among these questions are:

(1) Is gambling an effective strategy to raise revenue and create jobs?

(2) If it is, to what extent should government encourage people to gamble?

(3) What role should governments play in protecting their gambling enterprises from competition whether within their own states, from other states or nations, or from Native American/Hawaiian holdings?

PROBLEMS IN GATHERING OBJECTIVE DATA: In attempting to answer these questions, we face the difficulty of obtaining straightforward information. As he conducted his study at the University of Massachusetts during 1992-93, Goodman found a noticeable lack of economic impact studies either prior to or after gambling ventures were in place. A League of Women Voters study in Pennsylvania identified a corresponding lack of environmental and social impact studies. In the absence of unbiased financial data, many government entities rely heavily on gambling industry data. According to John Kindt, writing in the Drake Law Review, such projections frequently prove to be far higher than actual revenues.

Since Goodman’s study appeared in 1994, the nation has seen the results of other studies, both privately and governmentally funded. Many of these are difficult to place into context. Charles Arthur, a professor of business at the University of Nevada, published a 1994 study on public interest in gambling. The study was presented as an academic enquiry. Later that same year, an article in Newsweek identified Arthur as a paid consultant to the gambling industry. How does a reader interpret and weigh this information?

Often the reports of government entities are as difficult to judge as academic or industry studies. Florida, for example, commissioned studies from both its Department of Commerce and its Department of Law Enforcement. About the same time, the City of Chicago hired a study of a
proposed casino. The Florida studies strongly opposed establishment of a casino, while the Chicago report was highly favorable. All three reports showed definite bias, both in use of language and in failing to present information contrary to their main arguments. It would be easy to conclude that these studies reflected the convictions of highly-placed officials, since Florida's governor opposed expansion of gambling while Chicago's mayor supported casino gambling.

Writing in the Columbia Journalism Review, Stephen J. Simurda discussed the difficulty of covering stories on gambling. He quoted Steve Wiegand, who covered gambling for the Sacramento Bee. "There is no place from which to gather a lot of information in a hurry," says Wiegand, "and so many of the people I speak to are so self-serving, it is hard to know how much of what they tell me is true."

Because Robert Goodman has conducted a well-documented, extensive study, and because he does not take money from either the gambling industry or groups openly opposing gambling ventures, he has become the most widely quoted figure in the field.

The U.S. Congress, perceiving the difficulty of developing a clear picture, moved in the spring of 1996 to create a nine-member national commission on the social and economic impact of gambling. Since the commission has two years in which to complete its work, the report will not appear until well into 1998. Moreover, the commission has been denied subpoena powers, which makes data gathering doubly difficult. Nevertheless, we can anticipate a more far-reaching, objective analysis of the benefits and costs of gambling ventures than is now available.

IRREVOCABILITY: In looking at legalized gambling, both officials and the public should consider the near-irrevocability of their decisions. Once gambling is legal, a self-perpetuating bureaucracy will have been set in place. Gambling creates another instant constituency, the beneficiaries, whether they are teachers or senior citizens or college students. Furthermore, people will depend on it for jobs, and governments will depend on it for revenue.

NATIVE AMERICANS/SOVEREIGN HAWAIIANS: An additional point to be considered is the possible action of Native Americans or Sovereign Hawaiians within the state's gambling milieu. The Indian Gaming Regulatory Act (IGR) of 1988 allowed Native Americans the right of matching any form of legal gambling within a state on tribal lands without state taxation or regulation. Now it appears that Native Americans may be able to use non-tribal land for such ventures. It follows that once gambling is legal in the state, Hawaiians and (quite possibly) Mainland Indian groups could operate casinos here.

Presently, one-third of all Indian tribes in Mainland states operate gambling ventures, some 100 operations in 20 states. While changes to the 1988 IGR have been proposed, the tribes strongly oppose such changes. They believe that, as sovereign entities, they have the right to operate gambling independent of state regulation.

The Washington Spectator reported in 1996 that Michigan Governor John Engler had blocked the efforts of promoters to turn over a parcel of land in downtown Detroit to the Chippewa tribe, which planned to establish and operate a casino there. This had been the only attempt (to that date) in the U.S. to establish an off-site Indian reservation on land that never belonged to a tribe. Under federal law, such an arrangement is legal. According to Ivan Zabilka of the National Coalition Against Legalized Gambling, the tribes in Wisconsin and other states have sought to have all Indian land declared tribal land. As a result of this situation, the IGR Act now allows new lands to
be used for class III gambling (i.e., casinos) upon application to the Department of the Interior. This opens the entire country to Native American gambling.

On April 4, 1996, the Deputy Attorney General of Hawaii, testifying with the concurrence of Attorney General Margery Bronster, stated, “Although the U.S. Supreme Court decided last week that Congress had exceeded its constitutional authority in enacting certain provisions of the Indian Gaming Regulatory Act (IGRA 1988), which authorizes an Indian tribe to sue a State (25USCS2710(d)(7)), there are still many unanswered questions about the Act and a State’s ability to control gambling within its borders once it opens the door.”

It is speculation whether the law would permit gambling on the lands of a future sovereign entity, but, if it did, decisions made now would carry considerable impact. There is no certainty that a future Hawaiian nation would embrace gambling. Some Hawaiian leaders oppose the idea. However, Pacific Business News reported in January, 1995, that a native Hawaiian Group, Na 'Io Hawai'i, met with an East Coast tribal group that operates four casinos. The tribe offered $100 million in financing along with management personnel and training. The Hawaiian group believes that a casino would generate annual profits of more than $400 million and create up to 10,000 jobs.
THE PRO’S OF LEGALIZED GAMBLING IN HAWAII

ACCEPTANCE AND GROWTH

HISTORY: Gambling is very much a part of America’s history. In 1612, the Virginia Company raised money for its settlement by sponsoring a lottery. George Washington—a gambler himself—issued repeated (and mostly futile) orders against games of chance among the ranks. Even at Valley Forge, where soldiers were freezing and starving, they wagered. I.A. Rose of the Whittier Law School says that legalized gambling has moved in 70-year cycles throughout America’s history. People exhibit great enthusiasm for gambling as a pastime for a period of years, then lose interest for a while. (Rose believes that the next downturn is not due for another 30 years.)

Even in early Hawaii, attention was given to government-sponsored gambling. In 1893, the Kingdom of Hawaii’s Legislature enacted a bill proposing a lottery. While Queen Lili‘uokalani did not actively support the idea, her position was moot since she was overthrown six days later. Thus the bill was never put into practice.

A GROWING INDUSTRY: Today, gambling is one of the fastest-growing industries in the country. Industry revenues have grown 9% per year during the past decade. Time Magazine reports industry revenue of $40 billion in 1996, out of the $420 billion wagered. Gaming stocks have received highly favorable reception on the U.S. stock market. For example, shares of Anchor Gaming began 1996 at $22; they closed the year at $40, an increase of 82%. The stock is projected to grow in 1997 and 1998 at an annual rate of 30%, according to the Red Chip Review.

Twenty-four states have legalized casino gambling while thirty-seven sponsor lotteries. Only Utah and Hawaii have no gambling (with the exception of social gambling). It is a measure of public enthusiasm that U.S. gambling receipts last year totaled more than receipts from baseball, movies, concerts and book sales combined.

PUBLIC ATTITUDES: In 1995, Catholic Monitor reported that a solid majority of Americans believed there was nothing wrong with gambling. In a poll conducted for the magazine among 3500 residents of states other than Nevada and New Jersey, 51% thought gambling was “acceptable for anyone,” while 35% said gambling was “acceptable for others, but not for me.”

While a survey of Hawaii residents reported by Joseph Toy in the Honolulu Advertiser (March 6, 1995) showed a somewhat higher figure opposing gambling, those who called themselves “neutral” appeared favorable to some forms of gambling. The survey, conducted by Market Trends Pacific for Coopers and Lybrand LLP, found 42% in favor of legalized gambling, 38% opposed, and 20% neutral. The neutral respondents were open to some forms of gambling, particularly the lottery. They also felt (77%) that gambling revenues would boost the economy. Still, they had reservations concerning crime and negative social impact.

Informal polls conducted by John Clark, a Hilo restaurant owner, have consistently shown that 55% to 60% of Big Island voters support gambling in some form—preferably a lottery. Clark says he has conducted his polls during the last four elections, mailing questionnaires to an equal number of voters chosen randomly. Those mailed during the last election drew 1200 responses. The polls
were financed by candidates from both Democratic and Republican parties. They showed that strong opposition existed only in North Kona, the area most often proposed as a casino site.

**REVENUE AND EMPLOYMENT**

**SHIPBOARD REVENUE:** In a period of state revenue shortfall, gambling presents one possible means of maintaining income. Senate Ways and Means Chair (in 1995) Donna Ikeda said that just four ships could generate an annual income of $100 million for the state. As she and 1995 House Speaker Joseph Souki pointed out, shipboard gambling has the fastest “startup time” of any form of gambling. Souki has said that it is also the “cleanest,” meaning that it can be regulated most easily, since the activity occurs offshore. An executive from Harrah’s Club has predicted $158 million/year in state and county taxes from shipboard gambling. A report issued in March, 1997, by the State Department of Business, Economic Development and Tourism projected revenue of $47 to $104 million, depending on the numbers of clientele.

**CASINO REVENUE:** Land-based casino gambling requires a longer startup time than shipboard gambling, but has potential for greater revenue. A single casino/resort complex on the Big Island, as proposed in a 1997 house bill, would generate $19.2 million in state and county tax revenues (according to the Arthur Andersen consulting firm). This sum includes a $1 million annual payment to the state, with the remainder coming from a 15% gambling tax. Two-thirds of the tax would be earmarked for the state and one-third for the county. Other casinos on other islands could help generate many times the $19.2 million figure.

Hawaii residents visit Las Vegas in such large numbers that one hotel there is known as “Little Hawaii.” Regal Travel estimates that people from Hawaii made at least 75,000 visits to Las Vegas in 1996, spending an average of $100/day while they were there. The appeal of local gambling would keep part of that money in the State, with multipliers in effect for money spent on food, liquor and lodging.

During the construction phase, casinos generate business opportunities for local suppliers of goods and services. Even specialized workers imported from the Mainland would spend money locally. This construction-phase revenue should be even greater than that generated by initial phases of shipboard gambling, since ships would be built elsewhere with only the support infrastructure requiring local construction.

According to Shannon Bybee of the UNLV Gaming Institute, many operating expenditures for casinos are made locally. Almost all purchases are from local vendors. Large purchase items such as energy expenses and medical care for employees are made with local entities. Bybee also points out that—while many local retail business dollars leave the community to pay for goods—casinos and other service providers spend a greater proportion of their revenues locally for goods, services and wages. His figures show that casinos spend 3% to 10% of their annual revenue upgrading gaming equipment and facilities.

A study done for the New Jersey Governor’s Advisory Commission On Gambling in 1988 used a multiplier of 1.866 applied to expenditures of casinos to estimate the impact of such expenditures on the local economy. The industry has used this figure since that time. Thus, a total casino revenue of $100 million would translate to $186 million in indirect expenditures for an aggregate $286 million impact within the State of Hawaii.
The assertion that casinos harm local businesses is overstated, according to Bybee, the effect of casinos being no different than that of any new industry. Casino traffic often changes existing patterns. Some businesses close but others open. To survive, local businesses may have to engage in aggressive marketing, rather than waiting for dollars to come without effort or investment.

**AIRPORT VLT REVENUE:** Legal gambling in Hawaii’s airports could provide a limited approach that offers even faster startup than shipboard gambling. Based on 1994 passenger figures, projected monthly concession fees of $1,300,000 from 1000 machines installed statewide could be guaranteed, according to Edward Kelly, a gaming industry marketing specialist. When a 1997 bill to legalize video poker machines in state airports was introduced in the House, the minimal impact on Hawaii residents was considered especially favorable.

**PARI-MUTUEL REVENUE:** In the scenario created by the Department of Business, Economic Development and Tourism, Hawaii would have one racetrack on Oahu with a capacity of 10,000 spectators. In the moderate estimate, the venture would produce a $5.8 million gain in state and county tax revenue. (The optimistic figures project $9.2 million, the pessimistic $2.9.) The Department believes that the racetrack could draw as many as 50% of the spectators from out-of-state, meanwhile creating a potential increase in new visitor arrivals and expenditures as owners, breeders, and maintenance workers come from out-of-state.

**LOTTERY REVENUE:** Many Hawaii residents believe that a lottery is the best gambling alternative. It is true (according to Kiplinger’s Magazine) that percentages of gross lottery income retained by the state have decreased in recent years (33c of every lottery dollar in 1996 vs. 40c in 1992). It is also true that lottery income derives primarily from a state’s residents, rather than from outsiders. Still, lottery should be considered, especially as a means of funding targeted programs. Bruce La Fleur, copublisher of La Fleur’s Lottery World, points out that lotteries are still the most efficient way for a government to make money. “Casinos,” he says, “give states back a lot less money relative to what they take in.”

According to Robert Goodman, lotteries produce between 1.2% and 1.5% of state revenue in states where they are legal. Because this income typically is “targeted” to a certain use, such as education, the amount has greater impact than if it entered the state’s general fund. In states where the total amount is directed to education, it provides between 6% and 8% of the education budget. In 1995, the University of Hawaii Professional Assembly went on record as favoring enactment of a state lottery.

While lotteries do, in fact, draw money primarily from a state’s residents, the decision to play is one of free choice: The taxation is voluntary. Given Hawaii’s high visitor numbers, the right kind of lottery promotion might draw an unusually high percentage of out-of-state money.

**JOB CREATION:** The most important secondary benefit of gambling is job creation. The New York Times Magazine says that the industry will have created 500,000 jobs during the 1990’s.

Tunica, Mississippi, offers an example of the benefit casino employment can have in a community. Characterized as America’s Ethiopia in its pre-riverboat days, this poverty stricken community had 15% unemployment. Now the median income has tripled and unemployment has fallen to 5%.
Mayor Gordon Bush of East St. Louis, Illinois, says that the unemployment situation in Honolulu is very much like that in his city before the riverboat. The riverboat Casino Queen provides 1,250 jobs, and has indirectly created many other jobs.

In 1995, Harrah’s Entertainment, Inc, provided the State of Hawaii with a survey of casino ventures, showing that six cruising gaming facilities would create 3,600 direct jobs and 3,220 indirect jobs. According to Shannon Bybee, the industry uses a 1.57 multiplier to calculate total employment created by a casino. This means that, for every two casino jobs, one is created outside the facility. (It is unclear why Harrah’s figures indicate higher indirect employment than the multiplier factor would indicate.) Bybee also says that 30% of casino revenue in New Jersey goes to payroll—35% in Nevada.

Horse racing provides diverse jobs at many levels of skill and experience. It may well be the most productive of gambling ventures since it creates breeding and other new farming enterprises. The venture itself is highly labor intensive. Even the construction phase requires a large number of workers.

All forms of gambling generate jobs indirectly. Food and beverage distributors, paper and linen suppliers, office supply and maintenance and janitorial services all hire workers. Even lotteries offer numerous job openings in administration, collection, and regulation. Since gambling ventures cannot succeed without promotion, advertising firms, newspapers, radio and television stations will benefit. In the initial stages of shipboard casino, casino, and racetrack gambling, construction firms hire many workers to fulfill contracts in building both facilities themselves and the associated infrastructure.

SOCIAL IMPLICATIONS

Gary Becker, a 1992 Nobel Laureate in economics, believes that while state-run gambling will be no jackpot to local governments, citizens deserve the pleasure of modest betting. Most lottery and casino patrons are middle-aged, middle-income people who do not jeopardize their incomes, according to Becker. The risk of addiction is much less than with tobacco, alcohol or drugs. As for the argument that betting hits the poor harder than the rich, he says that the rich are allowed to speculate as recklessly as they wish on real estate and the stock market. Why treat the not-so-rich differently?

In fact, the point has been made many times that society should not patronize the poor. Diane Novogrodsky of Cedarburg, Wisconsin, argues that “the poor aren’t children with the rest of us as parents.” In another comment solicited by “The Sounding Board” section of U.S. Catholic Magazine, Wilma Kasper writes: “Buying a lottery ticket is an expression of hope for a better life. I don’t agree that it reflects boredom and materialism.”

For winners, the money can make for a better life, as it did when 21 factory workers, most of them immigrants, won a share of a $40 million lottery jackpot. Certainly, studies show that most people who win lotteries spend the money in ways that underscore positive American values. They buy new homes, invest in education, donate to charity, take family vacations, etc.

Sometimes non-revenue benefits can profit an entire community. Not only has Black Hawk, Colorado, seen its town budget rise from $165,000 in 1990 to $8 million in 1993; it has also
witnessed the cleanup of its Superfund site (a contaminated remnant of the turn-of-the-century mining operations) thanks to the gambling industry.

Another potential positive social effect of gambling ventures involves Native Americans. Governments oppose Indian gaming because the general population does not share the benefits as they do in other ventures. Yet, for many Native American groups, gambling enterprises have allowed them to build a self-sufficient and economically healthy sovereign nation and to break the generations-old cycle of poverty.

According to one study, “The Economic Benefits of Indian Gaming Facilities in Wisconsin,” the most active Indian casinos actually earn more than the biggest Las Vegas casinos. Foxwoods, operated by the Connecticut Mashantucket-Pequot tribe, earns close to $700 million each year—compared to the $450 million earned by Las Vegas’ leader, the Mirage Casino. In Minnesota, rural counties with reservation casinos reduced welfare rolls by 16%, while in Michigan, unemployment levels among tribes declined by as much as 64%.

All gambling participants are equal before the odds. In the past, casinos were the haunts of the elite. Modern U.S. casinos are open to anyone of legal age who cares to take a chance. Bob Stuyak, a Las Vegas casino operator, says, “We target everybody. That’s the business I’m in. Money’s money.”

The industry admits that for some people gambling will become an obsession. With this in mind, they recommend a “proactive” program that includes: training employees to recognize and discourage problem gamblers, addiction counselor referral, ads directed only to adults, and educational programs in schools integrated into math, science, and drug awareness classes.

MISLEADING CRIME STATISTICS: Industry spokesmen say the widely held perception that casinos bring crime is driven more by myth than by reality. Crime statistics do not support this assumption. According to Scott Nielson of Station Casinos, Inc., many law enforcement officials in Hawaii, including the Attorney General, cite increasing crime in states which have legalized casinos. Yet, he says, statistical evidence and academic studies indicate otherwise.

One problem, says Meda Chesney-Lind, Hawaii resident and former vice-president of the American Society of Criminology, is that the statistics of crime depend on how the crime rate is measured. If one compares the number of recorded crimes to the resident population, the rate will appear unusually high in an area of high visitor frequency, since visitors and residents alike may become crime victims. It follows, says Chesney-Lind, that the number of tourists should also be counted in calculating the actual crime rate.

When such methodology was employed in two scientific studies published in nationally-refereed criminology journals, the conclusions showed that legalized casino gambling in Atlantic City had no impact on the crime rate. Moreover, the author of one of the reports examined the impact of gambling in smaller cities and concluded that, “before (casino) and after comparisons more often show a drop in crime than a rise.”

Time Magazine says that casino tax revenue has allowed East St. Louis, Illinois, to double the number of police officers and patrol cars, cutting the murder rate by a third. Scott Nielson says that the crime rate in Las Vegas is significantly lower than the crime rates in San Francisco, Chicago, Orlando and Houston.
Gambling operators today are businessmen. They operate publicly-traded businesses under the intense scrutiny of share holders and the SEC. They are subject to stringent regulatory supervision, with a licensing process that screens out those whose honesty and integrity would make them a regulatory risk. Internal controls and auditing techniques ensure that reported revenue figures are reliable. There is little room for organized crime in today’s gambling scene.

TOURISM

Proponents of gambling in Hawaii feel it would add to the diversity of tourism by adding more entertainment choices. Since Hawaii must compete with other Pacific and Asian destinations, the value of an extra drawing card cannot be dismissed. Shipboard gambling, casinos and race tracks are all more effective when the facility is part of a destination resort rather than one attracting day-trippers. This speaks well for gambling’s probability of success in Hawaii.

In addition, the large number of Mainland and international tourists visiting Hawaii means that a high percentage of revenue would be out-of-state money. Possibly Hawaii’s distance from other holiday destinations would offer protection against the threat of competition undermining the success of Hawaiian ventures. Finally, even tourists who do not care to gamble might prefer the existence of gambling operations to new taxes for hotels and car rentals.

The Center For Applied Social Science has suggested that casinos in Hawaii be kept small to soften the image of gambling. More on the scale of Monte Carlo than Las Vegas, these “boutique gambling parlors” would gain maximum profit by varying interiors and ambiance, thereby appealing to the tourists’ appetite for new experiences. One such suggestion is a mini-casino specializing in Hawaiian and Polynesian games of chance and offering appropriate food, decor and music.

GOVERNMENT INVOLVEMENT

By most measures, governments have proved themselves efficient in managing lotteries and regulating other forms of gambling. Robert Goodman observes that, “Through ventures like lotteries, the States have refuted the stereotype of government inefficiency. They have demonstrated that, when given the opportunity, they can create efficient businesses and that government managers can become as proficient in marketing and management as their private business counterparts.” State governments have built a significant model through which privately-run businesses are regulated by governent and share fixed percentages of gross income with the public.

Richard Kemp, testifying in 1995 for Harrah’s Entertainment Inc., suggested three threshold or “minimum” criteria for casino-enabling legislation.

(1) A single, highly professional gaming commission, with oversight, licensing and enforcement responsibilities.

(2) The requirement that casino operators be competent, reliable, socially responsible, and without hint of criminal taint, in addition to having at least 10 years experience managing gambling in other jurisdictions.

(3) The requirement that casinos adopt a secure and effective internal control system.
The Center For Applied Social Science in Honolulu recommends that state and county governments retain 100% ownership of shipboard or casino gambling, just as states have done with lotteries. In that way, the government would gain maximum profit and maximum oversight. The group also recommends that the oversight board be an elected body.
THE CON'S OF LEGALIZED GAMBLING IN HAWAI'I

ACCEPTANCE AND GROWTH

OPPOSITION: Across the United States, the gambling movement is facing increasing opposition. Despite strong efforts by gambling promoters, not one state legislature legalized casinos or slot machines in 1995-96. At the same time, gambling interests lost every referendum battle. After the November '96 elections, the casino industry's own weekly newsletter reported, "It was a tough election day once again for the gaming industry last Tuesday, as virtually every major gaming issue went down to defeat. The results mirrored the 1994 November elections...."

AMBIVALENCE: Lacking reliable data on the benefits and costs of gambling ventures currently in place, Americans are reluctant to approve the expansion of such ventures.

A report issued in February, 1997, by Hawaii's Department of Business, Economic Development and Tourism reflects this ambivalence. DBEDT admits that limited data and resources resulted in a report that was not a comprehensive market demand survey. The report presents no data, other than revenue projections based on "assumptions regarding the size of the potential market (using) studies of legalized gaming experiences in other cities...." Much of the information DBEDT used was provided by the industry, which willingly shares revenue figures, but which offers little information on government or social costs. People seeking reliable statistics look forward to the findings of the National Congressional Commission set up by HR 497 and S 704 in March of 1996. (The study will take two years to finish.)

Meanwhile a substantial number of Hawaii residents appear to be undecided. While no thorough assessment has been done in Hawaii, the informal survey conducted by Market Trends Pacific in 1995 showed 42% favoring legalized gambling, 38% opposing it and 20% undecided. Since that time, no documented projections of cost/revenue have appeared to help the undecided weigh off costs against benefits. Testimony before legislative committees has consisted primarily of industry spokespeople or those who urge caution in the fact of uncertainty.

SATURATION: The very growth of the industry nationwide may present arguments against instituting gambling in Hawaii. Market saturation looms on the horizon as more shipboard gambling, more casinos and more slot machines come into play. The appeal of lotteries and race tracks (gambling ventures which have been in existence the longest) has declined nationwide, with both participation and revenue falling. Watching the proliferation of video lottery terminals, observers of the gambling industry ask whether consumers will tire of this form of gambling also.

As David McClain, UH Manoa professor of business and economics, pointed out in Honolulu Weekly, proponents of gambling in Hawaii need to ask whether the state has a "sustainable advantage." That is, will anything in Hawaii's background allow it to support an industry in the face of increasing competition and consumer apathy? Does Hawaii have something unique to offer? Does it have a superior workforce? Does it have continuing access to capital or outstanding innovation and technology? Or will this venture put in place a business that will provide only a few years of revenue, perhaps ultimately costing the state more than the business can generate?

Not only has the industry as represented by private companies grown markedly, but Native American gaming has proved to be highly profitable too, and is aggressively seeking to expand the
numbers and the reach of its ventures. A nationwide “Indian” lottery, which would allow betting via an 800 number or via the Internet, has been proposed. At the same time, Native American groups are hoping to expand their casino ventures into urban areas on non-tribal land.

**AN AD HOC MOVEMENT:** According to Robert Goodman, acceptance of gambling across the nation has been an ad hoc movement, passed into law primarily to plug foundering economies with little attention paid to associated fiscal or social costs. In no state has the movement come from the grass roots. Rather, legislation has been initiated by the industry to be accepted—sometimes reluctantly—by elected officials.

While some legislators would like to legalize gambling on a “try it and see” basis, they ignore the nationwide experience showing that, once gambling is legalized in any form, the expenses, the constituency and the associated dependence bring about the legalization of other gambling forms.

Interstate envy also contributes to the spread of gambling. Legalized casinos and lotteries in adjacent states are seen as draining dollars that ought to have been spent at home. Thus it is that proponents of legal gambling in Hawaii argue that money now spent in Las Vegas would stay in Hawaii. So far, no surveys have been done to back up this claim—to show what percentage of Hawaii residents would actually stay home. Whether Hawaii can rival Las Vegas as a destination gambling resort, with its theme hotels and star-filled shows, seems questionable.

**REVENUE AND EMPLOYMENT**

**OVERESTIMATED PROJECTIONS:** John Warren Kindt’s article in the Drake Law Review suggests that projected tax revenues from gambling are commonly overestimated to persuade local government officials to allow gaming interests into their community. He cites the relatively modest example of projected tax revenues of $200,000 for an off-track betting parlor in Quincy, Illinois. Actual revenues for Quincy amounted to only a third of that amount, Kindt writes. He adds that this pattern is relatively common.

Kindt also points out that once gambling interests have been “voted in,” they commonly ask for and receive tax waivers. The five-year waiver has become a standard request, with almost pro forma granting of such requests.

Yet the gambling interests need little help to get on their feet. Since they usually hold exclusive government franchises, they can produce much higher profits than businesses that face competition. According to Robert Goodman, most American businesses earn 5% to 8% annually on their gross investment. In the gaming industry a 30% to 50% annual return is not unusual, and some companies have paid off their total investment in one or two years.

Earl L. Grinols, writing in the Spring 1994 Illinois Business Review, indicates that inflated employment projections may be as common as overly-optimistic revenue estimates. He compared employment and unemployment before and after the introduction of riverboat gambling in Illinois, and found no beneficial impact. While 7,806 new jobs were projected, the net effect of introducing gambling to the area was zero. Unemployment did not fall, and it was concluded that those who took jobs on the riverboats were simply job shifting. A slight increase in employment in the area was within the projected figures for normal growth without gambling.

Any gambling projections, unless fully documented, must be viewed with skepticism. Consider the figures projected for a casino/resort on the Big Island. William Whitney, a principal in the Arthur
Andersen consulting firm, testified in February 1997 before the House Finance Committee that such a casino/resort would generate $19.2 million in new tax revenue and would create 1,340 jobs. Michael Hands, a North Kona land owner and developer, claimed that he has spent $150,000 to bring Whitney and other consultants to Hawaii to testify. According to John Warren Kindt, the Arthur Andersen firm estimated revenues for a Chicago casino complex at $625 million. Kindt cites the accounting firm of Deloitte and Touche which, unlike Arthur Andersen, had not been hired by the gambling interests. After a thorough analysis, Deloitte and Touche concluded that “the (Chicago) numbers have to be viewed very favorably for the totals to reach $500 million.”

FAILURE TO LOWER TAXES: It is very unrealistic to expect gambling to generate enough revenue to significantly reduce reliance on other taxes. Proponents often point to Nevada, where gambling ventures produce up to 25% of the state’s budget. Las Vegas, however, has a situation in which a gambling destination unlike any other draws people from all over the country, but particularly from the high population centers of southern California—barely an hour away by air. Nevada’s own population is low with consequent low demand for public services. Rather than be enticed by Nevada statistics, Hawaii needs to look at the reality of gambling revenues in other states. According to Robert Goodman, New Jersey raises 6% of its budget from all of its gambling ventures, including horse racing, a lottery and 12 casinos. That 6% may or may not balance out against additional costs to the state for infrastructure, social programs and crime control.

HIDDEN COSTS

INFRASTRUCTURE: As revenues and costs are tallied, unforeseen infrastructure costs are seldom calculated. Black Hawk, Colorado, is one of three Rocky Mountain communities where gambling is legal. It encountered a distinct problem due to the fact that casino-goers often drink heavily as they play. “The sewage has a particular quality,” said one of the town officials. It seems that high alcohol content kills the bacteria that eat sewage, and the old plant did not allow the high technology treatment that was now needed.

BROKEN PROMISES: Sometimes companies do not live up to agreements. For example, New Jersey’s Casino Control Act includes a special 20% investment tax on casino revenues, to be used for urban redevelopment. However, implementation of the tax was deferred for five years. Furthermore, casinos are not required to pay the tax at all until their total revenues exceed their total construction costs. Because of these loopholes, no money is available now to New Jersey from the investment tax. Some casinos may never have to pay because they claim to have spent so much on construction. Consequently, the slums surrounding the casinos in Atlantic City live on.

DIVERTING DOLLARS: Some costs to government are tangible while others are not. The intangibles must also be considered. William Thompson, a professor of public administration at the University of Nevada, says, “State legislators think this is free money. But it’s not free. It’s just money taken from other parts of the local economy.”

The net effect of diverting dollars from existing businesses to gambling enterprises is difficult to estimate or to measure once such ventures are on line. It is clear that spending patterns have shifted as businesses in the vicinity of a casino are forced to close. Yet, it is not possible to gauge the total economic impact of legalized gambling. Analysts know that money spent on gambling is usually money diverted from people’s discretionary budget, but it is difficult to track the amounts spent previously on clothing, furniture, bowling, movies, books, children’s toys or foods that are
now spent on lottery tickets or slot machines. Beyond that, analysts need to figure the cost of taxes lost as money is diverted to gambling. Mary Borg, who has authored a recent study called *Economic Consequences of State Lotteries*, estimates the loss of tax revenue when a lottery starts up at 15-23% of lottery revenue.

Finally, the public groups that benefit from gambling revenue may be the very groups that suffer most from public misconceptions. In 1993, Tom Bilodeau, the research director of the Montana Education Association, complained about misleading promotions. “We’ll get only $7—$8 million from the lottery this year,” he said, “which is only about one percent of the total $800 million budget for K—12 education in the state. Yet, the way it’s portrayed as such an important benefit to education undermines our ability to convince local voters of the need for additional levies or state legislators of the need for more funds.”

**SOCIAL IMPLICATIONS**

**LIFESTYLE CHANGES:** Casinos, race tracks and VLT’s have more direct social impact and implications than state lotteries. They can change dramatically the milieu in which people live, since they can directly encourage addiction and crime.

In Tunica, Mississippi, home to floating casinos, residents find it more difficult these days to find decent housing, even though the unemployment rate has fallen from 15% to 5%. A trailer that formerly rented for $120/month, now goes for $500 or more. An acre that sold for $100 before the riverboats now brings $8,000.

Mayor Kathryn Ecker of Black Hawk, Colorado, says, “I thought we had studied the problem (gambling) thoroughly. Now, I don’t think we studied it enough.” She cites crime, congestion and lifestyle changes as reasons for her reservations about a business that has brought millions of dollars to the small community.

**HIDDEN SOCIAL COSTS:** The workforce attracted by a casino may have a considerable number of transients. In areas with a high cost of living (such as Hawaii), these relatively low-paying jobs do not comfortably support people, leaving social agencies to bear the cost.

While proponents claim that gambling ventures operated by Native Hawaiians might bring money into the state and provide employment and income for Hawaiians, data from other states raise serious questions. Consider, for example, *The Economic Benefits of American Indian Gaming Facilities In Wisconsin*, sponsored jointly by the Wisconsin Indian Gaming Association and by the University of Wisconsin Cooperative Extension Service. In 1994, Wisconsin casinos generated $326 million in direct revenue. This figure, considered as benefit to the people of Wisconsin, falls to $166 million when even the lowest estimate of associated social costs is considered. With mid-range social costs, the impact becomes negligible and, with higher social cost estimates, the impact becomes clearly negative.

To shift the focus, it becomes clear that the only part of the state to benefit is the immediate vicinity of the casino. About 80% of the economic gains due to gambling in the casino area (1994) were derived from Wisconsin residents who lived outside the area. This meant that the remainder of the
state lost or transferred some $223 million. When one also considers the lowest estimated “costs” of gambling, then the rest of the state lost $318 million to gambling that year.

LACK OF REGULATION IN NATIVE AMERICAN VENTURES: Other even more serious problems can be identified within the issue of Native American gambling. Some or all of them may apply if Native Hawaiian groups apply for gambling permits. Under the Indian Gaming Regulatory Act of 1988:

(1) No reasonable benefit to the state is established for the act of permitting gambling.

(2) No reasonable grounds are identified by which a state can refuse to negotiate a gambling compact.

(3) No authority was given the state to oversee the honesty and integrity of the gambling operations.

(4) No provision was made for a state role in police protection for patrons. Both patrons and employees are at the mercy of the operators.

Furthermore, states have no jurisdiction over cleanliness of food services, OSHA standards, child labor laws, sexual harassment of employees or the proper handling and accounting for revenues.

PROBLEM GAMBLERS: Meanwhile, problem gambling behavior is on the rise across the nation. Researchers are recognizing a host of gambling-related issues that may have long-term consequences for society. We think first of “addiction” and the direct cost of curing the addict. Seldom do we consider the secondary costs—both economic and social—of impaired judgment and efficiency on the job, unrecovered loans, depression, divorces and physical illness related to stress, lowered quality of family life and increased suicide attempts.

The number of pathological gamblers has definitely increased over the past decade. Volberg’s 1991 study of pathological gambling in Connecticut estimated that 1.35% of the state population were “current probable pathological gamblers.” The study then estimated that the total social cost of pathological gambling in Connecticut that year was $554 million, or one-and-a-half times the total revenue to the state from gambling ($362 million). This latter total included purchases by gambling ventures and the creation of 2500 jobs.

In Tunica, Mississippi, the number of people who fail to pay rent or other major bills has doubled according to the town justice clerk. The Memphis chapter of Gamblers Anonymous has an attendance of about 50, compared to one or two in the early 1990’s. Most gambling experts say that only 1-3% of Americans have a serious gambling problem. A 1993 Gallup Poll suggests that the figure may be closer to 5%.

While the cost of curing a compulsive gambler (about $13,000 in 1993 according to Robert Goodman) may not sound debilitating to society, it is necessary to consider the indirect costs, some of which were listed earlier. Even more sobering is the dawning awareness that gambling has become the fastest growing addiction among teens, with a rate about twice that among adults. Howard J. Shaffer, Director of the Harvard Center For Addiction Studies, says that, “We will face in the next decade or so more problems with youth gambling than we’ll face with drug use.”
The very nature of VLT’s encourages compulsive gambling. With such a short interval between placement of the bet and learning the result, players have immediate reinforcement. They can also place far more bets in a short period of time than with other forms of gambling. This appeals to everyone, but especially to young players. They are, of course, the first “computer generation,” as well as the first to experience state-sponsored, culturally-approved gambling throughout their lifetimes.

MANIPULATION: Gambling ventures have become “pop-psych” laboratories where the goal is player manipulation. From rich, dark colors that make players feel a sense of contentment to the absence of windows—so that players cannot judge the passage of time—casinos work to keep players at machines or gaming tables. Every casino official knows the concept: since all the casino games give the house a mathematical edge, the longer the player gambles, the greater the house’s chance of winning.

Thus, special promotions like free breakfast (encouraging late-night players to stay on) or new conveniences such as built-in bill acceptors or PIN credit cards (obviating the need to buy coins), can add thousands of dollars a night to the house’s take.

Free drinks have long served as enticement for people to stay at the machines or tables. Benny Binion, one-time casino operator, said that alcohol was the best gambling tonic in the world. While there appear to be no studies on the relationship between gambling and alcohol, it is obvious that casinos offer both. Outside casino areas, one often has to go to a bar to play the VLT’s. The State of Montana, concerned about the increase in underage players, recently restricted VLT’s to bars.

Manipulation toward additional casino, VLT and lottery gambling is a pressure point on which increasingly greater promotional activity is being applied. Advertising leads people to see gambling as a culturally-sanctioned pastime, one that “everyone” is doing. Citizens reason that gambling must be safe since the government promotes it.

REVERSE TAXATION: Many studies have shown that lower income people spend a higher percentage of their incomes playing state lotteries than do people with higher incomes, making lotteries a regressive tax on poorer citizens. In 1989, Clotfelter and Cook analyzed data from lotteries nationwide. “The most definitive finding,” they wrote, “is that as a percentage of household income, lottery expenditures steadily decline as income rises.” In Massachusetts, there exists much higher per capita betting in cities with lower-income populations. In Boston, the average annual betting per person is $365. In Chelsea, one of the poorest cities in the state, annual per capita betting is $455. This amounts to a higher proportion of revenue collected from those at the low end of the income scale. Many of these people are already using social program dollars.

CRIME

The link between crime and gambling takes many forms. Compulsive gamblers or those who simply lose all their money during a gambling spree may turn to crime to finance their habit or to pay gambling debts. The crime they commit may be white collar or it may be robbery and assault. Street crime, prostitution and drug dealing are found in the areas where customers carry large amounts of cash.

It has been suggested that legalized gambling would reduce illegal gambling (in which as many as 10% of Americans participate). However, there is no evidence for such a contention. On the
contrary, there is evidence that legalization increases participation in illegal gambling by legitimizing the activity in the public mind.

Many Hawaiians are concerned about attracting organized crime to the state. That means possible involvement of the traditional "crime families," but just as unsettling from an enforcement point of view is the possibility of crime syndicates organized around both legal and illegal businesses connected with gambling. These include linen services, food and beverage supply and labor unions. On the illegal side, they include loan sharking and money laundering. Vancouver, BC, has debated extensively whether or not to approve a harbor gambling development which could generate as much as $300 million annually. Much of this income would derive from wealthy Asian gamblers who would come to Vancouver by ship. City residents fear money laundering and attendant problems.

Criminal acts do not necessarily involve known criminals. When economic pressures are great, temptations to succumb to extortion and bribery are strong. Labor leaders may be paid off to ensure labor peace. Public officials may be bribed to smooth the way for zoning, licensing and construction permits or approvals. While these problems are not exclusive to the gambling industry, the potential is greater given the industry's historic roots and nature, which involve handling of huge amounts of cash, portions of which can be easily diverted or skimmed for tax-free profits or for illegal payoffs.

TOURISM

Proponents of legalized gambling—especially shipboard or casino gambling—claim it as an additional attraction to visitors. What gambling really means to the tourist industry is questionable. A 1990 survey by Travel Agent Magazine ranked sixteen variables that could influence a traveler's decision about destination. The results placed weather first and gambling last. Survey respondents listed sightseeing, beaches, entertainment, language spoken, restaurants, experiences and special events as factors 2 through 8. As David McClain, (a professor of business and financial economics at UH Manoa) pointed out, "For some of our tourist segments, gambling could interfere with and contaminate the aloha image so central to our unique position in the marketplace."

Florida, a state highly dependent on tourism, defeated a move to establish casinos in 1994. At that time, State Commerce Secretary Charles Desseau said, "Let's be clear. This is not a grass roots movement of the tourism industry or by the citizens of the state. It is an attempt at a hostile takeover of Florida's $32 billion tourism industry by outside gambling forces." At that time, a report from the Florida Department Of Commerce made three points.

(1) The introduction of casino gambling is likely to hurt the Florida tourism industry. Florida's natural assets and family attractions have defined "... for state tourism an effective identity and success."

(2) There is no example of a destination where casino gambling has been imposed on a mature tourism product such as Florida. In fact, gambling has been successful only in attracting tourists to destinations that otherwise have limited appeal to travelers.

(3) Evidence suggests that casino gambling will not bring in new dollars or tourists, but instead will exploit what already exists in the state.
GOVERNMENT INVOLVEMENT

RELATIONSHIP OF GOVERNMENT TO GAMBLING INTERESTS: A basic question concerns the degree to which governments should be involved in the promotion of gambling. There seems to be evolving a strangely close relationship between state and local governments and the gambling industry. By putting support behind an industry that is neither productive nor creative, government serves to undermine industries that do create and produce. According to Robert Goodman, the states currently spend more than $350 million annually to advertise lotteries. At the same time, these states provide only $50 million a year to advertise their industrial extension programs (which offer technical advice to the country’s 350,000 small and medium-sized firms).

Along with tax waivers in start-up phases, gambling enterprises find it possible to enlist government subsidies when they are no longer successful. Racetracks around the country provide a case in point. As tax revenues generated by their operations have declined steadily, track owners have been able to keep larger percentages of the take, and in some cases, to collect public funds for track maintenance and advertising. Racetracks in Massachusetts, New York, New Jersey, Illinois, Nebraska and Texas have experienced serious financial difficulties as public interest turns to other forms of gambling and spectator sports. By 1993 only one out of four Wisconsin racetracks proved profitable, a fifth had gone bankrupt. Yet the government continued to support them because they provided jobs and protected farmland.

Meanwhile, gambling interests are contributing enormous sums to the political campaigns of both parties. Time Magazine reports that in 1994 the Republican Party received more than a million dollars from the industry. In June, 1995, Bob Dole netted $470,000 at a single Las Vegas fund raiser. US News And World Report says that the industry is among the five largest donors to federal campaigns. In Louisiana in 1993-94, gambling interests gave $1.07 million to state legislators, which amounted to one out of every five dollars given to lawmakers in that state, and three times as much as was contributed by the entire petrochemical industry.

RECOMMENDATIONS: Margery Bronster, Hawaii’s Attorney General, provided testimony in April of 1996 which read, “It would be a severe policy error to allow the funding of state government to become partially contingent upon income from gambling. Throughout history, governments have been most responsive to those who fund them. A government which becomes heavily funded by taxing the profits of gambling organizations can be expected to become very solicitous of the desires of the gambling organizations which have become the benefactors of government.”

She went on to say that it is poor public policy to fund any government “...on the profits of gambling houses or (stated in reverse) on the losses of gamblers.”

In his book The Luck Business, Robert Goodman calls for certain measures to be taken by government. These recommendations should be considered carefully before any steps are taken to legalize gambling in Hawaii. Goodman suggests:

(1) Establish a national moratorium on the expansion of gambling ventures, including electronic gambling machines and those involving at-home interactive television or telephone betting. This will allow time for assessing the impact of what is already in place.
(2) Consider limits on the ways in which states and private business can promote and advertise gambling ventures. State governments should at least meet the truth-in-advertising standards demanded of private businesses.

(3) Reform gambling legalization processes. Not only can gambling interests afford to outspend the grass roots opposition, they are allowed to return again and again with new proposals after voters have rejected the original proposition. Governments should set limits for lobbying and promotional campaigns.

(4) Require state and local governments to commission their own thorough, independent impact studies to measure both the benefits and the costs of legalizing new gambling operations.

These concerns are reflected in the recommendations of the 1997 DBEDT report *The Economic Impact Of Shipboard Gambling And Pari-Mutuel Horseracing in Hawaii*. That report neither supports nor opposes legalized gambling. It does recommend that the decision not be made purely on economic or fiscal grounds, adding that, “The uncertainties in any ‘what if’ type of analysis are large in this case...larger than most. The relatively moderate expected fiscal benefits must be weighed against the uncertain but potentially large costs.”
WORKS CONSULTED IN GAMBLING STUDY


“No Dice: The Backlash Against Gambling.” Time, APR 1, 1996.


Testimony Of The State Attorney General on SB 1904, SD 1, Proposed HD 1 (Relating to Gaming), Before The House Committee On Finance, APR 4, 1996.

Testimony From The Following Before Hawaii State Joint House And Judiciary Committee Hearing:

Shannon Bybee, JD, Assoc. Professor of Casino ManagementGaming Law And Regulation, UNLV.

Meda Chesney-Link, PHD, Criminologist.

Edward Kelly, Marketing Specialist.

Richard Kemp for Harrah’s Entertainment, INC.

Scott Nielson of Station Casinos, INC.

