

POLICY BRIEF



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An Economic Analysis of a Proposal to Legalize Casino Gambling in Ohio: Sometimes the Best Defense is to NOT take the field (Originally Released in 1996)

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Preface to the 2006 reprint

In November 2006, an initiative will be placed on Ohio's ballot called the Learn and Earn Amendment. The measure will allow slot machines to be installed at seven racetracks around Ohio, and three casinos to be constructed, two in Cleveland and one in Cincinnati. The ballot language provides that 30 percent of the gaming profits be put into a personal scholarship account for every student in Ohio.

In 1996, a different constitutional initiative to legalize riverboat casino gaming in eight locations around Ohio was placed on the state's ballot. The measure, called Issue 1, was defeated by a margin of 62 percent to 38 percent.

William Thompson of the University of Nevada, Las Vegas, conducted an empirical study on the probable consequences of the eight riverboat casinos to be legalized by Issue 1. He used the "bathtub model" to explain casino gaming economics. If water comes into a tub at a faster rate than it leaves, the water level rises; if the water comes in at a slower rate than it leaves, the water level is lowered.

The same is true with local economies and casino gaming. A local or regional economy attracts money. A local or regional economy discards money. If as a result of the presence of a casino more money comes into an economy than leaves the economy, there is a positive monetary effect because of the casinos. The level of wealth in the economy rises. However, if more money leaves than comes in, then there is a negative impact from the presence of casino gambling.

In his 1996 study, Thompson found that the eight riverboat casinos would have brought a total of \$384 million new dollars into Ohio. However, this would have been offset by \$405 million leaving the state, for example through federal taxes and retained profits to out-of-state owners. In total, the casinos would have produced a net loss of \$21 million. Thompson also analyzed social and other costs, which created an even larger net loss.

Thompson's insights into the economics of casino gaming in 1996 still has relevance to today's debate concerning the Learn and Earn Amendment, which proposes allowing three casinos instead of the eight casinos Issue 1 would have allowed. Though the numbers may be different today, the principles and the conclusions of Thompson's study remain the same.

Serious consideration of the issues raised in this report is essential unless the state wants to be railroaded and derailed from tracks that can lead Ohio to prosperous genuine economic growth.

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The Buckeye Institute assists policymakers, scholars, businesspeople, the media and the public by providing objective analysis and sound solutions to state and local policy questions, particularly in the areas of taxation, government spending, regulation and education.

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The establishment of legalized casino gambling in Ohio will only hurt the Ohio economy

Introduction

In 1919 Italy closed down its casinos. Four years later Benito Mussolini came to power and his government reinforced the ban on casinos. However, Italians loved to gamble, and soon Il Duce was considering the fact that a lot of Italian money was escaping over the border into the gambling halls of Monaco. In 1927 he relented and he allowed the casino at



San Remo to once again offer games of chance. The purpose of legalization was very clear and direct.

San Remo would block the border. San Remo was a town on the French border. The casino would capture the patronage of the Italians as the ventured toward the French border and into Monaco, which was only ten miles from San Remo. Money that was leaving Italy for foreign gambling tables would now remain in Italy--or so was the hope of Mussolini.

It now appears that proponents of legalizing casinos in Ohio are offering the same defensive strategy as a rationale for their proposal to put eight casino boats near Cincinnati, Youngstown, Lorain, and Cleveland. But Mussolini found that his strategy did not work. He also imposed a strict ban on taking Italian currency out of the country. Italian players still found ways to get to Monaco. After all, Monaco was Monte Carlo. Monte Carlo was in the "big leagues." San Remo, well, San Remo was just another casino--certainly of the "minor league" variety.

In the early 1980s Las Vegas established a top notch minor league baseball franchise--the Las Vegas Stars. The team was a "farm team" of the San Diego Padres. Of course, when the west coast

baseball teams found out there was to be professional baseball in Las Vegas, they cringed. They would be losing so many fans. After all a lot of Las Vegas people went to big league games. Actually, the Los Angeles Dodgers and the San Diego Padres did not cringe. What happened? More Las Vegas residents than ever before went to big league games in Los Angeles and San Diego. Especially San Diego. There the Las Vegas fans could see the former minor leaguers that used to be a part of the Stars team. Las Vegas became a feeder market for the big leagues. The Stars whetted the appetite of the fans for professional baseball, and they now yearn to see baseball at its best.

Will a defensive strategy work in Ohio? Maybe for the Buckeyes, but we're not talking about the Big Ten. It won't work for those wishing to strengthen the Ohio economy. The establishment of legalized casino gambling in Ohio will only hurt the Ohio economy.

A Model For Understanding Casino Economics

In order to understand the economic effects of casino gaming for a state or region, we need to have a model. The proponents of casino gambling for Ohio commissioned the accounting firm of Deloitte Touche to study the economics of casinos for Ohio. ("Economic Impacts of Permanently Moored Riverboat Gaming on the State of Ohio," 1996). The study is filled with "facts," "facts," and more "facts." Many of the "facts" are factual, many others are questionable. In any regard, the study is short on presenting an explanatory model. However, the study does make many references to leakages of gambling money from Ohio into other jurisdictions such as Windsor, Pittsburgh, Lawrenceburg, and of course, Nevada. Using the analogy suggested by the term "leakage," I propose we analyze casino economics in Ohio by

using a bath tub model. In doing so we can emphasize the simplicity of the analysis.

A casino analyst does not need to know rocket science, or know how to demystify Stonehenge. The application of the formulas of casino economics do not require the wizardry of brain surgery. The application uses only elementary arithmetic: addition, subtraction, multiplication, division, decimals, and percentages. The model is as simple as the operations of a bath tub.

Water comes into a bath tub, and water runs out of a bath tub. If the water comes in at a higher rate than it leaves the tub, the water level rises; if the water comes in at a slower rate than it leaves, the water level is lowered. A local or regional economy attracts money. A local or regional economy discards money. Money comes and money goes. If as a result of the presence of a casino more money comes into an economy than leaves the economy, there is a positive monetary effect because of the casinos. The level of wealth in the economy rises. However, if more money leaves than comes in, then there is a negative impact from the presence of casino gambling.

Money comes into casino economies because of gambling. Players lose money to the casino games. Also players attracted to a location because it has a casino will spend money on food, lodging, transportation and other items. However we cannot count these monies as new monies if the players were coming to the area anyway. Casino projects also attract construction money. The money coming in to the casino economy circulate and recirculate at rates which are called multipliers.

Money leaves casino economies for several reasons. First we cannot count the money brought to the casino by local residents (or if we count the money as an

input, we must also count it as money leaving the economy). Actually the latter calculation might be appropriate because the expenditure of the money by locals in the casino has different consequences than it would have if it were spent outside the casino. The multipliers for casino spending are different than those for retail sales, for instance. Other money leaves the casino economy--special taxes on casino play go off to capital cities never to be seen again (or, in truth, only a small portion of the money will be seen again in a few local services such as salaries for gaming regulators on the sight of the casino). It is unlikely that a central government will give added general services to a local area just because the area is providing an extra share of taxes due to the presence of casinos. Many of the casino's supplies are purchased from sources outside of the area of the casino economy. This is money lost. So too are profits that go to casino owners who live outside of the economic area of the casino. Some casino owners may reinvest monies in the local economy, but few have incentives for doing so, especially if they are not allowed to expand casino facilities.



Casino economies also lose money due to the costs of government services that are not directly offset by casino contributions: extra police protection outside the casino, better roads to the casino, traffic control in the casino area. Also the casino may attract or motivate criminal activity resulting in police and judicial system costs as well as costs of victimization and insurance premiums for those living near the casino. Additionally, the presence of casinos will likely be associated with some increases in pathological gambling behaviors, and these carry costs for society--for the economy of a

If the water comes in at a higher rate than it leaves the tub, the water level rises; if the water comes in at slower rate than it leaves, the water level is lowered

The Las Vegas economy is strong because the overwhelming amount of gambling money (over 90%) comes from visitors

casino area.

All the factors indicated above vary from casino (or gambling) location to casino location. The specific type of casino regulation in a jurisdiction can affect the variations. Laws may require a level of construction activity for a casino, they may stipulate restrictions on the kinds of players, restrictions on advertising. Casino owners may have to be local residents, they may have to give preference to local suppliers, taxes can be high or low. Casinos can be required to pay for extra policemen, or give funds to help programs for problem gamblers. To understand the bottomline effects of a casino we must also know the real (often unstated) reason for the casino's existence. If the casino exists to block the local resident from going elsewhere to gamble, it may be successful without attracting outside players. If the measure of success is job production, however, a large portion of the players will have to be visitors. How many will depend on other variables such as where profits end up, and what the tax rates are.

The Las Vegas Bath Tub Model

The Las Vegas economy has witnessed phenomenal growth in the past few years. This has occurred even in the face of competition from around the nation and world as more and more locations have casinos and casino gambling products. The Las Vegas economy is strong because the overwhelming amount of gambling money (over 90%) brought to the casinos comes from visitors. Visitors also stay in Las Vegas an average of four days, spending much money outside of the casino areas. Las Vegas has money leakages. However, state taxes are very low, and much of the profits remain as owners are local, or if not, they see great advantages in reinvesting profits in expanded facilities in Las Vegas. The costs of crime and compulsive gambling associated with gambling are probably major,

however, many of these costs are transferred to other economies as most problem players return to homes located in other economic areas. Las Vegas is not a manufacturing or an agricultural region so most of the purchases (except for some gambling supplies) result in leakages to other economies. Las Vegas does have several gambling locations--bars, 7-11 stores, grocery stores which represent very faulty bath tubs--bath tubs with great leakages, as almost all of the gamblers at these sites are local Las Vegas residents. But what about Ohio?

The Ohio Bath Tub

A. Where the Money Comes From

To understand how the casino economics bath tub will work in Ohio, we must have a clear understanding of where the money will come from. This is key to the analysis. Essentially, will the money spent on gambling activities (wagering as well as hotels and restaurants) be old money that is already in the Ohio economy, or will it be new money--that is money from tourists who otherwise would not come to Ohio, or money from Ohio residents who would otherwise spend the money outside of the state?

Let us first concentrate upon the gambling money. We may assume that the eight casinos of Ohio will perform as well as expected. Casinos make money. That part of the equation is not in doubt. The projected revenues of the eight Ohio casinos is \$1.161 billion, or approximately \$145 million each per year. The riverboats of the most active jurisdictions--Shreveport, suburban Illinois, etc.--do this well. The best boats approach revenues of \$200 million a year, while the boat at Elgin, Illinois--the nation's best casino boat--is making about \$250 million a year.

The Deloitte Touche study projects that people living within Ohio will spend \$932.0 million, while out of staters will

spend \$228.9 million. However, a large part (\$559.6 million) of the Ohio spending represents New money as it is diverted from being spent on gambling activities elsewhere. In other words, the study suggests that 60% of the money that will be gambled by Ohio residents in the casinos is money that would have otherwise been gambled out of state. On the other hand, a portion of the visitors' gambling spending (\$48.1 million) is considered Old money, as it is believed it would be spent in Ohio anyway in the absence of the casinos. Totalling up the Deloitte Touche numbers we see \$740.3 million New money coming into Ohio via casino gambling, and \$420.5 million Old money being lost by gamblers at the eight casinos.

We challenge these numbers as being totally unrealistic. Our challenge is focused upon the claim that the introduction of casino gambling into Ohio will have the effect of rescuing almost \$560 million that is "now" being wagered elsewhere.

The Deloitte Touche study sees the money being rescued in the following way: 1) 90% of the gambling at Pittsburgh casinos will "come home"--this is \$123 million; 2) About \$280 million will come back from Indiana--59% of the likely amount to be gambled by Ohio residents at two Indiana riverboats near Cincinnati; 3) 87% of the \$126 million gambled at Windsor's casino--or \$110 million; 4) Atlantic City, \$3 million; and 5) One fourth of the money gambled in Nevada by Ohio residents will "come home"--this represents about \$40 million; (These numbers are approximate as the Deloitte Touch report did not isolate gambling expenses from all expenses.)

Let's reexamine each of these jurisdictions and assess the reality of the accountants' report. First the report's figures are based upon a belief that Ohio residents spend \$1.36 billion at out of state casinos. If they do spend that

much, they are spending slightly more than the average Adult in the United States, which is approximately \$110 a year in casino gaming. This is unlikely because Ohio has no casinos, and with the exception of the Nevada markets and a few other markets, most casino gaming in the United States comes from people who live relatively close to casino areas. Twenty-five states have some form of casino games, while twenty have actual casinos.

1) Pittsburgh. The report from Deloitte Touche did include an appendix which offered an analysis of Ohio casinos with a scenario of no Pittsburgh casino. However, the main report's scenario included Pittsburgh as a casino community. To make an assumption that Pittsburgh will have casinos while Ohio does not is ridiculous. The only realistic scenario in which Pittsburgh may have casinos is one in which Ohio puts a casino at Youngstown with the specific purpose of being a parasite on Pittsburgh's economy. Pennsylvania has several times rejected casino gaming by legislative action. The current governor as well as other forces around the state demand that any plan for casino legalization must include a statewide referendum. There is no statewide sentiment for casinos in Pennsylvania. The \$123 million that is due to come home from Pittsburgh, must be considered Old money gambled by Ohio residents.

2) The figure for money returned from Indiana riverboats must be suspect as well. The Deloitte Touche report is suggesting that each of the two Indiana riverboats will produce revenues equal to the leading United States riverboat today, and nearly twice what they project for each of the Ohio riverboats. Moreover, almost all of the revenue of the boats will come from Ohio. But lets assume that the state is losing a lot of money to the Indiana boat. If the Indiana boats' revenues decrease will Ohio be

Our challenge is focused upon the claim that the introduction of casino gambling into Ohio will have the effect of rescuing almost \$560 million that is "now" being wagered elsewhere.

A recovery of money resulting from legalization in Ohio may result in offsets in purchases and wages already coming into the state

helped to the extent that Ohio players come back home, and bring all the Indian money with them? Not at all, because many of the Ohio revenues going into Indiana are being returned to Ohio already. The two boats are within the Cincinnati metropolitan area; they must purchase goods from Ohio companies just like any other Ohio business, and they hire Ohio residents. Considering that their purchasing activity is the same as projected for the Ohio boats--21% of revenues go into purchasing activities with 72% of purchases inside Ohio; and that 90% of their employees live in Ohio--the loss of revenues to Indiana is reduced by \$196 million already. A recovery of money resulting from legalization in Ohio may result in offsets in purchases and wages already coming into the state. Considering that and the overly liberal estimates of Indiana gaming revenues, we might suggest that less than half the

projected \$280 million will return home. After all, even if the boats are very successful, they will continue to market vigorously--even more vigorously--into Ohio when competitive casinos open in Cincinnati. Simply, more money will be gambled by Ohio residents as a result--in both venues.

3) It is suggested that Windsor takes \$126 million out of Ohio gambling pockets each year, and that \$110 million is poised to come home when Ohio opens casinos. This amount (\$126 million) represents about one fourth of the gaming in Windsor, yet Ohio is out of the one hour drive time loop, while that loop includes the Detroit metropolitan area of over four million people. Only the Toledo area with less than one million residents is within two hours of the facility. (A concentric ring model isn't very informative when you consider that

Table 1. Gaming Revenues in Nevada and Elsewhere

| Year | Casino States | Non-Nevada Casinos | | | Nevada Casinos |
|------|---------------|--------------------|-------------------|---------------------|---------------------|
| | | (Commercial) | Number of Casinos | Revenues (Billions) | Revenues (Billions) |
| 1989 | 7 | 2 | 53 | \$2.778 | \$4.996 |
| 1990 | 7 | 2 | 115 | \$3.563 | \$5.481 |
| 1991 | 11 | 5 | 144 | \$4.186 | \$5.569 |
| 1992 | 13 | 6 | 196 | \$5.777 | \$5.862 |
| 1993 | 15 | 7 | 237 | \$8.914 | \$6.218 |
| 1994 | 16 | 8 | 281 | \$9.203 | \$6.990 |
| 1995 | 17 | 9 | 300 | \$14.688 | \$7.366 |

Sources: Nevada Gaming Abstracts (several years); International Gaming and Wagering Business Magazine (several years of August-September issue on gambling revenues in the United States); William N. Thompson, Legalized Gambling: A Reference Handbook, Santa Barbara: ABC-CLIO, 1994).

Table 2. Visitor Volume to Las Vegas and Economic Impacts

| Year | Number of Visitors | Economic Impacts (Billions) | Economic Impacts/ Visitor (Dollars) |
|------|--------------------|-----------------------------|-------------------------------------|
| 1989 | 18,129,684 | \$11.91 | \$656 |
| 1990 | 20,954,420 | \$14.32 | \$683 |
| 1991 | 21,315,116 | \$14.33 | \$672 |
| 1992 | 21,886,863 | \$14.69 | \$671 |
| 1993 | 23,552,593 | \$15.13 | \$643 |
| 1994 | 28,214,362 | \$19.17 | \$679 |
| 1995 | 29,800,000 est. | | |

Source: Las Vegas Convention and Visitors Authority, [Visitor Profiles](#) (several years).

many travellers from Ohio will have to drive around a lake to get to Windsor.) Moreover, the entire Toledo metropolitan area is much closer to Windsor than it is to either Lorain or Cleveland--actually 50 miles from Windsor, 80 miles from Lorain, and over 120 miles from Cleveland. Why would someone want to go to a casino that is further away, and also is configured as a boat? Windsor will soon be a major hotel casino facility. It is very unlikely that \$126 million is being lost to Canada today, but it is safe to assume that no more than one half the amount will return home. We suggest that the state's casino revenues can include \$63 million in new revenue which would otherwise go to Windsor. As this \$63 million is a very high estimate, we should assume that it includes all non-gambling expenditures as well.

4-5) Ohio dollars gambled in Nevada and New Jersey will not come home, at least not without being replaced by more Ohio dollars. Mussolini's argument simply does not stand when you consider the evidence. We present the story in terms of

Nevada. The story is presented in terms of the effects of expanded casino gambling throughout the United States on Nevada casino gambling.

Lets look at the number of states with casinos, the number of states with commercial casinos, the numbers of casinos, the revenues of the casinos outside of Nevada, and the revenues of casinos inside Nevada. Then let's look at the volume of visitors to Las Vegas and their impacts upon the Las Vegas economy. Next we can look at proportions of Las Vegas visitors from various regions of the country and the numbers of casino jurisdictions in those areas of the country.

The figures on the tables lead the reader to a very simple conclusion. The expansion of gambling across the United States has not cut into Nevada markets. Indeed, as gambling expands to new jurisdictions, the proportion of visitors from those regions to Las Vegas remains constant, and in actual numbers increases. The same could be suggested if we offered New Jersey data.

Ohio dollars gambled in Nevada and New Jersey will not come home, at least not without being replaced by more Ohio dollars

Welcome to the minor leagues Ohio—you are a new feeder market, you are a new training ground for the major league casinos

An examination of the tables will reveal that from 1989 through 1995 the number of casinos outside Nevada increased from 53 to 300--there were 247 new casinos. Nevada revenues increased \$2.370 billion over the same period of time. With the addition of each new casino, Nevada revenues went up an average of \$9.6 million on an annualized basis. Maybe this suggests that eight new casinos for Ohio would increase Nevada revenues \$76 million. Maybe more. Over the seven year span gambling revenues outside Nevada increased \$11.910 billion, while the increase in Nevada was \$2.370 billion. For every new \$5.02 outside casinos brought in, Nevada casinos brought in an extra one dollar. If Ohio casinos bring in an extra \$1.161 billion, perhaps we can expect Nevada revenues to increase \$231 million. Also for each extra one million dollars wagered outside of Nevada, Las Vegas gained 900 new visitors. Perhaps the \$1.161 billion to be wagered in Ohio will generate another 1,044,900 visitors for Las Vegas. Welcome to the minor leagues Ohio--you are a new feeder mar-

ket, you are a new training ground for the major league casinos.

Michael Evans, a Professor of Economics at Northwestern University and an author of a study of the favorable impacts of casino gaming throughout the United States recently spoke to the International Gaming Exposition in Las Vegas (October 3, 1996). He said this: "*There is not a shred of evidence to support the hypothesis that riverboat gambling will take gambling away from Nevada or New Jersey.*" He is right. It hasn't happened. It won't happen. If you legalize casinos, what will happen is that Ohio will be joining the minor leagues--just like Las Vegas did when the Stars took the field for baseball play. And just as the Stars have recruited baseball fans for the major league teams, the Ohio riverboat casinos will recruit *new* players for the casinos of Las Vegas, Reno, and Atlantic City. For analysis sake, here we will not consider the added numbers of gamblers that Ohio will be sending to Nevada and New Jersey if the proposed riverboat ca-

Table 3. Distribution of Las Vegas Customers by Region

| Year | Number of Casino States-non Nevada ---Domestic Visitors Only--- | | | |
|------|--|-----------|-----------|-----------|
| | Midwest | East | West | South |
| 1989 | 18%-(4;1) | 10%-(1;1) | 57%-(2;0) | 15%-(0;0) |
| 1990 | 19%-(4;1) | 10%-(1;1) | 57%-(2;0) | 14%-(0;0) |
| 1991 | 18%-(6;3) | 10%-(1;1) | 56%-(4;1) | 16%-(0;0) |
| 1992 | 20%-(6;3) | 12%-(2;1) | 53%-(4;1) | 16%-(1;1) |
| 1993 | 20%-(6;3) | 9%-(3;1) | 58%-(4;1) | 13%-(2;2) |
| 1994 | 17%-(6;4) | 10%-(3;1) | 58%-(4;1) | 15%-(3;3) |
| 1995 | 17%-(6;4) | 10%-(3;1) | 58%-(4;1) | 15%-(4;3) |

Sources: Las Vegas Convention and Visitors Authority, Visitor Profile (several years); William N. Thompson, Legalized Gambling: A Reference Handbook (Santa Barbara: ABC—CLIO, 1994).

sinos come on line. We simply will discount the notion that the proposed boats will bring the gamers home to Ohio.

Also for analysis sake, we need not consider the non-gaming expenditures of these gamblers who are not going to be "coming home." (Nonetheless it might be pointed out that the Deloitte Touche study suggested that each individual Nevada visitor spends over \$1600 per trip, while in fact the statistics of the Las Vegas Visitors and Convention Authority show visitor spending--including gambling, hotel, meals and shows and shopping--to be considerably less--approximately \$600 plus airfare). Also we will consider that gamers who have been retrieved from Indiana and Windsor will have spent only minimal sums of money outside the casinos of those jurisdictions. Ohio residents going to Lawrenceburg are unlikely to spend any money outside the Indiana casinos. The Windsor gamblers will be driving approximately 100 miles. They definitively will not spend money on fuel in Canada, but they will pay bridge (or tunnel) fees, and more on meals. We might assume they will spend 20% more than they gamble, but that amount is already included in the "returned" "new" money estimate presented above.

Our studies of gamers in Wisconsin and Illinois revealed very little expenditures from non-residents outside the casinos. (See William N. Thompson, Ricardo Gazel, and Dan Rickman, *The Economic Impacts of Native American Casinos in Wisconsin*, Milwaukee: Wisconsin Policy Research Institute, 1995; and also, Thompson and Gazel, "Illinois Gamblers: Who Are They," Illinois Better Government Association, June 1996). Among 100 visitors to Illinois, only one couple stayed at a motel during a trip that was planned around gambling. It is unlikely that gambling alone will bring any overnight visitors to Ohio. For those visitors to Ohio who will be spending extra

money gambling, we need not assume that the sole purpose of their trip is to gamble. Quite frankly, out of state visitors will overwhelmingly be persons simply driving in, gambling, and then going home.

Therefore the bottom line input factors as presented on Table 4 on the next page.

B. Leakages: Where the Money Goes

When money is gambled at casinos, it is not simply given to casino owners who then put it into some kind of pillowcase and sleep on it. The money continues to circulate in the economy. This is why the proponents of the Ohio casinos suggest there will be a jobs multiplication if money flows into Ohio and stays in Ohio for some time because of the casinos. What we have to know is whether the New outside and retrieved money and the Old money gambled will stay in Ohio and be recycled, or whether the money will quickly spin out of the state. Actually the calculations are not that difficult. To start with, we have to know quite simply, is more money coming into the casinos from outside the present day Ohio economy than will leave the present day Ohio economy because of casino gaming.

We can make the very simple arithmetic calculations by examining casino expenditures for wages, purchases, state and local taxes and regulatory fees, profits, and federal taxes. In this analysis we will try to closely follow assumptions made in the Deloitte Touche report.

1) Wages, Benefits, and Federal Taxes on Wages

Deloitte Touche suggests that casino wages will be \$286 million. We make the assumption that 90% of the wages will go to Ohio residents and 10% will leave the state. Four of the eight casinos will be located on state borders. Additionally

Our studies of gamers in Wisconsin and Illinois revealed very little expenditures from non-residents outside the casinos

Table 4. Sources of Money Gambled in Proposed Ohio Casinos

| | |
|--|----------------------|
| Gambling money in the Ohio Casinos | \$1.160 billion |
| New Money for Gambling (tourist) | 181 million |
| New Moneys for Gambling (Ohio players “coming home”) | 203 million |
| NEW MONEY | \$384 million |
| Old Money (from Ohio residents) | 729 million |
| Old Money (from existing tourists) | 48 million |
| OLD MONEY | \$777 million |

some high salaried executives with the casinos will be non-residents. This means \$257 million remains, and \$29 million leaves the state on basic wages. However, of the \$257 million, 20% or \$51 million will leave in federal income taxes. The wages will also attract another 25% in fringe benefits. However, 60% of fringes will stay in Ohio and 40% will go to out-of-state sources.

2) Purchases

Deloitte Touche offer data indicating that \$240 million in purchases will be split with \$173 million remaining in Ohio, and \$67 million leaving the state.

3) State and Local Taxes and Fees

Deloitte Touche indicate that there will be \$276 million in state and local taxes, all of which will remain in the state. Additionally, the casinos will pay the costs of regulation, which can be estimated to be *at least* two per cent of the gaming revenues or \$23 million. This money will also remain in the state.

4) Profits and Federal Profits Taxes

After expenses indicated, we can suggest

that \$264 million will remain as before (federal) taxes profits. This represents a profit margin of 22.7% on gaming revenues which is moderate for riverboats. The federal tax bite of 34% represents \$90 million which will leave the state. The remaining \$174 million will be split between instate owners and out of state owners. Two Ohio based companies are active in the campaign for casinos, and they will likely be involved in some casino ownership. However, on an open bidding process, it is more likely that established national casino companies will win the licenses. They have the experience and they have the access to capital to make the strongest applications for casino licenses. Most of the national companies will be publicly traded companies. While we think that almost all

Table 5. Casino Expenses/Wages

| | OHIO | OUT OF STATE |
|------------------------|----------------------|----------------------|
| Wage minus Federal Tax | \$206 million | \$23 million |
| Federal Tax | | \$57 million |
| Fringes | \$43 million | \$29 million |
| TOTAL | \$249 million | \$109 million |

**Table 6. Total Casino Expenses/
Direction of Flows**

| | OHIO MONEY | LEAK- AGES |
|---------------------------|----------------------|----------------------|
| Wages/ Benefits | \$249 million | \$109 million |
| Purchases | \$173 million | \$67 million |
| State/Local Taxes/Fees | \$299 million | |
| Federal Corp Tax | | \$90 million |
| Retained Profits | \$35 million | \$139 million |
| TOTAL | \$756 million | \$405 million |

the ownership will be in the hands of non-Ohio residents, we will assign 20% of ownership to Ohio residents. Hence they will retain \$35 million of the profits in Ohio, while out of state owners will take \$139 million away from the state.

5) A Note on Reinvestment

The Ohio casino plan is not a plan that will encourage reinvestment of the casino profits into casino facilities. The casino boats will have finite sizes. Also the number of licenses is fixed. The economic magic of Las Vegas is incorporated in an open market philosophy that allows all qualified operators to reinvest profits into expanded and new casinos. Ohio operators won't have this option. Profits will be directed to other activities. Out of state held profits will remain out of state.

6) Totaling It Up: Retained Funds and Leakages

**C. The Ohio Bath Tub Leaks TOO Much
Monetary Effects**

The monetary effects of the legalization

of eight riverboats casinos are negative. *The casinos bring in \$384 million new dollars for Ohio. But the casinos lose \$405 million.* On balance this is a \$21 million loss for the state. The accountants can now add multipliers which will result in numbers approaching \$40 million in losses for the state economy.

Local Monetary Effects

The Deloitte Touche report indicates that \$819 million of the \$1.161 billion gambled and lost at the casinos will come out of the pockets of local residents living within 50 miles of the casinos. If the "coming home" proportion of this spending is the same as analyzed above--21.8%--we can assert that \$640 million of the \$1.161 billion gambling money comes from locals. To this we can add the \$48 million from tourists who are already spending the money in the local areas of the casinos. This means that \$688 million is "old" local money, while \$473 million will be "new" money for the local economy.

We will assume the same split in wages (\$249 million remaining local; \$109 million leaving the local area--and state), and purchasing (\$173 million remaining and \$67 million leaving the area--and

Table 7. The Local Balance Sheet

| | | |
|-----------------------|----------------------|----------------------|
| Wages/ Benefits | \$249 million | \$109 million |
| Purchases | \$173 million | \$67 million |
| Regulatory Fee | | \$23 million |
| State Local Taxes | \$110 million | \$165 million |
| Profits | \$18 million | \$156 million |
| Federal Corp Taxes | | \$90 million |
| TOTAL | \$550 million | \$610 million |

The Ohio casino plan is not a plan that will encourage reinvestment of the casino profits into casino facilities

Any gains that may be realized will certainly be more than offset by certain other costs that are known as social costs

state). The \$23 million in regulatory costs will leave the local area as casino control activities will be based in Columbus. Eighty percent of the casino taxes will leave the area. Other local taxes will remain. The new tax split will see \$56 million remaining in the local area, and \$220 million leaving the local area for Columbus authorities to spend in schools throughout the state. We can assume that one fourth of this money will return to the local areas, making the actual state and local split \$110 million local and \$165 million state (outside local areas). Only one half of the state owners' profits will remain in the local areas; hence profits will split \$18 million local and \$156 million leaving the area. The \$90 million in federal taxes will leave the area.

The leakages of \$610 million greatly exceed the \$473 million that may be brought into the local areas of the casinos. The monetary loss of \$137 million belies any notion that the casinos will become vehicles for economic development and jobs in the casino communities.

A Note on Construction

The establishment of eight casinos will certainly bring an influx of construction activity to the casino communities. However, the activity may not be long term. We must also be aware that riverboats as contrasted with landbased casinos may be constructed out of state. Be that as it may, the construction costs will not produce long term economic benefits. If the money for construction is taken from Ohio sources and would otherwise have been spent on other Ohio construction, there is no gain at all. If the funding is from out of state, there is a temporary gain. However, this gain will be followed with future losses as the casino establishments must export funds to repay construction loans.

A Note on Non-Gaming Expenditures of Tourists

While we have accepted the notion that a large number of visitors will spend new money (which they otherwise would not spend) on gaming at Ohio casinos, we do not accept that they will otherwise spend large sums of money on other Ohio activities just because the state has casinos. Any gains that may be realized, and they are projected in the Deloitte Touche study, will certainly be more than offset by certain costs that will attend the establishment of casinos but have not yet mentioned, these include costs of regulation and infrastructure improvements, and other costs that are known as social costs.

D. Regulation and Infrastructure

We have suggested that the regulatory costs incurred by Ohio (and paid for out of casino revenues) will be approximately two percent of the gaming revenues. While this \$23 million will not leave Ohio, it can be considered a monetary loss for the state, as it is a cost that subtracts from the state's ability to realize other economic improvements with this money. Similarly, the local areas will receive four percent of the casinos' gaming revenues in city and county gaming taxes (this is part of the proposed Ohio gaming tax of 20 percent). The purpose of this projected \$46 million for local governments is to offset the costs that the local governments will have to undertake in order to meet service needs of the casinos that will not be covered by other taxes--improved infrastructures (namely roads, interchanges), and policing costs. This \$46 million is also money that cannot be used for economic development activity.

The Social Costs of Gambling

A. Crime

Many efforts have been made to assess the amount of crime that is generated with the introduction of casino gambling. A recently completed study of crime rates in Wisconsin counties suggests that basically rural state with less than one half the population of Ohio has incurred additional criminal justice system costs of about \$50 million a year since casinos were introduced into 14 counties in 1992. (See Thompson, Gazel, and Rickman, *Casinos and Crime in Wisconsin*, Mequon WI: Wisconsin Policy Research Institute, in print--to be released November 1996).

B. Compulsive gambling

This writer and his colleagues also made a survey of compulsive gambling in Wisconsin. A telephone survey using the DSM-IV (Diagnostic Statistical Manual) problem gambling prevalence questionnaire determined that Wisconsin had a rate of serious problem gambling of 0.9% of the adult population. Of this rate, we determined that the introduction of casinos added .38% of adult population to the list of serious problem gamblers. (See William N. Thompson, Ricardo Gazel, and Dan Rickman, *The Social Costs of Gambling in Wisconsin*, Milwaukee: Wisconsin Policy Research Institute, 1996). We can expect that numbers of Ohio residents adversely impacted by the introduction of casinos would be much larger because the casinos are purposely being placed into urban areas. The Wisconsin casinos were mostly placed in rural areas as they were confined to Native American lands. Nonetheless by using the very low Wisconsin rate, we can get some notion of how extensive the problem of compulsive gambling will become if casinos come to Ohio.

The evidence strongly suggests that the introduction of casino gambling will gen-

erate as much problem gambling as there is in Wisconsin. Ohio has 8,196,000 adults (1992). Casinos will cause at least 0.38% of them to fall victim to compulsive gambling behaviors. We can expect that Ohio will have an additional 31,145 serious problem gamblers if casinos come to the state.

What will this cost society? We followed up our prevalence survey with intensive interviews with problem gamblers. We used low estimates of the costs of the problems they described to us. We were able to discern that *each* serious problem gambler who plays in casinos *on average* imposed costs of \$10,113 (Total) upon society each year he or she was gambling. Compulsive gambling careers typically lasted three years before the gambler sought treatment or "bottomed" out. Not in our cost category was the finding that 24% of the serious problem gamblers attempted to commit suicide. The \$10,113 was broken down as follows: The casino gamblers imposed costs of \$2,836 each year because of employment problems--lost work, lost productivity due to unemployment, and unemployment compensation. Bad debts and moneys stolen by the problem gamblers added \$3,802 to their annual social cost. Twenty-three percent went through bankruptcy. These court costs as well as judicial system costs for the gamblers who committed crimes, were arrested, and incarcerated came to \$2,551 per year (averaged among all the problem gamblers--even those without court histories). Therapy and health costs covered by insurance added \$922 to the costs.

Multiplying these very low estimated costs by the number of expected adults who will succumb to the pathologies of gambling *when casinos are introduced into Ohio*, we project that 31,145 compulsive gamblers will cost Ohio society \$314,969,385 each year. This money will not be flying out of the state, but it might as well be. Over three hundred

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million dollars will be taken away from the productive sectors of Ohio's economy. And that's real money. Casinos work in Las Vegas because over 90% of the money gambled is indeed "new" money from non-residents. But the Las Vegas "miracle" also works because no one in the state wishes to examine the social costs of the commercial phenomenon that we have chosen as the lead engine for our economy. Ohio has a chance to reflect on these costs and benefits of casino gambling before the industry enters the state. Serious consideration of the issues raised in this report is essential unless the state wants to be railroaded and derailed from tracks that can lead Ohio to prosperous genuine economic growth.

On Economic Impact Statements

Economic impact statements concentrate on specific activities that in truth are difficult to separate from other activities, and also in truth are difficult to isolate to specific places and specific times. Both this analysis and the Deloitte Touche analysis have attempted to look at casino gambling separate from all other activities and specific for the geographical area of Ohio, and for a single future year. This writer recognizes that there are limits to the approach Deloitte Touche and myself have taken. In truth what happens with or without casinos affects other spending. In the absence of casinos, Ohio residents will spend money on other things. The other things may include hard consumer products or services. We have not attempted to assess what the economic impacts of the other alternative spending activities would be. Certainly there are positive and negative flows of money associated with purchases of other kinds of goods and services. Moreover, the economy of the United States is not isolated into 50 distinct state economies. The economy of southern Indiana is certainly closely linked with the economy of southwestern

Ohio in many intricate ways. Even the Las Vegas economy is linked to Cincinnati in ways beyond recruiting gamblers. Cincinnati furnishes most of the playing cards used in Las Vegas casinos. The bottom line is that we have to make generalizations. We have made generalizations.

I would like to offer two more generalizations: casino gambling is different in two ways. First, casinos in non-competitive markets in the United States--such as the proponents wish to have in Ohio--make exorbitantly large profits. This leads to greater flows of money out of local economies, in terms of both profits and federal taxes, than are witnessed for other products or services. Second, the costs of externalities for gambling are extremely high. Perhaps the costs of alcohol and tobacco use are comparable or maybe even greater (death rates are certainly greater than gambling suicide rates). Nonetheless it would be difficult to find any other legitimate service industry that presents the extent of social costs attending the crime and pathological behavior associated with gambling.

The bottom line is that it is very tough to make a casino bath tub work. Las Vegas does, but as suggested, it may not work as well as some industry spokespersons would like to suggest. The casino economics bath tub simply will not work at all in Ohio.

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