



Casino Gaming in Massachusetts: The Devil is in the Details

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IT'S NOT EASY TO MEASURE THE PURPORTED GOOD AND BAD EFFECTS OF LEGALIZED GAMBLING BUT IF CASINOS DO COME TO MASSACHUSETTS, THEY WILL NEED TO BE VERY WELL REGULATED.

Rather than try to make a case for or against, my aim here is to delineate some of the benefits and costs associated with casino gambling, both from a social and economic point of view.

Social Problems

Clearly, as opportunities to gamble increase so do the incidences of gambling problems and addiction. In other words, as the “casino gambling” market expands, so will the social costs associated with it. However, measuring these costs is extremely difficult. One cannot merely multiply numbers to establish what these costs would be. For example, one commentator used this method: 5 percent of the population has a gambling problem (this is a fairly high figure and the vast majority of problem gamblers do not become addicted to gambling) times \$500,000 cost

per problem gambler (whether this figure is high or low is highly debatable) times the total population. With this number, this commentator established that social costs of gambling would be three times higher than revenues garnered from gambling. Needless to say, this oversimplified methodology leaves much to be desired, especially in that it does not take into account demographic and economic variables that would have an impact on the rate and severity of the compulsive gambling problem.

One could argue that Massachusetts is already paying for the addiction of its citizens who are currently visiting the Native American casinos in Connecticut or the racinos in Rhode Island. Another problem with measuring the social costs of gambling is the high rate of co-morbidity: addicted gamblers have a high incidence of addiction to other types of addictive behavior such as alcohol and drug

abuse. So how does one establish which “addiction” has caused the social costs?

Obviously, the state needs to set aside additional funds to help with problem gambling and not merely write off a segment of our population. In general, Governor Patrick’s proposal does a good job of addressing these concerns with a generous 2 percent of the revenue being earmarked for problem gambling programs as well as sponsoring research on compulsive gambling.

Yet there is a potential problem with this proposal. If lottery revenue is any indicator of how the legislature will treat casino revenue, the compulsive gambling issue will not be taken very seriously. Currently, funding for compulsive gambling comprises less than .01 percent of total lottery revenue. Another problem could be the legislature’s inability to resist the temptation to dip into these compulsive gambling funds in order to balance the budget when deficits eventually develop. Given the Massachusetts legislature’s past performance with the tobacco settlement funds, it seems unlikely that it will exercise such restraint. There must be a clear provision in Governor Patrick’s proposal that the legislature can not find ways to re-appropriate funds intended for compulsive or problem gambling. It will be interesting to see how serious the legislature is about this issue.

Economic Consequences

The economic consequences of expanding casino gambling can be divided into two parts. First, there is the question of whether casino gambling will provide a continuous revenue stream that does not cannibalize existing forms of gambling such as the state lottery. Like most products, the lottery experiences a life cycle and is clearly at least in its mature phase if not in outright decline. So while casino gambling might hurt any attempt to revive lottery sales, it probably will not contribute to the lottery’s decline. Lottery sales are highest in the winter months; casinos in the Northeast have their best months in the spring and fall. Lottery players and casino gamblers are in most cases distinct markets. In fact, the evidence demonstrates that in every one of the nine lottery states with commercial casino gambling, the total contribution of gambling revenue (i.e., the sum of lottery and casino revenues raised by the state) has increased with the introduction of casino gambling. The most recent example is Pennsylvania, which has almost doubled its gambling revenue with its introduction of 61,000 slot machines throughout the entire state. There is no reason to suppose that the Massachusetts experience would be radically different than these states.

The question does become, however, just how dependent state government should become on gambling revenue. Will the state become addicted to this revenue? How

far will the state go to protect gambling revenues? How will Massachusetts deal with the Internet and sports gambling issues? These are questions that both the governor and legislature need to answer as we begin to expand gambling.

Finally, Governor Patrick’s proposal for three destination casinos is quite unusual — and controversial — in its claim to emphasize economic growth. It is not clear that Massachusetts can support three large casinos. Two casinos make sense; the placement and financing of the third is much more problematic.

I believe that four criteria have to be fulfilled if casino gambling is going to contribute to the economic growth of a city or region. They are:

- Effective regulation
- Effective planning
- Free-market forces
- Realistic expectations.

So the crucial question is: can the Commonwealth of Massachusetts enact legislation to achieve these goals?

Effective Regulation

Gambling requires sharp, unwavering focus on integrity. The public’s confidence as well as that of investors must be maintained. The type of regulation that works best must be comprehensive and detailed. New Jersey is probably the model for good regulation of gambling but my home state of Pennsylvania had a major scandal in less than a year. What accounts for the difference? In New Jersey, the legislature passed comprehensive casino legislation and then refrained from influencing the licensing process. In Pennsylvania, the exact opposite occurred. The moral of this story is that legislatures need to do their job at the legislative stage. As a practical matter, I would recommend that the legislature set up a gambling commission completely independent of both the legislature and the governor. The commission should then be allowed to appoint its own members, with six-year, non-renewable terms. Above all, the rules and regulations must be clear.

Effective Planning

In the event that casino gambling is legalized, Massachusetts must build infrastructure that encourages tourism, transportation, housing, and retail shops. There must be minimum size standards for casinos to avoid a proliferation of small gaming establishments. It would be a mistake to have slot machines all over the state. This arrangement is much more difficult to regulate, and encourages corruption. The state will need to develop tax and other incentives to encourage additional investment by the casino firms. But here is the rub. The state will also try to set rules that protect existing small businesses. The state

may also try to maximize tax revenue. The problem here is that you cannot meet all of these objectives. The state will need to establish priorities and stick with these priorities. Is revenue or economic development the main goal? How does the state balance these concerns?

Gambling must be viewed as part of a tourism infrastructure, working in tandem with other businesses from conventions to sports teams to attract visitors from outside the state.

Free-Market Forces

Some aspects of casino operations ought to be deregulated in the long run so that they can compete among themselves to the benefit of the gambling public. Competition should be encouraged with regard to both the odds of winning as well as casino comps (incentives offered to high rollers). Although the state should make sure there are minimum payouts, it should allow the casinos willing to give more than those minimums the right to advertise the fact.

Also, it is important to remember that casinos will compete against any business that targets discretionary income. These include movies, professional sports teams, theaters, museums, and restaurants and taverns. Joseph Schumpeter, the famous economist of economic growth, maintains that for there to be economic growth there first needs to be “creative destruction.” Hence some entertainment industries will suffer decline or destruction if casino gambling is introduced. The question here is whether the legislature or the governor will allow this destruction to take place.

Realistic Expectations

First and foremost, casino gambling cannot miraculously solve the economic woes of a city or region. Second, the existing local population will not have an automatic edge in participating in the growth of a casino. For example, in Atlantic City the local population did not benefit nearly as much as the entire surrounding region because the city’s poor lacked the operating skills possessed by suburban workers. So it would behoove state government to set up training programs to allow disadvantaged individuals to plan and invest in their future. The towns and regions that play host to casinos will also have to keep their expectations realistic. Although a casino will certainly provide additional revenue and growth, it cannot be the sole economic engine of a region.

Conclusion

So where does the proceeding discussion leave us in the debate over casino gambling? If casino gambling comes to Massachusetts, it could provide some needed revenue as well as some economic development in areas that are ready to provide it with the necessary skilled workers. Expectations have to be kept realistic and serious concern

for those who will suffer from gambling addiction will have to be maintained.

When one examines all the questions that surround casino gambling, it becomes clear that the onus is on public policy makers to develop consistent and detailed regulations for the casino industry. It is also crucial that, once public policy officials make these regulatory policies, they stay out of the regulatory process. Establishing tough, fair, and transparent regulatory policies for casinos in the state is essential to the ultimate success of this endeavor. If the legislature can achieve this aim, then in my opinion the introduction of casino gambling has value. But if one thinks that the legislature is not up to the challenge of establishing such regulatory policies, then casino gambling should not be introduced in Massachusetts. ◀

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