

Economic Impacts of Commercial Casinos and On-Line Gambling

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ABSTRACT

The United States has been transformed from a nation in which legalized gambling was a limited and relatively rare phenomenon into one in which such activity is common and growing. The global growth of gambling and the popularity of the Internet have led to a substantial increase in the prevalence of Internet gambling. The massive growth and rapid transformation of the gambling industry have had significant economic impact on individuals, communities, and the country. This study explores the economic consequences that traditional, racetrack, and online gambling have on the nation. Such effects are evident through various factors including tax revenues paid, the number of individuals employed, and the revenues generated by the gaming industry. Furthermore, the limited regulation and accountability of on-line gambling is explored. The findings of this study may be useful to politicians, gaming proponents and opponents, parents, federal and state policy makers, community leaders and city officials who

are interested in generating additional revenues for their state through traditional gambling while regulating the ever-growing problem of on-line gaming.

1. INTRODUCTION

Gambling is the act of staking money or anything of value on the outcome of a competition (Bell, 1999). The popularity of gambling throughout history suggests that this phenomenon serves some basic functions for mankind as well as for the social order. Gambling in its generic and commercial forms may add excitements and risk-taking to our lives. It may allow people to feel that they have some control over their lives that otherwise might seem futile (Thompson, 2001). People of all societies throughout history have known gambling. Compulsive gamblers in biblical Egypt were sent to the mines to work off their debts (Kish, 1999). Further, when archaeologists excavated the tombs of the pharaohs they found dice besides the mummies. Interestingly the dice were shaved, that is, they were crooked (Thompson, 1997).

Gambling in the United States, despite all of the Federal and State restrictions, is the leading industry in the country, both in the number of participants and the amount of transactions involved. It surpasses the combined total revenues of the 100 largest industrial organizations in the country, including U.S. Steel, General Motors, General Electric, Metropolitan Life and Ford Motor Company. Today, approximately 90 million adult Americans are gambling regularly and spending 500 billion dollars annually in traditional casinos, providing an instant economic boost to the economy (Wilcox, 2002). As a testament to the economic power of this activity, gambling has made Las Vegas the fastest growing city in America (Smith, 1999).

Technology and competitive pressures have introduced new forms of gaming, with the Internet promising to redefine the entire industry (Berns, 1999). In 1996, there was a handful of on-line gambling sites, but now there are between 500 to 800 virtual casinos, sports books, and lottery outlets. The revenue from these venues totaled approximately one billion dollars in 1998 and they are expected to reach 10 billion dollars by the end of 2003 (Bell, 1999). However, anti-gambling proponents have banded together in an attempt to outlaw Internet gambling. Despite such efforts, history has proven that anti-gambling legislation has been ineffective in preventing industry growth (Dibbell, 1999).

1.1 Statement of the Problem

A few decades ago, legalized gambling was confined to casinos found in Nevada and a limited wagering on horse races or charity bingo games. During the 1960's, the state of New Hampshire turned to public lotteries as a way of generating tax revenues. This approach was adopted by several other states to increase their revenues. According to the National Gambling Impact Study Commission, there are approximately 5 million adults that are problem gamblers. The study also reports that the percentage of 16 and 17 year olds who are at risk of becoming problem gamblers is twice that of adults (Clarke, 1999). Credit card companies are watching reports on on-line gambling carefully. On-line gambling is a lucrative industry as revenues are projected to surpass 3 billion dollars in 2002. However there are several lawsuits have been filed against credit card issuers for losses incurred by people who have gambled on-line and used their credit cards (Etzel, 2000).

Internet casinos are an attractive medium for criminals to launder their unlawful gains, because of the difficulties encountered by authorities in tracking such cyber transactions. Internet gambling not only makes it difficult to monitor financial transactions, it also makes it hard to decide which jurisdiction has authority over a case (Clarke, 1999). With Internet access, underage individuals can participate in on-line gambling rather anonymously. Therefore, underage gamblers can use their parents' credit cards or even their own debit cards to register and set up accounts for use at Internet gambling sites (Nash, 1999).

Most Internet Service Providers (ISPs) hosting Internet gambling operations are physically located offshore. As a result the operators can alter, move, or entirely remove sites within minutes. This mobility makes it possible for dishonest operators to take credit card numbers and money from deposited accounts and immediately close down (Heller, 2001).

Computer hackers or gambling operators may tamper with gambling software to manipulate games to their benefit. Unlike the physical world of highly regulated commercial casinos, assessing the integrity of Internet operators is impossible. The global dispersion of Internet gambling operations makes the vigilant regulation of the algorithms of Internet games nearly impossible (Powers, 2001).

1.2 Statement of the Objective

With roots extending back to Colonial times, gambling has always played a role in Americans' leisure activities and the government's pursuit of revenues. The growth of gambling is astonishing. In 1998, 86 percent of Americans reported that they gambled at least once with a total lost of 50 billion dollars in legal wagering, a figure that has increased every year for the last two decades, often at double-digit rates (Holloway, 2001). The objective of this research project is to examine the economic effect of traditional and on-line gambling on the average community. Specifically, the study will concentrate on positive outlook of gambling on the local economy. The results of this study should be valuable to federal and state policy makers, community leaders and city officials who are interested in creating revenues for their state through gambling.

2. BACKGROUND

The most significant benefits of gambling industries are employment and taxes. In 1996, Arthur Anderson, an accounting firm, conducted a study on behalf of the American Gaming Association to determine the influence of casino gambling on the American economy. They found that in 1995 the casino industry recorded 25 billion dollars in total revenues and paid a total of 2.9 billion dollars in taxes to the local governments (Dibbell, 1999). The consequence of gambling are crime and social issues. Studies found that many problem gamblers steal or commit other crimes to finance their habit. According to the National Research Council, as the access to money becomes limited, gamblers often resort to crime in order to pay debts, appease bookies, maintain appearances and acquire more money to gamble. In a survey of 400 Gamblers Anonymous members, 57 percent admitted to stealing to finance their gambling (Vitar, 1999).

2.1 Commercial Gaming Organizations

Most commercial gaming organizations, whether privately held or publicly traded, are new or have experienced rapid growth and change in the past decade. This has required the accumulation of a wide variety of business skills, including marketing, human resource management, customer service, and strategic planning (Cornelius, 1999). Casinos gambling is one the last forms of gaming to be accepted and legalized in the United States (Gibbs, 2002). Casinos typically pay different kinds of fees and taxes based on the nature of their business. Fees are charged for licensing activities and for having individual numbers of machines or gambling tables. Taxes are assessed on the gross gambling earnings (Wilcox, 2002). A number of states are hoping that expanding gambling helps their budget problems. Despite continued debate about the economic and social validity of gambling, its role as a source of revenues is gaining more attention as other state revenue sources fail.

2.2 Internet and Gambling

Virtually all observers agree that on-line gambling will revolutionize the way Americans gamble. The Financial Times has estimated that the Internet gambling market will reach annual revenues of 10 billion dollars in the next millennium (Simpson, 2001). This form of gaming does not provide jobs or generate tax revenues. In addition to underage gamblers, Internet gambling has the same problems as traditional gambling. Preventing underage players from gambling in Internet is particularly a challenging issue since the Internet provides the highest level of anonymity for gambling. Screening customers to determine their age is difficult at best. According to a report from NetValue, an Internet intelligence company, 16.8% of visitors to on-line gambling sites were aged 17 and under. Given their knowledge of computers and familiarity with the Internet, teenagers may find gambling on the Internet particularly appealing.

2.3 Prohibiting and Regulating Internet Gambling

The justifications for prohibiting on-line gambling fall into Sovereignty, Consumer, and Economic protection categories.

Sovereignty protection - Each jurisdiction has its own policy on gambling which takes into account the moral, legal and economic considerations that will best address the needs and desires of its population (Wilcox, 2002). Internet gambling nullifies this form of protection by making casino gambling and sports betting available to all citizens with access to a computer.

Consumer protection - It is clear that the government will not have the same control over on-line gaming sites the way that it does over brick and mortar casinos. This raises concerns about Consumer protection, and the following questions are asked: can there be fairness in this type of gaming for the consumer, what are the financial resources of the operators, is there an effective way to settle disputes between customers and operators and can we protect children from this activity?

Economic protection - Jurisdictions, which have traditional casinos, offer economic benefits to the community in the form of jobs and taxes. These businesses are closely regulated and participate in programs to address the social problems associated with gambling activities, this provides Economic protection. Internet gambling creates no local economic benefits and leaves all resulting social problems to be addressed by someone else (Nash, 1999).

There are two arguments concerning the regulation of Internet gambling. The first one is that Internet gambling is already a reality and even if legislation prohibits Internet gambling, attempts at enforcement would be ineffective. The second argument for regulation is if Internet gambling exists and cannot be effectively prohibited then it should be regulated so the government could have control over it. This form of gaming could provide some economic benefits for the regulating state as traditional casinos presently do (Shaffer, 2001). According to the National Gambling Impact Study Report, the countries that have legalized Internet gambling are: Australia, Antigua, Barbuda, Austria, Belgium, Cook Islands, Costa Rica, Curacao, Dominica, Dominican Republic, Finland, Germany, Grand Turk, Grenada, Honduras, Liechtenstein, Mauritius, St. Kitts, St. Vincent, South Africa, Trinidad, Turks, and Calicos. With this many countries involved in this practice there is an abundance of information regarding the legalization of Internet gambling (Soat, 2002). Australia is the only top-level country with a history of reliable and efficient regulation of traditional casinos. Australia is the country that could change legislators' perception on Internet gambling because Australia has adopted legislation that will authorize and regulate Internet gambling in a credible and effective manner.

3. RESEARCH METHODOLOGY

3.1 Data Gathering

To acquire information regarding traditional and on-line gambling, an extensive search was conducted using off-line and on-line resources. The most comprehensive on-line source of gambling information including the gambling activities of individual state is American Gaming, <http://www.americangaming.org>. The primary requirement for inclusion of state in this study was that the presence of legalized casino gambling. It should be noted that as of today, on-line gambling is illegal in the United States. Thus, it is very difficult to obtain accurate and comprehensive information.

3.2 Variables Selection

Two models were created and utilized in this research project. A model for traditional gambling was devised containing information about legalized gambling in the United States. This model consists of states with legalized casino gambling. The categories are the number of operating casinos, number of casino employees, amount of wages casinos paid to employees, tax revenue, casino revenue and state tax rate on gaming. This study specifically examined traditional gambling on the state level to identify the economic impact traditional casinos had on the communities in which they are based. The topics investigated include the jobs casinos provide to local citizens and how much tax revenues the casinos generate. The second model concerned Internet gambling and consisted of the number of gamblers, gambling revenue and the growth of on-line gambling.

3.3 Research Issues Examined

The primary objective of this research project is to ascertain the economic impact of legalized gaming on the community. The secondary objective is to determine what the economic impact of on-line gaming is. Eight research issues were formulated and examined in this research project and are listed below:

- Issue 1. How many states have traditional casinos?
- Issue 2. How much tax revenue did casinos generate for the local community?
- Issue 3. What was the tax rate of the traditional casinos?
- Issue 4. How many jobs were created by the traditional casino industry?
- Issue 5. How many states have racetracks and what was the economic impact of racetracks on the state?
- Issue 6. Has the on-line gaming grown since 1997?
- Issue 7. Are there parental controls on on-line gaming sites to keep children from gambling on-line?
- Issue 8. How effective is technology in promoting on-line gambling?

3.4 Method of Analysis and Presentation

The economic impact that traditional gambling has on each state was determined by analyzing the following categories.

- States that have legalized casino gambling
- Number of casinos in each state
- Employee wages
- Tax revenues
- Casino revenues
- Programs that benefited from casino taxes
- State tax rate

4. FINDINGS

4.1 Traditional Gambling

Research issue 1 was concerned with the number of states the traditional casinos. As illustrated in Table 1, 11 states have traditional casinos. Research issue 2 was concerned with the amount of tax funds generated by such casinos for their local communities. Table 2 shows that Nevada generated the highest revenues with 688 million dollars while South Dakota collected only 4.5 million dollars. Research issue 3 was concerned with the tax rate of traditional casinos.

State	Number of Employees
South Dakota	1,458
Colorado	7,132
Michigan	7,599
Iowa	9,226
Missouri	10,516
Illinois	11,000
Indiana	16,000
Louisiana	18,620
Mississippi	32,510
New Jersey	49,592
Nevada	205,151
Total Jobs	364,804

Source: American Gaming Web site

Table 1: Commercial Casino Jobs (2001)

Table 2 illustrates that the tax rate varied from 6.25 percent in Nevada to 35 percent in Illinois. Nevada has over 250 operating casinos, resulting in a lower tax rate. Research issue 4 was concerned with the number of jobs traditional casinos generated. Table 1 illustrates that traditional gambling generated approximately 365,000 jobs in 2001. Nevada had the largest number of jobs in the gaming industry with over 200,000.

According to Table 2, the average state tax is 17.7 percent, employee salary totaled 11.5 billion dollars and the casinos generated approximately 26.9 billion dollars in revenues while paying approximately 3 billion dollars in taxes.

State	Number of Casinos	Employee Wages (millions)	Casino Revenue (millions)	Taxes and Licenses (millions)	State Tax Rate (percentage)
Colorado	43	\$194.8	\$631.8	\$92.0	20%
Illinois	9	\$367.1	\$1800.0	\$555.2	35%
Indiana	10	\$517.5	\$1800.0	\$492.6	20%
Iowa	13	\$255.9	\$922.9	\$216.9	30%
Louisiana	16	\$534.8	\$1800.0	\$374.8	21.5%
Michigan	3	\$309.3	\$1000.0	\$219.3	18%
Mississippi	30	\$1000.0	\$2.7	\$322.6	8%
Missouri	11	\$269.0	\$1100.0	\$322.7	20%
Nevada	247	\$6800.0	\$9500.0	\$688.0	6.25%
New Jersey	12	\$1200.0	\$4300.0	\$342.4	8%
South Dakota	40	\$23.5	\$58.6	\$4.5	8%
Total	434	\$11471.9	\$22916.0	\$3308.3	Average 17.7%

Source: American Gambling Website

Table 2: Economical Impact of Commercial Casinos (2001)

According to Table 3, most states spend their tax revenues on education, local government, and general fund program. However, South Dakota uses its funds for tourism, commission, and a local county. The source of information that was used in Table 3 can be found in the American Gaming website.

Colorado	Local communities, historic preservation, general fund
Illinois	Education, local government
Indiana	Economic development, local government
Iowa	Endowment, local taxes, gamblers treatment, school, infrastructure, general fund, Vision Iowa
Louisiana	General fund, city of New Orleans, state capital improvement, rainy day fund
Michigan	Public safety, youth programs, tax relief, education, infrastructure
Mississippi	Housing, education, transportation, health care services, youth programs
Missouri	Education, gambling treatment, veterans programs, early childhood programs
Nevada	Education, local government, general fund
New Jersey	Transportation, education, local government, economic planning, health
South Dakota	Tourism, Lawrence County, commission fund

Table 3: Programs that benefited from tax revenue

4.2 Racetrack Gambling

Research issue 5 was concerned with the number of states with racetrack casinos as well as the economic impact of these casinos on the community. Table 4 illustrates that six states have racetrack casinos and generated approximately 2.1 billion dollars while paying approximately 515 million dollars in taxes. Nearly 800 people were employed by such gambling facilities

State	Jobs	Government Tax (millions)	Revenue (millions)
Delaware	1,782	\$185.6	\$526.6
Iowa	2,606	\$93.8	\$307.4
Louisiana	700	*N/A	*N/A
New Mexico	350	\$21.9	\$87.9
Rhode Island	745	\$109.7	\$771.0
West Virginia	1,745	\$166.8	\$433.8
Total	7,928	\$577.9	\$2100.0

*N/A, this property did not open until February 2002.

Table 4: Programs that benefited from tax revenue

4.3 Online Gambling

Research issue 6 was concerned with the growth of the on-line casino industry since 1997. The number of on-line casinos has steadily increased since 1997. According to Table 5, the number of gamblers and the amount of money wagered increased annually despite the fact that on-line gambling is illegal.

Year	1997	1998	1999	2000	2001
Number of gamblers (millions)	0.9	14.5	25.4	34.8	43
Gambling revenue (millions)	\$1,009	\$2,182	\$3,922	\$5,555	\$7,080

Table 5: Growth of On-line Gaming Industry

Research issue 7 was concerned with parental controls on-line gaming sites. Out of 20 websites explored, only one employed parental controls, indicating that such sites were not concerned with prohibiting under-age gambling. In fact, these sites may be targeting young players by misrepresenting themselves as video gaming rather than actual gaming. Research issue 8 was concerned with on-line casinos using technology to persuade people to gamble. Today on-line gambling employs a combination of graphics, animations, and games. This experience makes the users feel as though they are playing a video game rather than gambling.

5. CONCLUSIONS AND IMPLICATIONS

This study investigated the economic impact of various forms of gambling on the local community. Factors considered include revenues generated by the gambling industry, number of community members employed by the gambling organizations, tax revenues paid, and ever growing impacts of on-line gambling. The implications of this study are very clear in terms of the economic impact gambling has on the community. The findings show that gambling has helped the economy of local communities as casinos are an important part of a community's entertainment and tourism options. Local communities with commercial casinos typically have more job opportunities. Such casinos provide tax revenues to the state, which in turn helps local communities enhance the infrastructure, schools, and other projects. Traditional casinos are subject to federal corporate taxation and must comply with Securities and Exchange Commission regulations. On the other hand, Internet gambling, as it exists today, allows an unlicensed, untaxed, unsupervised operator to engage in wagering that is normally subject to strict federal and state regulatory controls.

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