"Federation Corner" column
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Slots study tells the truth of all that's false about gambling
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Last week I stated that I would tell you some of the unique gambling history of Maryland. However, the same day, the Maryland Institute for Policy Analysis and Research, located at the University of Maryland, Baltimore County (UMBC), released a detailed study titled: "An Analysis of the Impact of Introducing Video Lottery Terminals [VLTs/Slots] in Maryland." The researchers elaborate on the false promises being made by the state government and gambling interests and tell the truth about the negative impacts of gambling.

We have been told that slots will raise money for education. This is a false promise. The study states: "DLS [State Department of Legislative Services] has already included the Education Trust Fund (ETF) as substitutable, or fungible, dollars as they have subtracted the ETF from expenditures. Thus DLS assumes that the expenditure budget can be reduced by the $660 million ETF. This leaves a net effect of $564.6 million." What this means is that all slots dollars 'dedicated' to education could result in the same amount of education dollars, now coming from other sources, instead being used for other purposes, so there could be NO increase in education funding as a result of slots.

The study describes estimates that Marylanders spend $550 million per year gambling in Delaware, Pennsylvania and West Virginia. The slots revenue estimate by DLS assumes that every penny of the $550 million would instead be spent on Maryland slots and an additional $800 million would also be spent by Marylanders. As I've pointed out, these other states, some with lower income taxes and lower property taxes because of a reliance on gambling revenue, and also suffering greater poverty, will not let this happen without fighting back hard with better and more sophisticated gambling facilities to keep the loyalty of their Maryland customers.

"The Lottery Commission estimates that revenues will suffer a permanent 10 percent loss due to the presence of slots." The second effect is a substitution of dollars from other purchases to slots. "Consumers are faced with a budget constraint and thus if they increase their spending on slots, other purchases must be decreased."

This has been seen across the nation the past year as gambling revenue declined for the first time in what had been considered a recession-proof business. Furthermore, in 2004 "[Professor Earl] Grinols estimated the average losses in sales revenue given a $1,000 increase in casino revenues to be $381 for businesses within 30 miles of the casino." Not only is there a loss of tax revenue from these sales, but the businesses are harmed by this competition for customer dollars and some may go out of business as a result of this competition.

The study describes a 'social benefit' in the form of the satisfaction people get from visits to slot machines. This entertainment is valued at $25 million. The study finds no job creation benefit from slots. With unemployment in Maryland averaging 4% in 2008, the authors believe any new jobs created by slots 'may merely be a substitute from other employment.'

On the other hand, the social costs are considerable. The study has calculated the 'Incidence of Potential Pathological & Problem Gambling in Maryland Upon the Introduction of Slots.' The authors found that 2/3rds of pathological & problem gamblers will use "abused dollars" which is "a term applied to dollars that are lost gambling that the gambler acquires through family, employers or friends under false pretense." Each gambler will create an average lifetime debt of $35,000. An average of 5% will declare bankruptcy, 5% will

commit violent crimes, 5% will commit auto thefts and larceny, 20% will attempt suicide, and 28% will divorce, causing as many as 16,000 divorces. These addicted gamblers will miss an average of 9.8 hours of work per month because of gambling, about 6% of the work week.

The cost of addiction treatment is an average of $2,340 per gambler, whether or not they receive treatment and the actual cost is an average of $7,022 for those who obtain treatment. This works out to a total of $135,366,660 just for treatment of new gambling addicts who will be generated by slots coming to the state. It does not include those who are currently addicted and for whom Maryland provides no treatment dollars despite regularly earning $500 million per year from its lottery. The $6 million per year in slots revenue that would be pledged for addiction treatment will be a drop in the bucket for what will be needed. It would take almost 23 years for every newly addicted slots gambler to receive money from the state for treatment. Since the result of this addiction is that the gambler loses everything and is also likely to take money from the family and from the employer, there may be no other financial option for treatment, if existing health insurance does not cover treatment.

It is perhaps ironic that while the financial impact of gambling addiction is so high, a 1985 study found that treatment has such a high benefit cost ratio in terms of the impact on the reduction of the use of abused dollars that it made "pathological gambling one of the least costly illnesses to treat."

In 2004, Professor Grinols calculated the annual cost to society of pathological & problem gamblers as $11,630 in 2007 dollars for each pathological gambler and $3,315 for each problem gambler. According to the 1999 National Opinion Research Center (NORC) report, the "prevalence of both pathological and problem gamblers doubles when a casino opens within 50 miles (versus the 50 to 250 miles away where most other gambling venues outside of Maryland are located). As previously mentioned, we believe that the majority of Marylanders will be located within 20 miles of one of the proposed gaming sites. This means that the amount of new gamblers, both pathological and problem, in Maryland, will double. Using the NORC (1999) prevalence rates of 0.8 percent and 1.4 percent, respectively, as well as the American Community Survey population estimate of 4,253,595 Maryland adults, we obtain figures of 34,029 pathological and 59,550 problem gamblers. It is important to clarify that these figures are not the total number of gamblers in Maryland, but instead represent only those current nongamblers who would develop a gambling problem upon the introduction of VLTs [slots]. Similarly, at the overall level, the social costs noted are those that would arise only when gambling was introduced."

The 1999 NORC report found "that approximately 2.5 million adults in the U.S. are pathological gamblers and that another 3 million are problem gamblers... This same study finds that pathological, problem and at-risk gambling are proportionately higher among African-Americans and other ethnic groups. It is also noted that problem and pathological gamblers are more likely than low-risk gamblers to have been on welfare, declare bankruptcy, and to have been arrested or incarcerated."

Other studies have found that "machine or slots gamblers have a quicker transition into pathological gambling (1.09 year versus 3.58-3.89 years) compared with other forms of gambling." Grinols and David B. Mustard examined all U.S. casinos outside of Nevada in 2004, and found "that around 8 percent of crime in counties with casinos was attributable to those casinos."

"Utilizing the costs from Grinols (2004) this would total to an annual cost in 2008 dollars of $418.7 million for pathological gamblers and $208.8 million for problem gamblers. Utilizing the social costs from Walker (2004) [Professor Douglas M. Walker, a seemingly preferred consultant to the casino industry] the annual social cost is $228.3 million. This range ($228.3 to $627.5 million) is a higher bound as we estimated a large impact in the number of problem and pathological gamblers. In fact, many pathological and problem gamblers currently exist in our population but are not identified. This estimate utilizes the increased incidence at an extreme end but no other incidence estimates currently exist." Even based on Professor Walker's much lower calculation

of social costs, these studies show how little additional net revenue the state will actually gain from slots, especially when the expected, aggressive, counter-response from other states takes effect. If Professor Grinols costs are correct, Maryland will actually lose money by legalizing slots.

At its regular meeting last week, MCCF voted overwhelmingly to oppose the slots constitutional amendment after learning of some of the harms of gambling addiction. A Washington Post article this week cited its recent poll showing wide support for slots. It was reported: "About one-third of voters who think slots may have negative consequences still support the plan." It is unlikely that these voters understand the full extent of the "negative consequences" as detailed in this column and elsewhere. Unfortunately, history may be poised to repeat itself in Maryland in 2008 as happened in 1947, when slots were first proposed and accepted in this state as the solution to the financial needs of government. Next week I will explore the history of the eventually successful battle to eliminate slots from the state, despite the lure of the easy money that some local governments quickly became addicted to.

Readers can access the study themselves at:
http://www.umbc.edu/mipar/documents/ImpactofIntroducingVideoLotteryTerminalsFINAL.pdf

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