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## Contributions of Casino-Style Gambling to Local Economies

By WILLIAM R. EADINGTON

ABSTRACT: This study examines the underlying economic and political dynamics that have led to the rapid proliferation of permitted gambling in the United States and other countries over the past decade. It notes that much of the justification for gambling has come from an attempt to exploit the economic rents and spillover benefits that accompany the legalization of gambling, and little is accorded the value that accrues to consumers of the commodity. A framework is developed to evaluate the impact of such considerations on the community and the region where gambling is permitted. Different types of casino-style gambling—destination resort casinos, urban casinos, and widely dispersed gaming devices—are evaluated in light of their relative impacts.

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NOW that casino-style gambling has established itself as a significant social and economic presence in one form or another in well over half of the United States—and with lotteries in nearly three-quarters of the states and the District of Columbia—the nation has entered a period of introspection as to the wisdom of such a widespread availability of gambling. After all, most societies for most of history prohibited gambling. This is an activity that has a long record of existing on the fringes of, or on the other side of, legality and social acceptability. Why are things seemingly so different now? And where will the growth of legal gambling end?

Perhaps the most fundamental public policy question on the subject is, What is the appropriate presence of permitted gambling in modern society? This inquiry can be divided into more specific questions, all of which have been part of the public policy debate as gambling has spread across America. Representative of such questions are the following:

- what forms of gambling should be permitted?
- how available and accessible should gambling be to a jurisdiction's residents and visitors?
- how much and what types of promotion of gambling should be allowed?
- what protections should be developed to limit abuses and to mitigate social and personal costs associated with gambling?
- what should the objectives of gambling regulation be?

- who should benefit from supplying gambling services?
- what types of ownership regimes and market structures should prevail for legal gambling enterprises?

It is a commentary on the complexities posed by gambling that jurisdictions in many parts of the world, when considering issues such as these, have come up with considerably different strategies in dealing with them (Eadington 1995; Miers 1996).

The rapid proliferation of legalized gambling has not occurred without controversy. Gambling, which historically has been viewed with skepticism and derision similar to those given to other vices—illicit drugs, the sex business, alcohol, and tobacco—has found considerable acceptance during the latter half of the twentieth century. It shares with the other vices some economic characteristics: strong demand for the activity from a segment of society; sensitivity of demand to changes in its legal status; real or perceived social costs associated with its availability; a history of attempts to prohibit, constrain, or allow the activity; and volatility in the legal and social status of the commodity. It is noteworthy that the other listed vices have all experienced legal and political battles over the last half century, but none has been as successful in that time frame as gambling in expanding its legal and economic franchise and its perceived legitimacy. Indeed, illicit drugs, tobacco, and alcohol have all retrenched under fire in the 1990s as

society has attempted to rein in costs associated with their consumption.

There is a clear dynamic at work with the spread of gambling. As a precondition for legalization, gambling must overcome negative perceptions associated with its immorality, its linkages to crime and corruption, and the severity of problem gambling. When a threshold for legal consideration is reached, gambling is authorized primarily as a means to an end, because the activity itself is still considered by many to be of questionable merit. Justifications for gambling are not to be found in the joys of consumption (Spanier 1995) but, rather, in economic spin-offs that occur when gambling is authorized, especially in markets where it was previously prohibited. Such expected benefits as tourism development, economic revitalization, tax revenue generation, job creation, investment stimulation, or contributing to a deserving cause or disenfranchised group are typical of the reasons why jurisdictions legalize gambling. Other societal benefits from legalization are recognized, such as the reduction of illegal gambling and nefarious linkages, the protection of customers and vendors of gambling services under the law, and a decline in public resources to combat illegal gambling. Legal gambling is typically a formidable competitor against illegal gambling. These gains are weighed against negative economic and social consequences of permitted gambling, which tend to be far less measurable and tangible than the economic benefits.

#### THE RATIONALE FOR COMMODITIES

For most commodities, there are two main groups that support their introduction or ongoing presence in society: consumers, who benefit by being allowed to make use of a desired product or service, and stakeholders, who gain economically from the production and provision of the commodity. The latter group includes workers, owners, shareholders, governments, and other benefactors that might be allocated revenues from the commodity's profits.

In market economies, the major justification for a commodity's legal presence is a societal belief that people who want to consume it have a right to do so and will so choose as long as the value received exceeds the cost of the product. When the commodity in question has severe negative externalities—as with illicit drugs—the presumptive right to make consumption decisions in one's own self-interest is replaced by a paternalistic perspective of protecting consumers from their own potential bad judgment.

For stakeholders, other considerations come into play. Owners and shareholders of producing companies receive dividends and enhanced market value. Employees receive salaries, wages, benefits, and career opportunities. Local and regional governments benefit from tax collections, economic stimulation, and other desirable impacts.

Indirect spin-offs that occur as a by-product of production or distribution of a commodity can make impor-

tant economic contributions to a community or a region. This is especially true for newly created or rapidly growing industries. Often in such cases, jobs are created, wages are bid up, new construction is stimulated, suppliers of key inputs or complementary products benefit, and property values rise.

When dealing with vices, wealth can be created by the legislative process in the form of economic rents when stakeholders are allotted legal claims on future income flows that will accrue to purveyors of a newly introduced commodity. Similarly, wealth can be destroyed by removing claims on future income flows. Economic rents can be significant as long as the authorized activity is accorded supply-constrained, privileged status.

Such status is an inevitable by-product of moving from prohibition to controlled legalization. Constraints on supply are implemented because policymakers and the general public remain skeptical about the potential costs of creating an unconstrained or *laissez-faire* marketplace for the vice in question or are themselves directly interested in capturing or allocating the economic rents. As a result, the political process for changing the legal status of vices is often dominated by rent-seeking behavior of stakeholders, manifested in lobbying efforts or referenda, rather than by a groundswell from consumer interests pushing for legalization to satisfy their demands or improve their access to preferred forms of the commodity in question.

With an activity whose demand is large when it is introduced into a community or region, it is not uncom-

mon for various adverse economic consequences to emerge as well. Congestion, industrial pollution, and rapid change might diminish the quality of life for some. Businesses offering competing products might suffer. Land-use patterns might diminish rather than enhance some property values in the region.

But the ultimate test for most commodities is provided by the marketplace: consumers' willingness to purchase the product at price levels that will attract suppliers. Consumer surplus—the difference between a product's market price and the utility, or the value, that accrues to a consumer—is a conceptual measure of the gain from consumption of any commodity and is why customers buy things: the value received exceeds the product's cost (Mishan 1982, 22-37). Suppliers, of course, must sell their products at price levels to recover costs and earn profit.

Communities or regions that supply a commodity provide a secondary rationale for a given product due to the economic benefits they derive. Such jurisdictions respond in their own self-interest by allowing production to take place or expand, constrained by other community considerations such as opportunity costs, pollution, congestion, and land-use planning.

All of these factors have been observable over the past decade with the spread of gambling in the United States, as well as in such diverse societies as Canada, Australia, New Zealand, South Africa, Greece, and the United Kingdom. The different perceptions of gambling—as a commodity with substantial latent de-

mand that is triggered when its legal status is validated, and as a vice that raises concerns from religious groups, competing businesses, or other citizens suspicious of its side effects—have created a wide variety of approaches to permitted gambling.

#### THE CHARACTERISTICS OF GAMBLING

Gambling, in the minds of many observers, should not be viewed the same as most other commodities. In its most positive light, gambling is a recreational outlet, the present manifestation of an evolution of entertainment and leisure products (Christiansen and Brinkerhof 1997). Consumers of gambling activities voluntarily participate in an exciting interactive endeavor that satisfies a variety of psychological and social needs; it is indeed adult play. The evolution of preferred names for the activity suggested by its proponents, from “gambling” to “gaming” to “gaming entertainment,” embodies this perspective.

Others view gambling as a vice with limited or tainted consumer value (Goodman 1995). From such a starting point, if gambling is going to be made available for public consumption, there should be many good reasons beyond consumer surplus for doing so.

This perspective shows up in a number of ways. Policymakers who are themselves harshly judgmental about the wisdom of gambling or the intelligence of gamblers often look beyond demand to find alternative justifications for legalization. Communities that allow gambling to be offered in their midst may also be

wary and as a result demand more tribute from commercial gaming activities than other commodities because of the accompanying uncertainties and social stigma (Rittvo 1997).

The role of governments and other benefactors is particularly noteworthy. Political realities often make such groups the silent partners of gambling enterprises. The main rationale for the legalization of gambling or the liberalization of gambling laws may be to expand the financial basis of these silent partners. It is easy in such cases for public policy to get muddled, however. If gambling is of questionable social worth primarily due to the damage it might do to consumers who are unable to control themselves, then legalizing it for the benefit of incidental stakeholders may make it difficult to ensure that consumer protections will be kept in mind relative to the financial interests of stakeholders. The needs of governments or of other benefactors—such as charitable or nonprofit organizations that receive gambling profits—might never be fulfilled by their share of economic rents. Yet the continuing pressure to enhance their financial share can lead to expansion of permitted gambling in a way that can become overly predatory and damaging to those for whom gambling is self-destructive (Moody 1995).

Arguments against gambling usually center around one or more of the following criticisms: gambling is foolish because gamblers must lose in the long term; gambling is invariably associated with criminal activities and political corruption; gambling is in

opposition to the moral and ethical principles that a just and righteous person and an orderly society should follow; and compulsive or pathological gambling can do serious damage to individuals, their families, and others to whom they are responsible.

The first argument goes to the core of the motivation for gambling. If consumers are gambling for the entertainment value derived, then they are purchasing gambling as entertainment in the same sense as people who are entertained by going fishing, by attending the opera or theater, or by reading popular books. On the other hand, if consumers are primarily motivated by an expectation or hope that gambling will raise them to a higher economic status, then such behavior may indeed be foolish. This elicits still another question, however: Should foolish behavior be prohibited or otherwise penalized?

In the American context, the second argument—the link between gambling and crime—certainly had greater credence in an earlier era, the mid-twentieth century, when most gambling was illegal but nonetheless existed, often with the knowledge and complicity of politicians and law enforcement officials. Prohibition of gambling—as with the prohibition of other vices—served as an invitation to corruption. However, in the past quarter century, most organizations involved in offering gambling services have been either publicly traded corporations or—in the case of lotteries—government bodies (Johnston 1992; Clotfelter and Cook 1989). For the most part, such organizations have achieved good reputations with respect to issues of honesty and integ-

rity. Furthermore, regulatory agencies charged with overseeing gambling operations have developed a degree of professionalism and competence that has also added to public confidence.

Morality arguments regarding gambling are inherently subjective. They do not easily lend themselves to scientific analysis. For a number of reasons, the power of morally based arguments against gambling have diminished over the last quarter century, in spite of the recent emergence of organizations such as the National Coalition Against Legalized Gambling. This is reflected in the improved status of gambling as an acceptable activity either for oneself or for others. A survey by Harrah's, which has been conducted annually since 1991, found in 1995 that over 90 percent of those sampled saw "gambling [as] acceptable for anyone, or acceptable for others, but not for themselves." Only 9 percent found gambling morally objectionable (Harrah's Entertainment 1996, 16-17).

Individuals are far more prone to define their own concepts of right and wrong at the present time than, say, two or more generations ago. The ability of organized religions and the state to dictate values to and influence the behavior of their constituents has diminished in the face of many challenging and controversial topics, including divorce, abortion, homosexuality, euthanasia, and birth control. Furthermore, governments and some religions have themselves become important purveyors of gambling services in the form of lotteries, bingo, and other forms of charitable gambling. In light of such issues,

moral objections to gambling may not seem very important.

The most important argument in opposition to gambling is the final one, centering on issues of problem or pathological gambling. Problem gambling poses challenges of identification, definition, and measurement. It is largely an invisible activity, especially in comparison to alcoholism or drug addiction; the outward symptoms of problem gambling are difficult to spot. There is considerable controversy within the research community as to what constitutes problem or pathological gambling and whether instruments such as the South Oaks Gambling Screen are a valid basis for estimating the incidence of problem gambling in society (Dickerson 1997). Thus, measuring the prevalence of problem or pathological gambling, and associating costs with individuals or society based on that behavior, pose nearly insurmountable methodological difficulties to investigators. Nonetheless, as the availability of popular forms of gambling increases—especially when none was easily available before—the extent of problem gambling and its costs increase as well.

#### GAMBLING AND THE COMMUNITY: CONCEPTUAL FRAMEWORK

Debates to permit gambling—or to change the status of authorized gambling—must first evaluate the merits and detractions associated with gambling as a consumer activity, and then the merits and detractions of gambling as a source of local economic impacts and related negative side effects. It is useful to sepa-

rate these two dimensions in examining the costs and benefits of gambling to communities and society at large.

For gambling as a consumer good, there is a strong tendency to start either from a position of general acceptance or from one of marked criticism. These positions seem almost axiomatic. At one extreme, one can take the view that most people know their own minds and should be given the right and responsibility for their own decisions regarding allocation of their scarce time and money toward gambling. At the other end, one can challenge the underlying motivations for gambling as foolish, irresponsible, or irrational. As a result, gamblers need to be protected from their own folly or stupidity with prohibition or with various constraints. This perspective treats gambling as a “demerit good” that generates no utility in its own right but squanders an individual’s talents, efforts, and resources in a fruitless pursuit of false dreams of enhanced income or wealth (Grinols and Omorov 1996).

The choice of one or the other of these alternatives determines whether or not incremental value to the consumer—consumer surplus—should be factored into the public policy debate on the proper presence of permitted gambling in society. To the extent that this perspective is empirically usable, one could examine the relative strengths of the entertainment motivation versus the wealth motivation of gambling customers. If a person gambles primarily as a recreational activity, then the former perspective has greater validity. However, if a person gambles mainly in the hope or expectation of increas-

ing his or her economic status, the latter position should be given greater weight. Even in this latter case, though, some have argued that consumer sovereignty should still prevail (Brenner and Brenner 1990).

Though measurement problems are significant, this argument offers an important policy implication. Gambling is more acceptable in a society where discretionary income is high rather than low. It is hard to argue against gambling for people who can afford it. For most of them, gambling losses are no more than an inconvenience.

On the other hand, people with little discretionary income, or with limited opportunities for increases in wealth, require greater protection from gambling. Money spent on gambling may take away from genuine needs and responsibilities elsewhere. Expenditures on gambling might trigger real economic hardship.

These are classic positions taken with respect to gambling. Gambling by the affluent is an activity that can be afforded and therefore generates little harm; but gambling among the poor and working classes should be discouraged because it may distract them from their familial and work responsibilities, and gambling can create only false hopes. The problem with such assertions is that they are largely inconsistent with the principles of democratic and egalitarian societies.

On the issue of impacts on communities, what considerations should come into play in evaluating the arguments for and against permitted gambling? Communities—and

stakeholders in general—often want to have gambling because of such objectives as economic and tourism development, job creation, displacement of illegal gambling, and tax revenue generation, especially at the state and local level. The challenge is to do so while mitigating and controlling the negative social consequences from gambling.

If the issue is limited to the most popular forms of casino-style gambling, there are three distinct types that could be developed: destination resort casinos in rural or remote areas; urban casinos; and widespread placement of gaming devices in specified locations throughout cities and communities. Each one of these could become a significant regional economic presence all by itself. However, they each have predictable competitive implications for one another if more than one is permitted.

Of the three, destination resort casinos are strongest at job creation and at mitigating negative social consequences associated with gambling. As with resorts in Las Vegas and Atlantic City, and more recently in locales such as Biloxi, Shreveport, and southeastern Connecticut, casino resort complexes generate not only casino jobs but also additional jobs and investments throughout the community relating to other functions of a destination resort, such as hotels, restaurants, casino supply firms, outdoor recreation, and retail shopping. For example, an Arthur Andersen study (1997) found that, in Biloxi and Gulfport, Mississippi, of the 18,200 new jobs created between 1990 and 1995, 62 percent were cre-

ated by casinos; the casinos paid \$81 million in state and local taxes in 1995; and retail tax collections increased 65 percent between 1992 and 1995. However, because of their distance from population centers, destination resort casinos are less convenient for their customers than their urban counterparts.

Many jurisdictions have introduced casinos with the hope of capturing economic benefits in a manner similar to Las Vegas or Atlantic City. These casino areas are able to attract a high proportion of their customers from outside the region in which they operate, thus creating spin-off economic growth benefits through the multiplier process. In effect, they export gaming services to residents of other regions.

In order for a jurisdiction to develop export-based casinos, it must attract a significant volume of customers from beyond the immediate region in which it is located. This can occur if casino gambling is prohibited in neighboring regions or if the locale has enough tourism resources to attract a broad base of visitors beyond what the casinos themselves would be able to draw. However, most new jurisdictions are not capable of attracting visitors from more than 100 miles away.

Historically, casinos have been isolated from population centers as a protection against the negative social impacts of gambling. The emergence of significant easily accessible urban casinos began only in the 1980s in Holland, Australia, and Canada and more recently in parts of the United States. Urban casinos, being located

closer to where people live, are more accessible and more frequently utilized than rural casinos. However, customers of urban casinos are far more single-minded in the purpose of their visits than customers of destination resort casinos. Their primary motivation is to gamble, not to have a resort experience. Thus the ability to support nongaming activities as part of a casino complex—such as restaurants, hotels, and retail shopping—is less for urban casinos than for their destination resort counterparts.

Another factor distinguishes urban casinos from the destination resort variety. Because most of the customers of urban casinos come from the immediate metropolitan area, job creation and economic development impacts are considerably less than for destination resort casinos. Urban casinos do not export gaming services to tourists and visitors; they provide gaming for customers already residing in the region. Thus displacement effects—the substitution of consumer spending from one local sector to another—will be stronger with urban casinos than with rural casinos.

It is not possible to have urban casinos without reducing the economic potential of destination resort casinos within the same region. Both types of casinos may be deemed desirable with respect to regional objectives, but urban casinos competing for the same population base will reduce the demand and economic viability of more rural destination resort casinos. Because they are more convenient, urban casinos will be more survivable.

In terms of competitive impacts, the most important of the three alternatives is permitted gaming devices in noncasino locations, such as arcades or bars and taverns. In most modern casinos, gaming devices—slot machines and electronic gaming machines—generate over two-thirds of all casino winnings. Widespread placement of gaming devices permits such demand to be met broadly and thus maximizes the convenience and accessibility of casino-style gambling to a region's residents. Gaming devices placed in convenient locations outside of casinos can absorb much of the regional demand for gambling.

Such gaming devices have quite different economic impacts from those of casinos themselves. Government's ability to raise tax revenues is probably greater with widely placed gaming devices than with casinos of any type because of greater access, lower operating costs, and therefore the ability to impose higher tax rates. However, slot machines outside of casinos create relatively few jobs. If policymakers really want development and other economic benefits that can accrue from casinos, they undermine such results by permitting widespread placement of gaming devices.

The widespread placement of gaming devices leads to greater negative social impacts caused by excessive gambling. With destination resort casinos, distance provides a buffer, however imperfect, to protect customers who would get into trouble with excessive gambling. Urban casinos lose the geographic buffer but can still adopt policies of self-banning or selective exclusion, as is done in Hol-

land, Quebec, and Australia. With widely dispersed gaming devices, the ability to impose protections is far more limited, however. To the extent that casino-style gambling creates social problems, noncasino gaming devices provide fewer policy options to address those problems.

#### OTHER COMPETITIVE CONSIDERATIONS

Recent experience in the United States has demonstrated that, in the absence of a cohesive national policy, individual states will often respond competitively to changes in gambling laws in nearby states by legalizing more gambling within their own borders. Such cross-border competition is a major reason why casinos were introduced in Illinois, Missouri, Louisiana, and Indiana. In effect, each jurisdiction wants to establish a tourist industry by attracting their customers from another political jurisdiction, however close by it might be. If successful, the jurisdiction captures tax revenues and creates jobs, though they might just be transferred across a regional border.

When it becomes clear that citizens from a state that prohibits gambling will cross borders to gamble in a nearby jurisdiction, there is pressure on the first state to permit gambling as well. Doing so creates import substitution and keeps expenditures—and accompanying jobs and tax revenues—at home rather than in another jurisdiction.

A recent example can be found in the Detroit, Michigan, metropolitan area. The Windsor Casino, owned by the province of Ontario, opened in the spring of 1994. Windsor is located

across the Detroit River from Detroit in Ontario, Canada—in a country separate from most of the area's population. The casino's financial success—over \$500 million in gaming revenues per year, 80 percent of which is from Michigan citizens—induced Michigan's voters to pass a referendum in 1996 authorizing three urban casinos in Detroit. Voters were convinced that stemming the outflow of local spending was enough justification for their own casinos.

Increases in permitted casino-style gambling often result in demands to level the playing field with respect to new competition by way of additional legislative permissions. Recently, the horse racing industry has been successful in achieving such results. By 1997, slot machines or other electronic gaming devices had been permitted at racetracks in Iowa, Delaware, West Virginia, Rhode Island, Louisiana, and New Mexico. Indeed, such facilities quickly become not so much race tracks with slot machines as casinos with racing as a sort of sideshow.

Policymakers usually authorize permitted gambling to create benefits for certain stakeholders. However, there is a tendency to continue to authorize new forms of gambling without fully appreciating the adverse effects of such actions on previously authorized forms of gambling and their beneficiaries. To avoid this, policymakers should prioritize their goals and objectives when authorizing gambling and make every effort to understand the qualitative and quantitative trade-offs implied by various approaches to structuring a region's gambling industries.

#### IMPLICATIONS FOR THE FUTURE

The issue of whether or not permitted gambling is beneficial for a community does not lend itself to simple resolution. Whether gambling can be justified on its own merits as an acceptable consumer activity depends partly on the prevailing values and sensibilities of the community and society. It is also influenced by prevailing levels of income and wealth, as well as by the types and effectiveness of protections provided by gaming operators and regulatory authorities directed at mitigating gambling-related problems.

Whether permitted gambling is beneficial based on its contributions to various stakeholders introduces a separate set of considerations. If most of a region's gaming revenues come from tourists, or from import substitution, then positive economic spin-offs stimulate local and regional economies; gambling acts as a regional export. If, however, the bulk of gambling revenues for newly permitted gambling are generated by local residents and do not represent import substitution, then spending on gambling reflects a reallocation of spending within the local or regional economy. There may be little, if any, net gain for the overall local or regional economic activity as a result.

Furthermore, to the extent that permitted gambling is not accorded the same status or legitimacy as other industries, there may be ongoing political tension against gambling, especially from those who consider themselves adversely affected by competition from gambling. Political tension might result in attempts

to extend gambling's franchise to new stakeholders, or it may manifest itself in efforts to roll back the prevailing permission to offer gambling services. Gambling industries are political creations of legislative permission. They can also be destroyed through rescinding that permission (Rose 1991).

As permitted gambling expands its presence in society, a few consequences can be forecast. First, an expansion of the presence of gambling in communities—and in society at large—will undermine the benefits generated on behalf of various stakeholders. Such benefits are dependent on the privileged status accorded stakeholders, which is related to the constrained supply of the gambling product. If the constraints erode or disappear, so will the economic rents that accrue to those with privileged status. This suggests that future justifications for permitted gambling will have to come more from consumer surplus and less from economic spin-offs. Alternatively, gambling will have to become viewed more as a normal commodity.

Second, as gambling becomes more a part of everyday life for many people, perhaps in the same sense as alcohol and tobacco, the negative by-products of gambling—especially those from problem or pathological gambling—will require considerably greater attention. That attention could result in the control of problem gambling similar to the control of problem drinking in modern times. Society would implicitly agree that the social costs associated with gambling are a necessary evil that accompanies it, but that it is the

individual's—or society's—responsibility to mitigate those costs.

If an acceptable balance of the perceived benefits and costs of gambling cannot be achieved, it is not unrealistic to envision a future political backlash against permitted gambling. After all, gambling has a much longer history as a prohibited vice than as an acceptable consumer activity. Those who benefit from gambling—either as consumers or as stakeholders—will do well to keep that perspective firmly in mind.

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