Peer Review of
Socioeconomic Impact of Gambling on Iowans

Prepared for
Iowa Legislative Council
Prepared by
Harvey Siegelman[1]

Introduction

"Peer review is intended to uncover any technical problems or unresolved issues in a preliminary (or draft) work product through the use of independent experts. This information is then used to revise that draft product so that the final work product will reflect sound technical information and analyses."[2]

This document reviews the Socioeconomic Impact of Gambling on Iowans, Final Draft Report at the invitation of the Studies Committee of the Iowa Legislative Council pursuant to 2004 Iowa Acts, House File 2302, section 61. The charge of the study is to examine:

1. *The economic impact of gambling on communities and other businesses.*
2. *The impact of gambling, if any, on family finances and family relations in general.*
3. *Demographic information on gamblers.*
4. *An assessment of the impact, if any, of pathological or problem gambling on individuals, families, social institutions, criminal activity, and the economy.*
5. *Other relevant issues to fully examine the socioeconomic impact of gambling.*[3]

To this end, the Contractor proposed to answer these questions with the following methodology:

1. What are the socioeconomic characteristics of casino gamblers?

   The Contractor included secondary data regarding Iowa demographics, family relations, family finances, education, employment and crime for the casino counties and a group of control counties.

2. What are the economic and social impacts of existing casinos in Iowa on the local community?

   To estimate the economic impact, the Contractor identified average expenditures for all pertinent recreation sectors and created ten input-output models to calculate the economic impact of casino gambling on the State.

[1] Harvey Siegelman is President and Senior Analyst, Strategic Economics Group. In 2001, he retired after serving for 20 years as Iowa's State Economist.
[2] Peer Review Handbook, 2nd Edition. Science Policy Council, U.S. Environmental Protection Agency. EPA 100-B-00-001, December 2001. p. 9.
[3] 2004 Iowa Acts, House File 2302, Chapter 1136, Section 61.

To estimate the social impact, the contractor interviewed 1,722 residents of Iowa communities roughly divided between those located within a 50-mile radius of the existing casinos and a control group located in counties without a casino. The telephone interviews sought to determine the respondents' perceptions of economic well-being, tourism, crime, gambling behavior, quality of life, and the effect of gambling on those perceptions.

In addition, 300 key Iowa law enforcement officers, economic development officers, social service providers, county engineers, recreation/attraction managers, and beneficiaries of charitable contributions awarded by the nonprofit organizations were also interviewed.

3. What is the impact of problem gambling on the local community?

   The Contractor collected statistics from- and interviewed key personnel at treatment agencies that deal with pathological gamblers.

The purpose of this peer review is to provide:

1. An assessment of the methodology used by the Consultant in conducting its study
2. An assessment of whether the study appropriately addresses the items detailed in the Consultant's proposal issued in response to the RFP
3. An assessment of whether the data collected by the Consultant adequately support the findings and conclusions detailed in the preliminary final report
4. Any suggested corrections, inconsistencies, or other issues that the Consultant should consider and possibly correct prior to completion of the final report

Preparing an economic impact study has become easier and more of a routine because of economic models and readily available data. However, researchers preparing social impact studies still encounter greater risks and problems because of the lack of generally recognized social indicators and measurement tools. I acknowledge and appreciate the difficult task, which the Consultant faced in preparing this social impact study.

Assessment of the methodology used by the Consultant:

1. Economists generally prefer to measure the effect of an event after it has occurred, or an 'ex post' analysis. Measures based on after-the-fact, observed behavior (choices made, spending, etc.) are considered superior to ones based on hypothetical options, perceptions, or willingness-to-pay options. The price a person would be willing to pay for an item is difficult to estimate reliably before the purchase – easier to determine after the sale. For that reason, the methodology, which the Consultant selected, perception analysis, is problematic and prone to reliability issues especially when it is used in place of after-the-fact statistics and observations.

2. For example, to ask a sampling of individuals to indicate if they feel their community is more crime free is less satisfying to an economist than examining actual crime statistics for that community. The opinions expressed by the respondents may contain inherent

political or cultural biases or may be based on the assimilation of inaccurate information. Another shortcoming of perception questions is a greater potential for strategic bias where the respondent has an incentive to supply an answer supportive of a desired policy, i.e. if they support gambling activities they are more likely to minimize any adverse comments, and conversely.

3. Examples of survey questions that illustrate this problem are (from Exhibits 33-6):

    a. The price of goods and services have increased
    b. Roads and public facilities kept at a high standard
    c. New and improved facilities have been built
    d. Price of real estate has increased
    e. There is more traffic congestion
    f. Noise levels have increased
    g. There is more vandalism in my community
    h. Local crime has increased
    i. Alcoholism has increased
    j. Divorce rates have increased
    k. Attendance has decreased at other entertainment centers such as museums and cinema

4. While citizen perceptions are interesting and important to observe, they should not be accepted as a substitute or surrogate for factual or statistical data – especially when that factual data is available. An exception would be the interviews with 'key personnel.' Those individuals are uniquely knowledgeable in their subject. They possess professional expertise and they generally have access to information that is not available to the public.

Assessment of whether the study addresses the items detailed in the Consultant's proposal:

The consultant study objectives were to a) evaluate the economic impacts, b) profile the socioeconomic characteristics of gamblers, c) examine the social impact of gambling on casino communities and d) examine the impact of problem gamblers.

1. The Consultant has included in the report extraneous and unrelated information, which distracts from the purpose. I would characterize this practice as a 'demographic data dump.' This adds pages, while reducing the importance of the relevant findings. Most of this unnecessary clutter occurs in the Historical Data section (beginning on p. 70). Very little of the information presented from pages 70 through 83 (and the appendices on pages 94-140) offer any insight to the comparison of the casino and control counties or to the demographics of gambling. Examples of this include:

    a. Percent of population with homeless people (even assuming that the information is accurate)
    b. School drop outs

c. Percent of population with certified enrollment
d. Average attendance rate
e. Suicide rate
f. Mental illness rate
g. Percent of population with heart disease
h. Percent of population with cancer
i. Percent of population with cerebrovascular disease
j. Percent of population with chronic respiratory disease
k. Percent of population with influenza and pneumonia
l. Percent of self-employed population
m. Percent of population with managerial, professional and related occupations
n. Percent of population with sales and office occupations
o. Percent of population with service-related occupations
p. Percent of jobs related to farming, fishing and forestry occupations
q. Percent of population with wireless e-911 calls
r. Vandalism
s. Simple assaults
t. Aggravated assaults

2. The Consultant attempted to address the social impact of gambling by providing an array of data on family health, family relations, family finances, and demographics for both the casino and the control counties. However, the Consultant offered no analysis of that data other than a simple visual plotting. Similarly, the Consultant provided a dump of economic, retail and employment data with no analysis.

3. For even those demographic items that do have some remote relevance to the assigned topic, the Consultant has not developed any causal links to casino gambling.

4. While the survey of residents in the Study Area II counties profiled those residents, the Consultant should not presume that those profiles are indicative of residents in the rest of the state.

5. The Consultant chose to use unemployment rates as an economic measure even though economists generally agree that they are a poor indicator of economic performance. Job seekers tend to move to regions where there is economic opportunity. Employment growth would have been a better indicator to use.

6. Since the sample of counties is small and the variance is quite large, there is most likely no statistically significant difference between the casino counties and any other set of control counties for any of the indicators. At the very least, the Consultant should have used per capita data when making comparisons.

7. Since the secondary data is inconclusive, the Consultant relied on the perception responses of the residents surveyed and citations from previous studies done in other states. The Consultant did not provide the reader with enough clarity to identify which conclusions they drew from a literature search and which the Consultant drew from the data in this report.

8. The Consultant indicated having difficulty finding reliable secondary data on the impact of problem gambling on the community. Problem gamblers do not need local casinos to have a gambling problem. The availability of on-line gambling makes it even easier to feed an addiction. Online gambling has grown from 30 sites and bets of $17 million in 1996 to approximately $3 billion in wagers in 2000[4]. According to Merrill Lynch, gross gaming revenues for online betting will reach $48 billion by 2010[5].

Assessment of whether the data collected by the Consultant support the finding and conclusions:

1. The control group of counties, which the Consultant selected for use in this study, does not appear to be a comparable match to the casino counties. The Census Bureau estimated the aggregate 2003 population of the casino counties at 1,013,516, of which 81 percent were located in urbanized areas. They estimated the aggregate population of the control counties at 698,172, 75 percent of which were located in urban areas. Both the difference in aggregate populations and the degree of urbanization could be relevant when comparing casino and control counties demographics. In addition, the age of the populations in story and Johnson counties are different from the other counties because of the concentration of college students. Moreover, Polk County is very different from any other county in Iowa because of the size of its population and the degree of its urbanization.

2. It certainly gives a misleading impression when presented in Exhibits 60 through 63. In those four charts, the casino county line lies substantially above the line representing the control counties, indicating a greater number of arrests, domestic abuse cases, stealing-from-others and business related crime trends. The fact that the population of the casino counties is 45 percent greater than that of the control counties can account for some of the difference. The greater degree of urbanization can explain some of it.

3. The 'displacement effect', which the Consultant first included in Expenditure Estimation of Casino Visitors (p.32) and later referenced in the calculations in Exhibits 9-14, is unsupported by the data. It is based on an opinion survey question that was phrased "if a casino was not available in your town, would you have participated in another form of entertainment such as theater, museum, or recreation?" (p.45-6). Thirty percent of the respondents indicated 'yes'. But, they did not indicate that the 'other form of entertainment' would be located in their local market. If they traveled to Des Moines to see a play, or to Davenport to listen to jazz, or even out of state, there would not have been any displacement effect. While there may be some modest displacement effect, the Consultant used a very simple and inaccurate method for estimating it.

---

[4] AngelCiti Entertainment. http://www.angelciti.com/aboutus.asp
[5] Gambling Magazine, Article # starnet152, 1999.
http://www.gamblingmagazine.com/articles/starnet/starnet152.htm

4. Those individuals who responded 'yes' are most likely less serious gamblers than those who answered 'no.' If this is true – and a cross tab of the data already collected would establish that information – then the displacement effect could be insignificantly small. The Consultant should have used the proportion of total spending represented by this 30% to estimate the displacement effect rather than their numerical share of gamblers.

5. In Section 5.2 (p.31), the Consultant indicated that "it was not possible to assess total expenditures on lodging because the casinos with hotels were not able to provide an estimate of the percentage of visitors staying overnight at their lodging facilities." Therefore, the Consultants assigned no value to any benefit that the spending would have brought into the community, understating their estimate of the total economic impact.

6. In addition, the Consultant recognized the 'low response rate' (p.61) of the visitation data, but did not indicate to the public that casinos may serve to attract visitors (and their spending) to a community. The Consultant understated the economic impact by applying a questionable 30 percent 'displacement effect' and did not offer any offsetting benefit for either the lodging revenues or the revenues attracted by the casino location.

Any suggested corrections, inconsistencies, or other issues:

1. On page 12, the list of counties identified as the control group the Consultant inadvertently excluded Johnson County.

2. On page 28, Section 5.1, the statement that "The majority of casinos, with the exception of Prairie Meadows and Lakeside Casino, serve the out-of-state market" conflicts with the data displayed in Exhibit 2. Argosy and Catfish Bend should also be included in the list of exceptions because data reported for out-of-state revenue does not exceed the 50 percent benchmark.

3. The Consultant references the impact of casino gambling on bankruptcy in several places in the report, but does not use a consistent definition of the term. On pages 17 and 18, the Consultant compares Chapter 7 (business) and Chapter 13 (personal) bankruptcies in the casino and control counties to gambling revenues indicating, "The aggregate historical data show that chapter seven (business) and chapter thirteen (personal) bankruptcies are higher in the casino counties relative to the control group of counties…" The Consultant references 'bankruptcy' 73 times in the course of the report, switching between business bankruptcy and personal bankruptcy, between Chapters 7 and 13.

4. A debtor may file for bankruptcy, under one of several chapters of the federal bankruptcy code. Chapter 7 provides for liquidation of a debtor's property and for the proceeds to be distributed to creditors. Chapter 11 is usually applied to businesses but may also be applied to individuals. It provides for a debtor to propose a plan to keep the property and pay the creditors over time. Chapter 12 applies to family

farmers. Chapter 13 more generally applies to an individual and provides a similar remedy to that of Chapter 11. Because economic stress may drive a small business owner or a family farmer as well as an individual into bankruptcy, it is important to identify any potential linkages between nearby casinos and all types of bankruptcies.

5. The following tables are offered in an effort to correct the record:

Table 1: Comparison of Bankruptcy Rates for Casino Counties

Casino Counties	1993	2003	% Chg
Clarke	18	44	144%
Clayton	14	42	200%
Clinton	145	240	66%
Des Moines	141	315	123%
Dubuque	129	325	152%
Lee	55	180	227%
Monona	26	45	73%
Polk	964	2,062	114%
Pottawattamie	257	488	90%
Scott	433	878	103%
Tama	26	68	162%
Woodbury	296	593	100%
Totals	2,504	5,280	111%
Population	962,812	1,013,516	5.3%
Per capita rate	0.26%	0.52%	100%

Table 2: Comparison of Bankruptcy Rates for Control Counties

Control Counties	1993	2003	% Chg
Black Hawk	212	550	159%
Cerro Gordo	81	134	65%
Delaware	12	60	400%
Hardin	24	78	225%
Johnson	106	263	148%
Linn	323	830	157%
Marshall	62	159	156%
Muscatine	112	234	109%
Palo Alto	8	31	288%
Pocahontas	6	24	300%
Story	70	212	203%
Totals	1,016	2,575	153%
Population	663,663	698,172	5.2%
Per capita rate	0.15%	0.37%	141%

Source: U.S. Bankruptcy Courts for the Northern and Southern Districts of Iowa
Includes Chapters 7, 11, 12 and 13 business and non-business bankruptcies

The information presented in Tables 1 and 2 indicates that

1) the rate of bankruptcies in the casino counties were higher than in the control counties, even before the introduction of casino gambling,
2) the rate of bankruptcies grew over the 1993-2003 period in both sets of counties, and
3) the rate of bankruptcies grew more in the control counties than it did in the casino counties.

In a 2002 study by Lynda de la Viña and David Bernstein, two U.S. Treasury Department economists, concluded, "… that economic factors have a larger impact on bankruptcy than social factors." [6]

Other studies show:
"In the most comprehensive studies of consumer bankruptcy to date, Sullivan, Warren, and Westbrook (1989, 2000),[7] concluded that the causes of bankruptcy are complex and related to

(a) fundamental changes in the national economy that have contributed to increased income volatility and employment insecurity,
(b) rising medical costs and the lack of health insurance,
(c) divorce and the growing number of single parent families,
(d) the determination to maintain homeownership in the face of insupportable debt, and
(e) a dramatic increase in consumer debt at high interest rates."[8]

In 1999, the U.S. Treasury Department completed a study of the relationship between gambling and bankruptcies and concluded, "using state-level data, we find no connection between state bankruptcy rates and either the extent of or introduction of casino gambling."[9]

[6] Lynda de la Viña and David Bernstein, "The impact of gambling on personal bankruptcy rates," The Journal of Socioeconomics, 31, 2002, 503-509
[7] Teresa A. Sullivan, Elizabeth Warren and Jay Lawrence Westbrook, As We Forgive Our Debtors: Bankruptcy and Consumer Credit in America. Beard Books, 1999.
[8] Jean M. Lown and Barbara R. Rowe, "A Profile of Consumer Bankruptcy Petitioners," A paper presented at the Annual Conference of the Association for Financial Counseling and Planning Education (AFCPE), November 20-23, 2002.
[9] U. S. Treasury Department, A Study of the Interaction of Gambling and Bankruptcy, July 1999