

# The Gaming Industry and the North American Industry Classification System

## *An Editorial*

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### Introduction

As we approach the Twenty-first Century a fundamental change in the world's economy is the growth of services. This evolution includes the growing importance of recreation, tourism, and entertainment services. Leading these changes is the United States. However, while the United States' economy has been dominated by the service sector since the 1960s, general ways of thinking about, talking about, and describing the economy still mirror an earlier time when agriculture, natural resources, and manufacturing dominated. This is beginning to change. Business and government are finally beginning to recognize the importance of services in the modern economy.

For example, in an earlier issue of the *Gaming Research & Review Journal* Ivancevich and Fried (1995) discussed Internal Revenue Service (IRS) policy toward the gaming industry. They suggested that IRS interest in the industry may be due, in part, to the changing nature of the United States' economy. Growth in services, particularly in the entertainment--gaming sector, was creating the need for new policy and revision of rules and regulations designed for a manufacturing-based economy.

Another area where these changes in the economy are being recognized is industrial classification. My goal in this editorial is to describe the logic of industrial classification, identify problems in industrial classification caused by the growth of the service sector, describe the new North American Industrial Classification System (NAICS), and illustrate how the gaming industry is handled in the NAICS.

# Gaming and Systems of Industrial Classification

Why establish a system of industrial classification? These systems help both government and business understand the structure of the economy and the effect of policy and world events on specific parts of the economy. (For an introduction to the commercial use of industrial classification, see Boettcher (1996) and Quint (1996).) There are several approaches to industrial classification, produced by both private and public sector entities. However, they share many similarities in structure. All have the goal of creating a parsimonious and descriptive classification of economic activity. Their goal is to create a typology where similar economic activities are grouped into a common category. Activities in a common category should have more in common with each other than with activities found in other categories. This is usually achieved by creating a hierarchical structure. A well-designed hierarchy achieves parsimony, in that a few major categories can describe an entire economy, and description, since subcategories can be elaborated within the context of a small number of major categories (Roehl, 1998).

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**Table 1. Structure of the 1987 revision of the United States Standard Industrial Classification**

DIVISION	DESCRIPTION
A	Agriculture, Forestry, and Fishing
B	Mining
C	Construction
D	Manufacturing
E	Transportation, Communication, Electric, Gas, and Sanitary Services
F	Wholesale Trade
G	Retail Trade
H	Finance, Insurance, and Real Estate
I	Services
J	Public Administration
K	Nonclassifiable Establishments

Although the logic of a system such as the U. S. Standard Industrial Classification (SIC) (Executive Office of the President, 1987) seems straight forward, problems arise because of changes in the economy. For example, in the 1987 revision to the SIC (Table 1) great detail was available for manufacturing due to the dominant position of manufacturing in the economy when the SIC system was designed in the 1930s (Office of Management and Budget, 1994; 1996). However, the picture was different for services. Many dissimilar service activities were grouped into a few categories. For example, a tourism-based activity, sight-seeing busses, was placed in a miscellaneous category with activities such as hearse rental, with driver. Similarly, casino hotels were categorized with all other hotels and motels while slot machine operations was grouped with activities such as video games in a category entitled Coin-Operated Amusement Devices (Executive Office of the President, 1987).

Several problems existed with this approach. It did not reflect the modern, service-based, U. S. economy. Additionally, it was difficult, if not impossible, for emerging service industries to use the 1987 U. S. SIC. This was particularly true for the gaming industry. Since gaming activities were included in broad heterogeneous categories the 1987 U. S. SIC was of little use in describing the size or economic importance of the industry. This had the consequence of making the gaming industry "invisible" at the level of official economic statistics.

Efforts to revise the U. S. SIC system began in the early 1990s (Office of Management and Budget, 1994; 1996). After the North American Free Trade Agree-

**Table 2. Structure of the North American Industrial Classification System**

TWO-DIGIT SECTOR	DESCRIPTION
11	Agriculture, Forestry, Fishing, and Hunting
21	Mining
22	Utilities
23	Construction
31-33	Manufacturing
42	Wholesale Trade
44-45	Retail Trade
48-49	Transportation and Warehousing
51	Information
52	Finance and Insurance
53	Real Estate and Rental and Leasing
54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
56	Administrative and Support, Waste Management, and Remediation Services
61	Educational Services
62	Health Care and Social Assistance
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services
81	Other Services (except Public Administration)
92	Public Administration
99	Unclassified Establishments

ment was signed, this task was broadened to create a common system of industrial classification for Canada, Mexico, and the United States.

A focus on production was a key principle in this revision. The production technology of an industry, such as production process, materials used, type of labor employed, etc. define the industries. NAICS industries reflect groups of economic activities. Although the product or products created are part of each industry's definition, industries do not represent groups of products.

A second key goal was to correct the historical bias toward manufacturing. Development of classifications for new and emerging technologies and services in general were emphasized.

The achievement of these goals is illustrated by comparing Table 1 to Table 2. The NAICS consists of 25 Sectors, compared with the 11 Divisions in the 1987 U. S. SIC. While there was a single Division for services in the 1987 U. S. SIC the NAICS has seven Sectors covering service industries. Sectors are identified with two-digit codes. Each Sector is further divided into three-digit Subsectors, four-digit Industry Groups, and five-digit NAICS Industries.

The growing importance of gaming has been recognized in the NAICS. Sector 71, Arts, Entertainment, and Recreation includes Industry Group 7132,

Gambling Industries. This includes a pair of NAICS Industries. These are Casinos (Except Casino Hotels) (NAICS 71321) and Other Gambling Industries (NAICS 71329). Activities included in NAICS 71329 include slot machine operation, lottery, bingo, bookies, and other gambling operations (NAICS Committee, 1995b).

Before the NAICS these activities had been included with many nongaming activities in either 1987 SIC 7993, Coin-operated Amusement Devices or 1987 SIC 7999, Amusement and Recreation Services, Not Elsewhere Classified. Part of the logic in the creation of these new NAICS gambling industries was "an effort to group those activities with the same production process and to improve compatibility with Mexico and Canada. The basis for developing this subsector was to group together activities that are participatory in nature . . ." (NAICS Committee, 1995b).

Casino Hotels also received recognition as a five-digit NAICS industry.

"Casino Hotels include both lodging and gaming casinos as an integrated facility. Both the lodging and gaming services are generally major operations and a separate industry has been created to classify these establishments. Casino Hotels are classified in this industry regardless of whether separate data are available for the gambling and hotel activities of these establishments." (NAICS Committee, 1995a.)

## **The development of the NAICS recognizes the growing importance of services in general and the gaming industry in particular.**

Previously, information regarding casino hotels had been combined with information about other hotels, motels, inns, bed and breakfasts, etc. in the 1987 U. S. SIC Industry 7011 Hotels and Motels.

The NAICS will go into effect in the United States and Canada in 1997. Mexico will follow in 1998. NAICS will be implemented as part of the Census Bureau's 1997 Economic Census. The first statistics using NAICS categories will be issued in early 1999 (Office of Management and Budget, 1997).

## **What Do These Changes Mean?**

The development of the NAICS recognizes the growing importance of services in general and the gaming industry in particular. Gaming is recognized as an industry, characterized by a production process unlike other entertainment or lodging services.

Furthermore, these changes will influence how economic data is presented and used in research. The U. S. SIC had become a basic tool in business research, especially in marketing and finance. With the creation of the NAICS data users and data providers will have access to more detailed data that does a better job of describing how the economy works. These changes in how data is collected by government and how it is repackaged by commercial information providers such as Dun and Bradstreet and Data Resources, Inc. will cause some confusion in the short term (Boettcher, 1996; Quint, 1996). Nevertheless, in the long term, more detailed data that more accurately describes how the economy works will give the gaming industry better tools to show legislatures and the public the true value of the industry.

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