The Case for Casino Gaming

A Viewpoint Article

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Abstract

Casino gaming in the United States is the fastest growing segment of the expanding entertainment industry. Nevertheless, gaming opponents continue to spread arguments against gaming which are based on their moral-ethical beliefs. In contrast, this paper makes the case for gaming by looking at the economic reality. In the real world, casino operators provide the best products in highly competitive markets, gaming contributes net economic benefits to society, and the alleged substitution effect of gaming does not exist.

Preamble: *Casino gaming is a great form of entertainment. It provides fun and entertainment for millions of visitors.*

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Casino gaming [gaming] is one of the fastest-growing industries in the USA, and it ranks prominently in the top group along with high-tech industries and other industries of the recreation and leisure segment of the economy. What are the inherent forces to make the casino gaming industry [industry] grow so fast and to become so immensely popular? We think there are two main reasons for this success story. First, gaming has become an acceptable form of entertainment for an ever-growing segment of the American society: in a recent Harrah's survey on casino entertainment more than 90 percent of the adult population felt that gaming was entirely acceptable for themselves and/or others (Harrah's Entertainment Inc., 1996, p. 16). Likewise, an earlier Gallup poll on gambling activities had shown that casino attendance had increased from 12 percent to 21 percent of the survey respondents between 1982 and 1992 (McAneny, 1992, p. 6). It was an uphill battle for the industry to overcome the public's deep-rooted perception of wrongdoing and involvement of criminal elements in gaming. However, the transformation of the industry to the corporate form of operation during the past two decades and the tight regulatory network provided the breakthrough to the new era of gaming. Gaming corporations are accountable to their shareholders, they publish annual reports, and they are subject to the rules of the Securities and Exchange Commission. Furthermore, all gaming operations, corporate and noncorporate alike, are under the watchful eyes of the state gaming commissions. All of this had a beneficial impact on the industry that made it a respectable member of the recreation and leisure economy.

While enhancement of the image is important, providing a better product is equally important. The industry has done so, and it has done so in a way that is almost beyond imagination. The achievement of a better product can be regarded as the second pillar for the wide acceptance of gaming. Simply put, the customer is King in gaming. This is neither new nor uncommon. Many industries in the production and service economies make customers believe that they are special, but often this does not go beyond merely providing that perception. In casino gaming it is *reality*. In fact, casino operators try vigorously to provide a new meaning and dimension to customer service. To attract customers to their premises, American casino operators have become world champions in the art of product differentiation. They have to, because they are operating in an industry that has been frequently labeled as a "look-alike industry." Consequently, gaming corporations such as Caesars World (ITT), Circus Circus, MGM Grand, and Mirage Resorts have built themed properties on a grand scale that provide an immediate and distinct recognition; Harrah's Entertainment created a highly successful slogan "Where the Better People Play" in the 1980s that was, subsequently, replaced by "A Great Time. Every Time." for the value-oriented society of the 1990s and beyond; and, then, there is the industry's unique instrument of complimentaries as a marketing tool with the provision of free food, beverages, and accommodation on premises, and, above all, cash back for qualifying patrons.

Closely linked to the product-differentiation strategies is the competitive spirit of the industry. In fact, the competitive spirit is the foundation for product-differentiation strategies that, in turn, lead to the enhancement of competitiveness in the casino's ability to experience sustained growth of gaming revenues. Consequently, the competitive spirit of the industry yields a win-win scenario: players benefit from constant improvements in service quality and from better products, and casino operators become more efficient through competitive pressure.

Casinos do not operate in a vacuum; rather, they are an integral part of the socioeconomic fabric of the community. Chief among the many benefits of casino gaming is the direct employment effect: casinos as labor-intensive operations offer not only jobs but secure and long-term jobs, a rarity in an environment that is characterized by job cuts everywhere. Add to this the indirect employment effect through a casino's purchases of supplies and services. This effect can assume gargantuan proportions as can be exemplified by data from the Atlantic City market: in 1994, the twelve casinos bought a total of $2.2 billion of supplies and services from other businesses, of which 42 percent was spent in surrounding Atlantic County (Casino Association of New Jersey, 1994, p. 8). To complete the economic impact there is the spillover effect from gaming tourists who patronize noncasino businesses in the casino's neighborhood and beyond. Where would Atlantic City be without gaming? Tunica? Deadwood, Black Hawk, Central City, and Cripple Creek?

Perhaps no other gaming market has generated more debate on whether or not gaming is an engine of economic development than has Atlantic City. The problem is that the proper perspective has become nebulous through the confusion of economic and sociodemographic phenomena. From an economic point of view, the industry has performed remarkably well when it is compared with the peer group of the 15 largest casinos on the Las Vegas Strip. And all this in spite of the much stricter -- and costlier -- regulatory framework in New Jersey. Yes, there can be no doubt that Atlantic City would have vanished into oblivion without casino gaming. Today, it is very much on the map. Still, misconceptions abound about Atlantic City's gaming industry when claims are made that the industry has brought more harm than good. As for the demographics, yes, the population of Atlantic City declined, and it may still decline further in the future. However, a closer inspection of the numbers reveals that the decline did not start in 1978 when gaming began, but started much earlier. In fact, if anything, the exodus slowed after the introduction of gaming: from 1970 to 1977, the city's population declined by 10.9 percent, from 1977 to 1980 by 5.8 percent, and from 1980 to 1990 by 5.5 percent. At the same time the population of Atlantic County increased substantially, *viz.* by 10.9 percent from 1970 to 1980, and by 15.6 percent from 1980 to 1990 (Casino Association of New Jersey, 1994, p. 9). The rising population for Atlantic County shows a net influx of residents who were attracted by the direct and indirect employment opportunities of the Atlantic City casinos. In this respect, it should be noted that more than 75 percent of the casino employees live in Atlantic County.

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Another apparent misconception is the claim that casino gaming was harmful to small business is Atlantic City. This view was repeated in the 1994 Hearings on the Proliferation of Gambling before the House Committee on Small Business. For instance, mention was made that the number of restaurants had declined from 243 in 1977 to 146 in 1987 (Oleck, 1992, p. 112). This decline was squarely blamed on the presence of the casino industry with its low-priced food services as part of its marketing strategy. First of all, it is not clear whether the 1987 number includes restaurants in casinos. By February 1996, for example, there were 91 restaurants in casinos (A.C. Shorecast, 1996, pp. 13-16), which, by the way, are open to everyone. Furthermore, it must be borne in mind that the number of restaurants would have declined even without casinos because of the declining trends of the resident population, tourism, and business activity.

It would appear that the reasons for the less than sympathetic image of the Atlantic City gaming industry as portrayed by the press and the many critics have to be found in factors other than dollars and cents. The main problem with the Atlantic City experiment is that gaming was literally superimposed on a city in decline. The expectations that casino gaming would somehow revitalize the city in the sense of bringing back the activity of the 1920s when visitors enjoyed the wonderful oceanside location and patronized numerous shops was simply misguided. It was misguided because the nature of casino gaming, American-style, is to keep patrons on premises by providing accommodation, food, entertainment, recreational facilities and, yes, gaming in the self-contained entity of a hotel-casino-resort complex. Casinos have to attract visitors, and lots of them. In 1994, on average, some 84,000 people arrived in Atlantic City by car or by bus every day (Casino Association of New Jersey, 1994, p.16). This is an enormous volume of traffic, and the loss of tranquillity, air pollution, and the increased road hazards are costs for local residents. However, the costs of these externalities can only be estimated in terms of a willingness-to-pay scenario since there are no markets for clean air and a peaceful environment. In contrast, the benefits from gaming can be measured. This is important since it must be remembered that an increased visitor volume means more economic activity for all businesses, casino and noncasino alike.

The claim that one dollar spent in a casino is one dollar less for spending on other forms of entertainment is simply not substantiated by fact.

Casino gaming spread like a wildfire all across the USA in the early 1990s. Lately, this expansion has slowed and no new non-gaming states except Michigan have entered the gaming map. Should one be worried about the spread of gaming or the intense competition in some markets? Certainly not. Competition is good for customers, and that is why economists prefer competitive markets. And there is more. Competition is also good for the market contestants. Competition enhances their skills, it sharpens their vision, and it keeps them alert to provide the latest and best products. In a word, they become more efficient. The competitive struggle to be better could be described as "Social Darwinism," a survival of the fittest scenario or as the Chicago School of Thought would have it, as "superior economic performance." Yes, there were the Dunes, the El Rancho, and the Main Street Station casinos in Las Vegas, just to mention a few. We said "there were" because their management did not read the signs properly, and they were eliminated. Likewise, the Sands in Las Vegas had to close because it was too old, and its age showed *vis-à-vis* the two state-of-the-art properties right across the street, *viz.* The Mirage and Treasure Island. And nobody would shed too many tears because the inefficient firm has no place in this vibrant industry. Rather, the industry needs visionaries like Steve Wynn, the CEO of Mirage Resorts. His company entered the coveted Top Ten of Fortune's "America's Most Admired Corporations" listing in 1996 side-by-side with luminaries such as Coca Cola, Rubbermaid, and Microsoft (Fortune, 1996). What an achievement for a gaming corporation! Steve Wynn is not alone in this dynamic industry, there are his equally-motivated peers and without them and their vision and farsightedness the industry would not be where it is today.

Does gaming create a net economic benefit? Of course it does. Why should it not do just that when *every* other industry in the production and service economies contributes its share to GDP. Like other industries, gaming generates income for hundreds of thousands of people through direct and indirect employment. This cannot be ignored. Or can it? A group of gaming opponents portrays a totally different scenario where gaming creates more costs than benefits. How is that? Well, the "method" to achieve such a bizarre scenario is simple, if not simplistic: discount the benefits of gaming or make them appear negligible and overemphasize the costs of gaming. No, not the commercial costs of operating a casino but the "social costs." These costs refer mainly to problem gambling. Yes, problem gambling needs attention, and not only attention, but ways to prevent it. To be sure, problem gamblers who bet over their heads for a prolonged period are only a tiny fraction of the entire gaming population. However, the industry has always been committed to aggressively combat problem gambling. According to the motto " . . . one person with a gambling problem is one too many" (American Gaming Association, 1996, p. 5), a wide range of measures have been established to meet problem gambling head-on which range from detection programs to toll-free numbers for help and counseling to the new industry-sponsored "National Center for Responsible Gaming" in Kansas City. It must be categorically stated that casino operators do not want problem gamblers on their premises. They know very well that problem gambling is an abuse of their product, and this abuse is an unwelcome intruder to the cherished philosophy of providing fun and entertainment. Claims by gaming opponents that casinos would somehow be reluctant to assist in the detection and prevention of problem gambling in order not to jeopardize the majority of the gaming revenues are nothing more than nasty innuendo. This issue has been addressed elsewhere, and will not be repeated here (Marfels, 1996). Clearly, the industry cannot be held responsible for an obvious abuse of its product beyond the aforementioned measures to prevent this abuse. However, as gaming opponents would have it, the "social costs" of gaming should also include the costs of prosecution and incarceration of those problem gamblers who commit fraud and embezzlement plus a host of indirect costs caused by the detrimental impact of problem gamblers' behavior on their own life and the lives of family members. This proposition is a misguided attempt to set a new standard. Nobody would suggest doing so with the beer and automobile industries in regard to drunk driving that may cause bodily harm not only to the driver but to innocent third parties as well. An automobile in the hands of a drunk driver is a potential time bomb, but the automobile industry should not and cannot be held responsible for this obvious abuse of their product. So, why should gaming be subjected to a higher standard? There is absolutely no justification since the higher standard is set by self-appointed moralists who want to impose their beliefs onto others, and who want to get rid of gaming altogether.

To further substantiate the presence of no economic benefit from gaming, opponents invoke the so-called "substitution effect." The introduction of casino gaming means that local gaming patrons spend less at local noncasino businesses in general and at other local entertainment businesses, such as movies, theater, music, and spectator sports in particular, or so the argumentation goes. This kind of thinking is just a wrong blend of moral-ethical beliefs and economic reality. The claim that one dollar spent in a casino is one dollar less for spending on other forms of entertainment is simply not substantiated by fact. If anything, the one dollar spent in a casino is *one dollar more* spent on entertainment. Casino gaming is a different form of entertainment, very different indeed. Consequently, it cannot be regarded as a substitute for other forms of entertainment. The substitution effect of gaming loses further momentum in view of rising discretionary consumer expenditures. Proponents of the substitution effect make the assumption that consumer budgets are fixed over time. Thus, they conclude that the introduction of casino gaming cuts into an existing pie representing funds earmarked for entertainment. However, empirical evidence shows that this is not so; rather, the pie itself has grown, and it will grow further. With the growth of disposable incomes in the 1970s, 1980s and into the 1990s, consumers increased their discretionary expenditures, *i.e.,* spending on non-necessities, such as leisure and recreation. In the USA, the share of real disposable income spent on recreation and leisure increased from 10.3 percent in 1970 to 13 percent in 1993 that meant an additional spending power of $270 billion (in 1987 dollars); at the same time, spending on food declined from 13 percent to 8.3 percent of real disposable income (The Promus Companies, 1995). Consequently, there are two factors involved in the dynamics of consumer spending patterns on recreation and leisure, *viz*., the pie for the leisure economy keeps growing, and there are shifts among the segments of the leisure economy. To be sure, consumer expenditures for nearly all segments increased during the 1990-1995 period (Bear Stearns, 1995, p. 8). All of which means "Yes, Virginia, casino gaming does create a net economic benefit."

What is in the cards? The industry is ready and prepared to meet the expectations of the value-oriented society of the 1990s and beyond. The equation for success in gaming is to attract players, and not only to attract them, but to make them come back again and again. To this end, casino operators are on a permanent search to make their establishments distinct from the competition. In this kind of buyers' market scenario customers become beneficiaries of an unprecedented form of entertainment. In the battle for player recognition and loyalty casino operators have to be permanent innovators, and the numbers prove that they are on the right track: all across the nation gaming markets have shown continuing growth of gaming revenues during the past three years with rates in the double digits for emerging markets and in the single digits for the two traditional markets of Nevada and Atlantic City.

Las Vegas needs to be singled out because it is the showcase of the gaming industry. Nowhere has gaming shown its capacity as a catalyst for economic development in a more convincing way than in the center of gravity of the Silver State. Increasing inter-market competition from the rapid spread of gaming has reinforced competitiveness and strength of the established operations. In fact, the industry has widened its scope of competitive efforts. Competition is no longer viewed as casino to casino, but as Robert Maxey, the former President of MGM Grand once put it; competition for the gaming industry is video games, spectator sports, and other leisure-time activities (New Jersey Casino Journal, 1995, p. 25).

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