



Center of the American Experiment

Gambling in Minnesota

A Special Report

Minnesota Policy Blueprint

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**Center of the American Experiment
April 2005**

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Preface

In 1999, American Experiment released its largest project to date—the *Minnesota Policy Blueprint*. This 400-page examination of nearly every aspect of the executive branch of state government was meant to serve as a free-market, conservative guidebook for elected officials. And so it has been.

I assumed, however, that at the end of this eighteen-month project, my responsibilities as project director of the *Blueprint* would end and I would embark upon another endeavor—preferably one that didn’t involve coordinating nineteen task forces with over 150 members. However, that was not to be.

It turns out that the original *Blueprint* book wasn’t a rarely referenced, theoretical study of state government. Instead, it has become a vibrant reference tool for elected officials, proving that this was an exceptionally useful venture. It was, as our mission statement reminds us, what a state-based think tank should be doing—discussing free-market, conservative public policy alternatives to some of the most difficult issues facing Minnesota.

It has also become a signature project of Center of the American Experiment. You’re holding in your hands the latest iteration of that project and one that I hope lives up to the legacy of the original.

As we enter our fifteenth year of doing business in Minnesota, I am exceptionally proud of this new study. I believe that this special report on gambling will play a significant role in persuading legislators to pass up what looks like easy money to solve our short-term budget problems. Instead, it is our fervent hope that they will focus their efforts on developing a long-term vision based upon sound public policy alternatives that improve and uplift the lives of all Minnesotans.

On behalf of our board of directors and staff, thank you for your interest in American Experiment.

*Annette T. Meeks
Chief Executive Officer
Center of the American Experiment
April 2005*

Introduction

During the 1940's, Governor Luther Youngdahl rid Minnesota of slot machines and the social ills that accompanied them. It doesn't sound like it was an easy accomplishment but one man stood up to this popular habit that was proliferating throughout the state and took a courageous stand. Yet while Governor Youngdahl won his crusade against gambling, he really didn't change people's hearts.

Gambling in Minnesota was big business back in 1946. "One-armed bandits" were popular with Minnesotans then and remain so today. It's been nearly sixty years since those illegal slot machines disappeared from our state's landscape. But it appears that some elected officials once again want to see a proliferation of these machines. It is the vigorous and divisive public policy debate surrounding gambling expansion in Minnesota that launched this report. At last count, there were nearly twenty different proposals introduced this legislative session to expand gambling in Minnesota.

Why is a conservative, free-market think tank publishing a special report on gambling in Minnesota? Because it appears that there is no end in sight to our state's growing addiction to readily available gambling and its perceived benefits of easy money. Furthermore, we believe that a major public policy decision of this magnitude should be made only after carefully considering the serious costs associated with casino gambling.

With little time to spare, we decided to compile a report containing the best and most thorough research examining the social and economic implications of gambling in America.

Our findings include lessons learned from other states that have lusted after the "easy money" found in casino gambling. The social ills affecting those states include increased political corruption, increased rates of personal bankruptcy, increased levels of crime, and increased family problems.

We believe that there are serious costs surrounding the expansion of gambling -- costs that should force every Minnesotan to reject any and all new forms of gambling in our state. After reading this report, you will learn that for gambling to succeed in Minnesota, our legislature is betting that some segment of the population will lose -- and lose big. The long term consequences of expanded gambling in Minnesota far outweigh any tangible benefits.

A study compiled this quickly and thoroughly could not have been accomplished without the invaluable service provided by staff and friends of American Experiment. In particular, I would like to thank our American Experiment Research Fellow Peter Nelson and our editor Pat Everheart for their work on this project. The mere fact that you are reading this report means that Barry McDonald at Bachman Printing has once again worked his printing magic. In addition, former American Experiment Research Director Jonathan Papik spent many nights and weekends combing through this research. Without his superior writing and researching skills, this report could not have been completed.

Furthermore, I thank Professor Earl L. Grinols of Baylor University. His careful research on the costs of casino gambling continues to be the academic “gold standard” and I am sincerely grateful for his assistance with this project.

Finally, I thank our American Experiment board of directors and contributors for their support of our work.

Annette Meeks
Project Director

Executive Summary

Gambling is a multi-faceted, multi-billion dollar industry in Minnesota. Through attempts to legalize, regulate, and manage gambling activities, state government has been actively involved in the history of gambling in Minnesota. Since Minnesota's first gambling legislation, which legalized limited forms of charitable gambling, the state has allowed additional forms of charitable gambling, negotiated compacts that allow the state's Indian tribes to have casinos, legalized a form of for-profit gambling in parimutuel horse racing, and entered the gambling industry as a participant through the creation of the Minnesota State Lottery.

Different forms of oversight exist over the different forms of legalized gambling in Minnesota. State boards—the Gambling Control Board and the Minnesota Racing Commission—are the primary oversight bodies for charitable gambling and parimutuel horse racing, respectively. The Minnesota State Lottery is in the unique position of overseeing the games they promote and operate. Tribal casinos are regulated by multiple institutions that represent multiple layers of government.

The governor and some state legislators have expressed interest in expanding the scope of legalized gambling in Minnesota. Major proposals include a state-run casino in partnership with three northern Minnesota Indian tribes, a “racino” at Canterbury Park, and allowing slot machines in bars. The revenues obtained through the expansion of gambling have proven to be too tempting for a number of state governments, and the states that have given into the temptation have faced serious social implications.

Increased Political Corruption—In the words of someone who worked to legalize casinos in Missouri, “(Gambling) generates unlimited potential for abuse. I have never met anybody who could resist a full-court press by the gambling industry.” Unfortunately, from Missouri to Louisiana to Pennsylvania to Nevada, these words are all too true. Through bribery, land deals, and eminent domain abuse, the expansion of gambling has often been followed by political corruption.

Increased Bankruptcy—A national study has found that counties with gambling enterprises had an average of 18 percent more bankruptcies than those without. Counties with five or more gambling establishments were found to have 35 percent more bankruptcies.

Increased Crime—The research of economist Earl Grinols shows that casinos contribute to increased crime. Grinols has found that while crime does not begin to increase until approximately four years after the introduction of casinos, a noticeable increase occurs at that time. He explains the lag time as a result of gamblers depleting resources before turning to crime.

Increased Suicide—Las Vegas has the highest levels of suicide in the nation for residents and visitors. Other states have seen marked increases in the suicide rate since introducing casinos.

Increased Family Problems—The National Gambling Impact Study Commission and several other groups have found that easy access to gambling has led to increased rates of divorce, domestic violence, child abuse, and child neglect.

Total Social Costs—Grinols estimates that casino gambling in America contributes \$289 in social costs for every \$46 of benefit.

In addition to the tangible cost/benefit analysis, legislators should ask themselves several questions dealing with the messages sent by expanding the state's role in gambling. The questions include the following:

- Should the state serve as an enabler for the destructive habits of some of its citizens?
- How can the state promote hard work and personal responsibility among its citizens while trying to persuade those citizens to get rich quick at a state-owned casino?
- Is expanded gambling a good way for the state to gain revenue?
- Can the state be impartial to other tourist businesses if it stands to benefit from gambling?
- Will the growth of expanded gambling come at the expense of private businesses?
- Is a state-owned casino allowed under the Minnesota Constitution?
- Who will oversee a state-owned casino?

Introduction/History

In order to better understand the gaming landscape in Minnesota, it is helpful to review the history of legislative attempts to legalize, expand, restrain, and regulate gambling within the state.

The first legislative measures taken to address gambling in Minnesota were a mix of initiatives designed to either legalize gaming activities that were already taking place or to ban gaming activities that were not yet addressed in the law. In 1945, for example, the Legislature authorized bingo as a legal activity for non-profit organizations provided that no individual gained income from the activity. A few years later, the Legislature supported Gov. Luther Youngdahl's anti-gambling crusade by outlawing all "gambling devices."¹

The next several years of gambling legislation were primarily attempts to manage the charitable bingo the Legislature allowed in 1945. The Legislature would return to the topic of bingo on a fairly regular basis for much of the twentieth century, generally in response to beliefs that individual operators were making large sums of money administering the game. In 1963, for example, the Legislature increased its regulation of bingo as a way to counter what it called, "increasing commercialization." This legislation capped the amount paid to those working at bingo games to \$8 per event.

The bingo issue was brought to the fore again in 1976 when the Legislature made its most ambitious attempt to that date to regulate charitable gambling. Once again, citing the need to stop the "commercialization" of bingo, the Legislature took several actions to expand its control over bingo. The law, based primarily on a St. Paul city ordinance, included provisions that required charitable groups administering bingo to secure a license from a local unit of government and limited such organizations to two bingo nights per week. Bingo groups were required to report their finances to its members and to the local government that provided a license. Daily and weekly prize limits were also set.

Perhaps most importantly, the law limited how gaming profits could be spent. Under the new

law, revenues could only be used for those “lawful purposes” the law explicitly allowed. The “lawful purposes” section of the law remains today, though it has been occasionally modified. Lawful purposes include donations to educational institutions, scholarship funds, government agencies, religious organizations, snowmobile trails, wildlife management projects, and arts organizations.

In 1978 and 1981 the Legislature legalized several new forms of charitable gambling. In 1978, paddlewheels, tipboards, and raffles were authorized. Pull-tabs were legalized in 1981. While the Legislature legalized these forms of charitable gaming, it chose to regulate the games as well.

In 1982, two significant developments took place relating to gambling in Minnesota. The first was a statewide referendum—initiated by the Legislature— on legalizing pari-mutuel horse race betting. The other seemingly minor occurrence took place on Indian land with the introduction of bingo parlors on reservations.

While they may have seemed like minor changes at the time, these steps would serve as major milestones in the history of Minnesota gambling. In fact, the introduction of gambling on Indian land and the eventual legalization of betting on horse racing may have done more to affect the current public debate on gaming than any two other events in state history.

Later in 1982, voters approved the constitutional amendment to allow betting on horse racing. In the following year, the Legislature created the Minnesota Racing Commission to oversee the newly approved industry. This officially moved the state beyond charitable gaming and for the first time ever, legalized for-profit gambling in Minnesota. After the passage of the amendment, ground was broken on Canterbury Downs, a pari-mutuel horseracing track in Shakopee. Canterbury Downs, now known as Canterbury Park, opened for business in 1985.²

Soon after for-profit gambling became a reality, the Legislature increased the state’s regulation of charitable gaming. Various interpretations of laws relating to charitable gaming had developed among local governments. This led to an inconsistent enforcement of the law and, according to the state, uncollected tax revenues. The state attempted to address this problem by transferring

the regulation of gambling from the localities to the state.

The state did so in the 1984 legislative session by creating the Charitable Gambling Control Board. The board was given the power to issue, revoke, and suspend charitable gambling licenses much as local governments did before the board's creation. The board was also authorized to issue rules to clarify state laws pertaining to charitable gaming. While the shift from local to state regulation was significant, the substance of the charitable gambling regulations remained essentially unchanged.

Actions at the state and federal level combined to greatly expand gambling in Minnesota in 1988. At the federal level, the U.S. Congress gave Indian tribes even more authority to expand gambling. Under the Indian Gaming Regulatory Act, tribes could manage any form of gambling that was permissible elsewhere in the state. The law also provided for casino gambling on tribal lands.³ Compacts between Indian tribes and the individual states would determine the form of casino gambling. Soon after, Minnesota negotiated compacts with several tribes, allowing for video gambling devices and blackjack.

In the same year, the state Legislature and Minnesota voters expanded gambling in Minnesota through the passage of a constitutional amendment. That measure allowed for the creation of a lottery to be managed by the state, adding a new dimension to gaming in Minnesota. While the state had authorized and regulated gambling for many years, the state had never before been involved in the actual management and operation of gambling activities.

Having added gambling operations to its duties, the state expanded its regulation and oversight functions in the following year. The new oversight would be accomplished through a state agency—the Department of Gaming.

In 1990, gambling was once again an issue in the legislative session. Much of the action resulted from allegations of misconduct on the part of charitable gambling managers. In response, the Legislature toughened the controls, restrictions, and penalties governing the local charity

organizations. In particular, the Legislature voted to reduce the potential for fraud in pull-tabs by requiring operators to post the names of prizewinners.

Charitable gambling proponents felt many of the 1990 reform efforts went too far. Arguing that several of the reforms actually contributed to a decrease in profits made by local charities, charitable gambling supporters were successful in repealing several of the reforms in the 1991 legislative session. In addition, the Department of Gaming was eliminated in 1991, ending its short existence.

The 1990s also saw the first major defeats to gambling expansion. The first setback came in 1992 when the State Supreme Court ruled that a law passed by the Legislature allowing off-track betting at Canterbury Downs was unconstitutional. The Legislature countered by placing a constitutional amendment on the ballot, only to see the public reject the idea of a change in the state constitution.

The Legislature changed its focus later in the 1990s from off-tracking betting to several other forms of gambling. Canterbury Park's card club had its genesis in this period. Other proposals including video slots in bars, keno games to be run by the State Lottery, and slot machines at Canterbury Park were discussed but not approved by the Legislature.

In 2003, difficult budget times and Gov. Tim Pawlenty's commitment to not raise taxes prompted the governor and the Legislature to look to charitable gambling as a relatively painless source of new revenues. While the governor ruled out an increase on the taxes on charitable gaming profits, the state took action to take the Charitable Gambling Control Board off the state general fund. Previously, local licensing fees were paid to the state general fund; however, the licensing fees were not enough to cover the board's expenses. The 2003 Legislature raised licensing fees to cover the board's expenses in a separate account, opening up some space in the state general fund.

A tragic incident brought gambling back to the front pages in early 2004. The only director in the State Lottery's history, George Andersen, committed suicide in January. Andersen was

reportedly distraught over an upcoming report by Legislative Auditor James Nobles on the lottery's operation.⁴ Nobles report revealed that under Andersen's leadership, the lottery spent money excessively, ignored the benefits of competitive bidding, and generally ran an inefficient and unaccountable agency.⁵ Efforts to reform the lottery and to make the agency more accountable to Legislative and executive oversight followed the report.

In February of 2004, Governor Pawlenty made sure gambling remained a topic for yet another legislative session. In his State of the State address, Pawlenty claimed that while he personally opposed the expansion of gambling, it was time to revisit the compacts with Indian tribes. "My preference is to keep gaming within its current contours, but we need to explore a better deal for Minnesotans," Pawlenty said.

Many observers interpreted this statement as an ultimatum to the tribes: either renegotiate to send a portion of the profits to the state or face competition in the form of a state-owned casino. One year later, despite Pawlenty's efforts, the tribes have shown little interest in renegotiating the compacts. Pawlenty followed through on his "better deal" rhetoric by proposing to fill a substantial portion of the 2006-2007 biennial budget gap with revenues from new casino gambling. This signified a dramatic reversal of position for Pawlenty, a man that once said that "running, managing, licensing casinos is not a proper government function."⁶

The State of Gambling in Minnesota

As history illustrates, gambling in Minnesota has evolved from initial attempts to legalize charitable bingo to a diversified multi-billion dollar industry. Minnesota has several forms of legalized gambling—casinos on Indian reservations, the State Lottery, off-track betting, the card club at Canterbury Park, and several forms of charitable gaming. As the governor and the Legislature consider an expansion of gambling in Minnesota, it is helpful to review the state of legalized gambling including the industry's profitability and the effectiveness of the state's oversight.

The Minnesota Office of the Legislative Auditor estimates the yearly profits from legal gambling in Minnesota to be between \$1.3 billion and \$1.8 billion. A wide-ranging estimate is necessary because Indian tribes are not required to make their finances public.⁷ The state receives revenues primarily through charitable gambling and the operation of the State Lottery. In fiscal year 2002, the state received \$81.7 million from the lottery and \$55.9 million from charitable gambling. The state receives nominal sums from tribal casinos and from pari-mutuel horse racing at Canterbury Park. While the state general fund receives most of the gambling revenues, smaller portions are dedicated to the Environmental Trust Fund, the Game and Fish Fund, and the Natural Resources Fund. In addition, the state allocates a portion of its gambling revenues to compulsive gambling education and treatment programs.⁸

It is difficult to deny that, according to some measures, gambling in Minnesota is extremely profitable. The National Association of Fundraising Ticket Manufacturers, for example, claims that Minnesota has higher profits in charitable gambling than any other state. According to this association's figures, Minnesota had gross charitable gambling receipts of \$1.4 billion in 2001. By comparison, the second-place state, Washington, had only \$900 million in gross receipts. Minnesota's relatively high profits can be attributed to the state's dominance in pull-tab sales. Minnesota had over \$1.3 billion in pull-tab receipts in 2001. Ohio, the second most profitable state, had a mere \$557 million in pull-tab receipts.⁹

Charitable gaming in the state is still regulated by the Gambling Control Board. Overseeing such a diverse and geographically widespread activity has proven challenging for the board. In early, 2005 the Office of the Legislative Auditor released a report showing that the board did not sufficiently “detect and deter noncompliant activities” on the part of charitable gambling organizations. The Legislative Auditor recommended more investigations and background checks to prevent abuse of the charitable gambling system.¹⁰

A Minnesota State Lottery report in 2004 showed that 41 percent of Minnesota adults visited a tribal casino. The exact amount wagered at these casinos is not publicly known, nor is it required to be reported to state officials. Tribal casinos are regulated by multiple institutions representing multiple layers of government. Because the day-to-day operation of casinos is conducted by an outside management team, the tribal leadership is able to serve as the primary casino oversight board without an inherent conflict of interest.

The profitability of some parts of the gambling industry can be seen in the significant per-capita payments by some tribes to their enrolled membership. Other Native American tribal leaders have invested their casino profits into the long-term revitalization of their community infrastructure. Tribes operating casinos close to the Twin Cities metro area reap significant profits for their members, estimates indicate. Other tribal casinos in remote areas in Greater Minnesota reportedly have not experienced the same level of profitability. Yet, according to the *Indian Gaming Industry Report*, Minnesota’s eleven tribes contributed \$16.1 million to local governments in 2003.

Furthermore, according to the Minnesota Indian Gaming Association website, nearly 14,000 Minnesotans are employed by the eighteen casinos operating in the state and 78 percent of those employed are non-Indians. Tribal casinos are located in: Prior Lake, Red Wing, Hinckley, Duluth, Walker, Deer River, Onamia, Cloquet, Lake Vermillion, Grand Portage, Morton, Cass Lake, Granite Falls, Thief River Falls, Warroad, Red Lake, Mahnomen, and Tower.

Tribal gaming is regulated by the tribal governments, Congress, the U.S. Department of the Interior, the National Indian Gaming Commission, as well as the by the states according to each

state's compacts. The compacts between Minnesota and its tribes designate the Alcohol and Gaming Enforcement Division of the Minnesota Department of Public Safety as the state's agent of oversight. This division's role in overseeing casinos is limited to ensuring that casinos are in compliance with the gaming compacts, negotiating technical changes to the sections of the compacts that are subject to amendment, and conducting criminal background checks on prospective and actual casino employees. The 2005 Legislative Auditor review of state gambling oversight found that the AGED is ineffective in exercising its role of inspecting casinos.¹¹

While revenues from pari-mutuel horse racing (and the race track's card club) are lower than the revenues from other forms of legalized gambling in Minnesota, this form of gambling only takes place within the confines of Canterbury Park. Despite its sole location, thoroughbred horse racing and the accompanying card club had gross profits totaling \$39 million in 2003.¹² This sum could easily grow in future years if an additional race track is built, as planned in Columbus Township in Anoka County or if the state allows more expansive gambling at the existing race track.

All gambling at Canterbury Park—on horse racing and at the track's card club—is regulated by the Minnesota Racing Commission. The commission consists of nine citizens appointed by the governor. Its primary duties include making sure races and card games are conducted fairly and that prize monies are distributed fairly. The Legislative Auditor found that the Racing Commission provides adequate oversight of horse racing, but found that the commission is too dependent on Canterbury Park for its oversight of the card club.¹³

The fourth form of legalized gambling in Minnesota is administered by the Minnesota State Lottery. The lottery is in the unique position of promoting, operating, and overseeing its gambling operations. Despite this unique position, the Legislative Auditor found in 2005 that the lottery "protects the integrity of...its games with a comprehensive set of security procedures."¹⁴

As noted in the above history, however, the lottery was brought under intense scrutiny in 2004 following the suicide of its director. While the Legislative Auditor has found the oversight of its games to be adequate, one year earlier numerous questions were raised about the management of

the agency itself. The lottery appears to have responded by taking steps to correct some of the excesses of the previous administration. Even so, there is some support in the Legislature for introducing some checks on the power of the lottery's director. One noteworthy bill in the current session (House File 514 and Senate File 406) would create a citizen lottery board to do so.

While some in the Legislature may wish to diminish the power of the lottery's director, several initiatives will require an even more powerful State Lottery organization. The proposals that would create additional duties for the State Lottery are those that would expand gambling in Minnesota. These proposals (and others) are outlined in the following section.

2005 Legislative Session

In the early months of the 2005 legislative session, legislators on both sides watched and waited for Gov. Tim Pawlenty to formally introduce his gambling proposal. On March 4, Pawlenty ended the suspense by announcing his plan for a metro-area casino to be run by the state lottery with profits shared amongst the state and three northern Minnesota Indian tribes. Those three tribes, the Red Lake, White Earth, and Leech Lake tribes, make up 85 percent of the state's Native American population.¹⁵ Because of their remote location in northern Minnesota, these tribes maintain that they have not had the opportunity to reap the casino gambling windfall their counterparts in the southern half of the state have received for over a decade.

The details of the plan require that tribes participating in the partnership demonstrate that they lack adequate resources to provide basic needs for their residents. This so-called "means testing" provision was added as a way to justify the state's offering benefits to a particular segment of the population. The bill also requires that any casino developed through the partnership be audited annually. That audit would have to be sent to the state; however, it would not be classified as public under state law.¹⁶

The plan requires that the tribes pay off the \$575 million in debt to build the casino as well as a one-time state licensing fee of \$200 million. The state and the tribes would then share in the profits. Supporters of the proposal have estimated that the state and the tribes could receive \$164 million or more in casino proceeds.¹⁷

Because the governor's proposal is site-neutral, there has been a great deal of discussion surrounding potential locations of a metro-area casino. In February, much of the conversation began to focus on Bloomington, when it was revealed that Pawlenty and his staff had met with Mall of America representatives to discuss a casino as part of a mall expansion. Later, the Ghermerzian family, which owns a controlling interest in the mall, unveiled expansion plans that would double the size of the already giant mall and would include a 200,000-square-foot casino.¹⁸

Despite the administration's interest and the Ghermerzians' willingness, a Mall of America casino faces considerable obstacles. Chief among those obstacles is the adamant opposition to a Bloomington casino by Bloomington's legislative delegation. Senators Bill Belanger (R) and Jane Ranum (DFL) and representatives Ann Lenczewski (DFL), Neil Peterson (R), and Dan Larson (DFL) all oppose a state-owned casino in Bloomington. In the words of Larson, "We stand opposed, united, and seamless. We don't want it in Bloomington."¹⁹

The Bloomington House members have done their best to place an obstacle in the way of a Mall of America casino by introducing a bill (House File 463) that would require voters to approve a gambling facility before its construction in that city. Pawlenty's proposal also calls for a willing host community, though his approval mechanism is a resolution passed by the city council, not the referendum desired by the Bloomington delegation.

The Mall of America is by no means the only potential site for a metro-area casino. Other frequently discussed locations include Burnsville, Albertville, and various sites in Anoka County. The City of St. Paul has also been mentioned in news accounts as the potential site for a casino of some type. Any of these locations would be subject to the same referendum requirement if the Bloomington delegation's bill becomes law.

The administration's proposal is likely to receive the most attention in 2005; however, numerous other legislative initiatives are designed to expand, restrain, or otherwise eliminate gambling in some form. One such proposal, for a "racino" in Canterbury Park, has surfaced repeatedly in legislative sessions since Sen. Dick Day (R) first introduced the measure in 1997. The racino proposal would allow Canterbury Park to add an area for video slot machines, provided that the state receives a portion of the revenues. Canterbury has offered to pay up to \$100 million to the state in slot machine revenues.²⁰

Racinos are an increasingly popular option for gamblers and state legislatures alike. They have grown from one small West Virginia horse track with a few hundred slot machines to become the fastest growing gaming sector in the country. As of late 2004, nine states had racinos with at least five others considering their introduction. A California research group has estimated that

racino revenues have grown 48 percent since 1994.²¹

The racino concept has appeal because of the revenues it provides and the fact that a racino does not expand gambling to a new *site*. The horse racing industry also generally supports racinos as a way to breathe life into a struggling industry.

The racino proponents have won some legislative victories in Minnesota in previous years, but have been unsuccessful in securing final passage. The Republican-controlled Minnesota House of Representatives approved a racino measure in 2004, but the measure stalled in the DFL-controlled Senate.

The debates on a metro-area casino, racino, and other proposals don't take place in a vacuum. In fact, in the opening stages of the 2005 session, the casino and racino concepts have often been linked. House Speaker Steve Sviggum has said that linking the proposals might ensure that both measures become reality. In contrast, Senate Minority Leader Dick Day, who could be considered the biggest supporter of the Canterbury racino, opposes the governor's metro-area casino plan. As a result, Day has spoken out against linking the proposals.²² On the DFL side, a significant number of Democrats oppose further expansion of gambling.

Canterbury Park may not be the only racino in the 2005 gambling discussion. In late 2004, the Minnesota Racing Commission approved a harness racetrack in Columbus Township in Anoka County. Proponents of this track realize that racing alone may not attract a sufficient crowd to garner a profit at such a remote location. Under law, the North Metro Harness Initiative has the right to open a card club, as Canterbury Park has done. If Canterbury Park makes a bid for slot machines, this location could do so as well.²³

A wild card (so to speak) in the racino developments is whether the Legislature might decide to impose taxes on card clubs. The Canterbury card club is not taxed, and that club generated approximately \$26 million in revenue in 2004. In the 2004 session, a card club tax was discussed, but, like almost all proposals in that session, went no further than discussion.²⁴

Other metro-area casino proposals have been introduced as well. Representatives Phyllis Kahn (DFL), Loren Solberg (DFL), and Sondra Erickson (R) drafted House File 1009 that would allow the State Lottery to lease space to run a casino in the main terminal of the Minneapolis-St. Paul Airport.

Another proposal involving the State Lottery (House File 968 and Senate File 449) would allow the lottery to offer betting and bookmaking on sports events. Taxes from sports-related wagers would be placed in the newly created Active Minnesota Recreation Fund to be used for children's sports programs, amateur sports facilities, and hiking and biking trails.

The lottery would also receive new authority under a proposal to allow establishments that sell beer or liquor to have video slot machines be played by persons 21 years or older (House File 1042 and Senate File 964). The bill's sponsors, Sen. David Tomassoni (DFL) and Rep. Tom Rukavina (DFL) claim that slots in bars could generate \$352 million a year for the state General Fund.²⁵ Bar owners in Greater Minnesota are particularly interested in this idea as many believe approval of this proposal would improve their business.

A number of other bills make small changes to the types of gambling allowed under state law. Capitalizing on the recent popularity of poker games, House File 519 and Senate File 317 would legalize "Texas Hold'em" tournaments. Other bills would remove time-of-day restrictions on bingo and exempt raffles under a certain amount from state registration requirements.

Disagreeing with those prescribing expanded gambling, Sen. David Hann (R) has introduced a bill (Senate File 632) that would abolish the State Lottery. Given the current appetite for gambling expansion among some legislators and the need for the lottery to administer expanded gambling, the prospects for Hann's bill are probably not good.

In fact, it is almost a certainty that the gambling debate will not be defined by proposals to eliminate or restrain gambling, but by those proposals that would expand it. Given this reality, it seems to be an appropriate time for an examination of the social implications of expanded gambling.

Social Implications

The Las Vegas Convention and Visitors Authority launched an aggressive ad campaign in 2003. The ads were centered on the slogan “What happens in Vegas, stays in Vegas.” The ads ostensibly emphasized that Americans could engage in any unseemly activity they desired in Las Vegas without facing consequences at home. Given Sin City’s own claims, it certainly seems appropriate to examine what exactly “stays in Vegas.” More generally, what are the social implications of expanded gambling, particularly casino gambling, in major metropolitan areas around the country?

Gambling critics have long maintained that the social implications of gambling impose a societal cost far greater than any revenues gained through gambling. The following analyzes empirical evidence on what changes have accompanied the introduction or expansion of gambling in areas around the country.

Political Corruption

State governments around the country exercise a great deal of influence in determining the extent to which gambling will be allowed within its borders. As a result, the gambling industry usually needs the support of elected officials to open and operate a casino. An industry rife with cash that depends on the approval of elected officials leaves great potential for corruption. It's no surprise that much of the evidence suggests that corruption among public officials is especially prevalent in areas with extensive casino gambling.

In the words of Nat Helms, a man who worked to legalize casinos in Missouri, “Because of the unlimited money it generates, gambling also generates unlimited potential for abuse. I have never met anybody who could resist a full-court press by the gambling industry.”²⁶

During the past session, Minnesota legislators learned firsthand of the willingness of gambling

interests to attempt to buy influence. News surfaced in April 2004 that eight legislators (most members of a gambling oversight committee) received envelopes stuffed with checks from individuals with ties to Caesar's Entertainment of Las Vegas. The legislators expressed shock that any lobbyist would take an action that so clearly violated state law. The lobbyist later acknowledged she had made a mistake. The legislators returned all the checks.²⁷

While the legislators involved in this mini-scandal were quick to resist the invitation to corruption, officials in other states have been less vigilant in guarding against impropriety. Louisiana, in particular, has seen a great deal of corruption tied to gambling interests.

One major scandal in Louisiana prompted the ouster of several state legislators and triggered an FBI investigation. The scandal had its roots in the legislative approval of video poker in the state. Videotapes caught legislators receiving payments from representatives of the video poker industry. The Senate president, the Senate's senior member, and the chair of the House committee that oversees gambling were defeated following the disclosure of their role in the scandal.

The corruption apparently extended beyond the lawmakers, however. The state agency with oversight over gambling pledged to investigate the allegations and issue a report. The agency looked into the case, but voted to close it without disclosing the findings. Many accused the licensing agency of a conflict of interest similar to that of the accused legislators.²⁸

In 2000, former Gov. Edwin Edwards, who fought for the approval of land-based casinos in Louisiana, was convicted of extortion, racketeering, and fraud relating to his dealings with businesses applying for casino licenses.²⁹

Gambling-related corruption among top elected officials has not been exclusive to Louisiana. The speaker of Missouri's House of Representatives was forced to resign over corruption charges relating to gambling. In South Carolina, seventeen lobbyists and legislators were found guilty of offering and accepting bribes on votes to legalize pari-mutuel racing. Also in 1990, six Arizona legislators pleaded guilty to charges that they sold their votes on a casino legalization bill.³⁰

Most recently, in Pennsylvania, the mayor of Erie was indicted on a gambling-related measure less than six months after Pennsylvania legalized a major expansion of gambling. The mayor was charged with criminal conspiracy, conflict of interest, and other charges of corruption for his role in attempting to benefit from a land deal at a site slated for new slot machines.³¹

Other problems have also developed since Gov. Ed Rendell led the push for thousands of slot machines in fourteen casinos around Pennsylvania. The man Rendell selected to run the board empowered to issue licenses for these new casinos was found to have ties to crime figures. Erie mayor Rick Fillippi isn't the only person trying to get rich off of casino land deals, according to the *Washington Post*, which reported that individuals with connections to organized crime have purchased major tracts of land in anticipation of receiving a casino license.³²

And what about Las Vegas, the ever-present test case in so many gambling studies? Predictably, Las Vegas has shown a proclivity for corruption among its elected officials. In 1998, city audits revealed that city officials spent hundreds of thousands of dollars without proper authority, unlawfully confiscated property from unlicensed businesses, and refused to take actions the auditors identified as ways to save money. To make matters worse, the audits were not made public and only became public because of efforts of the *Las Vegas Review Journal*.³³

More recently, in 2004 gaming mogul Bob Stupak illegally bankrolled the winning city council campaign of Janet Moncrief. Moncrief's campaign strategist, Tony Dane described the arrangement to a grand jury as follows: "When some bills needed to be paid (Stupak) would call me over to a casino and sometimes pay me in cash, sometimes he'd pay me in chips."³⁴

Las Vegas has undoubtedly had its share of corrupt public officials. Perhaps more insidious, however, are the institutional forces in and around the city's government that allow the city to cloak suspect behavior as the legitimate action of a city government. There is no better example than the city's use of eminent domain to benefit—you guessed it—casinos.

The power of eminent domain allows governments to take private property for public use, as

long as "just compensation" is provided. The city's use of eminent domain has been questioned in several cases. The experience of John and Carol Pappas, Greek immigrants who owned a small shopping center in the city, illustrates what many consider to be an abuse of power. The city seized the Pappas property, claiming the need for parking space to accommodate a new tourist site. Days after seizing the property, the city handed the land to private casino owners, who, in turn, bulldozed the site.³⁵ The Nevada Supreme Court upheld the constitutionality of the decision and only recently did the City of Las Vegas vote to compensate the Pappas family.³⁶

Arguably public parking ramps serve a public use, but it is difficult to understand how the taking land for the express purpose of giving it to private casino interests would meet that same test. Atlantic City—Las Vegas' only rival in the casino gambling world—has a similar case of eminent domain abuse. A New Jersey state agency condemned the home of Vera Coking, an elderly woman, to transfer the land to casino mogul Donald Trump. Trump's supposed public purpose was, of all things, a limousine parking lot.³⁷

Government in Las Vegas has always had close ties to the gambling industry. "Government here has always been weak," said Hal K. Rothman, a history professor at the University of Nevada, Las Vegas. "For years, the Nevada power structure—state and local government, the Las Vegas Convention and Visitors Authority, the chambers of commerce—has willingly served the interests of big gambling concerns."³⁸

Another story reinforces Rothman's assertion. In the 1990s, Mirage Inc. asked the local county commissioners for a variance that would allow a casino to be built without regard to the setbacks required by the county's zoning code. Professional county staff recommended that the variance be denied. When the owner of the casino was asked to state "undue hardship" that would merit the variance, he responded by saying, "That's the way I designed it." The commission granted the variance without objection.³⁹

A former city councilman used stronger language to illustrate the central point stated by Hal Rothman. "This is government for the casinos, of the casinos, and by the casinos and citizens be damned,"⁴⁰ said Steve Miller.

Bankruptcy

The negative social implications theory held by gambling critics goes something like this: pathological gamblers reach a point where all available resources have been depleted, but the “need” for gambling remains. At this point, problem gamblers turn to one of several options including suicide, theft, or bankruptcy. While certainly preferable to the other options, a high rate of bankruptcy is not a statistic most communities desire.

The hypotheses of gambling critics appear to have merit since there is evidence to suggest that pathological gamblers often are forced to file for bankruptcy. In fact, several studies of pathological gamblers have found that at least 20 percent file for bankruptcy.⁴¹

Based on these facts, it is not a surprise that those areas with gambling venues often have higher rates of bankruptcy. One national study found that counties with at least one gambling enterprise had an average of 18 percent more bankruptcies than those without. Counties with five or more gambling establishments were found to have 35 percent more bankruptcies.⁴²

An Iowa study similar to the national one described above found similar results. The Iowa study tracked the bankruptcy rate of Iowa counties over a five-year period (1991-1996). Counties with casinos, racetracks, or riverboat casinos had, on average, a 21 percent higher bankruptcy rate than counties without those types of gambling establishments.⁴³

A study by University of Maryland professor William Evans focused on bankruptcy rates before and after the presence of casinos. He found a 10 percent increase in bankruptcy filings after a casino was introduced. Additionally, Evans determined that the effect of gambling on bankruptcy filings is not limited to the county or area immediately surrounding casinos. Instead, Evans found bankruptcy rates increased by 7 percent in counties within fifty miles of newly opened casinos.⁴⁴

Crime

The relationship between casinos and crime has been hotly debated. While there is evidence to suggest that the presence of casinos can lead to an increase in crime rates, critics of this line of argument will contend that any large gathering of people has the potential to cause an increase in crime. They may also cite statistics showing that crime rates actually declined since the introduction of casinos.

There are also questions about those higher crime rates. To the extent that they exist, are they the result of pathological gamblers who choose thievery as a last-ditch means of continuing their destructive habit? Is it shrewd criminals who happen to recognize the combination of large amounts of cash and a naïve citizenry? Is it some combination of these factors?

No one answers these and many other questions better than Dr. Earl L. Grinols, a Baylor University economist, who is well known for his work on the social implications of gambling. In a revised 2004 study with fellow economist David B. Mustard of the University of Georgia, Grinols turned his attention to the relationship between casinos and crime in *Casinos, Crime, and Community Costs*.

Grinols dismisses much of the previous research done on behalf of gambling interests and anti-gambling groups for its small samples and lack of control groups. Grinols aimed to counteract these deficiencies in his work. He did so by examining the county-level crime data for every single county in the United States for every year from 1977-1996, “eliminating any sampling concerns.” He also introduced a series of “control variables” to ensure a fair comparison between counties with casinos and those without them.

The Grinols study specifically looked at the seven FBI index crimes—murder, aggravated assault, rape, robbery, larceny, burglary, and auto theft. Grinols found that casinos increased every type of crime except murder. Although casino gambling leads to murders, the study shows, it could not be statistically separated. More specifically, most types of crimes were found to increase over time but did not begin to do so until several years after the casino’s introduction.

Grinols and others postulate that this lag time is the result of pathological gamblers gradually depleting available resources before turning to more desperate measures. This hypothesis is consistent with the clinical research on the mindset and behavior of pathological gamblers.

Grinols also debunks the claim made by casino apologists that the uptick in crime is simply the result of an influx of people in a common space. He does so by comparing Las Vegas with three other large tourist attractions—Branson, Missouri, Walt Disney World, and Minnesota’s own Mall of America. When residents and visitors are combined, the crime rate per 100,000 visitors plus residents was 187.3 for Las Vegas, 64 for Orlando, 16.4 for Branson and 11.9 for Bloomington, Minnesota. Grinols points out that Bloomington received 7.7 million more visitors than Las Vegas in the period studied, yet had a crime rate per visitor plus resident less than one-fifteenth that of Las Vegas.⁴⁵ Interestingly, the Mall of America is a site commonly discussed as the location for a state-owned casino in the Twin Cities.

Actually, Grinols argues that casinos do not just attract crime from other areas; they actively create it in an area much wider than the space immediately surrounding the casino. His research shows that counties neighboring casino counties experienced either no reduction or increases in crime rates similar to those experienced by casino counties. Even the lag time between a casino’s opening and the ensuing increase in crime rates was similar to the trends found in counties with casinos. Grinols believes that these facts show that casinos are not simply shifting crime from one location to another.

Numerous other studies support Grinols’ assertions. During the nine years after Atlantic City introduced casinos, overall crime within a thirty-mile radius of the city increased over 100 percent.⁴⁶ *U.S. News and World Report* compared the crime rates of communities with casinos to those without casinos. Communities with casinos had an average crime rate that was 84 percent higher than those areas without casinos.⁴⁷

While not perfect proxies for determining casino’s contribution to crime, it is interesting to note the changes in the volume of court cases and police calls following the opening of casinos. In the five years following casino’s introduction in Tunica County, Mississippi, court cases rose by

over 1,600 percent.⁴⁸ In the five years after Foxwoods casino was opened in Connecticut, the number of police calls increased by 400 percent.⁴⁹

The argument that more casinos lead to more crime is supported by studies that show that compulsive gamblers often turn to crime to feed their addiction. The Maryland Department of Health and Mental Hygiene found that 62 percent of individuals in gambling addiction treatment facilities broke the law as a result of gambling.⁵⁰ In Henry Lesieur's sample of 400 participants in Gamblers Anonymous, 57 percent claimed they had stolen as a means to pay for gambling. The aggregate theft of those who admitted to stealing was over \$30 million.⁵¹

Suicides

Although the exact correlation between pathological gambling and suicide is difficult to determine, clear evidence suggests that gambling leads to suicides. Once again, Las Vegas and Atlantic City paint a disturbing picture for other areas that wish to expand gambling.

Dr. David Phillips, a University of California-San Diego sociologist, has written that Las Vegas “displays the highest levels of suicide in the nation, both for residents of Las Vegas and for visitors to that setting.” As for Atlantic City, Phillip’s research has revealed that the city has an above-average suicide rate for residents and visitors. The irregularly high suicide rates did not materialize until after gambling casinos were opened.⁵²

Mississippi has seen similar increases in suicide rates since the introduction of casino gambling. In Gulfport, suicides rose from twenty-four to seventy-five (213 percent) in the first two years after casinos opened. In Biloxi, the increase was over 1,000 percent, from six to sixty-six, in the first year casinos were present.⁵³

These facts are unsurprising considering the mindset of pathological gamblers. A survey in a compulsive gambler support group in Illinois found that of 200 individuals, 66 percent had considered suicide, and 45 percent had a definite plan to kill themselves.⁵⁴ The National Council on Problem Gambling has found that one in five pathological gamblers follows through on plans

and actually attempts suicide. This rate is higher than the rates of suicide among individuals with any other addiction.⁵⁵

Family Problems

Research has demonstrated a relationship between gambling and a breakdown in the family structure, evident in increased rates of divorce, child neglect, and domestic violence. In the words of the National Gambling Impact Study Commission, “[there is] abundant testimony and evidence that compulsive gambling introduces a greatly heightened level of stress and tension into marriages and families, often culminating in divorce and other manifestations of familial disharmony.”⁵⁶

The experience of Mississippi, once again, provides an interesting case-study into the social pathology that accompanied expanded gambling. In Harrison County, Mississippi, which has ten casinos, the number of divorces increased by 300 percent following the introduction of casinos.⁵⁷ The need for domestic violence shelters also surged in Mississippi once casinos were introduced. Shortly after casinos were introduced, shelters reported increases in requests ranging from 100 to 300 percent.⁵⁸ In Deadwood, South Dakota, domestic violence reports rose 80 percent following the legalization of slot machines.⁵⁹

The assertion that casino gambling may have some connections to an increased divorce rate is also supported by Las Vegas—the city with the most gambling in America also has the highest percentage of divorced residents in the country.⁶⁰

The National Gambling Impact Study Commission expanded on its analysis of the societal problems caused by gambling to include the effect on children. “Children of compulsive gamblers are often prone to suffer abuse, as well as neglect, as a result of parental problem or pathological gambling,” the commission wrote.⁶¹ One study of the effect of gambling on child abuse showed that abuse reports rose 43 percent after slot machines were introduced in Deadwood, South Dakota.⁶²

Several stories of child abuse connected to pathological gambling drive home this point. In Indiana, the state's gaming commission documented a fourteen-month period in which seventy-two children were abandoned at a casino.⁶³ At Foxwoods, a large casino in Connecticut, child neglect became such a problem that signs were posted to caution parents against leaving their children alone.⁶⁴

While some may contend that these cases of child neglect at casinos are anecdotal, we should be reminded of the comment by eminent University of Chicago economist George Stigler: "The plural of anecdote is data." And even so, stories of seventy-two abandoned children in little over a year and the need to remind parents not to leave their small children alone in a parking lot, do not indicate encouraging behavior among the casino populace as a whole.

Total Social Costs

The social implications discussed above beg a very basic question for state policymakers to ask themselves before expanding gambling in Minnesota: would the costs of more gambling outweigh the benefits? While any casino discussion is likely to be debated in terms of "getting a better deal for the state," this is a tangential issue to the question legislators should be asking themselves: is the availability of more gambling a good thing for the state?

In his latest book, Dr. Earl Grinols has attempted to answer this question by calculating the total social costs of gambling. Grinols says that gambling costs the American economy \$54 billion annually. To put that in context, the U.S. General Accounting Office estimates that drug abuse costs the economy about \$110 billion per year. Grinols shows that problem and pathological gambling contributes \$219 in social costs for every \$46 of economic benefits of casinos. The costs are conservatively estimated, and may, in fact, be \$289. He estimates that the addition of one pathological gambler costs society \$11,304 annually.

Grinols writes, "The costs of problem and pathological gambling are comparable to the value of the lost output of an additional recession in the economy every four years."⁶⁵

Important Questions

In addition to the tangible cost/benefit analysis, legislators would also be wise to ask themselves several questions about the implicit messages sent by introducing a state-run casino in Minnesota.

The first of these issues is the position in which the state will be placed if the Legislature authorizes a state-owned casino. In the case of pathological gamblers, the state will become a willing enabler of detrimental habits of its citizens. In fact, the state stands to benefit financially from individual misfortunes.

Some may rationalize the state's role by characterizing pathological gamblers as a small minority of the gambling populace with most gamblers enjoying "mild, social recreation." A better comparison, however, is to crime, which is caused by a tiny percentage of the population, but nevertheless has enormous social costs that the rest of society must bear. Statistics gathered by Dr. Earl Grinols and other, show that problem and pathological gamblers (two groups) make up 3 to 7 percent of the gambling population but account for 30 to 50 percent of casino revenues. The hundreds of millions of dollars of gambling money in Minnesota are coming and will come almost entirely from Minnesotans, and from the wrong Minnesotans—those who are ruining their own lives and the lives of others because of an addiction to gambling.

Those who doubt that a state-owned casino would put the state in the position of preying on the citizens it purports to serve should read the inside story on casinos and slot machines. *New York Times Magazine*⁶⁶ reporter Gary Rivlin received surprisingly candid responses from slot machine designers and casino operators on what it takes to succeed in the gambling business.

In the article, Frank Fahrenkopf, Jr., the leader of the American Gaming Association, brags that slot machines allow casinos to take advantage of Americans who do not want to think. Anthony Baerlocher, the president of International Game Technology, the largest slot-machine maker in

the country, is a central figure in the article.

Baerlocher explains that today's slot machines are cunningly designed to deceive players into thinking they "almost" won. This is accomplished through digital displays that frequently show users that if just one more reel had spun their way, they would have hit the jackpot. In reality, a computer predetermines the outcome; the graphics exist for show and to give players the illusion that the big win is just around the corner.

"You want the player to have the feeling, 'I almost picked that one; I'll get it next time,'" a game designer explained.

The article also details the elaborate mathematical calculations involved in slot machines. Highly educated mathematicians devise formulas with two goals in mind: entice passersby to play and get them to come back. The long odds for slot machine users are not lost on the game designers. While discussing the odds of slot machines, an IGT staff member laughs at the foolishness of people who play slots, declaring, "Slots are for losers."

In addition, the article describes the gambling industry's efforts to entice senior citizens. Rivlin details the extensive gambling shuttle bus operations to get senior citizens in the door. He also mentions that some gambling entrepreneurs have begun offering free oxygen tank refills and heart defibrillators inside casinos. It would be nice to believe the motivation for offering oxygen and defibrillators is altruistic, but given the benefits casino operators gain from offering them, it is difficult to make the case for selfless motives.

In a state-owned casino, Anthony Baerlocher's cleverly designed slot machines would attempt to entice and deceive Minnesotans with the approval and cooperation of state government.

Legislators should consider whether that is a proper role for state government. It may prove difficult for legislators to reconcile the deceit inherent in slot machines with the words in the Minnesota Constitution that "Government is instituted for the security, benefit, and protection of the people."⁶⁷

Policymakers should also ask themselves about the societal messages sent by a state-owned casino. Governor Pawlenty has frequently talked about “opportunity conservatism,” a philosophy defined by personal responsibility, hard work, and government accountability. It is difficult to reconcile the message of “opportunity conservatism” with the governor's plan for a state-owned casino because a state-owned casino will bring additional revenues that are not essential for balancing the budget, but would increase the power and responsibility of state government in Minnesota.

The importance placed on personal responsibility is hardly exclusive to the conservative side of the political divide in Minnesota. Indeed, prominent Minnesota liberals like Garrison Keillor seem to take pride in the fact that hard work and flintiness are Minnesota traditions. It is difficult to wed the Minnesota values of hard work and personal responsibility with the “get rich quick” ethos proclaimed by the bright flashing lights of casinos. While the state is likely to continue to promote education, hard work, and ambition as the keys to success, it will be difficult to take its promotion seriously when state government is enticing citizens to “strike it rich” simply by chance.

Policymakers should also consider the potential for economic protectionism if the state enters the casino business. For years, state governments have occasionally shielded certain industries from competition, often to the detriment of consumers. While the temptation to protect politically powerful industries can be strong, the temptation to protect a state-owned cash cow would be immense. A state-owned casino would suddenly place the state in the position of being a player and a referee in the competition for tourist dollars. Given the city of Las Vegas and its history with eminent domain, it certainly seems fair to ask if the state could remain impartial to other tourist businesses.

A related question deals with the economic effects of one or more metro-area casinos. Casino proponents are quick to point out the potential economic development benefits of proposed casinos, but they rarely point out the expense at which these benefits may come.

Certain businesses may actually benefit from a casino in the area; others will likely suffer. While

this type of sorting occurs constantly in a market economy, there is some question as to whether state government should take an active role in picking winners and losers.

Dollars spent at casinos are simply dollars that are not spent elsewhere in the economy. There is a finite amount of discretionary income to be spent in the Twin Cities, and a casino would only affect how that money is allocated. The governor and legislators should examine the potential damage a casino might do to other parts of the Twin Cities economy and decide whether they wish to play such an active role in that development.

There is also the question of oversight. A metro-area casino is sure to generate significant revenues, and as a result, will require significant oversight. As mentioned earlier in the report, the Minnesota State Lottery serves as its own overseer for its other gambling activities. Considering the size and scope of a metro-area casino and the recent problems found with the lottery's operation, the Legislature should thoughtfully consider whether the lottery is the appropriate body to operate and regulate a casino.

Finally, unresolved questions also exist as to the constitutionality of some gaming proposals. Until 1988, the state constitution prohibited lotteries. In 1988 voters amended the Minnesota Constitution to read, "The Legislature shall not authorize any lottery or the sale of lottery tickets, other than authorizing a lottery and the sale of lottery tickets operated by the state."

There appears to be some disagreement as to how these words would affect the governor's casino proposal. According to Pawlenty's chief of staff, Dan McElroy, the administration considers slot machines to be "mini-lotteries" that the State Lottery could run under the amended language in the state constitution. University of Minnesota Law Professor Fred L. Morrison has said this interpretation might not hold up in court, since the language refers to "lottery tickets," a component that is conspicuously absent in slot machines. Morrison also pointed out that the plan for a partnership with three Northern Minnesota Indian tribes may violate a condition in the state constitution that prohibits granting any "special or exclusive privilege" to an individual or group.⁶⁸

Attorney General Mike Hatch has issued an opinion that the administration's proposal is unconstitutional. Hatch pointed out that the constitution requires that 40 percent of lottery proceeds be allocated to an environment and natural resources fund; the governor's proposal divides proceeds primarily between the tribes and the state general fund. Hatch also noted that while the constitution requires that any lottery "be operated by the state," the proposed casino would be operated by the tribes.⁶⁹

The governor and the Legislature can be confident that if they do not properly consider these questions, the courts will do it for them. The courts would likely consider these questions over the course of several years and at considerable expense. Those in favor of expanded gambling, in particular, should seek objective advice on the constitutionality of gambling proposals, rather than letting their policy preference dictate the legal interpretations they seek.

CONCLUSION

There's no doubt about it—Minnesotans like to gamble. If you include all legal forms of this enterprise, more than 80 percent of adults in our state gambled an estimated \$10 billion in recent years.

Furthermore, opposition to gambling has all but disappeared, with a mere 15 percent of the surveyed population agreeing that “all gambling should be outlawed.”⁷⁰ That same survey also told us that only 39 percent of the population thought that “there is too much gambling in Minnesota”—a decline from 56 percent in 1998. On this important issue, it appears that Minnesotans are no different than the rest of the country, in that, “over the past twenty-five years, the United States has been transformed from a nation in which legalized gambling was a limited and a relatively rare phenomenon into one in which such activity is common and growing.”⁷¹

Thirty years ago, gambling was largely illegal and had relatively little impact on our daily lives. In 1963, no state had a lottery and only Nevada has casinos. By 1996, only Utah and Hawaii prohibited all forms of gambling. Nationwide, gambling is expanding so rapidly that few organizations attempt to accurately capture the exact amount wagered and lost annually. And, we no longer have to travel to Las Vegas or Atlantic City to enjoy the perceived benefits of gambling: we can watch televised poker tournaments featuring affluent Hollywood celebrities happily wagering amounts that exceed an average American family's annual income or we can turn to the Internet and place a wager online in the privacy of our homes.

No one could have predicted the omnipresence of gambling in Minnesota when voters legalized the Minnesota State Lottery in 1988. In fiscal year 2004, the lottery took in \$387 million, of which \$100.7 million was deposited into the state coffers. But even that amount of extra income fails to keep pace with the voracious appetite of state government.

Governor Pawlenty's courageous and steadfast refusal to increase taxes in Minnesota has strong public support. Yet many attribute that principled stance as a major factor in gambling

expansion in Minnesota. With limited options, the easy money promised by gambling proponents has become a substitute for sound economic policy.

Pawlenty faces a nearly evenly divided Legislature where many members continue to push for increased taxes and spending. A “hidden tax” in the form of increased gambling is seen by many as a less painful way to increase revenues while continuing to provide substantial services to an ever-demanding electorate. And, we’re told by the casino proponents, gambling isn’t really all that bad—it’s just another form of entertainment and— Minnesotans are a gambling bunch.

On the surface, it appears that there is no end in sight to our growing addiction to readily available gambling. Proponents of gambling expansion stress the potential economic benefits including promises of jobs, economic development, and enhanced revenues for our state coffers. The lure of easy money and its perceived benefits has many well-intentioned legislators lured into this trap of seeking something for nothing.

Yet we believe it is time for Minnesotans to pause and consider the facts surrounding the expansion of gambling. The impressive, yet hidden tax revenues generated from a state-sponsored casino will come with a cost—and significant costs, at that.

There can be no denying that gambling creates what are often significant costs for society and taxpayers. These costs, driven by problem and pathological gamblers, often create a burden for the community, yet often go unnoticed and unmentioned during the public policy debate that has become an annual campaign for gambling expansion in Minnesota.

Proponent of gambling expansion don't want us to stop and consider the serious crimes and serious social problems associated with those addicted to gambling. Rather, they frame the debate with an emphasis on “fairness” and achieving a “better deal for all Minnesotans.” But let’s face facts: for gambling to work in Minnesota, our Legislature is betting that some segment of the population will lose and do so in large quantities.

State government has served throughout most of Minnesota's history as the guardian and regulator of various legal gambling enterprises. The size and shape of gambling in our state is largely the result of decisions made over time by our leaders. That an entity that regulates, determines what type of competition is allowed, and allows and revokes monopolies would suddenly and properly emerge as a larger-than-life competitor itself seems not only improper but also slightly predatory.

The willingness of the governor and the Legislature to take this course of action is especially troubling because it appears that many may be prepared to do so against their better judgment. It was Pawlenty, after all, who remarked in 2003 that, "It's not a proper function of government to be running and owning and profiting from gambling operations. That's not really part of our constitution, or the vision that our Founding Fathers had for our state."

Moreover, Governor Pawlenty's support for expanding gambling as a way to raise revenue for the state seems at odds with his claims that "state government needs to live within its means."

The governor is not the only surprising proponent of expanded gambling. In fact, one would expect progressives and small-government conservatives in the Legislature to have concerns about expanded gambling as a means to raise funds for the state.

While Democrats may typically like the idea of enlarging the pool of resources, one would expect them to object to the way in which gambling tends to attract the poor, resulting in what is essentially an extremely regressive form of taxation.

Republicans should likewise have some qualms about gambling as a way to raise revenues. For example, limited-government adherents generally abhor the idea of government providing a service that is not a public good and could be provided by the private sector. It is hard to imagine a scenario in which a state-owned casino would qualify as a public good or as a service that must be performed by the state.

Furthermore, limited-government conservatives ought to be concerned about the temptation

among lawmakers to expand the reach of government through casino revenues. A significant part of gambling revenues' appeal is that gambling funds appear to be free money. They offer legislators the opportunity to hand out government largesse without having to increase taxes. Yet everyone involved in the process knows that gambling money is derived from people losing.

Politicians who want to be re-elected may be particularly susceptible to expanding gambling to please voters with “free” government programs. This should be troubling to Republican conservatives who wish to empower the private sector and individuals rather than enlarging the reach and influence of state government.

In fact, one could argue that limited-government conservatives should prefer taxation to gaming revenues because of the heightened awareness of government spending brought about by taxation. If everyone is compelled to contribute in order to receive services, it is increasingly likely that individuals will resist a wholesale expansion of government involvement in their lives.

Defying expectations, the governor and several legislators of various ideological stripes appear willing to cast aside core principles—progressive and accountable taxation or limited government—for the free money expanded gambling offers. This is just one more troubling aspect of the prospect of expanded gambling in Minnesota.

Any business owner proposing a major expansion would be foolish to tell shareholders only about future gross profits without mentioning future costs. Unfortunately, it appears that policymakers in Minnesota are prepared to take actions that would ignore both the immediate costs and the long-term consequences associated with their choices.

The business owner in the above analogy is not likely to experience long-term success. As they make decisions on the future of gambling in our state, the governor and the Legislature would be wise to heed this example by looking at the other side of the ledger. They should carefully study the social costs, carefully weigh the public policy problems, and carefully consider their own guiding principles. We believe that serious reflection on these issues will, in fact, lead to much different conclusions on whether expanded gambling is a good public policy for Minnesota.

Endnotes

- ¹ Most of the information for this history of gambling in Minnesota draws upon information briefs compiled by the non-partisan research staff at the Minnesota House of Representatives. Sources included the following: *Charitable Gambling in Minnesota*, Information Brief, May, 2004; and *History of Gambling in Minnesota*, Information Brief, October, 2000.
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