The WAGER Vol. 10(6) – Consumer spending, tax revenue and jobs: some economic impacts of casino entertainment

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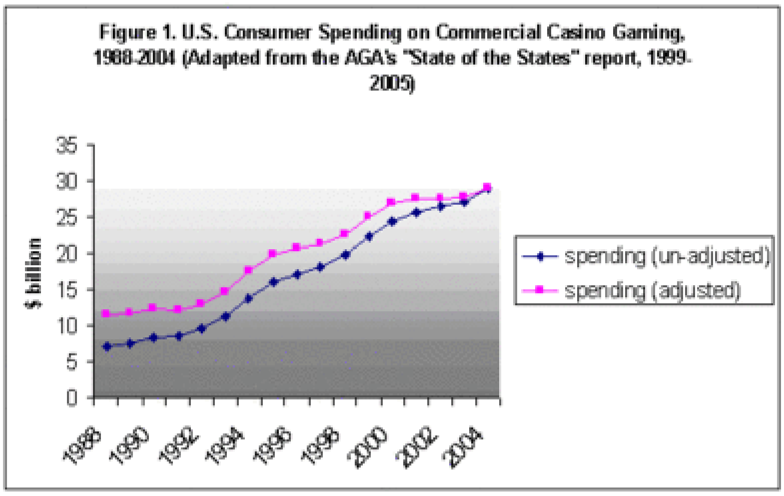
Since Nevada first introduced commercial casino gaming in 1931, the U.S. commercial casino industry has experienced strong growth. In 1978 New Jersey opened its first casino in Atlantic City. During subsequent years, Colorado, Illinois, Indiana, Iowa, Louisiana, Michigan, Mississippi, Missouri and South Dakota permitted commercial casino gaming in their states. According to the 2005 survey report by the American Gaming Association (AGA), primarily a casino industry funded organization, there are 445 commercial casinos in 11 states (American Gaming Association 2005). In 2004, the gross gaming revenue for these states approached $29 billion. The gross revenue for Nevada alone exceeded $10 billion. Figure 1 depicts a pattern of steady increase of consumer spending (unadjusted for inflation) from 7.1 billion dollars in 1988 to 28.9 billion dollars in 2004. The pattern is similar after adjusting for inflation.



How does the revenue generated by the casino industry impact the local economy? The casino industry argues that “gaming is a significant contributor to economic growth and diversification within each of the states where it operates.” We will review data from seven yearly AGA surveys (American Gaming Association 1999-2005) and show the casino contribution in two important areas:

1) commercial casino direct tax revenue; and 2) commercial casino jobs.

The tax rates imposed on gaming revenues by the 11 commercial casino states range from 6.25 percent to 35 percent. The total direct commercial casino tax revenue across states increased from $2.5 billion in 1998 to $4.7 billion in 2004. Figure 2 suggests an increasing trend of commercial casino direct tax revenue, where the time effect is statistically significant for both inflation adjusted tax revenue ($F=9.11$, $p < .01$) and un-adjusted tax revenue ($F=13.55$, $p < .01$). The amount of commercial casino direct tax revenue increased from 1998 to 2004.

The overall number of commercial casino jobs increased only slightly from 325,432 jobs in 1998 to 349,210 jobs in 2004. As Figure 3 illustrates, the number of casino-related jobs was constant over time. This stability was confirmed by our analysis, which indicated no significant departure from a flat line.

The AGA survey reports and those in previous years provide a brief summary of economic impacts upon the communities that legalized casino gaming. Increasing consumer spending appears to correspond to increasing tax revenue that was generated by a stable work force. However, because the total number of commercial casinos has remained stable at approximately 450 between 1998 and 2004, it is possible that the tax revenue increase is the result of other economic factors, such as tax rate changes, number of visitors, customer spending, or other demographic factors. It is important to evaluate the economic impact of casinos on communities adjusting for these economic factors. Moreover, the establishment and operation of commercial casinos might create social benefits and costs, which should also be evaluated.

What do you think? Comments on this article can be addressed to Ziming Xuan.

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