SOCIAL AND ECONOMIC COSTS OF GAMBLING

A Report to the 2008 Minnesota Legislature

Senate
Finance-Health and Human Services Budget Division, Chair – Linda Berglin
Health, Housing and Family Security, Chair – John Marty
and
State and Local Government Operations and Oversight, Chair – Ann Rest

House of Representatives
Commerce and Labor, Chair – Joe Atkins
Health and Human Services, Chair – Paul Thissen
and
Health Care and Human Services Finance Division, Chair – Tom Huntley

Prepared by the:
Adult Mental Health Division
Minnesota Department of Human Services

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EXECUTIVE SUMMARY

The 2007 legislature directed the Commissioner, Department of Human Services (DHS) to prepare a report by December 1, 2007, on the process and funding required to study the social and economic impact of gambling. The report is to be done in consultation with the Northstar Problem Gambling Alliance and other key stakeholders.

The DHS staff initially conducted an extensive literature search for papers published regarding this topic. A review of the literature found that there were inconclusive findings about the social and economic impact of gambling and a paucity of research designs to study the issue.

These research findings as well as efforts underway in other states and countries were shared with a workgroup of key stakeholders. The workgroup recommend the following action:

1. There was a general consensus among the workgroup that the scope of a broad study of social and economic factors and their impact on gambling required a broader audience. Since the report is directed to legislative committees with oversight over problem gambling, the workgroup chose to narrows its focus to problem gambling.

2. A proposed study format was developed and agreed upon by the members with the caveat that other national and international studies resulted in inconclusive findings.

3. Costs of comparable studies in the United States and Canada were $700,000 or more. Workgroup members did not feel they had resources to contribute to such a broad study.
INTRODUCTION

The 2007 legislature directed the Commissioner Department of Human Services to prepare a report that “identified the process and funding availability for a study on the social and economic impact of gambling (Appendix A).

The Department of Human Services (DHS) convened a series of three half-day meetings in collaboration with the Northstar Problem Gambling Alliance that included sixteen key stakeholders representing the full spectrum of interest in this area. For the purposes of this report, this workgroup agreed that this report should focus on problem gambling. Appendix B lists those who participated in the process.

Prior to the first meeting, the DHS Problem Gambling staff conducted an extensive review of the literature regarding the social and economic impact of gambling. These findings as well as other articles submitted by the workgroup served as background information.

This report is divided into three sections: a summary of the related research findings, a summary of the results of the stakeholders meetings and recommendations for consideration by the legislature regarding the feasibility of a study to examine the social and economic impact of gambling.
I. Summary of Related Research

Several national and international groups have begun to explore the feasibility of research to determine the impact of gambling on social and economic factors. Appendix C and D provides a bibliography of relevant studies. The following briefly describe the study groups and research findings:

- **National Gambling Impact Study Commission**
  After a two-year, $5 million study into the social and economic impact of gambling, the 1999 National Gambling Impact Study Commission (NGISC) report recommended 76 changes for regulating the gaming industry. Over two-thirds of the recommendations in the report involve research on and treatment for problem gamblers. Another recommendation calls for extending medical insurance for problem and pathological gamblers.

  This impact analysis did not focus on a particular geographic area, but attempted to estimate the effect of increasing gambling accessibility nationwide. The research relied on cost estimates, which may not have been appropriate for the report. The report also contains an analysis of the relationship between casino proximity and various social and economic indicators and two case studies of the effect of a major gambling facility on a community.

- **International Symposium on the Economic and Social Impact of Gambling (British Columbia, Canada)**
  In September 2000, an international symposium held in Whistler, British Columbia discussed issues involved in estimating the social and economic impact of gambling. The Whistler Symposium brought together individuals with experience and expertise in social and economic impact estimation.

  The purpose of the symposium was to explore the feasibility of establishing an internationally acceptable methodology for estimating the social and economic impact of gambling. Studies to date have used a variety of methods, sometimes based on questionable assumptions, and have produced a wide range of estimates.

  Douglas Walker’s framework for the analysis of problem gambling’s social costs uses the perspective of welfare economics. He defines social cost as a decrease in the aggregate real wealth in society. Transfers of wealth are not social costs because the overall wealth in society does not decline. He does not agree that any social ill correlated with gambling is entirely caused by gambling. Since most gamblers do not have problems, he believes that gambling should be an option for people. For those who do develop problems, we should work to minimize the harms they face.

  The Whistler Symposium was unable to achieve the ultimate goal of “best practice guidelines” for conducting future gambling cost/benefit studies. All participants realized that this goal was ambitious. There is still little consensus. There continues to be a controversy of what constitutes a social cost.
literature is lacking in an appropriate standardized definition of social cost and methodology for measuring the value of these costs.

• Alberta Gaming Research Institute
Researchers who study gambling issues seek methodology that allows for the clearest interpretation of their results. Methodological approaches were the topic of great discussion at a recent conference sponsored by the Alberta Gaming Research Institute (AGRI) in Banff, Alberta in April 2006.

Mark Anielski’s concept of looking at the whole well-being in the community rather than simply economic outputs in dollar terms is crucial to really getting at the socio economic impacts.

Members of the conference stressed that a multidisciplinary team for analysis is needed to assess the social and economic impact, because gambling issues are very complex. These issues involve not just economics but epidemiology, criminology, public health, people with familiarity with reporting systems, and treatment systems. One person alone or even a group of people cannot do it adequately if they are all from one discipline.

• Australia’s Gambling Industries, Productivity Commission, Report No. 10
The Australian Commission was concerned about the ‘downsides’ for society and the impacts on “problem gamblers” and those closest to them. The report addressed opposing points of view about gambling:
  o a source of economic benefits to the states or regions concerned and of entertainment value to consumers
  o the social costs and impacts on social values of the ‘new gambling’ outweigh any such benefits.

The process and allocation of responsibilities outlined in the report are integral to the longer term effectiveness. The commission conducted three surveys to supplement existing data sources and conferred with a range of specialists (researchers and practitioners) as well as meeting with problem gamblers themselves. A quote from the summary: “Quantification of the costs and benefits of the gambling industries is hazardous. Uncertainty about key parameters constrained the commission to providing low and high estimates.” The report yielded much new and useful information

The report identified recreational gambling as an intangible benefit. Most people gamble because of the enjoyment, the social interaction, the risk, and the thrill of anticipation in an accessible, comfortable and safe social environment.

The Commission devoted considerable effort to understanding the nature and extent of ‘problem gamblers’. For problem gamblers, there is a continuum of behavior and impacts of escalating severity. The main trigger is financial loss, which then has a range of social and personal repercussions for the gambler.
There appear to be few socio-demographic factors that significantly affect the likelihood of someone being a problem gambler: not gender, ethnicity, education nor income appear to be significant guides. The evidence suggests that 5 to 10 other people can be directly affected to varying degrees by the behavior of a problem gambler.

The report recommended a focus on harm minimization and prevention, which can effectively limit costs from problem gambling, without significantly reducing the benefits for recreational gamblers.

• **Research reports on treatment effectiveness funded by the Department of Humans Services**

  The University of Minnesota did a longitudinal study from April 1992 to January 1996 that measured the client behaviors before and after treatment, but did not measure what happens in treatment (i.e. therapeutic approach, types and amounts of treatment services, etc). A large number of clients did not complete treatment. The researchers recommended a standardized diagnostic assessment to obtain reliable information about the co-morbidity of other psychiatric disorders, which has implications for both treatment planning and treatment outcomes.

  The University of Minnesota is currently conducting an evaluation of the effectiveness of the State funded outpatient and inpatient compulsive gambling treatment programs. The study includes the collection of admission, discharge and six & twelve months follow-up data from gambling clients, family and concerned significant others and treatment staff at ten state-funded Fee-for-Service outpatient treatment providers and one inpatient facility. This longitudinal study is guided by ten research questions. It began in November 2005 and will continue through May 2008 and this is an interim report.

  July 1997 the Abt Associates Report on Evaluation of the Six Minnesota State-Funded Compulsive Gambling Treatment Programs concluded that compulsive gambling and its associated problems decrease with treatment. One-third of problem gamblers had sought treatment for both compulsive gambling and either chemical dependency or mental health problems prior to being assessed at one of the State-funded treatment programs. It is difficult to evaluate the cost-effectiveness of treatment. The evaluations showed that women were more likely to enter treatment than were men. Adults with higher education, prior treatment experiences or high South Oaks Gambling Screen (SOGS) scores were also more likely to seek and complete treatment than those with less education, no prior treatment experience or those testing with low SOGS scores.

II. **Key Stakeholder Findings**

  A workgroup was established with 16 representatives from a broad variety of gambling interests including the state lottery, pari-mutuel horse racing betting and
card club, Native American casinos and charitable gaming. A gambler in recovery, a concerned significant other and researchers also participated.

The workgroup participants split into three breakout groups with the goal of examining specific issues relevant to the legislative language. The output of the three breakout groups were brought back to the whole workgroup for discussion.

The specific issues were to identify:
- key components and framework for the proposed impact study of social and economic costs of gambling in Minnesota
- logistical and funding strategies for completing a full-scale proposal and Request for Proposals for an impact study.

The first meeting included a discussion about the legislative intent – problem gambling (cost of gambling) or gambling (economic and social impact). The general conclusion of the members was to focus on compulsive/problem gambling, since this is the responsibility of the Department of Human Services. This is consistent with the viewpoint of the 2000 Whistler Gambling Impact Symposium that states: “By far the most important required piece of research is on gambling attribution factors (linking problems to gambling). Without this information it is not possible to produce meaningful estimates of costs and benefits.” (Wynne & Anielski, p.27)

There are currently three requests for proposals (RFP) on Social/Economic Impact – two Canadian provinces - Quebec & Alberta, and Connecticut. These studies are for one, two, and three years with a minimum cost of $700,000. The workgroup urges monitoring these RFP’s, evaluating process, data, indicators and impact framework, and analyzing the proposed studies before Minnesota pursues any impact study.

The breakout group on Subd.2 (2), “the relationship between gambling and crime in Minnesota” expressed some specific areas to consider and those of concern. It is important that the study defines the scope by a fiscal year with segment study by age, gender, geographical and cultural considerations that focus on legal forms of gambling plus online and sports betting. The area of study should include a benefit-versus-cost question asked for each form of gambling and consider such economic factors as real costs versus economic transfers, tangible and intangible effects, direct and indirect effects, present and future values, and gains and losses experienced by different groups in various settings.

Areas of concern included a frame of reference, data collection, unreported abuse, unreported crime, and a comparison group. A valid link has not been established between gambling and crime. Crime statistics can be extremely misleading when they fail to account for changes in the following areas: population at risk; criminal opportunities; law enforcement resources and priorities; and crime elsewhere in the state.
The breakout group that examined Subd.2 (3), “expanded gambling and increased rates of problem gambling in Minnesota” indicated that the current research literature has no definitive conclusion.

As a first step, they recommended an analysis of what already has been done. There is no consensus on the best way to address the scope of items to consider bankruptcy, divorce, unemployment, co-morbidity, etc. We also need to recognize limitations. A proportion of the social costs of gambling consist of intangibles and it is important to find a way of presenting this information in a way that prevents their importance from being understated. The breakout group recommended using the prevalence study from Britain as an example to address expansion of gambling and increased problems.

The British Gambling Prevalence Survey 2007 is a large-scale nationally representative survey of participation in gambling and the prevalence of problem gambling in Great Britain. The survey builds on a prior prevalence study in 1999. The survey was to help the Commission understand the nature and scale of gambling in Great Britain at a point before implementing new legislation. It was commissioned as part of the Gambling Commissions licensing objectives of keeping crime out of gambling, ensuring gambling is conducted fairly and openly, and protecting children and vulnerable people from harm from gambling. The process for this report was done in phases: procurement of contractor, development, consultation, testing, fieldwork, peer review, and finally the report released.

The breakout group that examined Subd.2 (4), “social impact of gambling” felt this is too broad of issues for research. This scope requires needs clarification and focus. Research cannot identify cause. Some issues are not quantifiable. The group recommended reframing what is actually doable. They recommend that a topic area be identified and do a study of that area. One option would be to hire a researcher to define components and recommendations.

The breakout groups re-convened as a group and concluded that there are both benefits, such as employment and income, tax revenues, enhanced tourism and recreational opportunities and costs such as traffic congestion, demand for more infrastructure or services (roads, schools, police, fire protection, etc.) environmental effects, increased crime, pathological and problem gambling, bankruptcy and bad debts, and divorce.

An appropriate methodology needs to be developed for evaluating the costs and benefits of gambling activities as a basis for informed policy decisions. There is a need for regular monitoring and other data collection on gambling patterns and problems and for systematic development, testing and application of improvements in treatment and prevention modalities and policy initiatives.
Funding the Study

The workgroup was unable to recommend any funding mechanism for a social and economic impact study in Minnesota due to the current projected costs of comparable studies and the inability of stakeholders to contribute.

III. Recommendations

Proposed Study Components

A multidisciplinary team approach to the design is required. The study needs to be analytical, factual, and objective, using credible and justifiable methods to provide a better understanding of the nature and extent of the social and economic impacts that gambling activity may or may not have on the citizens of Minnesota.

It is proposed that a study be conducted over two distinct phases as follows:

Phase One will consist of:
- A comprehensive inventory of relevant literature and research materials
- A comprehensive review and analysis of key findings for secondary sources
- Identification of gaps and recommendations for primary research in Phase Two

Phase Two will consist of:
- Design of survey instruments and other research methodologies
- Engage key informants from the industry in gathering a range of quantitative and qualitative data
- Analysis of key findings
- Detailed description of the social and economic costs of gambling

As a key component of credibility in the deliverables is a stipulation that an undertaking for peer review must be provided for in any response to a Request for Proposals (RFP).

Other issues for future consideration are:
- Funding Sources
- Development of RFP and Terms of Reference
- Open contest for RFP verses selection of a consultant
- Interview/Selection process
Appendix A

Laws of Mn 2007, Ch. 147 (HF1078-3E), Art. 8, Sec. 37. Uncodified law effective 7/1/2007

Sec. 37. SOCIAL AND ECONOMIC COSTS OF GAMBLING.

Subdivision 1. Report. The commissioner of human services, in consultation with the state affiliate of the National Council on Problem Gambling, stakeholders, and licensed vendors, shall prepare a report that provides a process and funding mechanism to study the issues in subdivisions 2 and 3. The commissioner, in consultation with the state affiliate of the National Council on Problem Gambling, stakeholders, and licensed vendors, shall include in the report potential financial commitments made by stakeholders and others in order to fund the study. The report is due to the legislative committees having jurisdiction over compulsive gambling issues by December 1, 2007.

Subd. 2. Issues to be addressed. The study must address:
(1) state, local, and tribal government policies and practices in Minnesota to legalize or prohibit gambling;
(2) the relationship between gambling and crime in Minnesota, including:
   (i) the relationship between gambling and overall crime rates;
   (ii) the relationship between gambling and crimes rates for specific crimes, such as forgery, domestic abuse, child neglect and abuse, alcohol and drug offenses, and youth crime; and
   (iii) enforcement and regulation practices that are intended to address the relationship between gambling and levels of crime;
(3) the relationship between expanded gambling and increased rates of problem gambling in Minnesota, including the impact of pathological or problem gambling on individuals, families, businesses, social institutions, and the economy;
(4) the social impact of gambling on individuals, families, businesses, and social institutions in Minnesota, including an analysis of the relationship between gambling and depression, abuse, divorce, homelessness, suicide, and bankruptcy;
(5) the economic impact of gambling on state, local, and tribal economies in Minnesota; and
(6) any other issues deemed necessary in assessing the social and economic impact of gambling in Minnesota.

Subd. 3. Quantification of social and economic impact. The study shall quantify the
social and economic impact on both (1) state, local, and tribal governments in Minnesota, and (2) Minnesota's communities and social institutions, including individuals, families, and businesses within those communities and institutions.
**Appendix B**  
**2007 Gambling Social & Economic Impact Study**

Workgroup participant list

<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
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<tbody>
<tr>
<td>Tom Barrett</td>
<td>MN Gambling Control Board</td>
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<tr>
<td>Nancy Dahlin</td>
<td>GamAnon-affected other</td>
</tr>
<tr>
<td>Debra Davis-Moody</td>
<td>Doctorate candidate in clinical psychology</td>
</tr>
<tr>
<td>Steve Dentinger</td>
<td>Gamblers Intervention Services</td>
</tr>
<tr>
<td>Mike Downey</td>
<td>MN Department of Correction</td>
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<tr>
<td>Don Feeney</td>
<td>MN State Lottery</td>
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<td>Eric Halstrom</td>
<td>Canterbury Park</td>
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<tr>
<td>Richard Krueger</td>
<td>MN Racing Commission</td>
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<tr>
<td>John McCarthy</td>
<td>MN Indian Gaming Assoc</td>
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<tr>
<td>Mark Proctor</td>
<td>DHS Problem Gambling Advisory member</td>
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<tr>
<td>Carol Russell</td>
<td>Russell Herder Agency</td>
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<tr>
<td>Mike Schiks</td>
<td>Project Turnabout/Vanguard Program</td>
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<tr>
<td>Roger Skogman</td>
<td>Gamblers Anonymous</td>
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<tr>
<td>Randy Stinchfield</td>
<td>U of MN Medical School</td>
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<tr>
<td>Roger Svendsen</td>
<td>Northstar Problem Gambling Alliance</td>
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<tr>
<td>King Wilson</td>
<td>Allied Charities</td>
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<tr>
<td>Kathleen Porter</td>
<td>DHS Problem Gambling Services Program</td>
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<tr>
<td>Sharon Walp</td>
<td>DHS Problem Gambling Services Program</td>
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Appendix C

Relevant Research and Reports: National & International Studies


• Framing Public Policy Towards a Public Health Paradigm for Gambling. Pp. 235-256 (22) Korn, D; Gibbins, R.; Azmier, J.
Appendix D

Minnesota Department of Human Services – Research on Gambling in Minnesota

- 1990 - Adolescent survey of gambling behavior in Minnesota: A benchmark. Winters, K., Stinchfield, R., & Fulkerson, J.
- 1991 - Don't Bet the Farm: The Expansion of Legalized Gambling and Growing Bankruptcy Rates in Minnesota. Is There A Link? Aasved, M.J. (prepared for Minnesota Office of Strategic and Long Range Planning and Minnesota Department of Human Services)
- 1995 – Comparing the Pathological and Recreational Gambler: An Exploratory Study. Davis, G. and Brissett, D.
- 1995 – College Gambling Survey: University of Minnesota Twin Cities, University of Minnesota Duluth, and Moorhead State University. Winters, K., Bengtson, P., Stinchfield, R., and Door, D.
- 2006 - An Evaluation of the Effectiveness of the State Funded Outpatient and Inpatient Compulsive Gambling Treatment Programs. Stinchfield, R. – In Progress

Additional Research -


