

Slot Machine Gambling in Maryland

Testimony of
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to the

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Madame Chairperson and members of the House Ways and Means Committee - I am Don Norris, Director of the Maryland Institute for Policy Analysis and Research and Professor of Public Policy at the University of Maryland, Baltimore County. Let me begin by thanking you for inviting us to appear before you this afternoon to discuss the issue of slot machine gambling in Maryland.

I am here today for essentially three purposes. First, to introduce Dr. Robert E. Carpenter of the UMBC Department of Economics. In just a few minutes, Bob will present his economic analysis of slot machine gambling in Maryland. Second, I will draw four important policy implications from Dr. Carpenter's study that I believe deserve serious consideration in the Committee's examination of slot machine gambling over the coming months. And third, to try to answer any questions that you might have at the conclusion of our presentation.

Let me preface my remarks, however with the following caveats. The Committee's agenda indicates that this is a presentation by UMBC. Certainly Dr. Carpenter and I are faculty members at UMBC. But our remarks do not represent the official position of the University of Maryland, Baltimore County, its faculty, students, or administration. They are solely the remarks of Dr. Carpenter and me - based we believe on sound and reasoned analysis, but our comments are not UMBC's nonetheless.

Second, I need to distinguish these remarks from any presentations or representations,

published or otherwise, by or associated with the Maryland Public Policy Institute. I am sure that this is an upstanding and forthright organization. But it is not the Maryland Institute for Policy Analysis and Research, a distinguished social science research center at the University of Maryland, Baltimore County. And I do not want us or our work even inadvertently confused with that organization.

Finally, Dr. Carpenter's economic analysis of slots in Maryland is an objective and unbiased examination of the issue. It is not in any way related to or supported by any group or organization that favors or opposes slots. Indeed, in this presentation and in his economic analysis neither Dr. Carpenter nor I take a position regarding whether slot machine gambling is or is not good public policy for the state of Maryland. In other words, we do not have a dog in this fight. What we are endeavoring to do is bring what we believe to be valuable information to the table. Information that might assist the state - should the General Assembly ultimately decide that the state should have slots - to decide how slots might be organized, managed and controlled so as to maximize their positive benefits and minimize their negative consequences.

Having issued these caveats, let me draw to your attention four important implications of Dr. Carpenter's economic analysis of slot machine gambling in Maryland. If the General Assembly should decide to go forward with slots in Maryland, it should consider these with care.

1. Slots will impose certain nearly unavoidable costs on the state, its local jurisdictions, and its citizens. These costs are not well understood and there can be disagreement even among reasonable persons about them. What we do know, though, is that at the very least there will be costs associated with: a) providing additional levels of traffic control, policing and security around locations where slot gambling is permitted; b) costs associated with crime caused by

persons who need money to gamble; c) costs associated with the behaviors (in addition to crime) of problem gamblers; d) costs associated with what economists call the substitution effect - spending on slots what one might otherwise spend on the lottery, on meals, on clothing, on school supplies, and the like. At the minimum, any proposals for slots should address these costs and provide ways to mitigate them.

2. If slots are approved, potentially huge sums of money are likely to be involved year in and year out. An important question for the Committee to address is whether it is good public policy and whether it is in the state's best interests to retain as much of the proceeds from slot machine gambling as possible or to transfer some portion of it to essentially private interests to subsidize those interests. You will note from Dr. Carpenter's analysis the magnitude of transfers that would have occurred under legislation that was considered during the last General Assembly session. Again, is it good public policy and is it in the state's best interest to retain all of this money for the good of the state and all of its citizens or to transfer some non-trivial fraction of this money to private interests?

3. To what extent should slots capture "new" versus "reallocated" spending? This is, in part, a reprise to the issue of substitution effect spending that I raised a few moments ago. It is also, however, an issue of the location of slots. If, for example, the state wants to capture as much "new" spending as possible, it may be best to find locations for slots venues that would attract as many out of state spenders as possible.

4. Finally, as we all know, nearly all of the 50 states are in some degree of fiscal trouble owing mainly to the current nationwide recession. This is true even among states that permit gambling, including notably Nevada. To think that slot machine gambling will be a long term

solution to Maryland's fiscal woes is, we believe, folly. If approved, slots will certainly provide another source of revenue for the Maryland state budget. This source may or may not be sizeable and it may or may not be relatively stable. It is unlikely, however, that slots will substitute for other measures that address the more basic problems of actual revenues not matching planned or desired expenditures periodically in the state budget. Here, more fundamental work is needed. And, here, slots will be a one-time and one-time only partial fix. Thus, regardless of what the General Assembly decides regarding slots in the coming session, it still must address the long term fiscal stability of state government.

Again, thank you for permitting me to address you on this issue today. And let me introduce my colleague, Prof. Bob Carpenter of UMBC's Economics Department who will present his economic analysis of slot machine gambling in Maryland.