TOURIST DESTINATION RESORTS, MARKET STRUCTURES, AND TAX ENVIRONMENTS FOR CASINO INDUSTRIES: AN EXAMINATION OF THE GLOBAL EXPERIENCE OF CASINO RESORT DEVELOPMENT

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INTRODUCTION

MOST PEOPLE BELIEVE THEY KNOW WHAT A "casino" is, but casinos are not all alike. There is an important distinction between casinos that cater to people who live within close driving range of the facility, offering table and machine games and nothing else (which we will refer to as "day-trip casinos"), and full-service entertainment destination casino properties that offer gaming among a range of tourist attractions (which we will call "tourist destination casino resorts."). There is a corresponding distinction between the composition of the customer base for day-trip gaming markets and the customer base for tourist destination casino markets. These two distinct kinds of gaming markets have casinos in common but differ in almost all other important respects. This paper explores the differences between tourist destination casinos and day-trip casinos and their corresponding gaming markets.

GLOBAL CONTEXT

Tourist gaming destinations first evolved in the United States, but are now found in countries around the world. In the past four decades, tourist destination resort casinos have been built—or are currently under construction—in a growing number of countries, including the United States, Canada, the Bahamas, South Africa, Malaysia, Australia, the Special Administrative Region of Macau (China), South Korea, and Singapore. Still other countries, including Spain, Japan, the United Kingdom and Taiwan, have recently explored—or are presently exploring—the creation of similar tourist destination casino resorts. Tourist destination casino resort properties are highly evolved leisure products with proven track records. Furthermore, successful examples are highly profitable. This profitability is reflected in the market capitalizations of the publicly traded companies that own and operate destination resort properties. In September 2007, for example, the combined market capitalization of MGM Mirage, Wynn Resorts, Boyd Gaming (50 percent owner of Borgata in Atlantic City), Harrah's Entertainment, Las Vegas Sands, PBL Melco, and Genting International was US$106 billion. The fundamental market economics for such destination casino resorts is favorable. In global terms, consumer demand for this product considerably exceeds supply.

Not all markets have the population, demography, and personal income characteristic of tourist destination markets when gaming and other tourist attractions are first introduced.

When Las Vegas began to develop as a tourist destination casino resort venue following World War II, it lacked all three. Orlando, Florida, a non-casino tourist destination resort area that today is Las Vegas's principal American competitor as a leisure destination, likewise lacked significant population and personal income in the region before the Walt Disney Company constructed the parks and hotels for which Orlando is world famous today. Conversely, Atlantic City (located in southern New Jersey 90 kilometers east of Philadelphia and about 200 kilometers from the New York City metropolitan area) had all three in abundance within its regional area when casinos were authorized in 1977. Over the past three decades, of course, Las Vegas evolved into the tourist destination market *par excellence* while Atlantic City—especially prior to the opening of its first modern destination casino resort, Borgata, in 2003—primarily depended on day-trippers—not very different from day-trip casinos in Mississippi or Iowa or throughout the United Kingdom.

Macau, situated on the Chinese mainland 60 kilometers from Hong Kong, was similarly dependent on day-trippers and junket players prior to the entry of multinational casino/resort companies in 2004. Since 2004, Macau has experienced an unprecedented amount of development—perhaps as much as US$20 billion (28 billion Euros) in capital expenditures on tourist destination resort casinos between 2004 and 2011— and the indications are that the full-service diversified resort properties constructed by these companies are attracting upper-income long-distance tourists to a market that formerly depended on a far narrower base of primarily day-trip and short-visit customers.[1]

Kerzner International, a privately held company, was involved in the development of large mixed-use casino resorts incorporating elaborate non-gaming amenities in Connecticut (Mohegan Sun) and the Bahamas (Atlantis) and is presently constructing a US$1.4 billion mixed-use non-gaming resort in Dubai in partnership with a local firm, as part of Dubai's ongoing effort to transform itself into a global leisure tourist destination (without casinos.) In a similar manner, MGM Mirage announced a partnership in November 2007 with an Abu Dhabi government-owned development company to build a $3 billion non-gaming leisure resort in that country. These new multifaceted destination resorts are as dependent on iconic architecture, fine dining, retail shopping, entertainment offerings, and convention facilities as are the new generation of Las Vegas and Macau casinos, and suggest the attractiveness of the product mix even without casinos. Furthermore, if attitudes toward casinos in the Middle East ever change, such properties are natural places to extend such franchises into that part of the world.

THE SINGAPORE MODEL

Singapore, which granted licenses for two multibillion dollar, full-service gaming/entertainment "Integrated Resorts," in 2006 and 2007,[2] decided to permit gaming for the specific purpose of attracting substantial capital investment in destination resorts that are designed for long-distance tourists. The terms of the Singapore licenses limit casinos to being only one component of diversified resort properties and thereby effectively limit the percentage of property revenue that will be contributed by casinos. The non-gaming assets that are being developed in Singapore as a result of this strategy are impressive.[3] As a deliberate policy choice, the Singapore government is seeking to use casino gaming as an engine for strengthening Singapore as a long-distance tourist destination, not a day-trip or locals' casino market.

EUROPE

In spite of ample population, favorable demographics and high per capita and aggregate personal income, Europe has yet to develop any true tourist destination casino gaming markets. Like Atlantic City prior to the opening of Borgata, or Macau before the change in law in 2001 that opened its casino industry to international competitors, Europe is well-supplied with casino table and machine games, but with only a few exceptions (such as London's elite high-stakes casinos) European casinos are largely dependent on a day-trip clientele who live near casinos. This limitation is unlikely to last. The evolution of highly successful casino resort destinations in other parts of the world that depend on long-distance tourism, coupled with the ongoing globalization of the gaming industry, makes the creation of European tourist destination casino markets an inevitable development. And, as has occurred in other parts of the world, we can expect that once a single European country successfully develops a casino resort destination industry with appropriate legislation and regulation, it will then be copied by other countries wanting to capture similar economic benefits.

PROPERTIES AND MARKETS

The question of whether casino gaming is beneficial to a region based on its contributions to various stakeholders involves a number of considerations. If most of a region's gaming revenues come from long-distance tourists rather than local day-trip customers, positive economic spin-offs will stimulate local and regional economies. In effect, spending on gaming by outsiders acts as a regional export, with resulting net economic gains for the local economy. If, on the other hand, the bulk of gaming revenues are generated from local or regional residents, the economic benefits are a function of the capital investment in "locals'" casinos, the employment these locals' casinos provide, and the money they spend on payrolls, goods and services in their operations. However, there is far less of an export component, so the multiplier effects are considerably less.

Casinos require capital investment to build, which creates jobs and incomes during their construction and opening phases, resulting in money spent during this phase that is multiplied through local economies. Depending on the sources of financial capital, these capital investments would likely represent foreign direct investment (FDI): dollars raised in capital markets elsewhere in the world and spent in the local economy. In these respects casinos resemble businesses of other kinds.

Tourist destination casinos add an additional and unique economic benefit by importing tourist dollars that are spent locally and are a net gain to the local economy. Las Vegas is the prototypical example, but in varying degrees all successful tourist destinations, including non-gaming tourist destinations like the Disney amusement parks in Orlando, Anaheim, Paris, Tokyo, and Hong Kong, create these net local economy gains.

Tourist destination casino resort developments, if substantial and dramatic enough, can shape markets more than markets shape themselves. The casinos pioneered by Steve Wynn with The Mirage (Las Vegas, 1989), for example, set a global standard in the evolution of full-service diversified casino resorts, which were then emulated by other substantial resort casino developments. Later-generation properties such as Bellagio, Borgata, the Venetian, and Melbourne's Crown Casino (owned by PBL) shaped their own markets towards the destination resort end of the spectrum. In each of these cases, resorts were developed that incorporated casinos as only one part of multifaceted consumer oriented entertainment experiences. The resulting facilities were very attractive to long-distance tourist visitors, who became a far more important component of custom than day-trip visitors.

Such tourist destinations attract significantly more visitors who arrive by air and stay for longer periods than do day-trip markets that depend on drive-in (or bussed-in) clientele. For example, 46 percent of Las Vegas visitors arrive by air and stay an average of 4.6 days (Table 1). Only 2 percent of visitors to Atlantic City arrive by air; the other 98 percent arrive by car or bus and stay an average of just 13.5 hours. As noted earlier, most European casinos depend overwhelmingly on patrons who arrive by car or public transportation (train or bus) and stay for just a few hours. As a result, European casino visitors are interested primarily in gaming as their main activity, partly because of the absence of other things to do at the casino facility. As a consequence, European gaming markets currently resemble Atlantic City far more than they do Las Vegas; they are day-trip markets, with little or no long-distance tourist destination customers. The important question for existing European markets is: Will they transform into tourist-oriented markets once substantial non-gaming attractions are part of the casino complex product?

Single-purpose casinos offer only gaming, or gaming with only limited food, beverage, and entertainment products. Casinos of this kind are found throughout Europe at the present time. Such casinos typically generate 90 percent or more of their overall or total facility revenues from gaming. Full-service diversified resort properties, such as those described above, generate significantly smaller percentages of their revenues and income from gaming, with the balance coming from hotel rooms, restaurants, nightclubs, spas, retail outlets, conventions, live entertainment (of which the Montreal-based Cirque du Soliel is the current arch-type) and other non-gaming goods and services. To illustrate this point, Table 2 presents gaming and non-gaming revenue and net income in Clark County (Las Vegas) and Atlantic City for 2006, and compares two major full-service diversified destination resort casinos, Wynn Las Vegas in Las Vegas and Borgata in Atlantic City, with respect to these data.

For Borgata the gaming/non-gaming ratio is currently about 70/30, compared to 79/21 or even higher for older Atlantic City properties (Table 2). For both Wynn Las Vegas and Las Vegas as a whole, the ratio of non-gaming revenue to gaming revenue is much higher: (59/41 for Wynn Las Vegas and 53/47 for Clark County overall.) Despite Las Vegas's world-wide reputation as a casino resort

Table 1

Las Vegas and Atlantic City Visitor Characteristics, 2006

	Las Vegas, Nevada	*Atlantic City, New Jersey*
Percentage of Visitors by Air	46%	2%
Percentage of Visitors by Car or Bus	54%	98%
Average Length of Stay	4.6 Days	13.5 Hours*

*Note: Atlantic City average length of stay is based on a report issued in 2004.

Source: Las Vegas Convention and Visitors Authority, 2007; Gaming Industry Observer, 2007; South Jersey Transportation Authority, 2006.

Table 2
Gaming and Non-Gaming Revenue, Total Expenses, and Net Income, in Clark County (Las Vegas) and Atlantic City Compared to Wynn Las Vegas and Borgata, 2006

	Clark County, Nevada	*Wynn*	*Atlantic City, New Jersey*	*Borgata*
Gaming	$9,888.9	$608.0	$6,485.2	$735.0
Non-Gaming	$10,944.4	$757.6	$1,322.5	$274.0
Total	**$20,833.3**	**$1,365.6**	**$7,807.7**	**$1,009.0**
Total Expenses	$18,968.1	$1,032.8	$7,538.8	$762.0
Net Income	***$1,865.2***	***$332.8***	***$269.0***	***$247.0***
	Clark County, Nevada	*Wynn*	*Atlantic City, New Jersey*	*Borgata*
Gaming	47.5%	44.5%	83.1%	72.8%
Non-Gaming	52.5%	55.5%	16.9%	27.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Expenses	91.0%	75.6%	96.6%	75.5%
Net Income	***9.0%***	***24.4%***	***3.4%***	***24.5%***

Source: Nevada Gaming Control Board, 2006; New Jersey Casino Control Commission, 2007; Wynn Resorts, 2007.

destination, it is certainly no longer solely dependent on gaming. Non-gaming goods, services and attractions account for more than half the revenue generated in this market. Increasing numbers of Las Vegas visitors do not gamble at all, but travel to this tourist destination to shop, dine in restaurants, participate in the city's burgeoning nightlife, and stay in its luxurious hotels. Moreover, Las Vegas resorts are significantly more profitable than Atlantic City resorts. In 2006, Las Vegas casinos' net income (net revenue less all expenses), or profit, was 9 percent of total revenues, compared to 5.6 percent in Atlantic City.

TOURIST DESTINATION CASINO RESORTS ARE COMPLEX LEISURE PRODUCTS

Modern tourist destination casino resorts are the most costly and most complicated leisure products ever brought to market. Only the theme park/hotel resorts built and operated by Walt Disney Company, Universal Studios, and one or two other Hollywood-based companies represent comparable capital investment, and theme park resorts, though they incorporate many of the design elements of tourist destination casino resorts, do not have casino floors or require their designers to solve the difficult problem of integrating gaming into the hotel, retail, restaurant, convention, entertainment, and other components of these immensely complex developments. Mixed-use tourist destination casino resorts that incorporate a residential component, such as the 76-acre MGM Mirage/Dubai World CityCenter project in Las Vegas that in 2007 was budgeted at nearly US$8 billion, extend casino gaming's tourist destination sector into the larger real estate development economy, adding part- or full-time residents to the tourist destination casino resort sector's consumer base.

The labor and management skills needed to design, build, and operate these diversified casino properties greatly exceed the labor and management skills needed to build and operate simple casinos. Not even very large budget Hollywood movies of the kind produced by George Lucas (*Star Wars*) or Peter Jackson (*The Lord of the Rings*) present the design and production complexities of projects like the MGM Mirage/Dubai World CityCenter or the tourist destination casino resorts operating or under construction in Macau, Las Vegas, and Singapore. Furthermore, even the most costly movie has a production budget far smaller than the budget for a modern tourist destination casino resort. Many of the creative professionals who work on Hollywood movies and the theme parks built by Hollywood-based companies are also employed in the design and construction of tourist destination casino resorts, an evolutionary cross-pollination of the gaming and entertainment industries that can be traced back to the construction of Caesars Palace in Las Vegas in the 1960s.

Only a handful of companies, including Wynn Resorts, MGM Mirage, PBL (parent company of Crown Casino, Melbourne, Australia), Harrah's Entertainment, Las Vegas Sands, Kerzner International, and Genting International have demonstrated the labor and management capabilities and have the capital resources required to design, build, operate, and market these immensely costly, immensely complex leisure products. Other casino companies do not have these labor, management, and capital resources.

CASINOS AND COMMUNITIES

Casinos also differ in the ways they relate to the communities in which they are located.

Casinos that offer only table games and gaming machines satisfy a single consumer appetite: the demand for gaming. Full-service diversified resorts satisfy multiple consumer appetites: for high-quality lodging, fine dining and other price/quality levels of restaurant meals, wines and spirits, night clubs and nightlife, retail shopping, convention accommodations and services, spa experiences (of which there is a long tradition in European countries), live theater and musical productions (often of the quality one finds in Las Vegas, New York, or London), and less formal entertainment such as lounge shows and instrumental groups, as well as providing facilities for gaming.

Full-service diversified resorts thus relate to the community and to the local economy in more diverse ways than do more Spartan casinos that essentially offer only table games and gaming machines. Their impacts on local and regional society are consequently "softer" and generally more benevolent. While gaming's adverse social impacts should never be ignored, full-service diversified casino resorts—because they add restaurants, shopping, spas, hotels, convention centers, and other amenities to local economies—offset gaming's social costs with new social and economic benefits in the form of capital investments, greater diversity in job creation, attraction of complementary businesses, and other enrichments to the economic and social fabric of the area's communities.

SOCIAL AND ECONOMIC ISSUES

In the analysis of tourist destination casino resorts, the role of governments and other community stakeholders—such as labor unions, the local business community, vendors, contractors, and other financial benefactors—is particularly important. Political realities often make such groups the silent partners of major casino resorts. One important rationale for development of tourist destination casino resorts may be to expand and strengthen the financial base of these stakeholder groups. However, the needs of governments or of other benefactors—such as charitable or nonprofit organizations which share in the distribution of the tourist destination resort's profits—might not be fulfilled by their share of economic rents. Such parties should be realistic in assessing the amounts of financial and economic benefits that will accrue to them.

In order for a jurisdiction to develop a tourist-based casino industry, it must attract a significant volume of its customers from beyond the immediate region in which the casino resort is located. This can occur if the tourist destination casino resort has enough attractions to make it interesting for visitors to travel from some distance away, or if the region itself has enough tourism resources to attract a broad base of visitors beyond what the gaming products at casinos are able to draw. However, the experience in most casino markets suggests that casinos alone are not able to attract visitors from more than 150 kilometers away. This experience emphasizes the need to be able to justify substantial capital expenditures on non-gaming assets for the tourist destination casino resort.

Another consideration consistent with developing a successful destination casino resort is the level of income of the targeted consumer markets. Gambling is more acceptable in a society where discretionary income is high rather than low. It is harder to argue on social grounds against gambling expenditures by people who can afford it, as opposed to expenditures on gambling by those whose incomes are limited. For more affluent customers, gambling losses are typically no more than an inconvenience, whereas for lower income customers, the ability to sustain gambling losses beyond some minimal amount may severely test family finances.

Arguments made against gambling in general usually center around one or more of the following criticisms: gambling is foolish because gamblers must lose in the long term; gambling is invariably associated with criminal activities and political corruption; gambling is in opposition to the moral and ethical principles that a just and righteous person and an orderly society should follow; and compulsive or pathological gambling can do serious damage to individuals, their families, and others to whom they are responsible.

Such expected benefits as tourism development, economic revitalization, tax revenue generation, job creation, investment stimulation, or contributing to deserving causes or disenfranchised groups are typical of the reasons why jurisdictions allow gambling. Other societal benefits associated with permitted gambling are recognized, such as the reduction of illegal gambling and the linkage of illegal gambling to other nefarious activities, the protection of customers and vendors of gambling services under the law, and a decline in public resources needed to combat illegal gambling. Legal gambling is typically a formidable competitor against illegal gambling. These gains should be weighed against negative economic and social consequences of permitted gambling, which tend to be far less measurable and tangible than the economic benefits. That said, destination casino resorts are going to be more benevolent in terms of all of these measures than day-trip Spartan casinos.

There is a shared responsibility among casino operators, government, local service providers, and customers themselves in implementing responsible gambling strategies in the context of a tourist destination resort casino. If done competently and with strong scientific foundations, such strategies could go a long way in alleviating the concerns and the reality that expanded gaming opportunities may result in greater social costs to individuals, families, and communities.

CASINO CLIENTELES

Casino clienteles differ. As noted previously and highlighted in Table 1, full-service diversified resort patrons spend days instead of hours at the resort, and engage in a wide variety of activities (Table 1). Moreover, destination gaming markets now attract significant numbers of visitors who do not gamble at all.

SPENDING PATTERNS

Spending patterns at tourist destinations differ sharply from spending patterns at Spartan casinos that offer only table and machine games. The budgets of tourists visiting leisure destinations allocate money for hotel rooms, restaurant meals, shopping, and entertainment in addition to gaming, whereas the budgets of day-trip casino visitors are mainly allocated to gaming.

Figure 1 illustrates this difference by comparing the spending patterns of visitors to Las Vegas, a destination resort market, and Atlantic City, a predominantly day-trip market. As this exhibit shows, Atlantic City visitors allocate 83 percent of their budgets to gaming. Las Vegas visitors allocate only 47.5 percent of their budgets to gaming, with the balance spent on food and drink, shopping, lodging, rental cars, shows and entertainment of other kinds, and sightseeing. Among the visitors to the Las Vegas Strip's largest destination resort casinos, the proportion of budgets spent on gambling is only 40 percent.

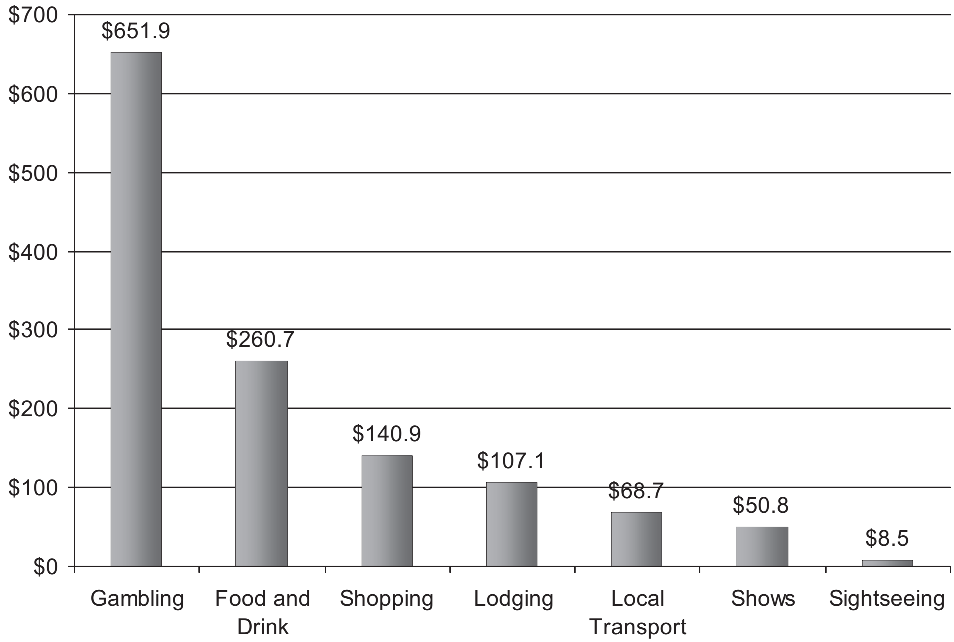
The combined effect of longer visitor stays and more diversified spending patterns at tourist-supported full-service diversified entertainment resorts is to enlarge market areas, partly from increased spending by residents of the immediate market area but principally by importing tourists and tourist incomes from long distances. Tourist destinations thus have broad appeal, both for tourist visitors as well as for locals who may benefit by the availability of such increased non-gaming offerings.

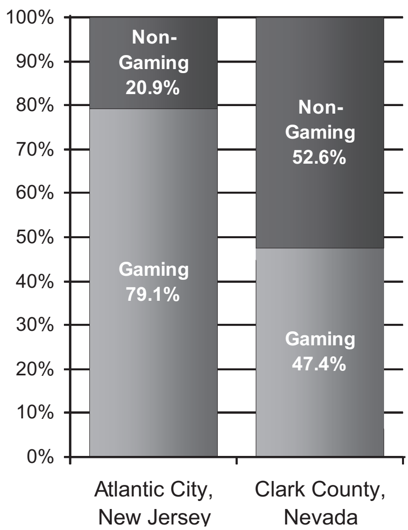
FULL-SERVICE DIVERSIFIED RESORTS AND MARKET SIZE

Other things being equal, including competition levels, full-service tourist destination casino resorts win more money than do casinos that offer only table and machine games and cater primarily to local resident or day-trip visitors. Figure 2 illustrates this point by comparing the average gaming budgets of Las Vegas and Atlantic City visitors. Las Vegas visitors spent about $180 for gaming per trip in 2006; Atlantic City visitors spent a smaller amount for this activity: $150. Considering Atlantic City's proximity to the gigantic New York City metropolitan area, the difference says a great deal about the ability of tourist destination resort properties to increase the size of gaming markets.

Larger visitor gaming budgets result in larger market size. As Figure 3 shows, Las Vegas' gross gaming revenue is approximately double Atlantic City gross gaming revenue, despite Atlantic City's proximity to the New York City metropolitan area market and the large Philadelphia metropolitan market. Las Vegas's state-of-the-art full-service tourist destination casino resorts are more efficient at capturing spending from personal incomes from long distances than are Atlantic City's older, table-and-machine game dependent properties. Put another way, Las Vegas is a more effective exporter of gambling and related services than is Atlantic City.

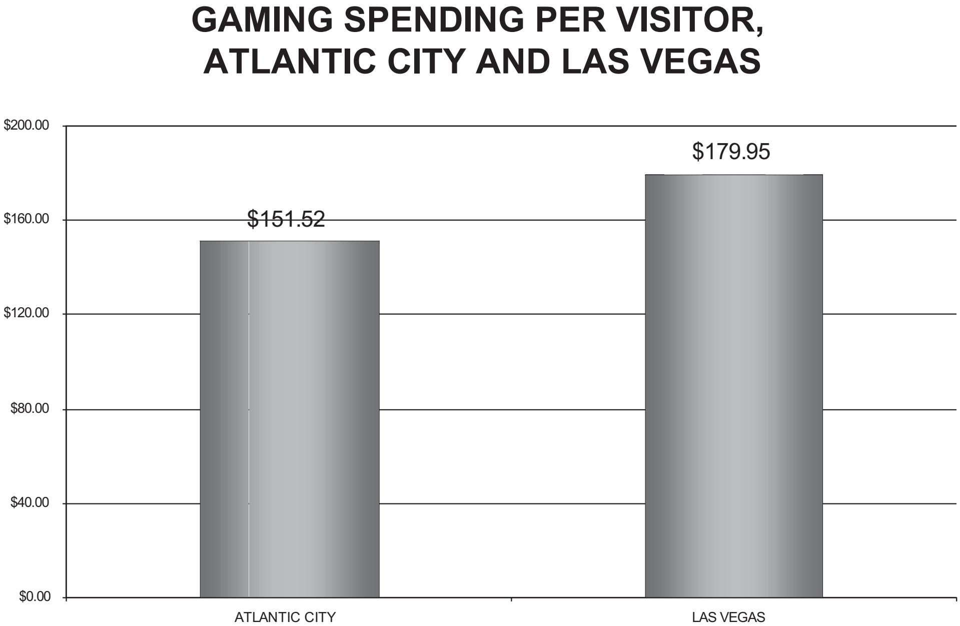
Figure 1: **Las Vegas Visitor Per Person Spending by Category and Atlantic City, New Jersey Compared to Clark County, Nevada Gaming and Non-Gaming Spending as a Percent of Total Revenue**





Source: Las Vegas Convention and Visitors Authority, 2007; Nevada Gaming Control Board, 2006; New Jersey Casino Control Commission, 2007.

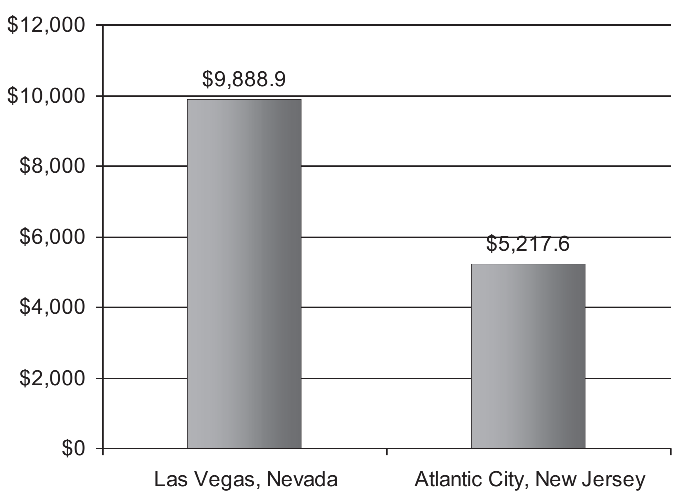
Figure 2: **Las Vegas and Atlantic City Visitor Spending on Gaming**



* The Atlantic City and Las Vegas numbers were derived by dividing the total number of visitors to Atlantic City by total Atlantic City gross gambling revenues for the year.

Source: Las Vegas Convention and Visitors Authority, 2007; New Jersey Casino Control Commission, 2007.

Figure 3: **Clark County, Nevada and Atlantic City, New Jersey Gross Gaming Revenue, 2006**



Source: Nevada Gaming Control Board, 2006; New Jersey Casino Control Commission, 2007.

SURVIVABILITY

Full-service tourist destination casino resorts have greater survivability than casinos that offer only tables and machines. Mohegan Sun, a $2 billion diversified entertainment casino resort in eastern Connecticut owned by the Mohegan Tribe, and Borgata in Atlantic City are effectively competition-proof, able to prosper regardless of changes in the local competitive environment. This survivability protects the investments in these and similar properties. It also provides insurance that the economic benefits these resorts provide will continue even if new competition, in the form of new casinos, enters their markets, meaning that local economies that benefit from gaming and the diversified entertainment products these resorts offer can be assured that these economic benefits will continue in future years.

CAPITAL INVESTMENT

Full-service diversified entertainment tourist resorts are much more capital-intensive to build than casinos that offer only table and machine games. Casino resort properties costing more than a billion dollars to open are now operating or under construction in Macau, Singapore, Las Vegas, Atlantic City, Connecticut, Mississippi, the Bahamas, South Africa, and Australia. Casino projects on a similar scale are being considered in perhaps a dozen additional jurisdictions. Full-service diversified entertainment tourist casino resorts are also more capital-intensive to maintain, a rule of thumb being that such properties require additional capital spending equivalent to the original investment every five years if they are to be kept fresh and avoid the syndrome of becoming aging, obsolete casino/hotels that no longer meet consumer expectations for casino resort experiences.

GAMING PRIVILEGE TAX RATES

The massive and ongoing capital investment needed to construct and maintain full-service diversified entertainment tourist destination properties strongly implies low rates of gaming privilege tax and/or local market gaming monopolies. To justify the amounts of capital investment necessary to become a full-service diversified entertainment tourist casino resort, the Expected Return on Invested Capital (EROIC), corrected for risk, must be high enough to guarantee an adequate comfort level for the investors. This can occur if the market demographics are strong enough, the legal and political environment is stable, and there is a proper combination of low to moderate tax rates and market protections from competition (Eadington, 1999, pp. 183-186). High rates of gaming privilege taxes can discourage capital investment and thus militate against the development of tourist destination gaming markets.

A plausible argument can be made for charging lower taxes on those types of casinos that have higher benefit/cost ratios than for those types of casinos with lower ratios. The following argument is based on a recent article on “optimal sin taxes,” (O’Donoghue and Rabin, 2006). Some people, by their own reckoning, may consume too much of certain products (i.e., cigarettes, vodka, slot machine gaming) that, in excess, might be unhealthy. A “sin” or sumptuary tax on the more dangerous of such products, it is argued, can improve total social well-being. The authors replace the standard assumption that all consumers have perfectly rational control over their consuming decisions, with an assumption that some consumers may have some degree of self-control problems. They also assume that these consumers are price sensitive and will consume more healthily if the goods in question are more expensive. Their argument further depends on the assumption that nonproblem consumers consume less than problem ones and therefore pay less “sin taxes” if these are imposed but reap more benefits if the taxes are then redistributed to all consumers equally.

The relevance to the current discussion is the implication that differentially lower tax rates should be set for tourist destination resort casinos versus, say, day-trip locals’ casinos, slot machine arcades, racinos, or other convenience gaming locations that cater primarily to locals rather than tourists. As has been discussed before, the benefit/cost ratios for tourist destination resort casinos are higher because economic benefits are higher, social costs related to problem gambling are lower, and there are more positive spin-off benefits that accrue. More importantly, destination resort casinos are less prone to bringing about problem gambling behavior; they create relatively less social cost per measure of benefit generated, so their presence should be encouraged relative to the other types of casinos. It is also of course relevant that, at most tax rates, gambling taxes on destination resort casinos would more than pay for the incremental costs to taxpayers of dealing with the consequences of problem gambling.

Gaming privilege tax policy and its relationship to casino investment is discussed in greater detail in Christensen (2005).

CASINOS AND EMPLOYMENT

Full-service diversified tourist resorts are more labor-intensive (that is, they generate more employment) and require more diversified labor force skills than do casinos that operate only table games and gaming machines. In addition to the labor force and skills needed to conduct table and machine gaming and to market these activities, diversified tourist resorts need employees and managers for restaurants, hotels, retail, events (such as weddings, birthdays, company meetings, and so forth), conventions, spas, and entertainment, all of which require specific professional skills for their operation. The variety of new job offerings and the diversity of skills required provide multiple opportunities for local residents to find meaningful employment and open the door for younger citizens to find meaningful career opportunities within the tourist destination casino resort sector.

FULL-SERVICE TOURIST DESTINATION CASINO RESORTS AND MARKET SHARE

Full-service tourist destination casino resorts typically take more than their fair share of markets that are also supplied by casinos that offer only tables and machines. A case in point is Broward County, Florida. Florida authorized slot machines at four Broward County pari-mutuel facilities (racetracks and jai-alai frontons) in January 2006, three of which, Gulfstream, Mardi Gras, and Pompano Park, are operating as of the fall, 2007. The Broward County market is also supplied by the twin Seminole Hard Rock casino resorts, which were well established prior to the installation of slot machines at pari-mutuel facilities. Seminole Hard Rock is taking the lion's share of this market, despite the fact that Seminole Hard Rock is restricted to less-attractive Class II machines while the pari-mutuel facilities have Class III (casino quality) slot machines. Seminole Hard Rock is a full-service diversified resort property, incorporating a hotel, restaurants, retail, a spa, and entertainment of various kinds. The competing pari-mutuel facilities are racetracks or jai-alai frontons retrofitted for slot machines. The preference of consumers in the Broward County market for the Seminole Hard Rock facility is clear: although the Seminole Tribe does not disclose casino results, the Hard Rock machines are reliably reported to be winning in excess of $500 per unit per day. For comparison, in June 2007 win-per-unit-per-day was $70 at Gulfstream, $169 at Mardi Gras, and $179 at Pompano Park, far below expectations.

The Broward County experience also points up the critical importance of gaming privilege tax rates. The State of Florida imposed a confiscatory 50 percent tax rate on Broward County machines, and the three pari-mutuel/slot machine facilities now operating are not able to compete in marketing budgets with Seminole Hard Rock, which pays no taxes at all. Seminole Hard Rock outspends Gulfstream, Mardi Gras, and Pompano Park combined in marketing dollars by about 11 to 1. Florida's high tax rate is costing the state millions of dollars in lost gaming privilege taxes, and will in the long run starve its slot machine/pari-mutuel facilities of the capital investment that drives casino win. Macau, where modern full-service diversified casino resorts such as those built by Wynn Resorts and Las Vegas Sands are taking business away from older table-game casinos operated by Stanley Ho's company SJM, and Atlantic City, where Borgata is taking market share from older, obsolete "slot barn" properties, offer similar examples of the competitive advantage full-service diversified entertainment resorts enjoy.

COST BENEFIT ANALYSIS

The foregoing suggests an analytical framework for a cost/benefit analysis of casino gaming. If a local community carries out a cost/benefit study of this kind, some types of gaming emerge as inherently more acceptable than others. Jurisdictions that evolve into gaming/entertainment tourist destinations, as opposed to day-trip gaming markets, become *net exporters of gambling services*: by attracting a high proportion of their customers from outside the region. gaming/entertainment tourist destinations generate considerably greater incremental local economic benefits than do jurisdictions whose casinos cater predominantly to local clientele (Eadington, 1998).

In similar fashion, casino markets that cater primarily to tourists or other nonresidents will experience less visible negative social and political impact than those whose customers are their neighbors. Thus, tourist destination resort casinos, such as those found in Nevada, Atlantic City, or eastern

Connecticut, will meet with stronger political acceptance than urban or suburban casinos, such as those found in Missouri or upstate Illinois and Indiana. In a similar vein, casino-style gambling permitted outside of casinos—such as slot machines, video poker machines, or video lottery terminals placed in bars and taverns or other age-restricted locations—will score lower on the benefit/cost computations, and will therefore meet with greater political opposition prior to implementation, or greater political backlash if they become established.[4]

Notes

[1] See, for example, Fallows (2007).

[2] Licenses were granted to Las Vegas Sands (a project budgeted at US$3.6 billion (2.6 billion Euros) and Genting International, a unit of Genting Berhad, a Malaysian-based multinational (a project budgeted at US$3.4 billion (2.5 billion Euros)).

[3] See, for example, Arnold (2006) and JP Morgan (2006).

[4] These issues are discussed at greater length in a recent paper by Eadington and Collins (forthcoming).

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