CHAPTER 14

LEGALIZED GAMBLING

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"Should Hawai'i roll the dice on gambling?"

It seems like a natural. The so-called experts, us included, have been emphasizing the need for the state to diversify its economy in areas related to its "core competence" of tourism. We've argued that this means, for example, building a convention center capable of attracting more business visitors.

What could be a more straightforward application of this principle than to bring gambling to the Islands, in order to attract even more tourists?

There are, of course, many kinds of gambling. Casinos, horse racing, dog tracks, lotteries—all provide someone who feels luckier, or smarter, than the next guy the opportunity to place a wager. In what follows, we'll focus on two of the most popular forms of gambling, casinos and lotteries. The sentiments we express, however, apply to other forms of gambling as well.

Casinos in paradise? Casinos and the games they offer—blackjack, baccarat, and the like—conjure up, at least to these middle-aged writers, scenes from James Bond thrillers with elegant and upscale players in such exotic destinations as Monte Carlo and Macao. These are the kind of tourists we want, aren't they?

Look at some of our competitor destinations: Las Vegas, located in the middle of an ocean of sand, built its reputation on gambling; Australia's Gold Coast seems to have gone to school rather well on the fruits of Bugsy Siegel's vision, the Flamingo, that started it all.

What's more, casino gambling might provide a revenue source for native Hawaiians if they are successful in their quest for sovereignty. Other native American groups have elected to permit gambling on the territories they control. And some of those Hawai'i residents who fly to Las Vegas for a fun weekend might spend their money at home instead.

To be sure, Donald Trump has had a bit of the rough time in Atlantic City, but isn't that just proof that nobody can make money when their primary market, in this case the Northeastern United States, is in an economic depression? Hawai'i's physical beauty, coupled with its proximity to the global growth dynamo of Asia, should ensure success in attracting the upscale traveler we want, starting from the get-go, right?

Wrong. Success, maybe and only maybe, in narrow financial terms. By almost any other measure, however, casino gambling would be disastrous for Hawai'i's image, and for its people. The principal reason: the Islands' success with tourists, and tourism's claim to a significant market niche, rests on the unique Hawaiian culture. Casino gambling would represent a distinct and perceptible conflict with that culture, blurring our image—carefully nurtured for well over half a century—in the increasingly competitive global tourist market.

Nor is there any assurance that Hawai'i would attract only the very upscale clients, such as those who frequent Monte Carlo. Monte Carlo's image has itself taken decades, if not centuries, to cultivate.

Organized crime. With the question of precisely who we attract comes the issue of organized crime, which seems to follow casino gambling wherever it goes. Just as Hawai'i's ecology is fragile, so is its social environment. We have our share of yakuza, mafia, whatever, already. Let's not attract more. By adopting casino gambling, we would be announcing to the world that Hawai'i is willing to put up with the acknowledged side effects of organized crime—not the kind of message non-gambling tourists would find appealing.

Finally, tourism experts in Australia observe that their Gold Coast casinos really bring very little new money into the economy. Much of the action comes from local Australians. The diversion of Hawai'i residents away from Las Vegas—and most would probably still head for the desert just to treat island fever—simply wouldn't do enough for the local economy to justify tampering with our image.

Oh, yes—where would we put the casino? O'ahu? By all accounts, Waikiki has crime concerns and is too commercial already. Maui, Kaua'i, the Big Island? It certainly would go against the pristine images these neighbor islands have sought to convey. Nor would we, personally, want to see Lana'i host to a casino. Could Moloka'i, starved for development, play Macao to Honolulu's Hong Kong? Only at the cost of an incredible affront to Hawaiian culture.

These concerns also mean that any attempt to build a casino in the Islands could well run into interminable delays—delays that would further cloud the financial picture for such a resort.

On cultural, criminal, social, and perhaps financial grounds, then, casino gambling is not for Hawai'i.

" I SWEAR THE YAKUZA HAS NOTHING TO DO WITH OUR HOTEL AND GOLF COURSE ... "

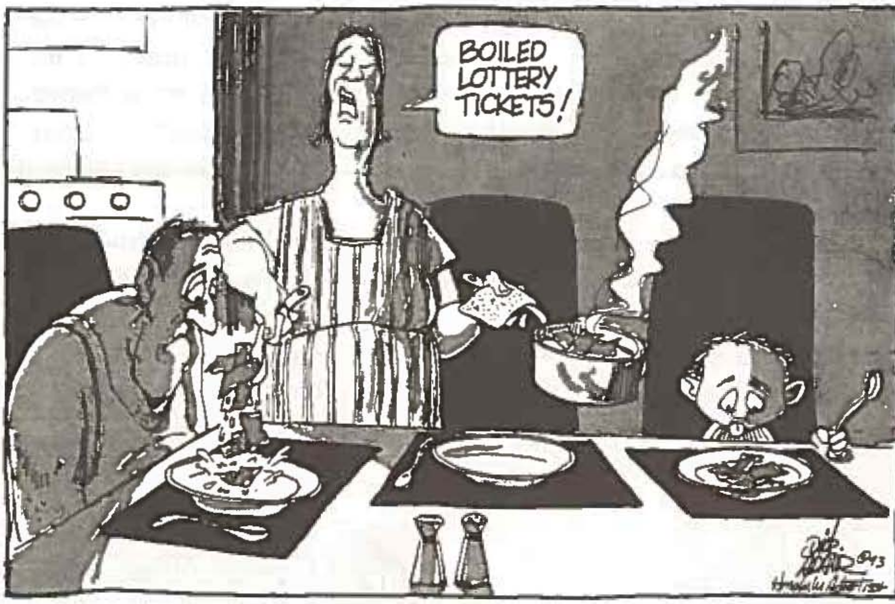
Lotteries in paradise? There has been much talk about a state-run lottery. Surely this is a milder form of gambling, just a local indulgence, really, and the tourists would find it fun. Indeed, thirty-five states have already adopted some form of lottery. Here again, however, any benefits must be weighed against some rather sizable costs.

The purpose of such lotteries is always much more to provide state revenues than to offer another form of recreation. On average, existing state lotteries return only about 50 cents in prizes for each dollar wagered; about 38 cents reaches the state treasury, and the rest goes for expenses. The house take in Las Vegas is much less, and the prospects for winning much better. Gambling industry figures show that the average house takeout rate in a casino gambling game is 3 percent; on pari-mutuel horse racing it's 19 percent. Only illegal private gambling, such as the numbers game, has takeout ratios exceeding the 50 percent of state government lotteries.

Lotteries are managed by boards that focus on the bottom line of maximizing state revenues. Sometimes revenues are earmarked for specific state uses, such as education, but this does not necessarily mean those programs get more money. Legislators, aware of the earmarking, may be more sympathetic to other programs.

Deceptive advertising. Lotteries spend more on advertising per dollar of sales than the average private corporation. This advertising is sometimes misleading, distorting the odds of winning and often failing to mention that prizes may be paid in installments over the years, with a present value much less than the sum of the payments. (Not that many players realize that a $1 million prize paid in equal installments over a 20-year period has a present value, given a 6 percent discount rate, of only $573,000. They also may not realize that it's all subject to state and federal taxes, which can exceed 40 percent.)

Research indicates that, the higher one's educational level, the less one spends on lottery tickets—perhaps because the more educated person can better assess the odds. Even if average ticket purchases were the same across income classes, lower-income players pay a much higher proportion of their income for lottery tickets than do middle- or upper-income groups. Duke University economists Charles Clotfelter and Philip Cook argue that two-thirds of lottery wagers are made by only 20 percent of the players, with members of poorer ethnic groups



and those most dependent on public aid doing most of the gambling. Such repeat business, of course, could only come from the local population.

So the impact of this "tax"—even if it is voluntarily paid—is regressive in nature, falling disproportionately on the poor. Income taxes are usually progressive, falling disproportionately on higher incomes, while sales taxes—especially on things like alcohol, tobacco, and gasoline—are regressive. But a lottery "tax" is far more regressive than even these so-called sin taxes.

Discourage savings. Lotteries may also discourage saving over the long haul because of the belief, perhaps encouraged by advertising, that eventually a chronic player will strike it rich. Lower saving leads to lower investment and slower growth, which means lower state tax revenues. This lower growth can easily counter the intent of establishing a lottery in the first place, because actual lottery revenues are only a small portion of total state tax revenues.

In the eighteenth and nineteenth centuries, either lotteries were discontinued because of irregularities or they simply collapsed. Perhaps there's a lesson in that history.

There also is a reason why a small state like Hawai'i should be wary of a lottery. Lotteries generally have significant economies of scale; larger operations are able to provide services much more cheaply because they can spread high overhead expenses over more customers.

A state lottery would not damage our image as much as casino gambling. But if it's revenues we need, almost any other tax proposal would be better.

Gambling works best in states, or countries, which are either large enough to cope with the untoward side effects or so poor that they have no other economic alternatives. Hawai'i, too small to ignore these adverse consequences of gambling, is, however, not yet in such desperate economic straits that it has to wager its economic future on legalized rolls of the dice or spins of a drum full of marked ping-pong balls.

OPINIONS VARY ON LEGALIZED GAMBLING IN HAWAII.

Another View

As a result of updated air transportation, massive worldwide resort development and extensive marketing of other tropical sun/ surf destinations around the world, Hawai'i has become just another leisure destination.

According to the Pacific Asia Travel Association, Hong Kong surpassed Hawai'i as the top Pacific/Asia visitor destination in 1992. Hawai'i, in second place, was followed by Singapore, Thailand, and Japan.

Aggressive marketing campaigns from countries such as Mexico, Puerto Rico, Guam, Saipan, and Australia have also made those markets highly competitive.

A recent survey by the Japan Travel Bureau indicated that for the months of July and August, Guam and Saipan are expected to show a 21 percent growth in Japanese visitors, bringing them to 206,000 Japanese tourists a month. That is approaching Hawai'i's level of 288,000 Japanese visitors a month. And Hawai'i is projected to show no growth in Japanese tourists. So what do we need to do to stay competitive in the marketplace? . . .

We need to take some risks! Let's stop analyzing and compromising, and start realizing and implementing!

Let's not re-create the wheel. Let's look at places that are successful in attracting visitors. For instance, look at Las Vegas. Once deemed "sin city," Las Vegas is now considered the master of visitor attractions.

Gaming is no longer a bad word. Las Vegas is the ultimate action leisure destination. It attracts the conventioneers, the gamblers, the show dazzlers, the shoppers. And now they have targeted family entertainment, creating theme parks and family entertainment casino centers. We should look at Las Vegas' success formula and translate it into a Hawaiian paradise success. . . .

Not only would we have action, but we would be able to offer quiet, secluded elegance along with our famed sun, surf, and beaches. What an unbeatable combination—something for everyone!

Dreams can be reality, so let's get our legislators, government officials, and visitor industry leaders to stop playing politics and get their fannies in gear to revitalize Hawai'i, 1990s style.

[Excerpted from a column in the *Honolulu Advertiser*, dated August 9, 1993, written by Ernest Watari, managing director of PKF Hawai'i, a CPA and consulting firm]

"I KNOW YOU'RE HAPPY THEY'RE BACK, BIG GUY, BUT JUST WELCOME THEM IN THE USUAL MANNER..."