

General Affairs Committee Hearing
on LR 299, LR 300 and LR 315
October 7, 2011

My name is Loretta Fairchild. I earned my Ph.D. in economics from Cornell University in Ithaca, NY. One of my areas of specialization was Public Finance, which is the study of where the government gets its money and what it does with it. I was born in Oshkosh, grew-up on a small wheat farm outside Chappell, in the panhandle, and I have lived and worked in NE for all but 9 years of my life.

Each NE senator has a very difficult set of tasks to fulfill, because you are charged with listening to each of your constituents who brings a special concern to your attention, seeking help for themselves. And at the same time, you are charged with acting always in the best interest of the state of NE as a whole. The voices and pressures of the special interests are very loud and persistent. I am here to speak on behalf of the wellbeing of all the citizens of the state, whose voices are seldom heard. And I speak to urge you to use sound, economic analysis as the basis for all decisions to be made.

I will address my comments on all of these 3 legislative resolutions at this time, because all three appear to me to be related to the expansion of gambling in NE.

LR 299 is internally inconsistent and so limited in scope that it will provide no new information and is therefore a waste of legislative resources.

The Purpose in LR 299 calls for a ‘study’, but the list of items that are included are all ‘reviews.’ Any credible study will need to take more time than is available before the opening of the Legislature in 2012, and should be included in the budget with significant funding provided, if a reputable study is in fact to be carried out.

Why is more research needed?

While there is already a significant body of reports on gambling, especially since the early 1990’s when expanded gambling swept much of the nation, the quality of each piece must be re-examined before it is used. The vast majority of these reports have been funded by the gambling industry itself and therefore focus on only one side of the issue. Economics tells us that good analysis should focus on all aspects of a given issue, which means that it includes the extra costs as well as the extra benefits, so a reasonable comparison can be made by the Senators. Therefore, original research must be done to make the report to the Legislature more complete, and more even-handed.

A second problem with much of the existing research is that it is focused on states with casinos, and especially those which are largest or are ‘destination’ casinos in Atlantic City and Las Vegas. New and focused research will need to be done – which will require funding—on Nebraska-specific elements—since the promise of an ‘increase in traffic’ drawn from out-of-state that is often predicted by the gambling industry itself, has minimal relevance for any gambling in NE, including the current 3 proposals.

LR 300 is unhelpful because the study called for should also be done with serious research, adequate funding and clear goals, and will require much more time than is available before the start of the next Legislature..

When the General Affairs Committee authorizes and funds each factual, in-depth study, it will be necessary to instruct the researchers on **all** aspects of the issue that should be included, or else the final product will be simply another narrow, mainly one-sided piece from the perspective of this particular industry, which would again ignore the impact on existing NE industry and businesses, and the basic economic principles of how a state should best structure its tax system.

Economics has a great deal to say that is very important about what elements should go into a 'good' tax structure. [By the way – I also worked on the major review of Nebraska's Sales and Use Tax System, with Dr. John Due of the University of Illinois, which was adequately funded, back in the 1970's.] It is very important that **every** proposed new source of tax revenue be subject to serious study and review, to make sure that it is in fact a positive and helpful addition to the state's tax structure. A good tax structure focuses on elements such as stability; equity or fairness – which includes the ability to pay; adequacy of revenues generated; and economic neutrality – to what extent does it leave the distribution of resources the same in the economy, relative to their pre-tax distribution? Any new proposed tax requires careful study with regard to all these aspects and more, before it is introduced to the legislature. All tax dollars are not created equal and taxes on specific forms of gambling often do not perform well under these specific economic criteria.

I was one of the 40 Nebraska economists who signed a statement, back in the mid-1990s, which stated that the extra costs of expanding gambling in our state, would be greater than all the extra benefits-- combined. This happened when various nationally based casinos made their first big push to move into Nebraska. Several things about that report should still be noted today.

1st) The basic analysis and conclusions are still applicable today.

2nd) I am unaware that the legislature has funded any major, balanced study on the impact of expanding gambling in NE since this report was done. Therefore it remains among the best available information on the subject and should guide today's deliberations.

There is another big problem, in the general discussion over expanding gambling in NE, which says that the opportunity to enjoy a particular kind of gambling is just a private good, for consumption, just like a hamburger or a movie-- and therefore requires no more government regulation than they do. However, this argument is based on a logical error. The error in this statement, lies in the fact that gambling is actually **different** from most things that we consume. The rest **don't** contain significant 'externalities' or spillovers, on to 3rd parties who aren't the buyer or the seller. Gambling, on the other hand, is one of a very small number of consumer items that economics considers as 'special cases', because almost all types of gambling **do** have

significant ‘spillovers’ on to people who don’t provide the gambling or use it, and these spillovers are mainly negative, harmful ones, on to families, friends and other businesses.

While the economic facts about these special cases, don’t fit easily onto a bumper sticker, they are the reason why-- ‘ Just leave gambling to the free market’—as the gambling industry wants-- will **never** produce the ‘optimal allocation’ –which means the ‘best’ amount of gambling in the State, as a whole. Only government regulation can prevent the negative costs of the gambling industry, from falling on Nebraskans. Only government regulation can prevent more gambling from seriously damaging the economy and society of our state as a whole. Therefore these negative spillovers must be given serious attention in all steps of the legislative process, and be included in all analyses and research on this issue.

In conclusion, the State of Nebraska deserves excellent research that is broad-based, comprehensive, unbiased and well-executed, to serve as the basis for any legislative action that seeks to create a major change in NE’s tax structure or change its constitution. Thank you. I would be happy to try to answer any questions.

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